

THE IMPACT OF TAX AUDIT ON IMPROVING THE COMPLIANCE OF TAX PAYER: THE CASE OF JIMMA CITY ADMINISTRATION REVENUE AUTHORITY OFFICE

A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF JIMMA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

PREPARED; BY

JARA NASIR

UNDER THE GUIDANCE OF:

SINTAYEHU TULU (MSC)

MATEWOS KEBEDE (PHD)



MSC PROGRAM, DEPARTMENT OF ACCOUNTING AND FINANCE, COLLEGE OF BUSINESS AND ECONOMICS, JIMMA UNIVERSITY

JULY 31, 2020

JIMMA, ETHIOPIA

THE IMPACT OF TAX AUDIT ON IMPROVING THE COMPLIANCE OF TAX PAYER: THE CASE OF JIMMA CITY ADMINISTRATION REVENUE AUTHORITY OFFICE

By:

Jara Nasir

Under the Guidance of

Dr. Matewos Kebede

And

Ato Sintayo Tulu



A THESIS SUBMITTED TO THE SCHOOL OF GRADUATE STUDIES OF JIMMA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS, DEPARTMENT OF ACCOUNTING
AND FINANCE, MSC PROGRAM

July 31, 2020

JIMMA, ETHIOPIA

Statement of Declaration

I, JaraNasir declare that, this paper prepared for the partial fulfillment of the requirements for (MSC) in Accounting and Finance entitled “**The Impact of Tax Audit on Improving The Compliance of Tax payer: The Case of Jimma city administration revenue authority office**” is prepared with my own effort. I have made it independently with the close supervision of Dr. Matewos Kebede & Mr. SintayehuTullu.

Declared; By

Jara Nasir

Signature-----

Date-----

Confirmed by

Approved by the Board of Examiners:

Advisor: Matewos Kebede (PhD) Signature: _____ Date: _____

Co- Advisor: Sentyew.T (M.Sc.) Signature: _____ Date: _____

External Examiner: _____ Signature: _____ Date: _____

Internal Examiner: _____ Signature: _____ Date: : _____

CERTIFICATE

This is to certify that Ato Jara Nasir has carried out this research work on the topic entitled **“The Impact of Tax Audit on Improving The Tax Compliance: The Case of Jimma city administration revenue authority office”**: under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of MSC in Accounting and Finance.

Matewos Kebede (PhD)

Signature_____

Date_____

AKNOWLEDGEMENTS

Foremost my thanks go to almighty Allah for his endless help in giving me healthy, strength, good spirit and help in all situations for the success of my life, my career and accomplishment of this thesis.

Secondly, I would like to express my deep gratitude and appreciation to my advisor Matewos Kebede (PhD) for his constructive suggestions, guidance and unreserved support in the course of undertaking this study.

My gratitude is also due to the staff of Jimma revenue authority Office, at head office and three Sub City for their endless cooperation in providing the necessary information and materials which were very important for the accomplishment of this research project.

Furthermore, I also owe special recognition to all my, friend for their thoughtful understanding.

ABSTRACT

The major objectives of this study was impact of tax audit on improving The compliance of tax payer a case study of Jimma city administration revenue authority office .The study specifically sought the effect of Probability of being tax audit, perception of government spending, Fairness, Attitudes, awareness, fines and penalties and tax education on tax compliance in Jimma city administration revenue authority office. To achieve objective of the study, both qualitative and quantitative research methods were employed. Data was collect using questionnaire, interviews and both primary and secondary data were used. The Sample of respondents were selected for the study was all tax audit staff member. As the number of tax audit staff are limited in number a census was adopted to include all 65 tax audit staff member in the study. Those tax audit staff member was 65 employees selected a census all of tax audit staff members in Main Office and sub cities, including quality controllers And Head managers of Main office and three sub cities Descriptive statistical tools and multiple linear regressions analysis were used in analyzing the data collected. The study findings showed that probability of being tax audit; tax education, tax fairness, tax payer attitudes and awareness have positive effect on level of tax compliance. Similarly, fines/penalties and perception of government spending have positive effect on level of tax compliances. The study provides some preliminary evidence that probability of being tax audit, imposing fines/penalties and provision of tax education, fairness, attitudes, awareness and perception of government spending will improve tax compliance. Key recommendations of the study include: regard to Education; effective probability of being audited; to educating the tax payers and improving thoroughness of audit, educating the taxpayers and conducting awareness creation, and It has to work also making the whole tax system as fair as possible with regard to the benefits received for paying the tax and the tax burden of paying it. a government must will have change attitudes of tax payers by educating them and by change of tax payer outlook about tax and the government must have wisely spending for the national revenue, for example for basic facilities like education, health and safety and public transportation.

Key words: Tax audit, Tax compliance, Tax education

Table of Contents

Statement of Declaration.....	II
CERTIFICATE.....	III
AKNOWLEDGEMENTS.....	IV
ABSTRACT.....	V
List of Figure.....	III
LIST OF TABLE.....	III
List of Acronyms.....	IV
CHAPTER ONE.....	1
1. INTRODUCTION.....	1
1.1. BACKGROUND OF THE STUDY.....	1
1.2. Statement of the Problem.....	3
1.3. Basic Research Questions.....	5
1.4. Objectives of the Study.....	5
1.4.1. General Objective.....	5
1.4.2. Specific Objectives.....	5
1.5. Research Hypotheses.....	5
1.6. Significance of the Study.....	6
1.7. Scope of the Study.....	6
1.8. Limitation of the Study.....	6
CHAPTER TWO.....	6
Literature review.....	7
2.1 Theoretical review.....	7
2.1.1. Concept and Nature of Taxation.....	7
2.1.2. Objectives of Taxation.....	8
2.1.3. Overview of Auditing.....	10
2.1.4. Meaning of Tax Audit.....	11
2.1.5. The main objectives of tax audit.....	12
2.1.6. Types of Tax Audit.....	12
2.1.7. The Roles of the Taxpayer Audit Program.....	15
2.1.8. Government Revenues Scope and Extent.....	16
2.1.9. Resources for the Tax Audit Function.....	17
2.2. Operational Definition of Terms.....	18

2.2.1. Theories of Tax Compliance	19
2.2.2. Prior Empirical Reviews.....	21
2.2.3. Factors Determining Tax Compliance Behavior	23
2.2.4. Fairness/Equity	23
2.2.5. Taxpayers Attitude towards the Government.....	24
2.2.6. Awareness level of Taxpayers	24
2.2.7. Probability of Detection and Tax Compliance	25
2.2.8. Awareness of Offences and Penalties and Tax Compliance	26
2.2.9. Perception of Government Spending.....	27
2.2.10. Tax Education.....	27
2.3 .Tax Knowledge	28
2.3.1. Tax Audit and Tax Compliance.....	28
2.3.2. Summary of literature review and knowledge gap	29
2.3.3. Conceptual Frame work.....	31
CHAPTER THREE	32
3. RESEARCH DESIGN AND METHODOLOGY	32
3.1. Research Design.....	32
3.2. Research Approach	32
3.3. Research Methods Adopted	33
3.4. Study Population	33
3.5. The sample size	34
3.6. Procedures of Data Collection.....	34
3.7. Data Sources and Collection Method.....	34
3.7.1. Sources of Data	34
3.7.2. Data Collection Technique	34
3.8. Research Instruments	35
3.9. Method of data analysis	35
3.10. Description of Study Variables & Model Specification.....	35
3.11 .Variable Measurement	36
3.12. Model Specifications.....	36
3.13. Ethical Consideration	37
Chapter Four	38
Results and Discussions	38
4.1. Survey Results.....	38

4.2 Profile of study participants	38
4.3 Socio-economic status of respondents (Tax Auditors)	39
4.4. Tax compliance	45
4.5. Probability of being tax audit.....	46
4.6. Fines and Penalties	47
4.7. Response on Tax Education	48
4.8. Response on Attitude	49
4.9. Response on Awareness	50
4.10. Response on Fairness	51
4.11 .Perception of government spending.....	52
4.1.2. Analysis of Measures.....	54
4.1.3. Reliability Test	54
4.1.4. Correlation Statistic	54
4.1.5. Results of Regression Analysis	56
4.1.6. The ANOVA model.....	57
Table 27: ANOVA Model	57
4.1. 7.Coefficients Model	57
4.1.8. Discussion of the Findings	59
CHAPTER; FIVE	62
5. Introduction	62
5.1 conclusion.....	62
5.2. Recommendations	64
<i>REFERENCE</i>	66
APPENDIXES I	1
Appendix II - Tax official’s in-depth interview instrument,.....	10

List of Figure

Figure

Conceptual Frame work-----	35
----------------------------	----

LIST OF TABLE

Table 4.1; Demographic information of tax auditors-----	41
---	----

Table 4.2; General background of Age-----	42
Table 4.3; General background of Educational level-----	42
Table 4.4; General background of field study-----	43
Table 4.5; General background of job occupation-----	43
Table 4.6; General background of Experience of tax auditor-----	44
Table 4.7; minimum Experience of tax auditor-----	45
Table 4.8; Length of time on current job occupation-----	46
Table 4.9; providing training-----	46
Table 4.10; Existence of sanction-----	46
Table 4.11; types of audit applied-----	47
Table 4.12; effectiveness of assessment-----	47
Table 4.13; Reason of noncompliance-----	47
Table 4.14; Tax compliance-----	48
Table 4.15; Responses on Probability being of tax audit-----	48
Table 4.16; Responses on Fines and Penalties-----	49
Table 4.17; Responses on Tax Education-----	51
Table 4.18 Response on Attitudes-----	52
Table 4.19; Response on awareness-----	53
Table 4.20; Response on Fairness-----	54
Table 4.21; Response on pgs-----	55
Table 4.22; Cronbach’s Alpha for Determinant Factors and Tax compliance-----	56
Table 4.23; Correlation Statistics-----	57
Table 4.24; Model Summary-----	58
Table 4.25: ANOVA Model-----	59
Table 4.26: Coefficient model-----	60

List of Acronyms

ERCA	Ethiopia Revenue and Customs Authority
GDP	Gross Domestic product
RAO	Revenue authority Office
GTP	Growth and transformation plan
OECD	Organization for Economic Co-operation and Development
PSG	perception of Government spending
TAXAUDIT	Probability of being tax audit
TAXCOMP	Tax Compliance

CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Taxation remained the challenging topic in most developing countries. The challenge has attracted the attention of policy makers and researchers in the past two decades. The studies have observed various problems such as poor administration, failing to collect sufficient tax revenues, lack of Democratic government and economic stability (Suresh. V., & Srinivas ,G (2012). According to (Suresh.V., & Srinivas ,G. (2012), Ethiopia, like any other developing countries, has faced difficulty in raising revenue to the level required for the promotion of economic growth. The sources of government revenue in Ethiopian include tax revenue, Public borrowing, sales of public assets, and transfer payments and etc (Asamnew ,2011).

Albeit various sources of revenue, taxes are fundamental source of revenues which help to finance the bulk of public services that governments provide including education, welfare, public safety, infrastructure and other basic public services (Tilahun and Yidersa, 2014). These public expenditures are meant for public goods and services that are very essential for the development and wellbeing of the society (Asamnew, 2011).

According to Kircher (2008), all over the world, governments undertake huge public expenditure on behalf of their citizens for the provision of basic amenities and other social services. To meet up with these responsibilities, governments thus require substantial amount of funds. Among the various sources from which governments can generate income, taxes are the most important and most reliable; contributing much more than any other source. A tax therefore, is a compulsory levy imposed by the government on the income, profit or wealth of an individual, family, community, corporate or unincorporated bodies for purposes of financing public expenditures. Taxation is the inherent power of the state, exercised through the legislature, to impose financial burdens upon subjects within its jurisdiction for the purpose of raising revenues to carry out the legitimate duties of government. Yet the amount of tax collected in developing countries including Ethiopia remained small. Akalu (2016) noted that in Ethiopia the tax contribution to GDP ratio remained consistently low and it is relatively shrinking due to low tax compliance. Tax audit is the examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain

compliance with applicable tax laws and regulations of state Kircher (2008,). He further reported that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return. Ola, (2001) stated that the process of tax audit involves tax returns that are selected for audit using some selection criteria. Thereafter, the underlying books and records of the taxpayers are examined critically to relate them to the tax return filed. Tax audit is important because it assist the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to ensure that satisfactory returns are submitted by the tax payers, to organize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government.

A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD, (2006b). Most taxpayer's report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected. The tax audit function plays a critical role in the administration of tax laws in all countries. In addition to their primary role of detecting and deterring noncompliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records, while through their numerous interactions with taxpayers operating very much as the 'public face' of a revenue body. According to Biber (2010) the role of an audit program in a modern tax administration must extend beyond merely verifying taxpayers' reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. Tax audit may increase tax revenue in two ways: directly through assessment of additional taxes, and indirectly by improving taxpayer compliance with the tax laws and regulations (Barreca and Ramachandran, 2004). Therefore, the purpose of this study is to identify impact tax audit on improving the compliance of tax payer the case of jimma city administration.

1.2. Statement of the Problem

Taxation in developing countries is a challenging topic and has attracted increasing attention to the researchers. Many problems observed like poor tax administration, failing to collect sufficient tax revenues. In many developing countries it is observed that there is low capacity of tax administration to monitor compliance among taxpayers (Tanzi, 2000) and the potential amount of tax revenue has not been collected in an efficient and equitable manner (Edmiston and Bird, 2004). Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. To address this problem, the government introduced the imposition of tax (direct and indirect), among others; as major and important sources of public revenue. However, this imposition of tax couldn't still bring the required result due to a number of reasons such as lack of clear understanding about the tax system by the taxpayers, taxpayers don't comply with their tax obligation, hostility between the taxpayers and tax officials, negative attitude of taxpayer towards the tax system, understating their taxable income by significant amount For these reasons, the actual amount of tax couldn't be collected properly (Tadele, 2010).

During the past three years, on average birr 83.9 billion was collected from taxation every year. In 2012/13 a total of birr 107 billion was collected in tax revenues. This was 32 percent higher compared to its target. Compared to the tax receipts in 2011/12, it has increased by 24.8 percent. Tax revenue as a percentage of GDP was 11.7 percent in 2010/11 and 11.6 percent in 2011/12. The tax to GDP ratio has further increased to 12.5 percent in 2012/13. Even though, nominal tax revenue has been increasing rapidly, the growth rate was not proportionate to the rapid expansion of the size of the economy. In order to attain the GTP target of 15-17 percent of tax to GDP ratio by 2014/15, it is required to strengthen the tax collection and administration systems, expand public education and participation, strengthen enforcement and build the capacity of the taxation institutions (MOFED 2014). This study is past data done as a country when researcher seen a case study jimma revenue authority office 2015/16 revenue collected 146.15 million, 2016/17 also 188 million and 2017/18 also collected 217.6 (Annual, report of jimma city RAO).This also increasing to increase year to year.

Audit can play a major role in improving tax administration and overall taxpayer compliance by impacting on taxpayer behavior. In addition to raising revenue directly from audit activities, by selecting the highest risk cases, efficiently detecting non-compliant taxpayers, applying appropriate sanctions, and publicizing results of audit activity (either generally or specifically), taxpayers get the message that any attempt to avoid tax presents a high risk of detection and the penalty for non-compliant taxpayers is substantial(Kagina ,no date). Tax audits; as a result provides tax administration with significant leverage across the community. Tax audit is an independent examination of the returns submitted by taxpayers to the relevant tax authorities to ascertain the level of tax compliance by taxpayers. In connection to this notion, a tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD, 2006a). As Biber (2010) noted, the role of an audit program in a modern tax administration must extend beyond merely verifying a taxpayer's reported obligations and detection of discrepancies between a taxpayer's declaration and supporting documentation. An important issue for any government and revenue collecting authority is to obtain knowledge and understanding of the reasons for taxpayer non-compliance.

However, measurement of the magnitude of intentional and unintentional non-compliance can be difficult as it involves estimating levels of uncollected tax, which by its nature is not detected by the revenue authority. The amount of tax lost through evasion is potentially enormous. The USA IRS estimated it to be \$US 345 billion in 2006 which amounted to 16.3 percent of estimated actual paid plus unpaid tax liability (Slemrod, 2007). A considerable previous literature and much best practice knowledge and experience currently exist in respect of both tax administration and taxpayer compliance (Bird, 2004, and Franzoni, 1999), However, the reality is that much of these literature, knowledge and experience have emanated from developed countries and the extent to which of applying findings to developing economies might be limited. As a result, Policy makers and revenue authorities in developing economies in general and in Ethiopian case in particular face quite different challenges and constraints.

In Ethiopia, there are not many studies, do far reviewed, regarding tax audit in different settings. Yesegat (2008) studied VAT administration problems at large, VAT audit in particular, Gebeyehu (2008) studied tax audit and its role in increasing government revenue in Ethiopia and

Mihret (2011) examines tax audit practice in Ethiopia (the case of federal government). However, as far as the researchers' knowledge, tax audit impact on improving tax compliance not yet widely studied in developing nations in general and in Ethiopian in particular, perhaps available not widely available. Given this gap of knowledge, together with the role of tax audit on t improving tax payer compliance the dearth of empirical evidences motivated the current study. Therefore, the intent of this study is to examine the impact of tax audit practice on improving tax payers' compliance in Jimma city administration.

1.3. Basic Research Questions

- ✓ How does an education effect on tax audit with tax compliance?
- ✓ How investigate probability of being audit detection increases taxpayers' compliance?
- ✓ What are effects of fine and penalties on tax compliance behavior?
- ✓ How does fairness of tax audit effects on tax compliance?

1.4. Objectives of the Study

1.4.1. General Objective

The main objective of this study is to examine the impact of tax audit on improving tax payer compliance in case of Jimma city administration.

1.4.2. Specific Objectives

The study assumes the following specific objectives:

1. To assess an education in relation with tax audit on tax compliance .
- 2.To investigate the probability of being audited on the tax payer with tax compliance.
3. To examine the association between tax penalties and fine and tax compliance.
4. To examine association between tax fairness and tax compliance.
5. To examine association between tax payer attitudes and tax compliance.
6. To examine association between tax payer awareness and tax compliance.
7. To investigate association between perception of government spending and tax compliance.

1.5. Research Hypotheses

The following hypotheses have been tasted in the study:

HO1: Probability of tax audit has no significant effect on tax compliance

HO2: Fines and Penalties have no significant impact on tax compliance

HO3: Tax educations have no significant effect on tax compliance.

1.6. Significance of the Study

The primary use of this research is to the Jimma city administration revenue authority office. The authority might be able to see its level and performance of tax audit activities, and learn some lessons and build some corrective measures for the weaknesses based on recommendations to be forwarded. Hence, this study will have a significance to provide relevant information to policy makers and other concerned bodies in addressing tax voluntary compliance problems. Besides, the study is believed to prompt the importance for undertaking further research on the area as the tax payer's voluntary compliance.

1.7. Scope of the Study

The study analyses the impact of Tax Audit on improving the compliance Tax payer with respect to tax payers found in Jimma City Administration revenue authority office. The study limited focuses on tax attitude, probability of being audited, perception of government expenditure, fairness and equity, education and lastly fines and penalty.

1.8. Limitation of the Study

Tax compliance is affected by various factors. Due to lack of sufficient information from the tax authority, the study is mainly limited to the impact of Tax Audit on Tax compliance with taxation considering only some variables. Probability of being tax audit, Penalty and fine, education, tax fairness, attitudes, awareness and perception of government spending. Therefore, based on the above limitations some of variables are used in the model that are expected to affect taxpayers' voluntary compliance behavior.

CHAPTER TWO

Literature review

2. Introduction

The purpose of this chapter is to review the literature in the area of the impact of tax audit on tax compliance behavior. The review has three major sections. Section 2.1 presents a review of the theoretical aspects related to the study. This is followed by the empirical literature review in section 2.2. Section 2.3 present summery of the literature review and knowledge gaps.

2.1 Theoretical review

2.1.1. Concept and Nature of Taxation

Taxation is seen as a burden which every citizen must bear to sustain his or her government because the government has certain functions to perform for the benefits of those it governs. A précised definition of taxation by (Farayola, 1987) is that taxation is one of the sources of income for government, such income as used to finance or run public utilities and perform other social responsibilities. Ochiogu (1994) defines tax as a levy imposed by the government against the income, profit or wealth of the individuals and corporate organizations. According to Adams (2001) taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income.

Taxation is seen by Aguolu (2004), as a compulsory levy by the government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits, capital gains and capital transfer. Whereas, Ojo (2008) stresses that, taxation is a concept and the science of imposing tax on citizens. According to him, tax is itself a compulsory levy which is required to be paid by every citizen. It is generally considered as a civic duty. The imposition of taxation is expected to yield income which should be utilized in the provision of amenities, both social and security and creates conditions for the economic well-being of the society.

Okon (1997) states that income tax can be regarded as a tool of fiscal policy used by government all over the world to influence positively or negatively particular type of economic activities in order to achieve desired objectives. The primary economic goals of developing countries are to increase the rate of economic growth and hence per capita income, which leads to a higher standard of living. Progressive tax rate can be employed to achieve equitable distribution of resources. Government can also increase or decrease the rates of tax, increase or decrease the rate of capital allowances (given in lieu of depreciation) to encourage or discourage certain industries (e.g. in the area of agriculture, manufacturing or construction) or may give tax holidays to pioneer companies. Income tax therefore can be used as an agent of social change if employed as a creative force in economic planning and development.

2.1.2. Objectives of Taxation

Although the tax structure in the various developing countries differs widely, the objectives of taxation in these countries are virtually the same. Unfortunately, however, the objectives of the tax system and the relationship between these objectives are hardly clearly stated (Cutt, 1969). This does not only makes tax administration difficult but also give room for tax evasion with the attendant effects on economic development (Cutt, 1969) therefore; states that a brief discussion on the objectives of taxation as outlined below would be a gainful exercise.

A. Rising of Revenue:

The classical function of a tax system is the raising of the revenue required to meet government expenditure. This income is required to meet the expenditures which are either the provision of goods and services which members of the public cannot provide such as defense, law and order to the provision of goods and services which the federal and state governments feel are better provided by it such as health services and education.

B. Wealth Redistribution:

In modern times, great emphasis has come to be placed on the objective of redistribution of wealth. This has two quite distinct forms. The first is the doctrine that taxation should be based on ability to pay and is summarized by the saying that “the greatest burdens should be borne by the broadest backs.” The second form presupposes that the present distribution is unjust and

concludes that this should therefore be undone. This second principle sees confiscation as a legitimate objective of taxation.

C. Economic Price Stability:

It has been said that the most fundamental reason a government has for taxing its citizens is to provide a reasonable degree of price stability within the nation (Summerfield, et al., 1980). Most spending by the public and private sectors without taxes generates high demand, which is inflationary. In such a situation, the basic function of taxation is to reduce private expenditure in order to allow government to spend without causing inflation. Thus, taxation is basically a deflationary measure. On the other hand, when aggregate demand is lower than the deserved level, government has two options which are to increase government spending with increasing taxes or to reduce taxes while leaving government spending stable.

(D) Economic Growth and Development

The overall control or management of the economy rests on the central government and taxation plays an important role in this direction. In addition to maintaining reasonable price stability, governments are determined to promote the near-full employment of all the resources of the country (including human resources i.e., labor) and ensure a satisfactory rate of economic growth. Economic growth and development programs are geared towards raising the standard of living of the masses of a country through the improvement of their economic and social conditions. Taxation in one way discourages, postpones or reduces consumption and encourages saving for private investments. This is only possible when the basic necessities of life including security, law and order, education and communication are provided by government, hence, the national development plans of developing countries are considered to be important. This objective will be of great assistance to Nigeria where there is mass unemployment of labor force and economic resources. According to (Soyode,L and Kajola,S.O (2006) the responsibilities or objectives of government using taxation are as follows:-

Revenue Generation:

The primary objective of a modern tax system is generation of revenue to help the government to finance ever-increasing public sector expenditure.

Provision of Merit Goods:

An important objective of tax system is the promotion of social, economic and good governance through provision of merit goods. Examples of merit goods are health and education. These must

not be left entirely to private hands though, private participation should be encouraged. Private enterprises will push the cost of providing education and health services beyond the reach of common people if left entirely in their hands.

Provision of Public Goods:

Revenue generated from tax can be used to provide commonly consumed goods and services for which an individual cannot be levied the cost of the goods or a service consumed is one of the functions of government. Examples of public goods include:-

Internal security through maintenance of law and order by police and other security agencies.

External security through defense against external aggression by Army, Navy and Air forces, and

(iii) Provision of street lights and roads.

Discouraging Consumption of Demerit Goods:

Tax can be used to discourage consumption of demerit or harmful goods like alcohol and cigarette. This is done to reduce external costs to the society. These external costs include health risks and pollution.

Redistribution of Income and Wealth:

Tax system is a means of ensuring the redistribution of income and wealth in order to reduce poverty and promote social welfare. For example, taxation can be used as economic regulator for promotion of economic stability and sustainable growth through fiscal policy. Government also has responsibility for fighting inflation, unemployment and creating a sound infrastructure for business. A tax system is one of the means of achieving this.

Harmonization of Economic Objective:

Harmonization of diverse trade or economic objectives of different countries is one of the modern objectives of tax systems. For example, tax system can be used to achieve the philosophy of the single market in ECOWAS or Africa so as to provide for the free movement of goods/services capital and people between members states.

2.1.3. Overview of Auditing

Awe (2008) defines auditing as an independent examination of the books and accounts of an organization by a duly appointed person to enable that person give an opinion as to whether the accounts give a true and fair view and comply with relevant statutory guidelines. The American Accounting Association (1971) in its Statement of Basic Auditing Concepts in Hayes, Schilder,

Daseen and Wallage (1999) described auditing as: a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to interested users (Akinbuli,2010)

2.1.4. Meaning of Tax Audit

A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD, 2006). Most taxpayer's report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected.

The tax audit function plays a critical role in the administration of tax laws in all countries. In addition to their primary role of detecting and deterring noncompliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records, while through their numerous interactions with taxpayers operating very much as the 'public face' of a revenue body. These factors, as well as the absolute size of the audit function in most revenues bodies, provide a strong case for all revenue bodies paying close Attention to the overall management of the tax audit function (Eugene, 2011). Historically, the audit function conducted by public accountants has been associated with this activity of attesting to financial statements. Tax audit (expected to be performed by public accountants) can be thought of as an extension of this 'attest function'. For tax purpose, one assessee is liable to file a return to the concerned assessing officer with supporting documents sometimes required by tax law for simultaneous submission with the return. The assessee is sometimes called upon by the assessing officer under the tax law for producing the same.

In this context, the question of tax audit may arise. And 'tax audit' means to audit an assessee's accounting and other documentary evidences to prepare the correct tax return as well as to prepare the statements showing the detailed computational working for different heads of income or items in tax return and other required evidential statements regarding allowances and disallowance for deductions and all these are to be followed by an audit report giving the

auditor's opinion about the degree of correspondence between the information content in the tax return and the regulatory provisions of the existing tax laws (AAA,2008)

2.1.5. The main objectives of tax audit

The definition of taxation given above underlines the main purpose of taxation, that is, to raise revenue to defray the cost of services provided by the State. Other purpose of taxation are to reduce inequalities arising from the distribution of wealth; to restrain certain types of consumption e.g. alcoholic beverages and cigarettes; to protect home industries and to control certain aspects of the country's economy e.g. balance of payment, employment saving, investment and productivity (Mesfin Gebeyehu).

USAID (2011) stated that Purpose of Tax Auditing because most of the taxes administered are self assessed by the taxpayers, an audit program is essential in providing for the following objectives: To assure all citizens of the state that the tax is being enforced uniformly; To deter tax evasion and carelessness in self assessments; and To promote accuracy in self assessments through aid extended to taxpayers with respect to the interpretation of the law and rules and regulations adopted there under.

The overall objective is to improve the compliance of taxpayer's whether they declare the correct amount of tax and paid at the right time .the expectation by a taxpayer of an audit should have a deterrent effect and encourage the taxpayer to declare as far as possible a credible tax return .it also improves the taxpayer's understanding and awareness of the relevant taxes. (ERCA, 2014) The main purposes of tax audit in ERCA are: -Establish the extent of a risk or risks and quantify any errors which may have arisen as a Result, Improve future compliance, Support those who wish to comply and Deter non-compliance.

2.1.6. Types of Tax Audit

There are different types of Tax Audit which are implemented in different countries. (Biber B. , 2010) Noted that, there are different tax audit program. These are desk audit or verification, field audit, registration check, advisory audit, record keeping audit, refund audit, issue-oriented audit, comprehensive or full audit and fraud investigation.

(a) Desk Audit or Verification

Desk audit usually carried out annually and primarily based on: (1) a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar

industries, and (2) the crosschecking of information included in the taxpayer files. It involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination. Information technology (IT) systems should provide strong support for these verifications (Ebrill, (2010).

(b) Field Audit

According to (OECD, (2006b) field audit is types of audit focuses on detailed examination of taxpayers' books and records to determine whether the correct amounts were reported on the tax returns. The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. The audit is conducted at taxpayers' place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor tries to select the place that is most appropriate under the circumstances and most convenient for them.

(b) Registration Check

Registration check is a form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system and a quick check on businesses to establish that they are correctly registered. It should not take more than half a day (OECD, 2006). According to Ebrill (2001) in this visit, the tax officer ensures that the taxpayer: (1) has a basic understanding of their obligations; (2) keeps appropriate records (book keeping review should be mandatory in case of voluntary compliance when the turnover of the taxpayer is below the registration threshold); and (3) issues proper invoices when required by law.

(c) Advisory Audits

It involves the auditors visit to newly established businesses. They advise them regarding tax types, filing of returns, payment of amounts due, record keeping to be maintained, refund claims, risk of audit and sanctions of noncompliance. These visits are very appropriate when introducing new tax laws.

(d) Record Keeping Audit

It is unannounced visits to the taxpayers' business premises to check whether the appropriate records are kept and VAT invoices are issued. The visit points out the obligations of the taxpayer regarding the keeping of records and followed up with penalties if the taxpayer continues to disregard record keeping requirements (OECD, 2006).

(e) Refund Audit

Refund audit should focus only on the period covered by the claim. A pre-refund audit should be undertaken to verify the taxpayer's entitlement to a refund prior to processing a first refund claim particularly for new registrants. It is also carried out where the refund claim varies significantly from established patterns and trends. Audits of further claims should be carried out selectively Grandcolas (2005).

(f) Issue-oriented Audit

According to Grandcolas (2005), issue oriented audit focus on a single tax type and covers no more than one or two reporting periods. It should be directed at verifying items for which errors have been detected in the returns (atypical ratios, gross revenues, comparison of gross sales to imports). Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single issue audits typically take less time to conduct and can be used to review large numbers of taxpayers involved in similar schemes to conceal non-compliance (OECD, 2006).

(g) Comprehensive or full Audit

(Ebrill E. , (2010) defined comprehensive audit as comprehensive examination of all information relevant to the calculation of a taxpayer's tax liability for a given period. This audit may cover all tax obligations over a number of tax periods, or extended to several years up to the limit provided for in the law. All cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities. The objective is to determine the correct tax liability for a tax return as a whole. As this audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

(h) Fraud Investigation

Fraud investigation is a type of tax audit that investigates criminal which arises from where the most serious cases of noncompliance. It helps to detect fraud, evasion, and criminal activity Krelve (2005). Fraud investigation requires special skill including meeting evidentiary requirements, seizure of evidences or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. (OECD,

Compliance Risk Management: Managing and Improving Tax Compliance,, (2004b) stated that, Revenue authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion. According to (OECD), (2006a) the types of tax audit are categorized in different based on the scope and its intensity of the audit performed.

2.1.7 .The Roles of the Taxpayer Audit Program

The tax audit program of a revenue body performs a number of important roles that effectively carried out and can make a significant contribution to improved administration of the tax system. These roles are described briefly hereunder:

Promote voluntary compliance: The primary role of the audit program is to promote voluntary compliance by taxpayers with the tax laws. It seeks to achieve this by reminding taxpayers of the risks of noncompliance and by engendering confidence in the broader community that serious abuses of the tax law will be detected and appropriately penalized.

Detect non-compliance at the individual taxpayer level: By concentrating on major areas of risk (e.g. unreported cash income) and those individual taxpayers most likely to be evading their responsibilities, audits may bring to light significant understatements of tax liabilities, and additional tax revenue collections. Gather information on the ‘health’ of the tax system (including patterns of taxpayers’ compliance behavior): The results of normal audit activity may provide information on the general well-being of the tax system. Audits conducted on a random basis can assist overall revenue administration by gathering critical information required to form judgments on overall levels of tax compliance, that over time can be used to identify trends in overall organizational effectiveness and to gather more precise information that can be used to inform decision making on future compliance improvement strategies, to refine automated risk-based case selection processes, and even support changes to tax legislation.

Gather intelligence: Audits may bring to light information on evasion and avoidance schemes involving large numbers of taxpayers that can be used to increase major counter-abuse projects.

Educate taxpayers: Audits can assist clarify the application of the law for individual taxpayers and to identify improvements required to recordkeeping and thus may contribute to improved compliance by taxpayers in the future.

Identify areas of the law that require clarification: Audits may bring to light areas of the tax law that are causing confusion and problems to large numbers of taxpayers and thus require

further efforts by the revenue body to clarify the laws' requirements and/or to better educate taxpayers on what they must do to comply into the future.

Given the broad range of roles to be performed a revenue body's audit program typically entails the largest allocation of a revenue body's total staff resources. From this perspective alone, the audit program represents a sizeable strategic investment that dictates the need for sound management policies and practices.

2.1.8 .Government Revenues Scope and Extent

According to OECD (2006), government revenues are sourced from various tax and nontax receipts. The country papers bring out the dimensions of these two sources which in turn influence the areas of audit priority. These are tax and non-tax revenues. Government revenues are largely dependent on taxes legislated through various tax statutes. However, the spread of the two sources, tax and non-tax revenues, varies from country to country. The scope of audit activities varies across countries, in part as a result of the system of assessment in place. There are two generally accepted systems of tax assessment applied worldwide (administrative assessment and self-assessment) in around half of OECD countries, administrative assessment is employed to varying degrees in the administration of personal income tax and corporate profits/income tax. All countries administer VAT under self assessment principles.

Assessment systems operate on the principle that all tax returns should be subject to a degree of technical scrutiny before a formal assessment is sent to the taxpayer. In practice, however, much of the scrutiny previously undertaken by technical staff has been replaced in many countries by the use of automated screening techniques to identify returns requiring scrutiny before a formal assessment is issued. To the extent that there is some level of scrutiny carried out by technical officers, it ranges in practice from a very cursory examination of some tax returns to a more in depth examination where further inquiries may be made with taxpayers (sometimes by correspondence) before a formal assessment is issued. Even countries that operate administrative assessment regimes complement these arrangements with a formal program of post-assessment audits. However, in practice such programs tend to be conducted on a smaller scale than is the case in countries only applying self-assessment principles. In countries where self-assessment principles are applied, returns are typically accepted as filed in the first instance (with the

exception of returns containing mathematical errors or clearly erroneous deductions) and, for income tax, a formal assessment/ notice confirming/advising the tax liability is sent to the taxpayer before any inquiry.

A sample of returns is selected for post assessment audit, generally applying computer-based risk selection techniques and/or manual screening processes. Large scale matching programs may also be mounted on a post –assessment basis for the major categories of income (i.e. wages, interest, and dividends). Since virtually all tax returns are accepted as filed without technical scrutiny when applying self assessment principles, it is essential for the system to be supported by a reliable automated audit case selection system using risk-based screening techniques. Typically, such systems are developed using risk-based criteria derived from analyses of completed audit cases and are regularly updated to take account of the results of audit activities and to reflect important changes in the behavioral patterns of taxpayers. Examples of risk identification models and approaches are described in the companion note ‘Audit Case Selection. As systems of administrative assessment and self-assessment have evolved over time in many countries there is something of a fine-line in practice between their features and relative efficacy (OECD, 2006).

According to the Ethiopian Federal Inland Revenue Authority’s tax assessment and audit manual (2006), an assessment is basically an initial review by tax official of the tax declarations and information provided by tax payer and a verification of the mathematical and technical accuracy of the declared tax liability shortly after the submission of the declaration. The initial review also includes the application of various risk criteria to determine possible tax underpayments and the subsequent selection for tax audit. An audit on the other hand, is the conduct by audit staff for appropriate verification of selected tax payers declared tax liabilities. This can include a review of tax payer’s systems, books of account and other related information. It may also include cross checks of tax payer’s records with those of tax payer’s suppliers or with other source of information such as the custom authorities or other government departments and agencies.

2.1.9 .Resources for the Tax Audit Function

Revenue bodies typically have at their disposal a finite level of resources to conduct the day to day business of revenue administration. Given the many tasks to be performed and the inevitable decisions that must be made on priorities, a process is required to determine how those resources are

to be allocated. Regardless of how the overall budget of resources for audit work is arrived at, a key issue for the audit function is how those resources will be spread over the various segments of taxpayers. Determining how resources might best be allocated is a key element of a revenue body's strategy for compliance improvement and is dealt with in the following section

2.2. Operational Definition of Terms

Definition Tax Compliance: This refers to adherence to the administrative rules of lodging and paying taxes on time. This includes compliance with the reporting requirements, procedural rules and regulations. This entails filing tax returns on time, reporting all the income and claiming the right deductions and where taxes are due making tax payments on time (Mohd Rizal Palil& Ahmad Fariq Mustapha, (2011).

The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard, and Feinstein (1998) claimed that tax compliance should be defined as taxpayers' willingness to obey tax laws in order to obtain the economy equilibrium of a country. (Kirchler E. E, (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. A wider definition of tax compliance, defined in 1978 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self-assessment and voluntary compliance, tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (IRS, 2009; ATO, 2009; IRB, 2009). (Alm J, (1991) and (Jackson B.R & Milliron V.C ., (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments.

Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority(Singh V, 2003). Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of

administration and compliance in terms of completing (accuracy) the tax returns (Chow C.Y, (2004)); (Harris T.D, 1989). Compliance in pure administrative terms therefore includes registering or informing tax authorities of status as a taxpayer, submitting a tax return every year (if required) and following the required payment time frames (Ming Ling, Normala and Meera, 2005). In contrast, the wider perspective of tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, timeliness, accuracy, and adequate records in order to complete the tax returns and associated tax documentation (Singh and Bhupalan, 2001). In line with Singh and Bhupalan, Somasundram (2003, 2005a and 2005b) claimed that the wider perspective of compliance becomes a major issue in a self-assessment system since the total amount tax payable is highly dependent on the levels of tax compliance this perspective reveals, although it is inevitable that tax authorities will seek to 'influence' the areas taxpayers have influence over determining to reduce the risks of non-compliant behavior.

Tax Rates: Tax rates refer to the rate at which a business or person is taxed on income. It also refers to the rate of tax on goods and services (Alm J Jackson B.R and McKee M., (1992).

Tax Audits: This is an exercise undertaken by tax authorities to determine if a taxpayer paid the correct amount of tax (Kirchler E. E, Enforced versus voluntary tax compliance:).

Fines and Penalties: A fine or penalty is money paid usually to a government authority, as a punishment for a crime or other offence (Alm J. Jackson B.R. and McKee M., (1992).

Tax incentives: A tax incentive is an aspect of the tax code designed to incentivize, or encourage, a certain type of behavior (Mittone L, (2006).

Tax avoidance: Refers to the legal reduction in tax liabilities by practices that take the full advantage of the tax code, such as income splitting and postponement of taxes for example through contribution to a Home Ownership Savings Plan (Bergman, 1998).

Tax evasion: Refers to illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns (Bergman, 1998).

2.2.1. Theories of Tax Compliance

Any strategy to prevent tax evasion should begin with the theory of why people cheat on their taxes. Naturally, much of it is unconvincing and ambiguous. Nevertheless, to give an indication

of the full range of variables that social scientists have studied in an attempt to answer this question. The Forum on Tax Administration (2004) “identified some of the basic theories of tax compliance” which include, among others: Economic theories, Psychological theories and Sociological theories.

I. Economic Theories

Economists approaching the question of why people fail to comply with the law began by constructing a theory based upon the assumption about human behavior that underlies all economics; namely that individuals generally act rationally in evaluating the cost and benefit of any chosen activity. Consequently, in modeling the choice confronting individuals who are deciding whether to engage in tax evasion, their basic model assumes that people would commit evasion when the expected utility of their criminal act exceeds its expected disutility (Slemrod J, (2000).

ii. Psychological Theories:

Many analysts have suggested that the economic model of human behavior reflects a too simplistic view of human beings and, in the real world of everyday life, is without any predictive value. Like economists, psychologists also tend to explain human behavior in terms of variables that relate to individuals. However, they tend to model human behavior in much more complex terms than economists. Unlike economists, they would not think of modeling tax payers, in this context, as perfectly amoral, risk averse utility maximizers. Instead, they might be interested, as key independent variables, in tax evasion decision in factors such as: the individuals are moral beings with ideas and values of their own and that commands and their own impulses filter through and are affected by this moral screen (Slemrod J, (2000).

iii. Sociological Theories

Sociologists tend to see the cause of variation in human behavior in the structure of the social system. Thus they explain people’s actions by examining the forces that impinge on the position that they occupy within the system. Among other things, this means that they extend the basic economic model of crime control by making the point that law is not the only source of punishment and rewards. Tax payers live and work in society. They have families, friends and co-workers who are sources of reward or punishment. These social forces shape behavior just as effectively as the reward and punishments administered by the state. Given their basic assumptions about human behavior, sociologists are also likely to look to attitudes towards

government views relating to the enforcement of tax laws, views about the fairness of the tax system, contact with the tax department and demographic characteristics as independent variables (Slemrod J, 'Why People Pay Taxes: Introduction', in Slemrod, Joel (ed.), (2000). Beron (2002) is of the view that Social scientists from almost every discipline have turned their attention to tax evasion as social phenomena. What have we learned from their efforts? In a perfect world, by now we would have a theory about why people comply with the tax laws from which an interested tax administration department could deduce a comprehensive compliance strategy. However, compliance with the tax law typically means: True reporting of the tax base, Timely filing of the tax return, and Timely payment of these amount due (Slemrod, 2000).

2.2.2. Prior Empirical Reviews

A number of empirical studies examined tax administration in both developed and developing countries, tax audit program in particular. All of them with the exception of (Yesegat W. and Fjeldstad O, (2016), (Mesfin Gebeyehu, Tax Audit Practice and Its Significance in Increasing Revenue in Ethiopia: , 2008), and (Mihret Getaneh, 2011), were emanated from developed countries and applying different settings. The following section presents briefly these studies which was adopted and modified from different authors. (Bright Joseph C Joseph B. Kadane Daniel S. Nagin,, (1988),) studied statistical sampling for tax audits in United States of America (USA), tried to review whether the use of statistical sampling for audit is a sufficient basis for determining the taxpayers' unpaid liability rather than reviewing all transactions to determine the exact amount of tax owed. The study used case studies, and relied on the cases and data from consumption taxes, primarily sales and use taxes of three agencies including Internal Revenue Service (IRS), the revenue departments in New York and Pennsylvania.

The finding of the study indicated that audit assessment based on appropriately drawn and analyzed statistical sample do not suffer from the defects that the courts have correctly concluded mar assessments based on non-statistical samples. Without sampling, it may be literally impossible for a tax examiner with a limited staff to audit an entire period especially when dealing with a taxpayer who conducts a large volume of transactions. The study further indicated that sampling techniques allow improved economies in the use of government resources in that tax administration can be more efficient, fairer, and less intrusive if the technologies used for identifying and measuring tax deficiencies are expanded to include controlled use of statistical

sampling. The common interest of minimizing the duration of tax audit for both the tax administration and taxpayers can also be achieved with sampling techniques.

However, statistical sampling cannot provide an exact determination of tax owed, and the uncertainty adjustment may sacrifice too much revenue. (Collins Julie H and R. David Plumlee, (1991) studied the effect of tax audit schemes on the taxpayer's labor and reporting decision. The study also examined the impact of alternative tax rates and penalty levels on earned and underreported income. Experimental design was adopted, and laboratory labor setting was used to test the effects of audit schemes, tax rates, and penalty levels on underreported income and work effort. The experimental results of the study indicated that audit schemes that incorporate some preliminary information signal sent by the taxpayer might be more successful in curbing underreporting than purely random audit models. (Chan K. Hung and Phyllis Lai Lan Mo., (2000) studied in China on the effect of tax-holidays (exemption and reduction) on foreign investors. The study adopted case studies, and used tax audit data (585 cases of 1996 tax returns of foreign investment enterprises audited in 1997). The cases were selected at random. In this study, noncompliance was measured in terms of tax audit adjustment that is overstatement of cost of sales in the pre-holiday period and over-provision for staff welfare in the post-holiday period. The empirical results of the study indicated that a company's tax holiday position affects noncompliance. Companies are least compliant during the pre-holiday period whereas most compliant during the tax exemption period.

Also (Kastlunger B. Kirchler E Mittone L and Pitters J, (2009) study of experimental research also suggests that, although the effectiveness of audits and fines cannot be completely confirmed, early audits in taxpayers' "tax life" have a positive impact on compliance. Badara, M.S. (2012), Questionnaire based research by using descriptive statistics, result shows that the relevant tax authority (RTA) employed tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise. Hyun (2005) Japan & Korea using world value survey dataset and descriptive statistics and multiple regressions for analysis. The study result revealed that Japan has the higher level of tax culture than that of Korea; and the legal system is relatively more important factor to determine the level of tax culture which eventually affects the level of

compliance.(Collins Julie H. and R. David Plumlee,, (1991)) Data set from 1982-1991 using OLS. The result found that there is a significant effect attributable to many tax policy and tax administration parameters; including: audits; third party information documents; the issuance of targeted non-filer notices; criminal tax convictions; marginal tax rates. As far as the researchers' knowledge, tax audit impact on improving taxpayer's compliance not yet widely studied in developing nations in general and in Ethiopian case in particular. Given this gap of knowledge, together with the fact that improving tax payer compliance is one of the most important but least studied aspects of fiscal reform in developing economies, there appears considerable potential area for research. Therefore, the intent of this study is to examine the impact of tax audit on improving tax payers' compliance in Ethiopia a case of Jimma city revenue authority office.

2.2.3. Factors Determining Tax Compliance Behavior

(Jackson B.R. and Milliron V.C. , (1986) are listed fourteen main factors that have influenced tax compliance as discussed by various researchers. These factors are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Various researchers have listed factors that influenced tax compliance such as demographic, income, compliance cost, and tax agents (Mohani A and Sheehan. P. , (2003) , in addition to moral or ethical factors(Singh V, Malaysian Tax Administration. 6th ed. Kuala Lumpur, (2003) ; (Kasipillai J. Norhani A. and Noor Afza , (2003).

2.2.4. Fairness/Equity

According to (James, S., and Nobes, C., (2000) , the most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. Similarly, Due and Friedlander (1981), also argue that what is fair or equitable in taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society. Both tax payers and tax authority believe that fairness of the tax system is one of the major determinants of tax compliance. Fairness can be seen from two angles: equity of trade, which is

related with the benefit received from paid tax and the other is equity in relation to burden of tax liability in comparison to other tax payers. Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from government and or in relation to what other taxpayers are paying (G. Chau and P. Leung, 2009).

2.2.5. Taxpayers Attitude towards the Government

Attitudes are the positive and negative evaluation an individual have about objects, concepts or living things. It is assumed that attitudes encouraged people to act according to them. Like their view for other things, taxpayers can have a positive or negative attitude about tax in general and tax compliance in particular .Those taxpayers whit positive attitude towards tax noncompliance is expected to be less compliant then a taxpayers with a negative attitude about tax noncompliance. According to (Kirchler, ,2008) the association between tax compliance and tax attitude are significant but weak. This finding tells that there is complex relationship between tax compliance and tax attitude. In general it can be said that if tax attitude is negative, tax noncompliance will increase.

The presence of government expenditures may motivate compliance (Alm, J., Jackson, B.R., and McKee, M. , (1992) (Andreoni, J, Erard, B., and Feinstein, et al., 1998,) Cowell and Gordon, 1988). Individuals may pay tax because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute. A tax payer therefore is seen as exchanging purchasing power in the market in return for the government services (Levi M, (1998).Positive benefits may increase the probability that tax payers will comply voluntarily, without direct coercion. Without a material benefit, compliance becomes less assured. Although most tax payers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and other' terms of trade with the government.

2.2.6. Awareness level of Taxpayers

(James, S., and Nobes, C., (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply. It follows that there may be greater gains in assisting basically compliant taxpayers to meet their fiscal obligations than in spending more resources in pursuing the

minority of non-compliers. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such taxpayers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons. On other side, other writers such as Smith and Kinsey (1987) argue that tax noncompliance is an intentional behavior.

2.2.7. Probability of Detection and Tax Compliance

(Allingham, M. and Sandmo. A., 1972) claimed that taxpayers will always declare their income correctly if the probability of detection is high. Probability of detection plays a significant role in reporting behavior as taxpayers will declare everything if they perceive that they will be one of the audit in that particular year (Riahi-Belkaoui, 2004; (Richard M, (2008). (Slemrod J. Blumenthal M. and Christian C , , (2001) investigate the relationship between the probability of being audited and the taxpayers' responses. The experiment indicated that taxpayers' behavior varied with respect to level of income and the probability of being audited played a significant role in determining taxpayers' evasion behavior.

However, the direction of the relationship (positive or negative) was not clearly stated by Slemrod et al. (1988). Their result was also supported by (Andreoni J Erard .B and Feinstein J., 1998) who found that prior audit experience and continuous contact (relation) with the tax authority influenced and increase compliance among taxpayers. Conversely, Young (1994) and (15, Slemrod, J. Blumenthal M. and Christian C , , (2001) observed that probability of being audited again was negatively correlated with compliance behavior. Bergman (1998) cited in (24 Mohd Rizal Palil and Ahmad Fariq mustepha, 2011) investigates tax compliance behavior in Argentina using two approaches; (1) the measures to enhance commercial taxpayers and (2) extensive campaigns and audits which will increase the probability of detection among individual taxpayers. The results suggested that as the number of audits and the probability of detection increased, taxpayers are encouraged to comply with tax laws and accurately report their income. That is taxpayers will always declare their income correctly if the probability of detection is high. (Eisenhauer, 2008) and (G. Chau and P. Leung , , 2009), have also found that a high probability of being audited or detected would encourage taxpayers to be more compliant (positive relationship).

For Young, 1994, a high probability of being audited would potentially decrease compliance creating a negative association. Here one thing it has to be seen is that most researches find a positive relationship between tax compliance and probability of detection. This suggests that unintentional evasion may occur rather than intentional evasion. He also claimed that the lack of audits and investigations implemented by tax authorities in the 1980s in Argentina had driven taxpayers to behave 'recklessly'. Moreover, as taxpayers were aware that they would not be detected due to lack of investigations, they incorporated more complex tax evasion strategies and less traceable documentations so that they could pay less tax. Findings by Bergman are consistent with the theoretical proposition that the fear of detection influences the level of compliance behavior, suggesting that the evaders take precautionary measures when the perceived risk of detection is high.

2.2.8. Awareness of Offences and Penalties and Tax Compliance

According to Palil and Mustapha (2011), a theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion. However, the more complex models like principal agent theory and game theory suggest that penalties and audit probability are difficult to portray in compliance models as the results are determined endogenously with tax cheating (Andreoni *et al.*, 1998). They suggested that to overcome the endogeneity it is necessary to control the enforcement environment artificially by using laboratory experiment methods. This has been evidenced by Beck, Davis and Jung (1991) and Becker, Buchner and Slesking (1987) through their experiments in which they found that penalty rates affect tax compliance in accordance with the theory. However, an experimental approach does limit the surroundings to a narrow perspective compared to the real world. Bryman and Bell (2003) suggested that an experimental approach is only suitable for a study that can be addressed with a high degree of experimental arrangement and control. Nevertheless, an experimental approach for a tax compliance study might show a smaller effect or influence than for direct observation (Alm J. Jackson B.R. and McKee M., (1992). In addition, Marrelli (1984), Wang and Conant (1988), Gordon (1990), Marrelli and Martina (1988) found that penalty rates have a negative association with evasion. In contrast however, Virmani (1989) indicated results the other way around, in which penalty rates

had a positive association with evasion, meaning that higher rates did indeed encourage people to cheat. Since previous studies indicate that penalty rates impact upon tax compliance behavior, the awareness of offences was presumed to have a significant influence as well. If the taxpayers are aware of the offences they are committing when evading tax and the consequences of being noncompliant taxpayers, they might reduce their tendency to evade tax. On the other hand, if they are not aware of the implications of being dishonest in terms of the offence they are likely to be charged with if caught, they might be more inclined to cheat because they presume that they will not be detected and could save money. Thus, educating taxpayers and keeping them well informed with the sentences of being an evader may be important, as a prevention measure is better than cure (imposition of a penalty)

2.2.9. Perception of Government Spending

Roberts, Hite and Bradley (1994) indicated that if the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. In contrast, if taxpayers perceive that the government is spending too much on something considered unnecessary or unbeneficial to them then taxpayers will feel betrayed and attempt to evade. According to the political legitimacy theory, tax compliance is influenced by the extent that citizen trust their government (Tayler 2006;(Kirchler E. E., 2008); Fauvelle&Aymar1999).As per these studies legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good.

2.2.10. Tax Education

Previous literature supports the direct, positive relationship between educational level and taxpayer compliance (Jackson, B.R., and Milliron, V.C., 1986). Chan, Troutman, and O'Bryan (2000) also postulate that education level is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and higher level of moral development promote a more favorable taxpayer attitude and greater compliance.

2.3 .Tax Knowledge

The researches illustrated the importance of tax knowledge in a tax system (Eriksen and Fallan (1996), Mohamad Ali et. al., (2007), Singh, (2003). (Eriksen, and Fallan (1996) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. (Mohamad A , Mustafa H and Asri M., (2007) examine the influence of tax knowledge on compliance behavior by dividing the tax knowledge in to groups those are, knowledge explicitly focused at possible opportunities to evade tax and knowledge gained through formal education. Study result indicated that, regarding the rules and regulation of the taxation, the level of education received by taxpayer' is an important factor that contributes to the general understanding. (Mohd Rizal Palil, 2010) presents taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. (Eriksen K and Fallan L, 1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others tax evasion and thus suggesting that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax.

2.3.1. Tax Audit and Tax Compliance

Tax audits have been discussed in relation to tax compliance. Numerous studies such as (Mohd Rizal Palil and Ahmad Fariq Mustapha,, 2011), Jackson and Jaouen (1989); (Shanmugam, (2003) and (Dubin J.A, (2004) reported that tax audits have a positive impact on tax evasion. These findings suggest that in self assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. (Mohd Rizal Palil and Ahmad Fariq Mustapha ,, 2011) argued audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

Butler (1993) cited in (Mohd Rizal Palil and Ahmad Fariq Mustapha ,, 2011), also found that tax audits can change compliance behavior from negative to positive. These findings complement the Witte and Woodbury (1985) and the (Beron K.J Tuachen H.V and Witte A.D., 1992) studies. Witte and Woodbury in their study of small proprietors found that tax audits have a significant

role in tax compliance. They did not empirically test individual taxpayers, thus left open room to conduct research in this area. While Butler (1993) and Witte and Woodbury (1985) found significant results, Beron et al. (1988) found a contradictory result. They reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income (Beron et al., 1988).

From another point of view, Evans, Carlon and Massey (2005) studied the tax compliance of small and medium size enterprises (SME) in Australia. Their objective was to examine the relationship between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study hypothesized that low tax compliance among SMEs might better encourage the tax authority to increase audits and investigations. This study involved 129 small business owners, 130 tax practitioners and Australian Tax Office (ATO) auditors. Using mail surveys, this study found that audit history, including frequency, audit outcome and the type of audit of small business owners has a significant indirect impact on tax compliance (in terms of record keeping). The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance related rather than part of their management of their business. Thus, as the audits investigations increase, many SMEs will make more of an effort at proper record keeping. From the foregoing, it is observed that previous studies have evidenced that tax audits play an important role in increasing voluntary compliance. Audits rates and the thoroughness of the audits could potentially encourage taxpayers to be more prudent in completing their tax returns.

2.3.2. Summary of literature review and knowledge gap

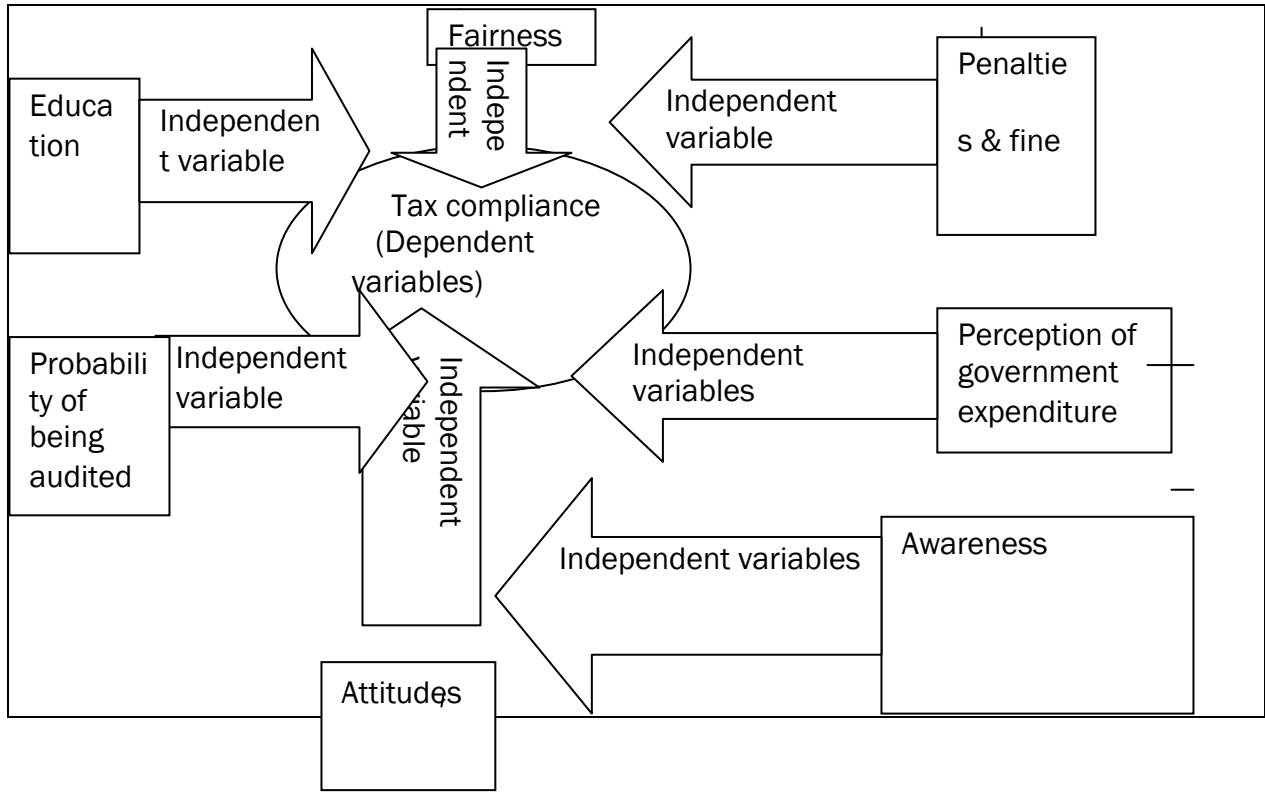
Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. Since each country has its own approach to managing tax compliance levels and each has different tax laws and regulations, the factors impacting tax compliance behavior appear to vary among countries. In the theoretical review, to the knowledge of the researcher, there is no standard as to the percentage of audit methodologies to be conducted in a given tax authority. In addition, there is no adequate literature regarding the appropriate audit examination techniques to be used for checking the accuracy of tax returns in

line with the level of economy and technological advancement, developing countries in particular. The empirical studies that have been reviewed focused on impact of tax audit on improving tax payer compliance behavior, Probability of being tax audit particular, penalty and fine and tax education, tax fairness, tax payer attitudes, tax payer awareness and perception of government spending on improving the tax compliance. In addition, most prior studies regarding tax compliance issues tried to examine the factors affecting compliance improvement and fraud detection. However, to the knowledge of the researcher, it is possible to conclude that although there have been a number of studies on tax audit related issues both in developed and developing countries, Ethiopia in particular, there are no studies that exhaustively examine factors affecting tax compliance.

In Ethiopia, exceptions regarding tax audit on tax compliance by (Desta, kasa 2010). Even these studies did not assess exhaustively the impact of tax audit activities in Ethiopia. The study by (Desta, kasa 2010) was mainly focused factors affecting voluntary tax compliance. These studies did not comprehensively examine issues regarding tax audit and its effect on tax revenue growth and compliance improvement by considering issues such as probability of tax audit, fines and penalty, tax fraud investigations, educational level and experience of tax payers, Attitudes, in Ethiopia. Based on these gaps in the literature together with the problems stated in section 1.2, the following research question is established. “What is the relationship between tax audit and tax compliance in Ethiopia” With this end, the next chapter discusses the research design and specific research methods that are applied for the study along with proper justification for the selection of appropriate research method.

2.3.3. Conceptual Frame work

This study conceptualizes that the tax compliance could be affected probability of tax audit, tax knowledge and education, fines and penalties, Perception of government expenditure, fairness; attitudes; study is therefore to test the nature and the strength of these relationships. Conceptual model presented in Figure 2.



Source: literature and empirical review

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1. Research Design

The descriptive and exploratory research approach was employed for this study. Research design is the conceptual structure with in which research is conducted. It constitutes the blue- print for collection, measuring, and analysis of data. Decisions regarding **what, where, when, how much, by what means** concerning an inquiry or a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with **economy** in procedure. Research design is a plan for collecting and utilizing data so that desired information can be obtained (Paul et al,2009). Research design is needed because it facilitates the smooth sailing of the various research operations, thereby making research as efficient as possible yielding maximal information with minimal expenditure of effort, time and money. The design of the study was quantitative method. This study is adopting a descriptive approach which describes the reason behind the situation of the impact of tax audit on improving taxpayer compliance case study of Jimma city administration revenue authority office.

3.2. Research Approach

There are three approaches available for researchers to design their research methodology namely quantitative, qualitative and mixed methods research approaches (Creswell, 2003). Qualitative research approach explores attitudes, behaviors and experiences through methods such as in-depth interview and/or focus group discussion (Dawson 2002). It uses narrative, phenomenological, ethnographies, grounded theory and case studies. The researcher collects open-ended emerging data with the primary intent of developing themes from the data (Creswell 2007). Qualitative approach attempts to get an in-depth opinion from participants. The second approach, quantitative research, generates statistical data through the use of large scale survey research, using methods such as close-ended questionnaires and/or structured interviews (Dawson 2002). Creswell (2009) noted that quantitative approach employs strategies of inquiry such as experiments and surveys, and collect data on predetermined instruments that yield

numeric data that can be analyzed using statistical procedures. It is a means for testing objective theories through examining the relationship among variables. Finally, mixed methods approach is the blend of both qualitative and quantitative approaches. It employs strategies of inquiry that involves collecting data either simultaneously or sequentially to best understand the research problem. The data collection involves gathering both numeric information and text information (Creswell 2009). So In this study, the researcher adopted mixed methods approach.

3.3. Research Methods Adopted

Research methods are the techniques used to collect data. In this study, the researcher adopted mixed methods approach, as discussed in the previous section, which is employed concurrently in collecting and analyzing data. There are different tools available to the researcher to collect the required data including questionnaires, observation, interview, and document analysis. For this study, the researcher applied quantitative (survey) and qualitative (in-depth interview and document analysis).

3.4. Study Population

The population of this study was the employees of Jimma city revenue authority office .The study population includes all Audit division staff or tax auditors including some management member of Jimma head office and three sub city. Population under this research comprises Jimma city audit officers who are 65 audit officers. Since the number of staff is not large, the study was census approach. The researcher administered 65 questionnaires out of which 53 questionnaire were completed and returned.

Insertion Criteria:

Being a staff of Audit division of Jimma head office and three sub City

Exclusion Criteria:

Those who are still in probation period (less than 45 days of employment)

Those who are on leave (e.g. Sick leave, maternal leave,) during the data collection

3.5. The sample size

The target population in the study includes all officer and manager of tax revenue authority in Jimma revenue Authority office. In Jimma city RA at head office and three branch office at the sub city level, there are 65 employees who are working on tax audit, quality controller, investigator including tax administration and top level manager. The study included all employees of tax audit and managers because of its sample size. A census is; therefore more appropriate than applying sampling to obtain representative data.

3.6. Procedures of Data Collection

Data collection procedure includes structured questionnaire for quantitative data collection method; semi-structured questionnaire for the key informant interviews. A pre-test was conducted on 10 randomly selected tax Audit staff of one Sub city so as to make sure that the questionnaire is clear and understandable.

3.7. Data Sources and Collection Method

3.7.1. Sources of Data

Sources of data for this study were primary and secondary data sources. These are primary data were obtained through survey questionnaire and secondary data were obtained from various books, articles, research journal and annual reports, feedback given from Oromia Revenue Authority, media and related reports and findings that resemble tax collection patterns of the organization. That helps that the researcher to have more insights about effect of tax audit on tax compliance at the study area.

3.7.2. Data Collection Technique

From the strategies of investigation associated with quantitative and qualitative methods. A researcher has been used both questionnaires and interview to collect those data while using open ended and close ended questionnaires and personal interview. It enables the researcher to test objective theories in the real world by constructing the cause and effect relationship between variables and promote the replication of research. In this study, this approach allowed the researcher to identify the impact of tax audit on tax compliance in Jimma City Administration Revenue Authority.

3.8. Research Instruments

The study incorporates both the secondary and primary data sources. The secondary data collected from the books, journals, articles, etc. that helps the researcher to have more insights about the effect of tax audit on tax compliance at the study area. The primary data collected from Tax auditors, Quality controllers, and head managers of main office and sub cities using structured questionnaires. Each questions starting from section three to section five has specific number of items which was presented in a Likert type-scale with a 5- point scale from 1 – “Strongly agree” to 5 - “Strongly disagree”

3.9. Method of data analysis

The data collected from employee had been presented and analyzed by using the descriptive statics and inferential statistics. Descriptive statistics are charts, graphs, tabulation, frequencies, and percentages and means etc. inferential statistics such as LineKarl Pearson’s coefficient of correlation (or simple correlation) is the most widely used method of measuring the degree of relationship between two variables. This coefficient assumes the following: (i) that there is linear relationship between the two variables; (ii) that the two variables are casually related which means that one of the variables is independent and the other one is dependent; and (iii) a large number of independent causes are operating in both variables so as to produce a normal distribution and Multiple regressions analysis is also conduct. Finally, this is all are done by SPSS (statistical package for social science) version20.

3.10. Description of Study Variables & Model Specification

Dependent variable

Tax Compliance

Independent variables

Probability of tax audits, tax knowledge and education, fine and tax penalties, Fairness, perception of government spending and Attitudes. Those selected variable affected tax compliance on this study areas and the researcher also most effective based on those selected variable.

3.11 .Variable Measurement

In this study tax compliance was measured using three hypothetical questions. It is based on Palil (2010) and Troutman (1993) with some modification to suit our country's context. The use of hypothetical questions can increase reliability of results and minimizes respondents' dishonesty when answering the questionnaire (Troutman, 1993). The respondents were asked to rate each hypothetical question whether as a taxpayer they would undertake the same action if they faced the same situation using 'strongly disagree' to 'strongly agree', using a Likert Scale of 1 to 5 respectively. The items that made up the scale include 1) probability of being audit; 2) tax penalties and 3) Tax knowledge 4) fairness 5) Attitudes and 6) Perception of government expenditure.

3.12. Model Specifications

Analysis has been done by using Spearman correlation and multiple linear regression models. According to Coakes and Steed (2007), multiple regressions is an extension of bivariate correlation. They stated that the result of regression is an equation that represents the best prediction of a dependent variable from several independent variables. Regression analysis is used when independent variables are correlated with one another and with the dependent variable. The regression model used to test is shown below:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \epsilon$$

Where; Y = Tax compliance

A = Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6$ and β_7 = Coefficient indicating rate of change of tax compliances as Probability of tax audit, Attitudes, Fairness, fines and penalties and tax knowledge and education changes

X_1 = Probability of tax audit

X_2 = tax fines and penalties

X_3 = tax knowledge and education

X_4 = Fairness

X_5 = Attitudes

X_6 = Awareness

X_7 = Perception of government spending

ε = Error term

All the above statistical tests were analyzed by using the Statistical Package for Social Sciences (SPSS), version. All tests have had two-tailed. Significant levels will be measured at 95% confidence level with significant differences recorded at $p < 0.05$

3.13. Ethical Consideration

The researcher were receive official permit from Jimma University. Information provided by respondents or interviewees will not be transferred to a third party or will not be used for any other purpose other than academic. Thus, they are assured of confidentiality and anonymity of their response.

Chapter Four

Results and Discussion

4.1. Survey Results

The questionnaires were distributed to all tax auditors. It was prepared to measure responses related to dependent and independent variables using a five point Likert scale type questions. This question has been distributed to 65 respondents of various tax audit departments who has a position of Head managers, tax auditors and quality controller ‘workers. These questionnaires were prepared and distributed to the above respondents. Those questioners have some amendments and some added anew question. Out of 65 questionnaires distributed to the respondents,53 respondents were completely filled and returned the questionnaires. The remaining discussion in this section presents the survey outcomes regarding respondents’ background information, types of each question related with tax audit and compliance. The third section shows the association between tax penalty, probability of being tax audit and tax education, fairness, attitudes, awareness, and perception of government spending in various aspects (independent variables) and tax compliance. Analysis of measures, testing of hypothesis and summary of Regression analysis are examined under fourth section of the chapter.

4.2 Profile of study participants

Demographic information shows the characteristics of the elements in the sample size: As such the researcher wanted to set up the all-purpose information of the respondents, which forms the basis under which the interpretations are prepared. Demographic aspect 1 analyzed the gender of the respondents. This information was needed to enable the researcher to achieve information on whether the respondents were either male or female. Accordingly, 36 (67.9%) of the respondents were male whereas 17 (32.1%) of them were female.

Table 4.1 Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Male	36	67.9	67.9	67.9
Valid Female	17	32.1	32.1	100.0

Total	53	100.0	100.0	
-------	----	-------	-------	--

Source: SPSS Output from Survey Data, 2020

Demographic factor 2 shows the age groups of respondents, 10(18.9%) of the respondents were below 30 years of age, whereas 25(47.2%) of them were between 31-40 years of age, where as 14(26.4%) of them were 41-50 and the remain of 4(7.5%) of them were above 51 years. This result illustrates that most of the tax auditors in Jimma city RAO were generally middle aged b/n 41-31-40years.

Table 2; Age

	Frequency	Percent	Valid Percent	Cumulative Percent
>30 years	10	18.9	18.9	18.9
31-40 years	25	47.2	47.2	66.0
Valid 41-50 years	14	26.4	26.4	92.5
above 51 years	4	7.5	7.5	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

4.3 Socio-economic status of respondents (Tax Auditors)

Educational levels, field of study and work experience of the tax auditors in general are the most important variables that can affect the performance of tax audit as well as tax administration system. In line with these attempts have been made to assess the educational level of the respondents, Field of study and work experience. Generally the respondent's socio-economic status is presented in Table 4.

Table 3; level of schooling

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid BA	39	73.6	73.6	73.6

MA and above	14	26.4	26.4	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

With regard to educational level, of the respondents have a good level of educational qualification that is 39(73.6%) of the respondents were BA degree holder and the remain of 14(26.4%) were MSc and above Degree holder. its which means enables the respondents to have idea of the Tax Audit. Moreover, majority of the respondents studied the field related to business which enables them to understand the implementation of taxes and related issues.

Table 4;Field of specialization

	Frequency	Percent	Valid Percent	Cumulative Percent
Accounting and finance	25	47.2	47.2	47.2
Economics	11	20.8	20.8	67.9
Management	17	32.1	32.1	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

As it is discussed in the above paragraphs, the majority of the respondents were specializing in Accounting and Finance which accounts for 47.2% of the total respondents. The remaining 20.8 % and 32.1 % of the respondents were specializing in Business Management and Economics respectively. As indicated in Table 4.2, 17 % of the respondent Tax Auditors have service year of less than 2 years, 44.7% of the respondents have service years of 2-4 years and 38.3% of the respondents have service years of 4-6 years. This shows that above 83% of Bole sub City Revenue Authority's Tax Auditors have more than 2 years of work experience, as tax auditor. As it is discussed in the above paragraphs, the majority of the respondents have a good level of educational qualification that is BA or BSc degree and MSc Degree which enables the respondents to have idea of the Tax Audit and to understand the implementation of taxes and related issues.

Table 5; job activity

	Frequency	Percent	Valid Percent	Cumulative Percent
tax auditor	38	71.7	71.7	71.7
tax investigator	6	11.3	11.3	83.0
Valid tax audit coordinator	5	9.4	9.4	92.5
tax audit director	4	7.5	7.5	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

As indicated above table 6.1 majority of tax auditor 35(66%) of experienced when 18(34%) no experienced before joined RAO.

Table 6; Did you have any audit experience before you joined the Revenue Authority Office?

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	35	66.0	66.0	66.0
No	18	34.0	34.0	100.0
Total	53	100.0	100.0	

As it is discussed in the above paragraph majority of tax auditor is experienced before joined RAO. As indicated in the Table 6.2, 13(24.5 %) of the respondent Tax Auditors have service year of less than 2 years, 20 (37.7%) of the respondents have service years of 2-4 years, 15(28.3%) of the respondents have service years of 4-6 years and 5 (9.4%) of the respondents have service of 6-10 years. This shows that majority of the tax auditor in Jimma City RAO experienced before joined RAO.

Table 7; What is the minimum work experience sequent a job an tax auditor?

	Frequency	Percent	Valid Percent	Cumulative Percent
< 2 years	13	24.5	24.5	24.5
2-4 years	20	37.7	37.7	62.3
Valid 4-6 years	15	28.3	28.3	90.6
6-10	5	9.4	9.4	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

As indicated in Table 6.2, 13(24.5 %) of the respondent Tax Auditors have service year of less than 2 years, 20 (37.7%) of the respondents have service years of 2-4 years, 15(28.3%)of the respondents have service years of 4-6 years and 5(9.4%) of the respondents have service of 6-10 years. This shows that majority of the tax auditor Jimma City Revenue Authority's have more than 2 years of work experience, as tax auditor.

Table 8; How long did you work with your current job occupation in the Revenue Authority Office?

	Frequency	Percent	Valid Percent	Cumulative Percent
< 2yrs	8	15.1	15.1	15.1
2-4	25	47.2	47.2	62.3
Valid 4-6	15	28.3	28.3	90.6
6-10 yrs	5	9.4	9.4	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020.

Table 7 show as the respondents' results as training is provide when RAO hired employee as tax auditor and when indicating on the table above were as 9(17%) said yes , 12(22.6%) usually ,13(24.5%) neutral ,11(20.8%) some times ,8(15.1%) respondents also implicate as not trained.

Table 9; Gating training before joining revenue office

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	9	17.0	17.0	17.0
Usually	12	22.6	22.6	39.6
Neutral	13	24.5	24.5	64.2
some times	11	20.8	20.8	84.9
No	8	15.1	15.1	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

Table 10 show us sanction on non compliance and non regulation were is the respondents' of 34(64.2%) yes, 12(22.6%) neutral , and they remain 7 (13.2%) explained as no sanction on those non compliance and non regulation. That means majority of the of respondents or 64.2% responded as non compliance an non regulation is under sanction during not comply

Table 10; existing of sanction on non compliance

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	34	64.2	64.2	64.2
Neutral	12	22.6	22.6	86.8
No	7	13.2	13.2	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

Table 11 show us responds of respondents based on types of audit applied on RAO based on survey results were 39(73.6%) responds full audit ,10(18.9%) limited scope audited and the remain of 4(7.5%) responds single issue audit.

Table 11; types of audit

	Frequency	Percent	Valid Percent	Cumulative Percent

Valid	full audit	39	73.6	73.6	73.6
	limited scope audit	10	18.9	18.9	92.5
	single issue audit	4	7.5	7.5	100.0
	Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

Table 12; a respondents survey results show us the most effective assessment in RAO were is 24(45.3%) administrative assessment ,18(34%) self assessment and the remain of 11(20.8%)respondents responds both assessment.

Table 13; types of assessment

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	administrative assessment	24	45.3	45.3	45.3
	self assessment	18	34.0	34.0	79.2
	Both	11	20.8	20.8	100.0
	Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

Table 14 show us the respondents results based on the Reason of non compliance behavior of tax payer related with survey result responded of 25(47.2%) tax payer lack of alertness ,13(24.5%) weakness in tax administration,10(18.9%) and 5(9.4%) tax payer deliberate action . as indicated above table majority of respondents responded that reason of non compliance of tax payer is in case of lack of awareness and second reason also weakness in tax administration.

Table 14; reason of non compliance

	Frequency	Percent	Valid Percent	Cumulative Percent	
Valid	tax payers carelessness	10	18.9	18.9	18.9
	tax payer deliberate action	5	9.4	9.4	28.3

tax payers lack of awareness	25	47.2	47.2	75.5
weakness in tax administration	13	24.5	24.5	100.0
Total	53	100.0	100.0	

Source: SPSS Output from Survey Data, 2020

4.4. Tax compliance

Table 15; Findings on tax compliance reveal that tax payer attitude improvement negative impact on increasing tax audit result regarded as the highest score (mean 3.9245), followed by attitudes of tax payer increase tax compliance score value(mean 2.0566), and Tax payer tax attitude is have significant impact on tax compliance regarded as the lowest score value (mean=1.3774)

	N	Minimum	Maximum	Mean	Std. Deviation
attitudes of tax payer increase tax compliance	53	1.25	2.75	2.0566	.31639
Tax payer training essential to improve tax payer attitudes	53	1.00	2.00	1.5094	.50469
Tax payer tax attitude is have significant impact on tax compliance	53	1.00	2.00	1.3774	.48936
tax payer attitude improvement negative impact on increasing tax audit result	53	2.00	5.00	3.9245	.67508

Valid N (listwise)	53				
--------------------	----	--	--	--	--

Source: SPSS Output from Survey Data, 2020

4.5. Probability of being tax audit

Findings on probability of tax audit reveal that improving relationship with public regarded as highest score value 1.5472. tax auditors, investigators and assessors expected to perform during an audit period is detecting noncompliance behavior of individual taxpayer regarded as followed by the highest score value (mean 1.5094), high probability of audit solves the problems of tax evasion, avoidance and other irregularities is regarded as the lowest score value (mean=1.4906).

Table 16: Responses on Probability being of tax audit

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
educating tax payer and conducting consultation session	53	1.00	2.00	1.4906	.50469
Tax audit improves the level of compliance	53	1.00	3.00	1.5094	.57588
Tax auditors, investigators and assessors expected to perform during an audit period is detecting non compliance tax behavior	53	1.00	3.00	1.5094	.57588
improving relationship with public	53	1.00	3.00	1.5472	.63748

high probability of audit solves the problems of tax evasion, avoidance and other irregularities.	53	1.00	2.00	1.4906	.50469
Valid N (listwise)	53				

Source: SPSS Output from Survey Data, 2020

4.6. Fines and Penalties

Findings on Fines and Penalties reveal the prospect of tough penalties deter people from evading tax regarded as the lowest score value (mean=1.9811), Tax payers who possess an awareness of penalties for noncompliance are more compliant than those who do not possess such awareness regarded as the highest score value (mean 2.5283), followed by If there is no penalty or legal enforcement there is a possibility that tax payers may not pay tax increase by (mean 2.4528).

**Table 17: Responses on Fines and Penalties
Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
the prospect of tough penalties would deter people from evading tax	53	1.00	5.00	2.5283	1.10251

Tax payers who possess an awareness of the penalties for noncompliance are more compliant than those who do not possess such awareness	53	1.00	3.00	1.9811	.60417
If there is no penalty or legal enforcement there is a possibility that tax payers may not pay tax	53	1.00	5.00	2.3396	1.01798
Attitudes of tax payer on penalty increase compliance	53	1.00	5.00	2.3585	.94247
the higher penalties of findings of tax audit increase tax revenue and tax compliance	53	1.00	5.00	2.4528	1.30923
Valid N (list wise)	53				

Source: SPSS Output from Survey Data, 2020

4.7. Response on Tax Education

Findings on tax education reveal that teaching tax evaders to deal effectively with their taxes would reduce future offences regarded as the highest score value (mean 2.4717.), followed by the awareness of tax audit makes the tax payers to render a satisfactory returns(mean 2.4717), tax evasion could be best handled though informing & encouraging tax payers to comply voluntarily (mean 2.2642) and Tax audit performed in tax administrations is to educate taxpayers is regarded as the lowest score value (mean=1.6226).

Table 4.19: Responses on Tax Education

	N	Minimum	Maximum	Mean	Std. Deviation
Teaching tax evadors to deal effectively with their taxes would reduce future offences.	53	1.00	5.00	2.4717	.97278
Tax evasion could be best handled though informing & encouraging tax payers to comply voluntarily	53	1.00	5.00	2.4717	1.08493
The awareness of tax audit makes the tax payers to render a satisfactory returns	53	1.00	5.00	2.2642	1.00290
tax audit performed in tax administration is to educate tax payers	53	1.00	4.00	1.6226	.62716
Valid N (listwise)	53				

Source: SPSS Output from Survey Data, 2020

4.8. Response on Attitude

Table 20; Findings on tax payer attitudes on tax reveal that tax payer attitude improvement negative impact on increasing tax audit result regarded as the highest score value (mean 3.9245), followed by attitudes of tax payer on tax audit increase tax compliance (mean 2.0566), Tax payer tax attitude is have significant impact on tax compliance regarded as the lowest score value (mean=1.6226)

	N	Minimum	Maximum	Mean	Std. Deviation
attitudes of tax payer increase tax compliance	53	1.25	2.75	2.0566	.31639
Tax payer training essential to improve tax payer attitudes	53	1.00	2.00	1.5094	.50469
Tax payer tax attitude is have significant impact on tax compliance	53	1.00	2.00	1.3774	.48936
tax payer attitude improvement negative impact on increasing tax audit result	53	2.00	5.00	3.9245	.67508
Valid N (listwise)	53				

Source: SPSS Output from Survey Data, 2020

4.9. Response on Awareness

Table 21; Findings on tax payer awareness on tax reveal that tax payer awareness on audit no relation with tax compliance regarded as the highest score value (mean 3.7925), followed by Increasing of tax payer awareness increasing tax payer compliance (mean 1.54717), the awareness of tax audit make tax payer to render satisfaction return and Awareness of tax payer on audit increased being audit regarded as the lowest score value (mean=1.5428).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation

the awareness of tax audit make tax payer to render satisfaction return	53	1.00	2.00	1.4528	.50253
Awareness of tax payer on audit increasing a government revenue	53	1.00	2.00	1.4906	.50469
Awareness of tax payer on audit increased being audit	53	1.00	2.00	1.4528	.50253
Increasing of tax payer awareness increasing tax payer compliance.	53	1.000	3.000	1.54717	.539446
tax payer awareness on audit no relation with tax compliance	53	2.00	5.00	3.7925	1.00687
Valid N (listwise)	53				

Source: SPSS Output from Survey Data, 2020

4.10. Response on Fairness

Table22; Finding on tax fairness reveal that Fairness cannot be affect compliance regarded as the highest score value (mean 4.2075) and followed by Higher income earners should pay more taxes than lower income earners (mean 2.0943) By paying right amount of income tax, I believe that other people especially the poor will get the benefit regarded as the lowest score value (mean=1.3774).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Higher income earners should pay more taxes than lower income earners	53	1.20	3.00	2.0943	.25299
I pay about the same amount of taxes as others making the same income	53	1.00	4.00	1.5283	.60776
By paying right amount of income tax, I believe that other people especially the poor will get the benefit	53	1.00	2.00	1.3774	.48936
Tax payer the right to know time schedule of registration.	53	1.00	2.00	1.7170	.45478
Fairness cannot be affect compliance.	53	1.00	5.00	4.2075	.79320
Valid N (listwise)	53				

4.11 .Perception of government spending

Table,23; Finding on perception of government spending reveal that the government does not waste too much money for public service regarded as the highest score value (mean 3.3585) and followed by the government spends a reasonable amount on welfare (mean 2.0377) and facilitates of government infrastructure is changed attitudes of tax payers regarded as the lowest score value (mean=1.7736).

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
the government spends a reasonable amount on welfare	53	1.00	3.00	2.0377	.73281
The government does not waste too much money for public service	53	1.00	5.00	3.3585	.96266
There are a number of government services, facilities and infrastructure for which I am very thankful	53	1.00	4.00	1.8679	.83292
facilitates of government infrastructure is	53	1.00	5.00	1.7736	.86916
changes attitudes of tax payers					
Valid N (listwise)	53				

4.1.2. Analysis of Measures

4.1.3. Reliability Test

The Cronbach's coefficient alpha was tested. Table 4.24 reports the alpha scores for all the variables. As proposed by Nunnally (1967 & 1978), The Cronbach's alpha coefficient was within the acceptable level of reliability of 0.70 for scale acceptability. A general accepted rule is that alpha of 0.6-0.7 indicates an acceptable level of reliability. So this 0.75 also reliable.

Table 24: Cronbach's Alpha for Determinant Factors and Tax compliance

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.633	.750	7

Source: SPSS Output from Survey Data, 2020

4.1.4. Correlation Statistic

Correlation statistics is a method of assessing the relationship between variables/factors. To be precise, it measures the extent of association between the ordering of two random variables. Thus, the study analyzed the relationships that are inherent among the independent and dependent variables as well as among the independent variables/ factors. The results regarding this were summarized and presented in table 4.25 below.

Spearman Correlations results in table 4.25 showed that tax fines and penalties was positively and significantly correlated to tax compliance ($r=0.431$, $p<0.05$). Thus tax penalty had 43.1% positive relationship with tax compliance. Probability of tax audit was the second component to be positively related with tax compliance ($r = 0.321$, $p<0.05$) an indication that tax audits had 32.1% significant positive relationship with tax compliance. tax education was significantly & positively correlated to tax compliance ($r=0.391$, $p<0.05$). Therefore, tax compliance cost had 39.1% positive relationship with tax compliance. And the other component Tax payer attitudes positive relationship with tax compliance ($r=0.074$, $p<0.05$) therefore tax compliance indication that tax attitudes had 7% significant relationship with tax compliance. Tax payer awareness

positive relationship with tax compliance depends on results of ($r=0.257$, $p<0.05$) therefore tax awareness had 25.7% positive relation with tax compliance. And fairness is other component significantly and positive relation with tax compliance ($r=0.298$, $p<0.05$) therefore tax fairness also 29.8% positive relation with tax compliance. Finally perception of government spending have positive relation and significantly with tax compliance ($r=0.279$, $p<0.05$) therefore perception of government spending have 27.9% relation with tax compliance.

Table 25; Correlation Statistics

		Compliance	Penalties	Education	Audit	attitude	awareness	fairness	pgsp
Pearson Correlation	Compliance	1.000	.431	.391	.321	.074	.257	.298	.279
	Penalties	.431	1.000	.476	.086	.205	.509	.374	-.051
	Education	.391	.476	1.000	.105	.595	.881	.621	.032
	Audit	.321	.086	.105	1.000	.041	.121	.173	-.129
	Attitude	.074	.205	.595	.041	1.000	.513	.478	.141
	Awareness	.257	.509	.881	.121	.513	1.000	.825	.105
	Fairness	.298	.374	.621	.173	.478	.825	1.000	.201
	Pgsp	.279	-.051	.032	-.129	.141	.105	.201	1.000
	Compliance	.	.001	.002	.010	.300	.031	.015	.022
Sig. (1-tailed)	Penalties	.001	.	.000	.271	.070	.000	.003	.359
	Education	.002	.000	.	.226	.000	.000	.000	.410
	Audit	.010	.271	.226	.	.386	.193	.107	.179
	Attitude	.300	.070	.000	.386	.	.000	.000	.157
	Awareness	.031	.000	.000	.193	.000	.	.000	.227
	Fairness	.015	.003	.000	.107	.000	.000	.	.074
	Pgsp	.022	.359	.410	.179	.157	.227	.074	.
N	53	53	53	53	53	53	53	53	

Source: SPSS Output from Survey Data, 2020

*. Correlation is significant at the 0.05 level (2-tailed).

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

4.1.5. Results of Regression Analysis

A Multiple linear regression model was used to predict tax compliance in the study. The prediction was carried out basing on the effect of the seven independent factors: probability of being tax audit, tax fines and penalties and tax education, fairness and equity, attitudes, awareness and perception of government spending. In addition, the β coefficients for each independent variable generated from the model was subjected to a t-test, in order to test each of the hypotheses under study. The study thus came up with a model summary, the ANOVA and the regression model as presented in tables 4.10, 4.7 and 4.8.

The adjusted R square indicates how well the model variance has been explained (Morgan et al., 2005). Above all the model summary states that the independent variables that are under used have an impact to the dependent variable tax compliance. As the adjusted R square state the independent variable has an impact about 61.4% of the changes in tax compliance could only be explained by repressors namely; probability of being tax audited (tax audit), penalties and enforcement (penalty) and tax education (education), probability of being audit (audit), attitudes ,awareness , Fairness of tax and the last perception of government spending. The rest of 39.6% will be determining by the variable that are not taken under our study. It is greatly recommended for other researchers to undergone through other variable that may have an impact and can be determining in the country context.

Table 26: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.816 ^a	.666	.614	.23239

a. Predictors: (Constant), pgsp, educationq, audit, penalties, attitude, fairness, awareness

b. Dependent Variable: compliance

4.1.6. The ANOVA model

ANOVA Model in table 4.27 showed that the regression model was also adequate. The effect size of the regression model was shown to be over 12 that contributed by the residual mean sum of squares. The F-ratio was 12.794. This represented the effect size of the regression model and was significant with a p-value of 0.000.

Table 27: ANOVA Model

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	4.837	7	.691	12.794	.000 ^b
Residual	2.430	45	.054		
Total	7.267	52			

a. Dependent Variable: compliance

b. Predictors: (Constant), pgsp, education, audit, penalties, and fine, attitude and , awareness, fairness and equity

4.1. 7.Coefficients Model

The multiple regression results in table 4.28 show that each of the predicted parameters in relation to the independent factors were significant; $\beta_3 = .286$ (p-value = 0.003 which is less than $\alpha = 0.05$) which implies that we reject the null hypothesis stating that there is no significant relationship between probability of tax audit and tax compliance. This indicates that for each unit increase in probability of tax audit, there is 0.303 units increase in tax compliance.

The table also shows that $\beta_1 = 0.411$ (p-value = 0.000 which is less than $\alpha = 0.05$) which indicates that we reject the null hypothesis stating that there is no significant relationship between tax fines and penalties and tax compliance. This implies that for each unit increase in tax fines and penalties, there is up to 0.411 unit increase in tax compliance.

The value of $\beta_2 = 1.337$ (p-value = 0.000 which is less than $\alpha = 0.05$) which implies that we reject the null hypothesis stating that there is no significant relationship between tax education

and tax compliance. This indicates that for each unit increase in tax education, there is up to 1.337 units increase in tax compliance.

The table also shows that $\beta_4 = -391$ (p-value = 0.001 which is less than $\alpha = 0.05$) which indicates that we reject the null hypothesis stating that there is no significant relationship between tax attitude and tax compliance. This implies that for each unit increase in tax attitude there is up to -391 unit increases in tax compliance.

The table also shows that $\beta_5 = -1.527$ (p-value = 0.000 which is less than $\alpha = 0.05$) which indicates that we reject the null hypothesis stating that there is no significant relationship between tax awareness and tax compliance. This implies that for each unit increase in tax attitude and awareness, there is up to -391 unit increases in tax compliance.

The value of $\beta_6 = 0.634$ (p-value = 0.001 which is less than $\alpha = 0.05$) which implies that we reject the null hypothesis stating that there is no significant relationship between tax fairness and equity and tax compliance. This indicates that for each unit increase in tax fairness and equity, there is up to 0.634 units increase in tax compliance.

The value of $\beta_7 = 0.381$ (p-value = 0.000 which is less than $\alpha = 0.05$) which implies that we reject the null hypothesis stating that there is no significant relationship between perception of government spending and tax compliance. This indicates that for each unit increase in perception of government spending, there is up to 0.381 units increase in tax compliance.

Table 28; Coefficient model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
	B	Std. Error				Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
(Constant)	.361	.295		1.224	.227	-.233	.955					
1 Penalties	.279	.069	.411	4.047	.000	.140	.418	.431	.517	.349	.721	1.388
Education	1.477	.245	1.337	6.031	.000	.984	1.970	.391	.669	.520	.151	6.615
Audit	.148	.046	.286	3.201	.003	.055	.242	.321	.431	.276	.934	1.070

Attitude	-.455	.132	-.391	-3.448	.001	-.721	-.189	.074	-.457	-.297	.578	1.730
Awareness	-1.667	.315	-1.527	-5.289	.000	-2.302	-1.032	.257	.619	.456	.089	11.214
Fairness	.714	.200	.634	3.561	.001	.310	1.118	.298	.469	.307	.235	4.262
Pgsp	.298	.071	.381	4.195	.000	.155	.442	.279	.530	.362	.899	1.112

a. Dependent Variable: compliance

4.1.8. Discussion of the Findings

Hypothesis 1 states that tax fines and penalties have no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since fines and penalties has coefficient estimate ($\beta_1 = 0.411$, p value =0.005), hence hypothesis 2 does not hold. Higher fines simply reduce the cases of tax evasion thus encouraging tax compliance, this in agreement with According to Palil and Mustapha (2011), a theoretical economic model introduced by Allingham and Sandmo (1972) has clearly indicated that penalties as well as audit probability have an impact on tax compliance. The higher the penalty and the potential audit probability the greater the discouragement for potential tax evasion

Hypothesis 2 states that tax education has no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since tax education has coefficient estimate ($B_2 = 1.337$, p value =0.000). A high level of tax education contributes immensely to tax compliance This in agreement with studies by (Mohd, 2010) asserts that tax knowledge is necessary to increase public awareness on taxation rules and the role of taxation in national development. Once individuals have the knowledge pertaining the importance of taxation, they will be influenced to comply without any enforcements or pressure on them.

As stated by **Hypothesis 3** that probability of tax audit have no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since probability of tax audit has coefficient estimate ($\beta_3 = 0.286$, p value =0.003), audit probability have positive effect on tax compliance, thus the higher the potential audit probability the greater discouragement for potential tax evasion. Therefore, the hypothesis that audit probability has no significant impact on tax compliance behavior of tax payers has been rejected, this in agreement with Allingham

and Sandmo (1972) claimed that taxpayers will always declare their income correctly if the probability of audit is high. Probability of audit plays a significant role in reporting behavior as taxpayers will declare everything if they perceive that they will be one of the auditees in that particular year.

Hypothesis 4; states that tax attitudes have no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since tax attitudes has coefficient estimate ($\beta_4 = 0.398$, p value =0.001). A high level of tax attitudes contributes immensely to tax compliance This in agreement with studies by (Mohd, 2010) asserts that tax attitudes is necessary to increase public awareness on taxation rules and the role of taxation in national development. Once individuals have the knowledge pertaining the importance of taxation, they will be influenced to comply without any enforcements or pressure on them.

Hypothesis 5; states that tax payer awareness has no significant effect on tax compliance. Research findings are not in agreement with the hypothesis since tax payer awareness of tax has coefficient estimate ($\beta_5 = -1.527$, p value =0.000), tax payer awareness on tax audit have positive effect on tax compliance. (James, S., and Nobes, C., (2000) argues that the norm is usually to comply rather than not to comply. As already pointed out for a tax system to be effective the majority of the taxpayers have to comply.

Hypothesis 6; states that tax fairness has no significant impact on tax compliance. Research findings are not in agreement with the hypothesis since fairness of tax has coefficient estimate ($\beta_6 = 0.634$, p value =0.001), audit probability have positive effect on tax compliance. Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from government or in relation to what other taxpayers are paying. In this study tax compliance and fairness of the tax system was found to have a positive relationship implying as a fairness increase tax compliance will increase and vice versa. Both tax payers and tax authority believe that fairness of the tax system is one of the major determinants of tax compliance. Fairness can be seen from two angles: equity of trade, which is related with the benefit received from paid tax and the other is equity in relation to burden of tax liability in comparison to other tax payers. Taxpayers can perceive the tax system as unfair if they believe that they are paying more than they receive from government and or in relation to what other taxpayers are paying.

Hypothesis 7; states that perception of government expenditure

In line with Hypothesis 7 (Positive perception of government spending is positively associated with tax compliance) ordered linear regression analysis result indicated government spending has positive relation with tax compliance and its coefficient estimate ($\beta_7=0.381$, p value =0.000) if the government is wisely spending the national revenue, for example, for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase.

CHAPTER; FIVE

SUMMARY OF FINDING, CONCLUSION AND RECOMMENDATION.

5. Introduction

The general objective of this study is to analyze The Impact of Tax Audit on the Tax compliance in case of Jimma City, City Administration revenue authority office. The target population consists of all tax auditors jimma city; According to Jimma City, Administration records, there are 65 tax auditors. The study also made interpretation on the hypothesis that probabilities of being tax audit, tax education, fines and penalties, Attitudes and awareness, Fairness and perception of government spending have no significant effect on tax compliance level.

5.1 conclusion

Based on major findings of the study; the following conclusions are made;

Findings on gender revealed that there are more male than females among the respondents indicating that more men than female are tax auditors. It was also affirmed that majority of the respondents were b/n 30-40 years. It was also brought to light that majority of respondents were fairly educated, those with a undergraduate degree contributing the highest percentage levels of literacy among the respondents and majority of them is more experienced worker in that organization.

A determination of the effect of probability of being tax audit on tax compliance revealed a strong positive correlation meaning that probability of tax audit has a significant positive effect on the level of tax compliance. This means that higher probability of tax audit will increase tax compliance levels. These study findings provide direct evidence that probability of tax audit is a contributory factor in tax compliance. From the study findings there is enough proof to conclude that probability of being tax audit is associated with high levels of tax compliance. From this it can be concluded that a high possibility of being audited could encourage taxpayers to compliance.

The study also provides some preliminary evidence that fines and penalties play a vital role in improving tax compliance. Specifically, for a tax system with fair tax rates of fines and penalties, tax compliance is likely to improve.

As we understand from the study finding provide evidence that tax fairness has a significant effect on tax compliance. In this study tax compliance and fairness of the tax system was found to have a positive relationship implying as a fairness increase tax compliance will increase and vice versa. The most obvious requirement of equity or fairness is to treat equal people in equal circumstances in an equal way. It is therefore prudent for the tax system to enhance fairness of tax on how to file tax returns and the importance of paying tax. It has to work also making the whole tax system as fair as possible with regard to the benefits received for paying the tax and the tax burden of paying it.

And attitudes and awareness also positive effects on tax compliance. When attitudes and awareness of tax payer change voluntarily compliance also changed.

The study also examined the effect of tax education on tax compliance level. Accordingly, the findings show that there is a strong positive relationship between the two implying that enhanced knowledge on taxation will in turn enhance tax compliance. This is because of educated taxpayers may be aware of non compliance.

An assessment of the effect of fines and penalties on tax compliance levels also revealed that there is a significant positive relationship between them. This implies that an effective use and enforcement of fines and penalties on tax offenders will enhance levels of tax compliance. And the other study's is also examined effects of tax fairness; attitudes, awareness and perception of government spending are also revealed strong positive correlation with tax compliance. Means it has significant positive effects on tax compliance.

Finally, the study concludes that perception of government spending has a significant effect on tax compliance. Indicated that if the government is wisely spending the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase. Specifically, for a tax system with fair tax rates of perception of government spending, tax compliance is likely to improve.

The way taxpayers perceive the government has its own effect on the tax compliance behavior of taxpayers. The more the government spends the tax money on public goods the more people will be willing to pay tax voluntarily and regularly. What this research revealed is that taxpayers are not satisfied with the government spending.

5.2. Recommendations

Based on the above finding (conclusion) the following recommendation was made.

An effective compliance program requires tax administration to have sufficient powers that enable it to enforce compliance effectively. To encourage compliance it is important that tax authority administers the law fairly. The tax authority needs to be strong enough in order to implement the tax law effectively and efficiently. Functions such as tax assessment, collection, awareness creation, providing information, and enforcement has to performed effectively and efficiently, so that it will be perceived as strong and powerful by the taxpayers. In addition to this, efficient service delivery to taxpayers is a key factor against which the strength of the authority is judged.

- ❖ Recommendation regarding to probability of being tax audit as a results of findings the effect of probability of being tax audit on tax compliance revealed a strong positive correlation meaning that probability of tax audit has a significant positive effect on the level of tax compliance. This means that higher probability of tax audit will increase tax compliance levels. So government must have audited all audit file time to time .for example Jimma RAO Must have audited as they have backload audit sources.
- ❖ Recommendation regarding to fine and penalties the study also provides some preliminary evidence based on finding that above fines and penalties play a vital role in improving tax compliance. So fine and penalties must be exist and needed for those who not comply and government must have penalize tax payer when they delay to pay their tax.
- ❖ Recommendation regarding to education and awareness creation based on conclusion findings there should be more preventative education for the public and increased awareness of tax responsibilities. Tax payers should be educated early in their career about tax responsibilities. Only through tax education concepts of taxation and tax knowledge can be communicated. Furthermore, taxpayers need more information about

their tax obligations and their role in promoting the growth of the economy of the country and the well-being of its citizens. Awareness creation should go beyond simply giving tax education to taxpayers it should extended to having consultative sessions. The tax education can be a tool to motivate voluntary compliance by taxpayers.

- ❖ Fairness; Government must have build fairness and equal serve tax payer. Fairness must have necessary b/n tax payer and tax authority. It has to work also making the whole tax system as fair as possible with regard to the benefits received for paying the tax and the tax burden of paying it.
- ❖ Recommendation regarding to attitudes a government must will have change attitudes of tax payers by educating them and by changing tax payer outlook what they inherited from their parents and their environment backwardness thinking to hated paying tax .
- ❖ Recommendation regarding to perception of government spending. This study revealed that the government must have wisely spending for the national revenue, for example for basic facilities like education, health and safety and public transportation, and must have give active services -and social services to the public will enhance compliance level. It is likely that voluntary compliance will increase.
- ❖ Finally the thesis suggests a series of measures, which could be taken by the government in general, and tax authorities in particular; improving thoroughness of audit, educating the taxpayers and conducting awareness creation and providing all necessary and this study revealed that the government must have wisely spending for the national revenue, for example for basic facilities like education, health and safety and public transportation, it is likely that voluntary compliance will increase.

5.3. Direction for Future Research

As recognized by Jackson and Milliron (1986) there are fourteen main factors that affect tax payers' voluntary compliance behavior but the current study has used only seven variables out of the fourteen variables because of those seven variable is more may affect tax payer compliance as researcher thought so in this study the researcher selected those seven variable . The result from the study shows that these are the factors affecting voluntary compliance of tax payers in Jimma City Administration. So, interested researchers can extend the same topic by incorporating more variables in to the model that are expected to affect taxpayers' voluntary compliance behavior. Another feasible research would be to change the sample population to category "A" and Category "B" taxpayers by increasing the sample size and then make a comparative study between taxpayers with book of accounts and taxpayers who have no book of accounts; to find out if there are any significant difference between these groups of taxpayers' attitude towards taxation.

REFERENCE

- Akalu, K. (2016). Determinants of tax compliance behavior of large corporate taxpayers in Ethiopia . Msc thesis, Addis Ababa University.
- Allingham, M. and Sandmo. A., (1972)). (Income tax evasion: a theoretical analysis',. Journal of Public Economics 1(3&4): 323-338 .
- Alm J Jackson B.R and McKee M ,. ((1992)). Deterrence and beyond: Toward a kinder, gentler IRS, in Slemrod, J. ed. Why People Pay Taxes: Tax Compliance and Enforcement. Ann Arbor. University of Michigan Press.
- Alm J, A. ((1991)). A perspective on the experimental analysis of taxpayer reporting. the accounting review 66(3) 577-93 .
- Alm J. Jackson B.R. and McKee M., ((1992)). . Deterrence and beyond: Toward a kinder, gentler IRS, in Slemrod, J. ed. Why deterrance and beyond towerd a kindLer gentler IRS INSLMROD.J.ED . People Pay Taxes: Tax Compliance and Enforcement. Ann Arbor. University of Michigan Press.
- Alm, J., Jackson, B.R., and McKee, M. . ((1992)). Deterrence and beyond: Toward a kinder, gentler IRS, in Slemrod, J. ed. Why People Pay Taxes: Tax Compliance and Enforcement. Ann Arbor. University of Michigan Press .
- Andreoni J Erard .B and Feinstein J., (1998). tax compliance.
- Andreoni, J, Erard, B., and Feinstein., (n.d.). tax compliance. journal of economic literature 36, 818-60 .
- Asamnew G. ((2011)). Tax assessment and collection problems of Category “A” tax payers: A case of Addis Ababa Yeka Sub City. Msc thesis, Addis Ababa University.
- Baurer Lewis I, B. (2005). Tax Administrations and Small and Medium Enterprises indeveloping country small and medium interprize department , world bank.
- Beron K.J Tuachen H.V and Witte A.D.,. (1992). The effect of audits and socio economic variables on tax compliance. In J. Slemrod (ed.). Ann Arbor: University of Michigan Press. .
- Biber, B. (2010).). Taxpayer Audit Development of Effective Plans”, Technical note andmanual.
- Bright Joseph C Joseph B. Kadane Daniel S. Nagin., ((1988),). Statistical Sampling in Tax audit ;law and social inquire. blackwell publishing on american foundationavailable at. http , vol.13,No.2,pp.305-333 .

Chan K. Hung and Phyllis Lai Lan Mo., ((2000)). Tax Holidays and Tax Noncompliance: .

Chow C.Y. ((2004)). Gearing up for the self assessment tax regime for individuals. .

Collins Julie H and R. David Plumlee ,. ((1991)). The Taxpayer's Labor and Reporting Decision:.

Cutt, J. (1969). ation and Economic Development in India, Fredrick A. Praeger Inc. New York.

Dubin J.A. ((2004)). Criminal investigation enforcement activities and taxpayer non-compliance. Washington, June, 1-45.

Ebrill, E. ((2010)). The Modern VAT, IMF, Washington DC.

Eisenhauer, J. (2008). Ethical risk aversion and tax payer behavior. journal of socio economic , 37,45-63.

Eriksen K and Fallan L, . ((1996)). “Tax knowledge and attitudes towards taxation: . In A report on a quasi-experiment” .Journal of Economic Psychology, 17, 387–402.

Farayola, G. (1987). Guide to Nigerian Taxation, Ikeja, All Group Nigeria Limited Publishers.

G. Chau and P. Leung,. (2009). A critical review of feature tax compliance.

Harris T.D. (1989). The effect of type of tax knowledge on individuals’ perceptions of fairness and compliance with federal income tax system.

Jackson B.R. and Milliron V.C, . ((1986)). Tax compliance research: Findings, problems, and Prospects, Journal of Accounting Literature.

James, S., and Nobes, C. ((2000)). The Economic of Taxation, 7th ed. London: Prentice Hall.

Kasipillai J. Norhani A. and Noor Afza, . ((2003)). 'The influence of education on tax avoidance and evasion'. eJournal of tax research, Vol. 1 No. 2 .

Kastlunger B. Kirchler E Mittone L and Pitters J ,. ((2009)). Sequences of Audits, Tax compliance and tax paying strategies;. journal of economic psychology .

Kirchler E. E. ((2007)). The Economic Psychology of Tax Behaviour. Cambridge: . Cambridge .

Kirchler E. E. ((2008)). Enforced versus voluntary tax compliance: . The “slippery slope” framework. Journal of Economic Psychology ,29 (2008),pp210-255 .

Levi M. ((1998)). A State of trust. In V. Braithwaite and M. Levi (Eds.), Trust and governance (pp.77–101). network;rusel6 foundation.

Mesfin Gebeyehu, M. (2008). Tax Audit Practice and Its Significance in Increasing Revenue in Ethiopia: .

Mihret Getaneh. (2011). Tax Audit Practice in Ethiopia: The Case of the Federal government,.

Mittone L. ((2006)). Dynamic Behavior in Tax Evasion:. An experimental Approach, The Journal .

Mohamad A , Mustafa H and Asri M,. ((2007)). The effects of knowledge on tax compliance behaviors among Malaysian taxpayers. July 11-13, Tokyo, Japan: International Conference on Business and Information.

Mohani A and Sheehan. P, . ((2003)). Estimating the extent of income tax non-compliance in Malaysia and Australia Using the gap approach (part I). Tax Nasional 4th quarter. 22- 34.

Mohd Rizal Palil and Ahmad Fariq Mustapha ,. (2011). Determinants of Tax Compliance in Asia: A case of Malaysia,. European Journal of Social Sciences Vol. 24 No 1.

Mohd Rizal Palil, M. (2010). Tax Knowledge and diterminants in self assesment system in malasia thesis.

Ochiogu. A. C. (1994). Nigeria Taxation for Students, Enugu; A. Ochiogu Publishers.

OECD). ((2006a)). Strengthening Tax Audit Capabilities: General Principles and Approaches,.

OECD. ((2006b)). Strengthening Tax Audit Capabilities: . Auditor Workforce Management Survey Findings and Observations“, Information note, September 2006, Forum on Tax Administration Compliance Sub-group, Center for Tax Policy and Administration.

OECD, O. ((2004)). Compliance Risk Management: Managing and Improving Tax Compliance,.

OECD, O. ((2006b)). Strengthening Tax Audit Capabilities: Auditor Workforce Management Survey Findings and Observations“, Information note, September 2006, Forum on Tax Administration Compliance Sub-group, Center for Tax Policy and Administration.

Richard M, R. ((2008)). Tax Challenges Facing Developing Countries, . Working Paper Series, IIB .

Shanmugam, S. ((2003)). . Managing self assessment - an appraisal. Tax Nasional, 1st Quarter, 30- 32. .

Singh V. (2003). . Malaysian Tax Administration. 6th ed. Kuala Lumpur: Longman.

Slemrod J, S. ((2000)).Why People Pay Taxes: Introduction’, in Slemrod, Joel (ed.); tax compliance and enforcement. anarbor university of michigan press .

Slemrod J. Blumenthal M. and Christian C , . ((2001)). Taxpayer Response to an Increased probablity of audit; evidence from a controlled experiment in minesota. journal of public economics. , 79(3),455-483.

Soyode L. and Kajola S.O ., (2006). Taxation Principals and Practice in Nigeria, Ibadan, Nigeria;Solicon Publishers.

Tilahun . A and Yidersal. D,. ((2014)). Determinants of Tax Compliance Behavior in Ethiopia: The Case of Bahir Dar City Taxpayers. Journal of Economics and Sustainable Development , Vol.5, No.15 2014 63 .

Yesegat W. and Fjeldstad O. ((2016)). Business people's views of paying taxes in Ethiopia. ICTD Working Paper 43 .

APPENDIXES I

APPENDIX 1: QUESTIONNAIRES FOR TAX AUDITOR SURVEY INSTRUMENT

JIMMA UNIVERSITY

SCHOOL OF GRADUATE STUDIES MSC ACCOUNTING AND FINANCE

Dear Respondents,

This questionnaire is designed to meet the objective of research titled “**The impact of tax audit practice on tax payer compliance: The case of Jimma city administration revenue authority office.** The data from this questionnaire will help the researcher to obtain reliable and valid information to complete the study.

Your cooperation of filling the questionnaire is very important to this study because it represents a number of others who are not included in the sample. The information provided is purely for academic purpose and I would promise that all information you provide would be strictly confidential. In order to accomplish this study, your responses are valuable for the study. I therefore humbly request to answer every question to best of your knowledge and your kind cooperation is highly appreciated. The questionnaire has two parts: Part -I is about your personal information. Part-II is the overall questions about the impact of tax audit on tax revenue. Please read each item carefully and give your honest response to each item.

I thank you very much in advance for your cooperation

JaraNasir

Phone number: +251917988145

E-mail address:*Nasirjara53@gmail.com*

Part –I: Background Information

Please provide your responses by marking a tick (√) in the relevant boxes.

1. Gender:

1. Male 2. Female

2. Age:

1. Less than 30 years 3. 41-50 years

2. 31-40 years 4. Above 50 years

3. Education:

1. Certificate 3. Diploma

2. BSc/BA 4. MSc/MA and above

4. Field of study:

1. Accounting & finance 3. Management

2. Economics Others, please specify _____

5. Current job occupation:

1. Tax auditor

2. Tax investigator 4. Tax audit director

3. Tax audit coordinator 5. Others please
specify _____

6. Did you have any audit experience before you joined the RAO?

1. Yes 2. No

1. What is the minimum work experience sequent a job an tax auditor?

2. Less than 2 years 4. 6-10 years

3. 2-4 years 5. Above 10 years 3. 4-6 years

7. How long did you work with your current job occupation in the RAO?

1. Less than 2 years 4. 6-10 years
2. 2-4 years 5. Above 10 years
3. 4-6 years

8. Does RAO provide training, tutor and/or exam regarding tax law and tax audit issues soon you employed before you engage in tax audit activities?

1. Yes 4. some times
2. Usually 5. No
3. Neutral

10. Is there effective sanction on non-compliance with the tax rules and regulation?

- a. Yes
b. Neutral
c. No

11. Which type of audit is the most effective in RAO?

- a. Full audit
b. Limited scope audit
c. Single issue audit
d. Any of the three as appropriate depends on the risk identified

12. Which one is more effective assessment methods usually applied in RAO?

- a. Administrative assessment
b. Self-assessment
c. Both

13. In your opinion the main reasons for the noncompliance behavior of the taxpayers includes?
(Multiple answers are possible)

- a. Taxpayers' carelessness
b. Taxpayers' deliberate action

- c. Taxpayers' lack of awareness
- d. Weakness in tax administration itself

e. Others 5, please specify _____

Put a “√” mark in one of the columns provided for each possible indicator. Use the scales: Strongly agree (5), Agree (4), Neutral (3), Disagree (2), strongly disagree (1)

1. Question regarding to tax penalties

No	Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	The prospect of tough penalties would deter people from evading tax					
2	Tax payers who possess an awareness of the penalties for noncompliance are more compliant than those who do not possess such awareness					
3	If there is no penalty or legal enforcement there is a possibility that tax payers may not pay tax					
4	Attitudes of tax payer on penalty increase compliance					
5	The higher penalty of findings of tax audit is increase tax revenue and tax compliance					

Source; researcher 2020

2. Questions regarding tax Education

No	Statements	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
1	Teaching tax evaders to deal effectively with their taxes would reduce future offences					
2	Tax evasion could be best handled though informing & encouraging tax payers to comply voluntarily					
3	The awareness of tax audit makes the tax payers to render a satisfactory returns					
4	Tax audit performed in tax administrations is to educate taxpayers.					

Source; researcher 2020

3. Question related to being tax audited.

No	Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
1	Tax audit improves the level of compliance					
2	Tax auditors, investigators and assessors expected to perform during an audit period is detecting non compliance tax behavior					
3	improving relationship with public					
4	educating tax payer and conducting consultation session					

5	High probability of audit solves the problems of tax evasion, avoidance and other irregularities					
---	--	--	--	--	--	--

Source ;researcher 2020

4. Questions regarding tax rate

		Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
1	Tax payers should evade tax if tax rates are too high						
2	Tax payers should evade tax if the tax system is unfair						
3	Tax payers should evade tax if a large portion of the money collected from tax is wasted						
4	Tax payers should evade tax if the probability of getting caught is low						
5	Evading tax due to lack of ability to pay should not be considered as crime/problem						

Source; researcher 2020

5.Question related to attitudes

No	Statements	Strongly agree	Agree	neutral	disagree	Strongly disagree	Total
1	Attitudes of tax payer increase tax compliance						
2	Tax payer training essential to improve tax payer attitudes						
3	Tax payer tax attitude is have significant impact on tax compliance						
4	tax payer attitude improvement negative impact on increasing tax audit						

Source; researcher; 2020

6.Question related to tax payer awareness level

No	Statements	Strongly agree	Agree	Neut ral	disa gree	Stro ngl y disa gree	To tal
1	The awareness of tax audit make tax payer to render a satisfaction return.						
2	Awareness of tax payer on audit increasing a government revenue						
3	Awareness of tax payer on audit increased bing audit						
4	Increasing of tax payer awareness increasing tax payer compliance.						
5	Tax payer awareness on audit no relation with tax compliance.						

Source; Researcher;

7. Question related to fairness and equity

No	Statements	Strongly agree	Agree	Neutral	disagree	Strongly disagree	Total
1	Higher income earners should pay more taxes than lower income earners						
2	I pay about the same amount of taxes as others making the same income						
3	By paying right amount of income tax, I believe that other people especially the poor will get the benefit						
4	Tax payer the right to know time schedule of registration.						
5	Fairness cannot be affect compliance.						

Source ;Researcher 2020

8.Question Related Perception Of Government Spending

No	Statements	Strongly agree	Agree	Neutral	disagree	Strongly disagree	Total
1	The government spends a reasonable amount on welfare						
2	The government does not waste too much money for public service						
3	There are a number of government services, facilities and infrastructure for which I am very thankful						
4	Facilitates of a government infrastructure is changes						

	attitudes of tax payers						
5							

Source ; Researcher 2020

9. Question related to Goals of tax audit

No	Statements	Stron gly agree	Agree	neutr al	disagr ee	Stro ngly disa gree	To tal
1	Creating deterrent effect on non-compliant taxpayers						
2	Detecting tax evasion and avoidances						
3	Gather information on the health of the tax system including compliance behavior						
4	Increasing the compliance level of taxpayers' to the tax laws						
5	Increasing government tax revenue						

Source researcher; 2020

10. Questions regarding Tax compliance e

S.N		Stron gly agree	Agr ee	Neu tral	Dis agr ee	Stro ngly disa gree
1	Since the amount of taxable amount and profit is declared by the taxpayer so, it is not wrong to omit or understate the taxable income and the profits declared.					

2	If one is paid in cash for a job and then not reporting it in the tax return					
3	If the tax authority has limited capability to investigate all income tax payer try to void					
4	Always people no need of report their exact income.					
5	Tax audit increase tax compliance					

Appendix II - Tax official's in-depth interview instrument,

1. What is the primary purpose of conducting an audit?
2. Could you tell me the level of taxpayer's tax awareness and compliance behavior for Ethiopian tax system? If they are not aware, what RAO plans to do regarding awareness creation and compliance improvement?
3. Do you believe that RAO has currently collecting the potential amount of tax revenue? If yes, how is it achieved? If not, could you tell me the reason behind, and on what audit cases should RAO concentrate in its audit work?
4. Which category of taxpayers and sectors are usually selected for tax audit? What would be the reason behind this selection?
5. How audit cases are selected? What are the bases considered for selecting the audit case?