

**DETERMINANTS OF TAX COLLECTION EFFICIENCY:
THE CASE OF MINISTRY OF REVENUE LARGE TAX
PAYER'S BRANCH OFFICE**

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**December 2020
Addis Ababa, Ethiopia**

DECLARATION

I hereby declare that this research report entitled “Determinants of tax collection efficiency: A Study on MOR, Large Taxpayers Branch Office”, has been carried out by me under the guidance and supervision of Yonas Mekonon and Endalew Getu. All sources of materials used for the study have been dully acknowledged.

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Place of Submission:-----

Date of Submission: -----

I

STATEMENT OF CERTIFICATION

This is to certify that the research entitled “The determinants of tax collection efficiency “submitted to Jimma University,college of business and economics to undertake a research in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration (MBA) has been prepared by Mr. MastewalMinale under our guidance and supervision.

Therefore, I hereby declare that no part of the research report has been submitted to any other university or Institution for the award of any degree or diploma and all the matters embodied in the research have been duly acknowledged.

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II

**DETERMINANTS OF TAX COLLECTION EFFICIENCY:
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III

ABSTRACT

Tax is defined as a way in which governments finance their accrued expenses by administering charges on the residents and businesses located within the country. This research examined the determinants of tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office at Addis Ababa. To achieve the objectives of this study explanatory research design was used. Data was collected through questionnaire from a sample of 265 tax payers that were selected using simple random sampling method and interview for the middle level management and tax officers of Ministry of Revenue Large Tax Payer's Branch Office using purposive sampling. The data collected from the questionnaire were analyzed using statistical tools such as mean, standard deviation, correlation, and multiple regression analysis. The finding of the study indicates also that employees were most moderately agree with the tax compliance, tax payer's awareness, tax exemptions dimensions of tax collection efficiency. On the contrary, respondents of taxpayers were agreed with Tax office Capacity. The five determinants of tax collection efficiency dimensions (tax office capacity, tax compliance, taxpayer's awareness, and tax exemptions) have positive and significant effect on tax collection efficiency. Furthermore, the aforementioned determinants of tax collection efficiency dimensions significantly contribute 27.2% to tax collection efficiency. Based on the findings of the study, the researcher forwards sound recommendations including that tax collection efficiency should start analyzing the organization for better organization achievement and meeting the expected goal of the organization.

Key Words: Tax office capacity, Tax compliance, Taxpayer's awareness, Tax exemptions and tax collection efficiency

IV

ACKNOWLEDGEMENTS

First, I would like to thank the almighty God who has helped me pass the most difficult and challenging times of my research paper work.

Secondly, I would like to extend a special word of thanks to my advisor, Yonas Mekonen (Doctor of Business Administration student) and Mr. Endalew Getu for their priceless and unreserved support through their continuous advice.

Thirdly, I would like to thank all respondents and informants, especially, Processcoordinators of the branch office for providing me the required information in the process of data collection.

Finally, I never forget all those who were sharing their brotherly and sisterly advice.

V

TABLE OF CONTENTS	
DECLARATION	2
STATEMENT OF CERTIFICATION	3
ABSTRACT	5
ACKNOWLEDGEMENTS	6
TABLE OF CONTENTS	7
List of Tables	9
ABBREVIATIONS	10
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the study	1
1.2 Background of the organization	3
1.3 Statement of The Problem	4
1.4 Objectives of the study	6
1.4.1 General objective of the study	6
1.4.2 Specific objective of the study	6
1.5 Research Questions	6
1.6 Significance of the study	6
1.7 Scope of the study	7
1.8 Operational definitions of the study	8
1.9. Limitation of the study	8
1.10. Organization of the study	9
CHAPTER TWO:	10
RELATED REVIEW LITERATURE	10
2.1 Theoretical literature review	10
2.1.1 The Meaning and Concept of Tax	10
2.1.2 Related theories.....	11
2.1.3 Objectives of Taxation	12
2.1.4 Tax system or structure	13
2.1.5 Characteristics of an Effective Tax System	13
2.1.6 Procedures for Tax Collection	14
2.1.7 Tax collection Challenges	15
2.1.8 Efficiency of Tax collection	17
2.1.9. Factors affecting tax collection efficiency	18

2.2 Empirical Review	22
2.3 Conceptual framework of the study	32
CHAPTER-THREE.....	33
RESEARCH METHODOLOGY	33
3.1 Research Design	33
3.2 Research Approach.....	33
3.3 Target Population	34
3.4 Sampling and Sampling Design	34
3.5 Data type and Sources	35
3.6 Data Collection Procedures.....	35
3.7 Reliability and validity	36
3.8. Methods of data analysis	37
3.9. Ethical Consideration	39
CHAPTER FOUR.....	40
DATA PRESENTATION, DATA ANALYSIS AND DISCUSSION RESULT	40
4.1 Analysis of measures for assumptions.....	40
4.2. Descriptive Statistics.....	43
4.3. Inferential Analysis.....	51
4.3.1 Correlation Analysis	51
4.4 Assumptions Testing.....	52
4.5 Regression Analysis	55
4.6 Research Hypothesis test.....	58
4.7 Qualitative / Interview Analysis.....	60
CHAPTER FIVE	62
SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION	62
5.1 Summary of Findings	62
5.2 Conclusion	64
5.3 RECOMMENDATION.....	66
Appendix- I.....	67
Appendix II.....	70
BIBLIOGRAPHY.....	71

List of Tables

Table 3.1: Rule of Thumb of Cronbach's Alpha.....	38
Table 3.2 Guideline for Interpreting Quantitative Data.....	39
Table 4.1. Response Rate	42
Table 4.2.KMO and Bartlett's Test.....	44
Table 4.3. Reliability test.....	45
Table 4.4. Demographic Characteristics	46
Table 4.5 Guideline for Interpreting Quantitative Data.....	47
Table 4.6.Summary of Response for Tax office Capacity.....	48
Table 4.7.Summary of Response for Tax Compliance.....	49
Table 4.8.Summary of Response for Tax Payer's Awareness.....	50
Table 4.9.Summary of Response for Tax Exemptions.....	51
Table 4.10.Summary of Response for tax collection efficiency.....	52
Table 4.11: Correlation Matrix	53
Table 4.12: Multi Collinearity statistics result.....	55
Table 4.13: Model summary.....	57
Table 4.14: ANOVA.....	58
Table 4.15: Regression coefficients.....	59
Table 4.16: Summary of Hypothesis Testing Results	62

VII

ABBREVIATIONS

ERCA	Ethiopia Revenue and Customs Authority.
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product
MoFED	Ministry of Finance and Economic Development
MOF	Ministry of Finance.
MOFEC	Ministry of Finance and Economic Cooperation.
MOR	Ministry Of Revenues
SIGTAS	Standard Integrated Government Tax Administration system)
SPSS	Statistical Package for Social Science
TIN	Tax Identification Number
WB	World Bank

CHAPTER ONE

INTRODUCTION

This chapter contained introductory part of the entire study. It provides some insights about the ground and assumptions where the study is conducted. It starts background, statement of the problem, objectives, significance, scope, definition of key terms, and organizations of the study. Accordingly, it begins with background of the study.

1.1 Background of the study

The countries need to collect adequate amount of revenue for various purposes, such as for building different infrastructures, for national defense and for administration. Governments collect revenues from tax and other non-tax sources. Zhou & Madhikeni (2013) stated that an effective income gathering structure is the core of every public administration and the foundation of sound fiscal management. The main source of governments' revenue is tax. If the government is not able to collect sufficient amount of tax, the country exposed for different problems like macro-economic disability and annual national budget deficit. In addition to this less tax collections has an impact on nation development. Many developing countries are not collecting tax revenue adequately.

Tax is a compulsory contribution payable by economic units to a government without expectation of direct and equivalent return from the government for the contribution made. Taxes have both micro and macroeconomic effects in a modern economy. Taxes have good as well as bad effect in the production, distribution of income and stabilization of the economy (Misrak, 2008). A tax is a fee charged or levied by a government on a product, income, or activity. The purpose of taxation is to finance government expenditure (Gupta, 2001). One of the most important uses of taxes is to finance public goods and services, public goods like roads, power, municipal services, street cleaning and other public infrastructures. Since public goods and services do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service, and so they need to be provided by the government or a quasi-government agency, which tend to finance themselves largely through taxes. Despite the fact that taxation is not favored by many, it is vital that it is understood because it forms a critical element of how a government affects the lives of its citizens (Oberholzer, 2008).

According to Janet & Asegedech (1997), many under developed countries face difficulties in collecting of tax revenues from the society and that leads frequently shortage of funds and unproductive use of public expenditures. Ethiopia, like other developing countries, is not collecting adequate amount of taxes comparing with the potential of the country that has to generate tax revenues. According to the report that released by Ministry of Finance and Economic Development (MOFED), many years there was a variance between annual national budget of tax revenues and the actual tax revenues collections.

Even if the country has long history in tax collection, still it has many problems associated with collection and managing of the tax revenues. Tax payment is considered by the society as a debt imposed by government and it considered to increase the wealth of the government officials. Therefore, attitude of the taxpayers can affect tax revenues. Attitude and taxpayers' awareness is the major challenge of the tax office (Niway and Wondwossen 2017). Worku (2016) attitude and perceptions has a significant impact on tax compliances. The tax office plays vital roles in enhancing of tax revenues.

Abebu, Zufan & Eden (2014) investigated that tax authority has the problem of addressability like controlling of each transaction, which subjected to tax, there are also tax avoidance and evasion by the taxpayers. In another study, Cheibub (1998) country's revenue generation mainly depends upon its sufficient capacity to tax in both economic and administrative term. Therefore, the capacity of tax office has to be improved and equipped with important equipment. Jone, Carlos, Eric, & Frank (2008) states that the two important components of revenue are tax administration and system reform. Thus to eliminate or reduces the above problems the tax authority have to do strongly unless otherwise the variance of tax collection and budgeted tax became high.

According to Byaruhanga (2013), those administrative inefficiencies significantly affect tax collection. This especially includes lack of regular and consistent tax enumeration and assessment of the taxpayers and lack of a systematic approach of identifying people liable to pay taxes. He further stated that there was no an up-to-date tax revenue register, no systematic tax record keeping process, lack of attribution values and non-remittance of tax revenue. Addis Ketema Sub city is one of the tax collection centers, which found in the central part of Merkato, the third largest market in the world. It believed that there are many taxpayers capable to generate tax revenues. However, according to ERCA report (2016) tax collection process of Addis Ketema sub city was not satisfactory. In addition to these, the report identified that the main causes of less tax revenue collection were tax awareness, tax evasion, tax office capacity and tax compliance.

1.2 Background of the organization

The Ethiopian Revenues and Customs Authority (ERCA) is the body responsible for collecting revenue from customs duties and domestic taxes. In addition to raising revenue, the ERCA is responsible to protect the society from adverse effects of smuggling. It seizes and takes legal action on the people and vehicles involved in the act of smuggling while it facilitates the legitimate movement of goods and people across the border. The ERCA traces its origin to July 7, 2008 because of the merger of the Ministry of Revenues, the Ethiopian Customs Authority and the Federal Inland Revenues into one giant organization.

The ERCA shall have the powers and duties to: establish and implement modern revenue assessment and collection system; provide, based on rules of transparency and accountability, efficient, equitable and quality service within the sector; properly enforce incentives of tax exemptions given to investors and ensure that such incentives are used for the intended purposes; implement awareness creation programs to promote a culture of voluntary compliance of taxpayers in the discharge of their tax obligations; carry out valuation of goods for the purpose of tax assessment and determine and collect the taxes; conduct study and research activities with greater emphasis to improve the enforcement of customs and tax laws, regulations and directives and the collection of other revenues; and based on the result of the study and research initiate laws and policies and implement the same up on approval; collect and analyze information necessary for the control of import and export goods and the assessment and determination of taxes; compile statistical data on criminal offences relating to the sector, and disseminate the information to others as may be necessary; organize a training center wherein to build employees' capacity; and design appropriate training schemes; examine goods and means of transport entering into or departing from Ethiopia through customs ports, frontier posts and other customs stations, and ensure that customs formalities are complied with; provide information and appropriate support to the Federal Police in the control of illicit trafficking of goods and combating contraband; and cause appropriate actions be taken in accordance with the law; investigate customs and tax offences, institute and follow up criminal proceedings in courts; for the discharge of such responsibilities, organize its own prosecution and investigation units and supervise their performance ; inspect and seize documents under the possession of any person that are required for the enforcement of customs and tax laws; organize and operate modern laboratory inspection of goods and documents; decide the place where import and export goods are to be deposited; establish warehouses, issue warehouse licenses; supervise duty-free shops; control the handling and care of deposited goods; suspend or revoke warehouse licenses; collect license and service charges. <http://www.erca.gov.et/index.php/about-us#power-and-duties-of-authority> accessed date 11/06/2018.

1.3 Statement of The Problem

Tax collection is the main portion of annual national budget. Many developed countries secure their national budget through collecting efficient tax revenues. The World Bank Group (2018) stated that developed countries collecting more tax comparing with developing countries than their GDP rate. Developing countries are unable to collect sufficient tax revenue as the result they face annual national budget deficit. According to Evenlike, Ekenechukwu&Edirin (2017) almost all Sub Saharan countries trend revealed that tax revenue level highly declined so the fiscal balances have weakened and the government required financing its national budget with borrowed funds. Neway, Kenenisa&Debela (2018) pointed out that annual national budget deficit was the vital problem of most of the under developed countries in the past numerous periods. The main cause of this budget deficit was less tax collection.

With the aim of broadening the tax based and facilitating the overall development of the economy, the government of Ethiopia has undertaken a comprehensive tax reform program. The reform measures are intended to encourage trade, investment and development through transparent and stable functioning of the tax system and to increase government revenue to support social and economic development programs and thereby alleviate poverty, strengthen the enforcement capacity of the taxes and custom authorities, and promoting equity in the tax system (Derartu, 2007).

Ethiopia has been facing different challenge in collecting of tax revenues. Even if the improvement is shown still much more left to reconcile the amount of tax collection with the gross national product development. According to UNDP (2016) working paper in the past ten years, Ethiopia has shown good progress in collecting more incomes from local sources. Out of those local sources, tax revenue took the major portion. For instance from the year 2005 to 2015 tax collection increased from Birr12.4 billion to Birr 165.3 billion. However, there was a challenge to reconcile the tax revenue proportionate per the growth of GDP. The tax to GDP ratio remained low at 13.4 percentages in 2015.

Many studies conducted about factors affecting tax collection. Abiola and Asiwah, (2012), impact of tax administration on Government Revenue in a developing economy; Mohammed & Al. M (2016) tax compliance is the vital aspect for all tax authorities in both of developed and developing nations. In Ethiopia, also many studies conducted about factors affecting tax administration. Eskedar, Aynalem&Yaregal (2014) stated that most of the problems associated with tax in Ethiopia are lack of employment fairness, the inconvenience of tax system. However, the study did not consider the effects of

taxpayers' awareness, tax compliance, exemptions and capacity of tax office on the tax collection of efficiency. Abebu& Eden (2014) investigated that taxpayer's lack of knowledge about tax. It resulted delay payment and improper tax amount. Abebu, Zufan, & Eden (2014) the challenges facing tax authority has been mainly poor tax payers' perception on the relevance of tax payment, taxpayers' delay in tax declaration, starting business activity without trading license and traditional mode of tax collection. On the other hand, taxpayers challenged by different factors, which reduced tax revenues.

SimilarlyYohannes and Zerihun (2013) stated that many developing countries have weaknesses in their tax administration that make it difficult to levy effective taxes. Especially those in the category "A", have been facing various problems related to the taxation system (tax administration). On their study they have found that most of the surveyed tax payers stated that what they are paying is beyond their ability to pay and that they neither have trust in the employees of the authority nor in the overall tax estimation, assessment and collection procedures. In light of these facts, the study concluded that the tax authority of the city administration is not being effective or is being reluctant in making the tax procedures objective, transparent and understandable to taxpayers.

According to Melese&Tesfahun (2016), problems that facing taxpayers were tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, cultural factors and provision of social services by the government. Awareness of taxpayers, tax office capacity, tax compliance and exemptions studied in Ministry of revenue large tax payer's branch office. Generally, one can see that the empirical studies undertaken thus far for developing countries, particularly for Ethiopia, bothered little or no to see the potential challenges faced by taxpayers and the tax authorities like determinants of tax collection efficiency. Eventhough, tax revenue collection is increased from time to time, but it is still low when we compared its collection with total number of taxpayers registered in the branch and also there are still large amounts of arrears each year. Therefore, this research delimited not only identifies the problems of the Ministry of Revenue Large Tax Payer's Branch Office, but also the cause of these problems. Because the researcher believes that identifying, the root cause of the problems is the best ground to provide appropriate solutions. Finally, by improving tax collection efficiency, it will bring advantages to the organization and benefits the City Administration in satisfying its people's economic and social needs. Due to the existence of the above-perceived problems, this study empirically aimed to examine determinants of tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office.

1.4 Objectives of the study

This study consists of general and specific objective.

1.4.1 General objective of the study

The general objective of the study is to evaluate the determinants of tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office.

1.4.2 Specific objective of the study

1. To examine the effect of taxpayers' awareness on tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office.
2. To examine the effect of tax exemptions on tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office.
3. To investigate the effect of tax offices capacity on tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office.
4. To describe the impact of tax compliance on tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office.

1.5 Research Questions

The study tries to seek answers to the following basic research questions

1. Does taxpayer's awareness affect tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office?
2. Does tax office capacity affect tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office?
3. Does tax compliance affect tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office?
4. Does tax exemptions effect on tax collection efficiency in Ministry of Revenue Large Tax Payer's Branch Office?

1.6 Significance of the study

The findings of this study may give clear understanding of what type of tax collection procedures are there, what problems are there and how those problems were handled by both tax payers and Administrators. Thus, all the concerned body will be able to strength the tax collection and try to adopt a comprehensive strategy, and minimize the observed tax collection problems to increase tax revenue. The Ministry of Revenue Large Tax Payer's Branch Office may use this finding to revise its strategies

concerning tax collection efficiency. Furthermore, the results of finding will serve as a reference for other researchers on this area.

1.7 Scope of the study

Subject scope: Conceptually despite there being other determinants of tax collection efficiency which influence tax collection efficiency the focus of this study is tax payer's awareness, tax office capacity, tax compliance, and tax exemptions.

Geographical scope: Considering all customs in all sub cities i.e., outlying branches under this study is difficult and unmanageable from broadens, time, money, and experience constraints point of view. Therefore, this research is confined to Ministry of Revenue Large Tax Payer's Branch Office for the sake of in-depth analysis with genuine investigation on determinants of tax collection efficiency.

Methodological scope: The study was used extensively a quantitative research approach in which it confines itself to questionnaire survey on determinants of tax collection efficiency.

Respondents scope/target scope: The target population of the research was taxpayers who were registered and pay in Ministry of Revenue Large Tax Payer's Branch Office. In addition to this, the study population included 786 Ministry of Revenue Large Tax Payer's Branch Office taxpayers. Because, it is perceived that they might not have sufficient experiences to interpret and respond to all the questions in the survey questionnaire, in particular, determinants of tax collection efficiency.

Time scope: This research focused on cross sectional survey, which is a cross sectional survey that ends within one-year.

Thematic scope: This research focused on in-depth analysis with genuine investigation on determinants of tax collection efficiency, which are tax payer's awareness, tax office capacity, tax compliance, and tax exemptions.

1.8 Operational definitions of the study

Exemptions: Tax exemption is the monetary exemption of persons, property, income, or transactions from taxes that would otherwise be levied on them. Tax-exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items.

Taxpayer's Awareness: Dana & Atin (2014) Awareness is knows of something and acting or responding for some occurs. First of all the understanding of tax is a form of contribution in supporting the country's growth.

Tax office capacity: Tax Authority is the government body, which administrates collection of tax and other kind of fees and collections from the society and business body. Tax Authority capacity consist many things, this include technology, man power, building and infrastructure for sake of well collection and makes the collection procedures easy the government should capacitate its office with profession, updated technology and different equipment's.

Tax compliance: Compliance refers to the readiness of persons to act in accordance with in both the 'spirit' and the 'letter' of the tax law and management without the application of enforcement action. Tilahun & Ydersal (2014) Compliance might be voluntary or enforced compliance.

Tax collection efficiency: based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance.

1.9. Limitation of the study

Limitation has to be limitation when is has impact on the study. There are some limitations of this study against achieving its objectives effectively. Conceptually only four factors, tax office capacity, tax exemptions, tax compliance, and taxpayers awareness are considered in this study. Other factor elements are not considered in this study. Conceptually only four determinants of tax collection efficiency such tax exemptions, taxpayer's awareness, tax office capacity, and tax compliance are considered in this study. Other factor elements are not considered in this study.

Geographically out of the total of ministry of revenue operating in Addis Ababa city, only ministry of revenue large taxpayers was selected for this research purpose by excluding other branches and the result may not be representative to show the overall determinants of tax collection efficiency in the city.

1.10. Organization of the study

The report of the study divided into five chapters:

Chapter One: Introduction: The study divided into sub-sections, sets an overview of the Ministry of Revenue Large Tax Payer's Branch Office, the background information to the research problem, statement of the problem, objectives of the study, research questions, research hypothesis, significant of the study, scope of the study, operational definitions of terms and organization of the study.

Chapter Two: Literature Review: this section focused on reviewing related literatures. Include a brief main purpose of literature review, which had a great help towards identification of the theories and ideas that explored such as data subsequently relate to the study.

Chapter Three: Research Methodologies: The study divided into sub-sections, and specifies the design, methodology (area of study, population, sampling techniques and data collection methods) and analysis of this study.

Chapter Four: The study findings: It divided into subsections, examines the overall analysis, interpretation and discussion result findings towards the determinants of tax collection efficiency

Chapter Five: Conclusion and Recommendations: Finally, this section presented a summary of findings; set recommendations on how to enhance the tax collection efficiency, in the Ministry of Revenue Large Tax Payer's Branch Office in general, limitations of the study and suggestion guidance for further research.

CHAPTER TWO: RELATED REVIEW LITERATURE

Introduction

According to Frank, Arlene, (2014), a literature review surveys books, scholarly articles, and any other source relevant to a particular issue, area of research, or theory, and by so doing, provides a description, summary, and critical evaluation of these works in relation to the research problem being investigated. Literature reviews are designed to provide an overview of sources one has explored while researching a particular topic and to demonstrate to the readers how the research fits within a larger field of study. Hence, argumentative reviews are selected after reading different journals, books and other materials as it is very crucial for the validity of the researcher's work and some of the findings while reading these materials were presented in the sub-topics that follow.

2.1 Theoretical literature review

2.1.1 The Meaning and Concept of Tax

A tax is "a compulsory charge imposed by the Government without any expectation of direct return in benefit". In other words, a tax is a compulsory payment or contribution by the people to the government for which there is no direct return to the taxpayers (Bhatia, 2003). Tax imposes a personal obligation on the people to pay if they are liable to pay it. The general public should be taxed according to their ability to pay, i.e., the people in the same financial position should be taxed in the same way without any discrimination. Thus, tax can be defined as, "an involuntary fee or more precisely, "unrequited payment", paid by individuals or businesses to a government (Richard, 2005).

Tax has been defined by various authors and professionals in various ways. Taxes are the major source of the public revenues. Government needs financial resources to act as a government and play a role that is expected from it by the public. So what the government gives, it must first take away. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (James, S., and Nobes, C. 2000). According to these authors, tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return'.

Throughout history, people have debated on the amount and kinds of taxes that a government should impose, as well as on how it should distribute the burden of those taxes across society. Unpopular taxes have caused public protests, riots, and even revolutions. For instance in Ethiopia there was the Gojjam peasant rebellion, in 1968 (GebruTareke 1991).The immediate cause of the rebellion was the introduction of a new agricultural income tax, which peasants opposed. In political campaigns, candidates' views on taxation may partly determine their popularity with voters. Although countries differ considerably in the amount of taxes they collect, yet the most important source of revenue for modern government remains to be tax. The remainder of government revenue comes from charging fees for services, borrowing and from other related sources.

Governments may raise or lower taxes to achieve social and economic objectives, or to achieve political popularity with certain groups. Some economists consider taxation an important tool for maintaining the stability of a country's economy. This is because taxation can redistribute a society wealth by imposing a heavier tax burden on one group in order to fund services for another (Gebrie, 2006).

2.1.2 Related theories

2.1.2.1 Optimal Tax Theory

Theory of optimal taxation as also referred is the study of how tax is designed and implemented so as to reduce distortion and inefficiency and under a given economic constraints. The US Supreme Court (1899) asserts tax has supreme power upon which an entire national is based upon. Gruber (2007) asserts that to understand the effect of taxation on investment decisions, one need to begin by modeling the investment decision in a world of no taxes. Both politicians and economists nowadays have long realized the importance of taxation and have even gone further and searched for a set of principles to guide tax policies.

Smith (2010) emphasizes on how the taxes should be administered to determine economic inefficiency in order promote and provide income distribution fairly. Theory of optimality is therefore significant in the research since it helps in identifying some of the factors leading to inefficiency in administration and collection of tax in KC.

2.1.2.2 Ability-To-Pay Taxation Theory

The ability-to-pay theory is that businesses and individuals earning more income can afford to pay high amount of tax compared to those earning less income in that they pay less tax. The ability-to-pay tax theory is mandatory to every state to impose to its residents since it needs to contribute income to support its government (Smith, 2010). The ability-to-pay theory is reflected in Smith's phrasing of the burden being owed in proportion to their respective abilities (Musgrave, 2005). The ability-to-pay approach treats the tax administered and collected by the government separately and these taxes are in proportion to taxpayers' ability to pay.

2.1.2.3 Gordon-Li Theory

Gordon and Wei Li developed a theory of tax enforcement based on Chinese experience in 1990s. During that time, the government of China was had difficulty in collecting reasonable tax from small and medium sized businesses in that almost the entire taxes collected came from larger sized businesses. The model came to explain the reason behind the failure of the government of China from collecting tax from small and medium sized firms (Gordon and Li, 2005). Majority of firms entirely rely on use of cash transaction which create the room for tax evasion hence narrowing of tax base. Gordon and Li (2005) assert that businesses can have tax been administered if they make use of the finance sector The theory however continues to argue that the large sized businesses will value more regarding the use of finance sector because of the expected benefits (Gordon and Li, 2005). The Gordon-Li theory is important in the study research in that it helps to identify the level of inefficiency in administration and collection of tax since tax is enforced onto the tax payers.

2.1.3 Objectives of Taxation

The main objectives of taxation are rising of revenue with which governments can drive human development by providing systems of health, education and social security and the provision of a successful economy through regulation, administration and investment infrastructure. Additionally reduction of poverty and inequality to ensure that benefits for development are felt by all, and appropriate utilization of taxes and subsidies to ensure that all social costs and benefits of production or consumption of a particular good are reflected in the market price, for example, the taxation of tobacco to limit damage to the health of citizens. Moreover strengthen and protection of channels of political representation (Cobham, 2007).

2.1.4 Tax system or structure

The complexity of tax systems, probability of detection and penalties and tax rates affect the effectiveness of a tax system. The more tax laws become complex the lower the compliance levels. Simple, understandable and clear tax rules enhance tax compliance (Chau& Leung, 2009).

The complexity of tax laws makes it difficult for ordinary taxpayers to understand. Although taxes are not part of everyday conversations, people will normally try and make sense of the contributions that they make to the government through the payment of taxes. When trying to make such sense, they will evaluate the fiscal policy, the tax rates, the provision of public goods and services and the interaction between themselves as taxpayers and the tax authorities. At the end of it all, the motivation to comply or not comply develops and this shapes their subsequent tax behavior (Kirchler, 2009).

Complex tax laws are a concern worldwide. Tax laws have become so complex that even experts such as accountants, lawyers and tax officers have difficulty in interpreting many of the legislative provisions. Research conducted on the linguistic analysis of tax laws found that high level abstraction in the written language combined with long and complex sentences resulted in unnecessary complexities, making it difficult for taxpayers to understand the laws. Several countries have attempted to simplify their tax laws but to no avail, for example, New Zealand's tax laws were written in simplified English, but they still faced the same administrative and compliance problems as before the simplification (Kirchler, 2009).

2.1.5 Characteristics of an Effective Tax System

A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency and administrative ease. Although opinions about what makes a good tax system will vary; there is general consensus that these five basic conditions should be maximized to the greatest extent possible (Anderton, 2008)

- 1. Fairness, or equity,** means that everybody should pay a fair share of taxes. There are two important concepts of equity: horizontal equity and vertical equity. Horizontal equity means that taxpayers in similar financial condition should pay similar amounts in taxes. Vertical equity means that taxpayers who are better off should pay at least the same proportion of income in taxes as those who are less well off. Vertical equity involves classifying taxes as regressive, proportional, or progressive.
- 2. Adequacy** means that taxes must provide enough revenue to meet the basic needs of society. A tax system meets the test of adequacy if it provides enough revenue to meet the demand for public

services, if revenue growth each year is enough to fund the growth in cost of services, and if there is enough economic activity of the type being taxed so rates can be kept relatively low.

3. **Simplicity** means that taxpayers can avoid a maze of taxes, forms and filing requirements. A simpler tax system helps taxpayers better understand the system and reduces the costs of compliance.
4. **Transparency** means that taxpayers and leaders can easily find information about the tax system and how tax money is used. With a transparent tax system, we know who is being taxed, how much they are paying, and what is being done with the money. We also can find out who (in broad terms) pays the tax and who benefits from tax exemptions, deductions, and credits.
5. **Administrative ease** means that the tax system is not too complicated or costly for either taxpayers or tax collectors. Rules are well known and fairly simple, forms are not too complicated, it is easy to comply voluntarily, the state can tell if taxes are paid on time and correctly, and the state can conduct audits in a fair and efficient manner. The cost of collecting a tax should be very small in relation to the amount collected.

2.1.6 Procedures for Tax Collection

It is expected that taxpayer's tax payments should be in line with their income and they are required to pay a tax in proportion to their level of income (Damme, L, T. Misrahi and Orel 2008). On the other part of the tax collectors, according to canon of taxation, collection of tax should be time conscious and convenient and the cost of collecting the taxes should not be high to discourage business. Some of the procedures undertaken by tax authority to ensure compliance such as Filing return, return processing of tax, audit and examination, tax collection and tax enforcement.

2.1.6.1. Filing Returns

Taxpayers are required to file returns within specified months of the end of their tax accounting year. The return should be filed in quadruplicate and should contain all the particulars of the taxpayer. All documents respecting taxation should be presented to the tax authority office where the taxpayers have their file. Upon receiving a taxpayer's return, the tax authority officers examine the accuracy of the return by determining whether the return is properly completed, whether tax has been properly computed, and whether there are any penalty payments to be made by the taxpayer (James, S. and Nobes, C. 2000).

2.1.6.2 Audit and Examination

The role of tax audits and examinations is to check the accuracy of the information that taxpayers provide to tax authorities. The audits range from simple field and desk audits to comprehensive audits (James, S. and Nobes, C. 2000).

2.1.6.3 Tax Collection and Enforcement

Tax collection and enforcements another procedure in the tax administration. When the taxpayer has not made payment on the due date, and does not object to the tax assessed, tax authority can enforce payment in a number of ways. The tax administration may bring a suit against the taxpayer or request a person owing or holding money for the taxpayer to pay the money on a specified date or institute distress proceedings against the taxpayer's moveable property. In a wider context, the issue of enforcement includes offences committed by the taxpayer, and the penalties for these offences (James, S. and Nobes, C. 2000).

2.1.7 Tax collection Challenges

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

Tax administrators face a formidable number of challenges in every country. In many developing countries tax administration reforms are needed simply to achieve macroeconomic stability. In countries with economies in transition, there is a need to establish a tax administration that can respond to the demands of a growing market economy and the resulting increase in the number of taxpayers. Human resource is essential in tax administration. Trained personnel are what actually most developing countries lack and this forced them, for instance, to organize their activities under the existing tax administration structure.

During the past decade, diverse developing countries have introduced radical reforms in their collection of taxes. In more than 15 countries, traditional tax departments have been granted the status of semiautonomous revenue authorities, which are designed with a number of autonomy-enhancing features, including self-financing mechanisms, boards of directors with high-ranking public and private sector representatives, and generic personnel systems (Robert 2003).

All transition countries had a very huge fall of GDP, which, with serious limitation of tax administration, resulted in an alarming revenue gap. Moreover, in all countries, revenues from taxes collected from big, mostly state firms, declined, and were not replaced with increased taxes collected from private, mostly small enterprise. This has created pressure to increase tax rates and introduce new, very often ad hoc taxes. These diversities, which are called "patches" in the tax system, are to a great extent a result of the inefficiency of the tax administration in collecting the existing taxes (Kornai, 1990). This situation would lead to a permanent need for new taxes, changes in the tax system and almost never-ending tax reforms. In transition countries income tax is gaining on importance.

Taxpayers are not used to this form of taxation and when they are faced with it for the first time; they will obviously regard it as a burden. As Kornai (1990) explained the citizens in these countries are not used to paying taxes at all. The tax administration and bodies which produce political decisions have to foresee the attempts to evade taxes and have to design a tax system that will not question the loyalty of its citizens.

Most developing countries continue to face serious problems in developing adequate and responsive tax systems (Richard, 2008). No matter what any country may want to do with its tax system, or what anyone might think it should do from one perspective or another (ethical, political, or developmental), what it does do is always constrained by what it can do. Economic structure, administrative capacity and political institutions all limit the range of tax policy options (IMF 2006).

Heavy tax distortions in transition economies come from various sources. First, base rates are often high. In transition economies with many fledgling small enterprises and weak tax administration, high tax rates are likely to encourage already widespread tax evasion and participation in informal economy. Second, many countries still rely heavily on payroll taxes to finance social expenditures. If payroll taxes are levied mainly on employers (as is the case in the great number of transitional economies) this can discourage entrepreneurial efforts, disincentive formal hiring and push economic activity underground.

Third, and as World Bank estimations as the most important, the many exemptions and special tax rates in parts of the economy often coexist with higher tax rates on other activities, undermine revenue performance, complicate tax administration and distort revenue allocation.

2.1.8 Efficiency of Tax collection

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

Effective tax administration in a market economy is based on voluntary compliance by a large number of decentralized taxpayers. Most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance. A first step is restructuring how the work is organized. In transitional countries, tax administration can be organized respecting the functional principle (collecting, recording, auditing, and enforcement) according to the type of taxpayers; the type of taxes; and type of enterprises in economy. Tax administration should develop around activities (such as recording or auditing), as in Hungary, rather than according to the type of tax and taxpayers.

More generally, tax payment needs to be assessed, collected and recorded more efficiently. Current procedures are rarely up to the job of dealing with a growing number of taxpayers, many of which - particularly private businesses and service enterprises are tricky to tax at best. The government might start by assigning an identification number to all taxpayers, focusing its efforts on large taxpayers who generate the bulk of revenue, and withholding wage tax at the source. This, however, does not mean that results of successful monitoring of large taxpayers can be excused for neglecting medium and small taxpayers. This can lead to the decrease of their compliance, resulting with lower total revenue. Next should be improved auditing and follow-up actions against those who fail to file returns or make payment. Latvia, for example, has issued regulations for an improved taxpayers' register: every taxpayer must register with the State Revenue Service; financial institutions will not be allowed to open accounts for any business or individuals without a taxpayer code (Hesse, 1993).

2.1.9. Factors affecting tax collection efficiency

2.9.1 Tax Exemptions

The Parliament of Kenya carefully examines the government's budget yearly. Tax exemptions in Kenya however are hidden expenses to the country. Moreover tax exemptions involve large amounts of money. In 2013/2014 alone 2.5 % of GDP was granted in the tax exemptions. The exemptions in tax in Kenya are granted for various reasons such as exemptions in items where their official nature doesn't need to be taxed like goods which the armed forces of Kenya consume. Exemption of tax is also applicable where activities of some organizations do not earn them profit but have supreme benefit to society such as charities by religious organizations. Goods which are of benefit to society like firefighting vehicles and medicines are exempted from VAT (Income Tax Act. CAP 470 Laws of Kenya, 2012). Exemptions are granted in Kenya in order to increase the growth of its economy. The exemptions granted should influence increase, in employment and investment which later increases the amount of tax collected. (KRA Cap 469 Laws of Kenya, 2015).

Large firms often make use of this tax incentive mechanism to avoid paying taxes. Governments of developing countries are much eager to attract investment in their countries and in so doing they end up granting exemptions to large firms as incentive to boost investment while in other large firms see as the loophole to avoid paying taxes. The exemption granted either can cover one of these taxes; corporate income tax, sales tax/VAT and import duties or both of them to a specific firm (Gauthier and Reinikka, 2001). According to Income Tax Act of 2012 section 35, 36 and 37, an exemption may be granted for variety of reasons such as promotion of investments, public interest ground or diplomatic and political grounds. For whatever reasons exemption by definition and implication are selective and discriminatory. They are therefore the source of inequality in the tax system and thus exemptions are sources of complexities in the tax administration (Mponguliana, 2005). The government can also grant exemptions to non-government organizations on an ad hoc basis that is following no specific rules or criteria for granting exemption through the use of statutory instruments (KRA Cap 469 Laws of Kenya, 2015).

2.1.9.2 Tax Authority Capacity

Tax Authority is the government body, which administrates collection of tax and other kind of fees and collections from the society and business body. Tax Authority capacity consist many things, this include technology, man power, building and infrastructure for sake of well collection and makes the collection procedures easy the government should capacitate its office with profession, updated technology and

different equipment's. Improvement in revenue performance is also critically dependent upon the ability of authorities to minimize the cost of collecting revenues. There are four possible actions could be taken by the government to improve their administrative efficiency Levi (2002).

- ✓ Improving the existing tax administration procedures through administrative simplification;
- ✓ Efforts to calculate collection efficiency for each type of revenue;
- ✓ Efforts to reduce cost of collection; and
- ✓ Efforts to eliminate the identified factors in the field that has contributed to sub-optimal revenue.

Therefore, to fill full the above-mentioned requirement tax office capacitated tire office with different technology and work force.

2.1.9.3 Awareness of Taxpayers

Dana &Atin (2014) Awareness is knows of something and acting or responding for some occurs. First of all the understanding of tax is a form of contribution in supporting the country's growth. Knowing this, taxpayers want to pay taxes because they are not affected from tax rather taxpayers are promoted indirectly. Second, the awareness that the delay of tax payments and the weakening of the tax load is very harmful to the state. Taxpayers need to pay taxes since they identify that the postponement in payment of taxes and the discount of the tax burden impact on the lack of financial resources, which can lead to delays in development of the country. Third, understanding taxes are set by law and can be enforced. Taxpayers will pay for the tax payment has understood a strong legal foundation and are the absolute duty of every citizen.

If the taxpayers being aware of the tax payment Manik, Asri in Rahayu (2010 as sited Dana &atin (2014), the taxpayer recognized as having awareness if they:

- ✓ Identify the existence of the tax rules and principles,
- ✓ Understand the tax payment to the country
- ✓ Well known the tax should be paid within the rules and the regulation
- ✓ Being able to compute the payment of the tax and pay it willingly and truthfulness to the government
- ✓ Compute, pay, and report their taxes willingly and exactly.

2.1.9.4 Compliance

Compliance refers to the readiness of persons to act in accordance with in both the 'spirit' and the 'letter' of the tax law and management without the application of enforcement action. Tilahun&Ydersal (2014) Compliance might be voluntary or enforced compliance. Voluntary compliance made possible by the

trust and cooperation between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations.

However, in the presence of distrust and lack of cooperation between authority and taxpayer, which creates tax hostile climate, authorities can enforce compliance through the threat and application of audit and fine. (Kirchler 2007 as sited Tilahun&ydersal 2014) Compliance facilitation affects the tax yield by increasing voluntary collections. Compliance facilitation entails those tax administration measures that make it easier for taxpayers to comply with their obligations under the tax laws. IMF working paper (2007) Common for instances involve make simple the tax laws, restructuring managerial actions and information reporting requirements, and advancing taxpayer facilities. Through reducing the cost of compliance, compliance assistance makes incentives for taxpayers to willingness pay their taxes. To the extent that taxpayers respond positively to these incentives, their voluntary compliance rate will increase and voluntary collections will rise.

Compliance enforcement distresses the tax income by growing both deliberate collections and compulsory collections. Compliance execution includes a tax agency's actions for identifying and equalizing nonfulfillment by taxpayers. Common examples include classifying potential registrants, detecting underreported tax liabilities, and improving delinquent tax returns and late tax payments. Compliance enforcement events can have a straight effect on the tax income by growing enforced collections.

Tax compliance is the willingness of taxpayers' to obey tax laws by true reporting of tax bases, correct computation of the tax liability, timely filing of returns and timely payment of the amount due (Ahmed and Kedir ,2015). It is therefore an important factor for the collection of tax revenue. Taxpayers make conscious decisions on whether or not to comply with tax laws. An assumption can be made that taxpayers' knowledge and concepts of taxation form the basis of their judgments, evaluations and perceptions of fairness, willingness and ability to comply with the law. Nevertheless, it is important to gain an understanding of taxpayers' behaviors, as they will most probably behave in accordance with the subjective knowledge that they have. Subjective knowledge does not focus on whether the knowledge is correct or not, but instead focuses on the knowledge that taxpayers have and how such knowledge is organized to form a meaningful representation (Kirchler, 2009).

The critical ingredient for revenue collection for any government is the attainment of a sufficient level of tax compliance on the part of taxpayers. Ideally, any government would want one hundred percent compliance which would mean optimal tax collection. Tax compliance is influenced by the behaviors of taxpayers which are shaped by their attitudes, and such attitudes are influenced by various factors. Understanding taxpayers' behaviors in terms of factors that influence their attitudes towards tax compliance is therefore important in encouraging higher levels of compliance and minimization of noncompliance (Berenson, 2007). It is important for any government and revenue-collecting authority to understand the reasons why taxpayers choose not to comply with tax laws as such understanding will have an impact on both the equity and efficiency of the economy (Devos, 2005).

Tax compliance may be seen in terms of tax avoidance and tax evasion (Tulu 2007). The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. In the contrary, tax noncompliance is individual failure to comply with their tax obligation. Tax noncompliance consists of three distinct types:

Filing noncompliance: refers to non-filing of returns to the tax authority which will lead to tax gap i.e. the amount of unpaid taxes due foregone. Nonpayment compliance: refers to untimely taxes paid, that means payment not made on a timely manner to the tax authority. Timely tax payment is important to the tax authority. The dues received now will be used for the government's expenditure otherwise, the insufficient fund needs to be borrowed and incur additional cost.

Tax underreporting; considered a criminal offence that imposes severe penalty. The taxpayer practices no reporting by way of evasion and avoidance; both are the same except that the latter is legal while the former is illegal. This area of noncompliance poses a serious problem to tax authority because these taxpayers' escape tax and their burden is pushed to the other complying taxpayers'. This is where the fair and equitable tax system is questionable. According to James et al (2003), the degree of non-compliance is measured in terms of the net tax gap (the difference between „true“ individual income tax liability and that finally collected on a voluntary basis or by enforcement action) which happens by means of both tax avoidance and tax evasion. Most tax administrators and taxpayers believe that, the growing dissatisfaction with the fairness of the tax system is the major cause for increasing tax noncompliance (Chau and Leung, 2009). Tax noncompliance can reduce revenue, distort the labor market and weaken state stability by feeding the perception of cheating and fraud (Ahmed and Kedir 2015).

2.2 Empirical Review

A number of countries have attempted to broaden their business income tax base and increase revenues by applying various forms of presumptive taxation. Presumptive taxation is designed to capture income that frequently escapes conventional taxation by presuming receipts of certain levels of income. Some presumptive tax systems impose lump sum levies on small-scale businesses and activities, while others assess taxes by applying indicators or proxies to estimate a taxpayer's income (estimated assessments) or collect minimum taxes irrespective of a taxpayer's actual level of business activity (presumptive minimum taxes). This presumptive taxation does have a number of shortcomings. Many enterprises in the small but "modern" business sector are unable or unwilling to keep proper accounting records.

Unless fixed assessments are used, estimated assessments involve some degree of discretion on the part of tax assessors, who presume incomes and assess tax liabilities. This clearly is an invitation to corruption and favoritism, considering the generally low level of civil service salaries and the fact that tax administrations often lack adequate budgetary support and effective management. Discretion can also lead to inconsistencies, with taxpayers at similar income levels ending up with substantially different tax burdens, or taxpayers at very different income levels having to pay similar tax liabilities. In such cases, rather than enhancing horizontal equity, presumptive assessments may end up worsening it (Tanzi and Jantscher, 1987).

Business income tax payers' tax knowledge empowers to well understanding of the country's tax system. Eriksen and Fallan (1996) stated that, with rational understanding of the tax rules and regulations, citizens are willing to respect the tax system of the country, accordingly they are more compliant to pay their tax liabilities instead evading their tax share. Besides, individual taxpayers in one country should be educated, which is knowledgeable in the respect and apply of the tax laws, respect of tax declarations, preparations of tax planning and others. Thus leads better individual tax payers' awareness and ethics to decrease their tendencies of tax noncompliance behavior. Also Tax knowledge as one of the factors in compliance is correlated to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Eriksen&Fallan, 1996). Similarly according to study conducted by (Singh, 2003) the general tax knowledge of tax payers has a very close relationship with tax compliance. In line with this, Eriksen and Fallan (1996) appealed that knowledge about tax law is assumed to be of more importance for preferences and attitudes towards taxation.

In addition to this, Mohd (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. More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. As tax knowledge and tax compliance have positive and strong relationship, Eriksen and Fallan (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 ethics and peoples conception of the fairness of the tax system. It would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools. Also on study conducted by Robert et al (1994) they examine how tax payers 'compliance behavior affected by tax knowledge and perception. Result has indicated that, principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions as well as the fairness of enlightened tax compliance behavior of taxpayers.

The study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others" tax evasion and perception of the fairness of the tax system increases as tax knowledge is enhanced. In contradictory to this report was indicated by Collins,et al (1992) that, study was conducted in the USA from a random mail survey of 700 respondents from telephone directories. Out of 220 practical responses, they had found that tax knowledge and the level of education were negatively correlated with compliance behavior. The scholars further suggested that, knowledge about tax law is expected to be of importance for preferences and attitudes towards taxation in USA.

In line with the above studies McKerchar (1995) in her article examined small business income taxpayers in Australia. Result indicated that small business taxpayers were not aware of about taxation and this has been lead to unintentional noncompliance behavior in the country. In line with this, study was also supported by Loo (2008) that tax knowledge and tax compliance are positively correlated. Besides tax knowledge tax payers' perception towards service quality, tax penalty, government expenditure priority also affect tax payers compliance. Nurlis (2015) in his article, examines the outcome of taxpayer awareness, knowledge, tax penalties and service tax authorities on tax compliance a survey held on the individual taxpayer at Jabodetabek & Bandung in Indonesia. Study data was collected using the

accidental sampling method that is questionnaires were distributed to those who visited tax offices of Jabodetabek& Bandung individual tax payers.

Result of the study indicated that, awareness of the taxpayer has positive and significant effect on individual taxpayer compliance. This indicates that the level of knowledge of good tax really looking for gaps to avoid tax liabilities, tax penalties has a positive and significant relationship to the individual taxpayer compliance which performs at the tax office in the area. Further the study displays that the more effective application of tax penalties, the tax compliance rate will be higher. Service tax authorities have a positive and significant relationship of compliance individual taxpayers that performs at the tax office in the country. Finally the study proposes that the better the service tax authorities, the tax compliance rate will be higher.

Similarly Nelson (2014) found that the perceptions of small and medium entrepreneurs' operators about tax fairness, tax service quality and government expenditure priorities greatly affect their tax compliance decisions in the country, on study of investigated the impact of personal tax knowledge on tax compliance cost on compliance behavior of SMEs in Zimbabwe with qualitative research design.

Also (Bauer, 2005) stated that service quality and tax compliance have positive relationship. From the various operating functions of the tax administration, the staff of the taxpayer service function has, by far, the most interactions with taxpayers and the public. Their service will shape the taxpayers felling towards the tax administration. In most cases they are initial point of contact with tax payers. As such they are expected to have a good working knowledge of tax law, office procedures, filling requirements and the obligation of the tax payers. It is clear that the people are more likely comply with the tax laws if they perceive the tax-collecting agency to be fair and efficient. If they believe that the tax revenue is wasted by corrupt employees may be disinclined to pay taxes. The relationship between tax authorities and tax payers reflects a country's tax culture therefore, how the tax authority treats different segments of the formal and informal economy shapes the tax culture at the same time, the attitudes of tax payers in the different aspects of the government, the extent of corruption, are critical to trust in the government on which economic growth depends. This shows the way on which revenue authorities interact with tax payers have an impact on public perception of the tax system and the degree of voluntary compliance. Also a study conducted in South Africa shows tax payers who believe that tax officials are efficient appear to be more tax compliance than those who do not believe tax officials are efficient (Oberholzer,

2007).With regard to tax penalties (Doran, M, Undated) also stated as to the positive relationship of effective application of tax penalties and tax payers compliance.

For effective tax collection a given tax administration should combat corruption and should not be technically complex. According to Najeeb (2013) on his study of Looking at Pakistani Presumptive Income Tax through principles of a good tax, he analyses that being a turnover based presumptive income tax regime design, Pakistani presumptive income tax regime is technically complex and impose high compliance costs on small business.

The assessment of income includes discretion for the tax administration and which may ultimately provide an opportunity to harass taxpayers. The author states that as a result of those problems the country couldn't collect tax effectively. Regarding tax administrative complexity and corruption as a problem of effective tax assessment and collection, Chen Loo &Keng Ho, (2005), stated that an appropriate compliance can only be realized when taxpayer's liability is correctly computed, after taking into account all factors that have a bearing on the tax liability. The taxpayer has to be competent to comprehend the income tax law and the administrative procedures, given the complexities, uncertainties and ambiguities of the tax law, rules and administrative procedures.

Therefore, taxpayers who are tax illiterate or inadequately informed may either be under-paying or over-paying taxes. As well, the revenue authority has to provide adequate resources to meet the needs of enhancing taxpayer functional literacy elements in terms of skills and knowledge required to deal with tax matters. Also Robert (2011), Kangave (2005) and Dekan (2003) found the results that there is a significantly positive correlation between trust in officials ethics, skill and taxpayers confidence. To come up with the problem of corruption in tax assessment and collection, Lopez and Packman (2012) stated that self-assessment as a solution. Self-assessment systems generally make it possible to collect taxes earlier and reduce the likelihood of disputes over tax assessments. This also lessen the discretionary powers of tax officials and reduce opportunities for corruption for instance, to be effective, however, self-assessment needs to be properly introduced and implemented, with transparent rules, an automated reporting process, and penalties for noncompliance and risk assessment procedures for audit processes. Generally there are several problems associated with administration, assessment and collection that affect the rights and obligations of tax payers.

Kasimbazi (2004) found the following problems of presumptive taxation:-

Assessment Methods: assessment of tax is difficult because tax payers do not keep accounts. That is to mean that there are no guidelines to determine one's income. This leads to under or over assessment of taxpayers. In addition, the Tax Assessment Committee does not observe the assessment rules.

Gross Ignorance: there is no adequate tax collection staff and those that are employed lack training and experience or may be biased or succumb to political pressure.

Corruption: another problem is corruption and fraud by the tax collectors. The most commonly used method of perpetuating these frauds includes: double numbering of tax tickets and actual embezzlement of the money collected.

Tax evasion: there is a widespread evasion of tax. The recent Local Government study has revealed that the problems of tax evasion are more complex. Tax assessment, collection and remittance have a significant relationship with the revenue generated by local government in the state. Most tax payers avoid or evade tax as a result of the corrupt practices of tax officials, which in turn affect the revenue generated by the state; this has been attributed to numerous barriers to efficient tax administration.

According to (Hagos, 2011) a research was conducted on the case of assessment on challenges of business income tax collection process in Aksum shown that the respondents of the category "C" tax payers were more associated with challenges than of the other categories. The respondents answered that lack of experience of paying tax, problems related tax collectors, a lack of awareness of tax payers were associated problems of category "C" tax payers during the tax collection. Awareness creation by the authority on category "C" taxpayers were that below enough, poor, and this shows that the awareness creation activities of the tax authority were ineffective and inefficient. Therefore, they established that the awareness creation problem was a series and the root cause of all problems relating to the tax collection and assessment (Hagos, 2011 and Lemessa, 2007).

With regard to knowledge of tax payers (Fentahun, 2002) also stated that Tax payer's information and knowledge is very essential in promoting compliance. Taxpayers must receive clear and concise information on what is taxable, how to calculate their tax liability and the procedures for calculating and paying taxes and where and when they pay taxes. In addition forms and procedures for calculating and paying taxes should be as simple as possible. Moreover, tax offices are expected to develop programs to inform the business community the requirement to make declarations and the penalty provisions for non-compliance.

According to (Getaneh, 2011) on his study of tax audit practice in Ethiopia, The Case of the Federal government, he recommended that, ERCA may not achieve the expected future voluntary compliance in the absence of awareness creation for taxpayers. Without educating taxpayers and creating tax awareness, making power visible to the community might detect the deliberate evasions and frauds but not be a solution to create a compliant taxpayer those does not comply unknowingly. The survey result showed the tax authority of the city administration is not efficient and effective in various aspects such as improving the tax assessment and collection system, creating awareness, enforcing the tax law, providing services, and information regarding tax.

Similarly Wubshet (2011) on his study of Taxpayers' perception towards fairness: personal business profit taxpayers in Addis Ababa, he found that: The absence of adequate training, follow up, education and limited knowledge on their respective business profit tax systems, the absence of clear-cut objectives, programs, procedures, rules and regulations which have direct impact with the taxpayers' knowledge and awareness, the absence of administration consistency in respect of the provisions of business profit tax system, estimating tax without considering the capacity of individual taxpayers (levy beyond the actual capacity of taxpayers) as a problem of tax compliance. Furthermore the author recommends awareness is a corner stone as far as voluntary compliance is concerned and without improving the above problems government couldn't collect tax effectively.

Also (Temtime, 2014) on his study on Business Taxpayers' Satisfaction with the Tax System in Addis Ababa, stated that business taxpayers are not satisfied with the existing tax systems. Because the ways tax authority provides tax information to taxpayers, tax collection and tax refund, administration capability to solving taxpayers' problem and the area of tax audit procedures are found to be the major dissatisfied areas. He also stated that the tax system is so complex and unfair, discretionary treatment by officers and existent of lack of monitoring in the tax authority. He recommend solutions like:- improving tax policy and administration issues; step up their duty of promoting tax awareness, tax officers should be given intensive and repetitive training to improve their attitude and promoting code of conduct with emphasis on ethical values and finally, tax refund procedure would be improved.

Wanjiru (2014) in his study stated out that ability of tax office, information technology systems; Human Resources played a significant role in the procedure of Income Collection. He used a descriptive research design as it addressed the research questions through empirical assessment involving numerical

measurement and statistical analysis. The object of the research to examine the factors that affected both positively and negatively, tax revenue collection in Kenya Revenue Authority. The study was used quantitative research design and the target population was taxpayers that fell under the bracket of large taxpayers. Although there were 675 taxpayers under this description, a sample of these taken for the purpose of the study. Simple random sampling technique used to select a sample of 252 taxpayers. Correlation analysis has done by use of (SPSS. V.20).

Andreas (2015) stated that taxpayer's awareness has a significant role in the association between "expediency of tax id number, service quality, and taxpayer's compliance. Conversely, taxpayer's awareness has no mediating role in the relationship between tax socialization, tax knowledge, and taxpayer's compliance." The study use an accidental sampling technique, and uses questionnaires as an instrument to collect data by spreading it to the taxpayers who come to the tax office. Therefore, the sample size with a margin of error of 10% and used regression analysis Pawlin, Steven and Alexander (2003) specified that, taxpayers' awareness and tax office capacity have significant impact on tax compliance. This study primarily designed to identify the beliefs, behaviors', attitudes and values associated with taxpaying compliance data collected through survey questioners and used to analyzed regression analysis.

Folayan and Adeniyi (2018) Tax evasion one of the main factor that reduced tax revenues. This study designed to identify the effects of tax evasion on government revenue generation in Oyo State. A structured questionnaire was used to collect data from a sample of one hundred and sixty five (165) respondents who were randomly selected across the state while secondary data were gathered from National Bureau of Statistics (NBS), Office of Budget and Economic Planning, and Internal Revenue Office using data from 2011- 2016. Data collected were analyzed using descriptive and inferential statistics tools with the aid of Statistical Package for Social Science SPSS.

Meles and Tesfahun (2016) in their study pointed out the major cases of poor revenue collection; the tax authority should capacitate and tax authority needs to be strong enough in order to implement the tax law effectively and efficiently and the awareness of taxpayers should enhanced. Their research objective was identify problems associated with taxpayers and revenue authority in Dessie town. They used descriptive Research approach to analyze the collected data with the aid of Statistical Package for Social Scientists

(SPSS) version 20. The data used in this study consists of both primary and secondary data. The primary data collected through standard questionnaire.

Niway and Wondwossen (2017) has pointed out in their research paper that the tax knowledge Was the major challenge for tax compliance attitude and major taxpayers assumed the current tax amount and fine amount is excessive and they understood that present tax arrangement is biased. Besides, this study indicates that taxpayer's perception is sportive to the tax structure and nation spending likewise inspires voluntarily tax compliance. The main objective of this study was to study individual taxpayer's tax awareness, perception and their tax compliance decision in selected cities in SNNPR, Ethiopia. The study used descriptive research design. Category "A" taxpayers were the target population of this study. A sample of 377 individual Category "A" taxpayers randomly taken from selected cities. The study used primary and secondary data sources. Primary data collected through questionnaire and secondary data collected from reports and manuals of Ethiopian Revenue and Customs Authority (ERCA) branches. Descriptive statistics such as tables and percentage ages been used for data analysis.

Abebu, Mekonnen, Zufan and Eden (2014) studied that the tax bureau met diverse financial and administrative difficulty to manage the taxpayers. This can be considered as the tax bureau has absence of workers and technology capacity, which is reason of less tax revenue collection. The data analyzed in descriptive analysis methods specifically through tabulation and percentage.

Mohammed and Al. (2016) Tax compliance is the vital aspect for all tax authorities in both of developed and developing nations. Thus, many of experts in educational and non-educational organizations demanding to progress the level of tax compliance among taxpayers, which increase the level of tax collection revenues in the overall budget of the nation. The questionnaire instrument used under the quantitative approach to gather data from respondents. Correlation and regression analysis utilized to test the relationships between independent variables and dependent variable as well, to know to what extent these relations have affected.

James, Abiola, Moses and Asiwah, (2012) studied tax revenue collection is based on the tax administration office efficiency, if the regime have well-organized tax management, it is likely to prevent numerous tax collection difficulties identical tax evasion and avoidance. The study made use of 121 online survey questionnaires containing 25 relevant questions. Descriptive statistics used to analyze 93

practical responses because this method had become more suitable given the geographical disparity of the area to be covered. They used descriptive statistics for analyze the data.

According to John, Enahoro and Olabisi (2012) tax structure can increase well administration. Tax structures and tax collections should left in the hands of private organizations. Most tax payers prevent avoids and evade tax as because of the immoral activities of tax commissioners. They used a survey methods questionnaire tools for tax administration, 130 samples used to analyze the opinion of civil servants.

According to Folayan .and Adeniyi (2018) the tax evasion has argumentative result on regime tax collection in which consequently the outcomes in tax revenue loss. The indication of these effects may reason inevitable damage to the potential performance of regime in the community sector.

The researcher used. a structured questionnaire was used to collect data from a sample of one hundred and sixty five (165) respondents who were randomly selected across the state while secondary data were gathered from National Bureau of Statistics (NBS), Office of Budget and Economic Planning, and Internal Revenue Office using data from 2011- 2016. Data collected were analyzed using descriptive and inferential statistics tools with the aid of Statistical Package for Social Science SPSS, window 23.

Nikolaos, Giovanis¹, Panagiotis and Tairi (2017) stated in their research that, tax rules and knowledge of taxpayers latter on reason to taxpayer compliance. The research offers a better understanding and an enhanced viewpoint of the result of understanding, and awareness of taxpayer compliance. They used descriptive statistics design and quantitative approach method and they use questioner for survey. The objective of the study was employment and accounting measures, in order to evaluate the merger effects during the period of the economic crisis in Greece.

Francis (2017) inside and outside ability structure, Intensive organization with other entities and Proper maintenance of taxpayer's records are the key issues that improve real tax management lack of awareness. Taxpayers, political pressure to relax tax collections, unsuccessful tax laws and policies. In adequate budget or funds. Great rate of tax evasion and avoidance, Outsourced revenue retained by Revenue collectors, lack of tax compliance, are the challenges facing tax administration in Tanzania. The object of this study was to assess the impacts of tax administration on government revenue in Tanzania-

whereby questionnaires used to access the required information. Researcher has been able to collect information from 85 respondents out of 100.

Kadir (2013) pointed out in his research that approximation outcomes disclose that tax revenues in Turkey significantly affected by agricultural and industrial sector share in GDP, foreign debt stock, monetization rate of the economy and urbanization rate whereas the sign of the agricultural sector's share is negative as expected. The results suggest that openness to foreign trade has no significant impact on tax revenues in Turkey. The aim of this study is to investigate the determinants of tax revenue in Turkey he used secondary, time series regression analysis used to made analysis.

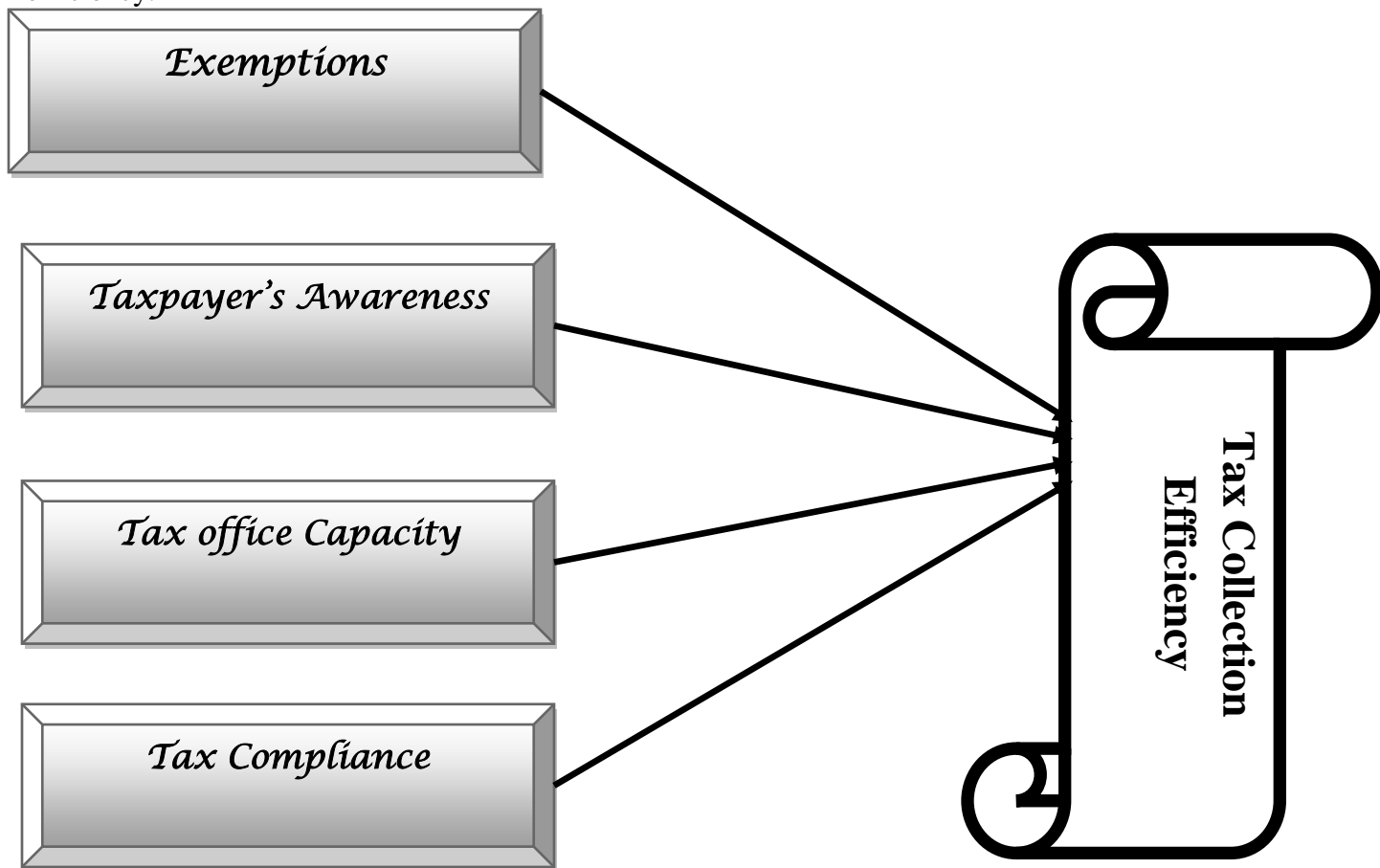
Afework, Wondaferahu and Endeg (2017) stated that, many taxpayers negatively convinced towards justice of the tax structure, it is because of massive tax rates, biased allocations of tax loads between taxpayers compared with capacity to pay, unsatisfactory handlings of taxpayers by tax office. Taxpayers have slight information toward the tax system and problematical tax rule and massive procedures results they do not simply know their tax structure. Tax justice features this included exchange with government horizontal justice, vertical justice, and time-relate fairness and justice, self-interest, tax awareness and tax complexity has important effects on tax fairness awareness. This research objective was identify factors affect fairness of taxation on category "B" taxpayers have used both primary and secondary data are self-administered questionnaires and in depth interview from respondents of a target group. In addition, secondary data obtained from review of related literature, document and annual tax report in Dawuro zone revenue authority, taxation books, and internet. Thus, finally tax fairness tested in this study has 10 tax fairness aspects in the existing tax system with 40 items. The target population is 526 category "B" taxpayers and 20 revenue authority officers in Dawuro zone. The research approach was descriptive and regression data analysis method used.

Angi (2016) shows that tax awareness and tax compliance costs are insignificant to compliance behavior. The object of this paper is to study tax compliance behavior of self-employed taxpayers in West Malaysia Questionnaire survey conducted through online distribution method. Hypothesis testing carried out with the implementation of multiple regression and Pearson correlation analysis. The result from regression analysis revealed that tax deterrence has a significant relationship with tax compliance behavior of self-employed taxpayers.

Ataro, Muturi and Wandera (2016) studied on Factors Affecting Revenue Collection Efficiency in County Governments in Kenya: A Case Study of Trans-Nzoia County. The study used descriptive research design and mixed approach and conducted regression analysis. They found out that the internal efficacy has the great impact on the revenue collection.

2.3 Conceptual framework of the study

A conceptual framework is the one that provides more details graphically, the main thing to be studied, comprising the key factors that are constraints or variables and the presumed relationship among them. This study investigates the determinants of tax collection efficiency. The conceptual framework developed illustrates the relationship existing between independent variables and tax collection efficiency.



Independent Variables

Dependent Variable

Source: (Harvey S. Rosen and Ted Gayer, 2004)

CHAPTER-THREE

RESEARCH METHODOLOGY

Introduction

To address these objectives, this study has adopted appropriate research methods and approach. This chapter provides a summary of the research design. Specifically, the research approach; data source, data gathering methods, sampling technique, methods of data analysis and ethical consideration.

3.1 Research Design

The object of the study is to examine the determinate of tax collection efficiency. The study evaluates the relationship between dependent variable and independent variables. Tax collection efficiency was used as a dependent variable and taxpayers' awareness, tax compliance, tax office capacity and exemptions as independent variables. To achieve this objective explanatory research design employed in the study. The explanatory type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Kothari, 2004). Hence, this study used causal research designs to deal with the important issues associated with the impact of taxpayers' awareness, tax compliance, tax office capacity and exemptions on tax collection efficiency.

3.2 Research Approach

Cooper and Schindler (2014) stated that research approaches divided into qualitative, quantitative and mixed approaches. The main purpose of this research is to examine the determinant of tax collection efficiency. Thus, explanatory research designs study chosen for this study because it evaluates the relationship between dependent and independent variables. Research study becomes successful if data collected from multiple sources (Gerring, 2007). Explanatory research design involves both quantitative and qualitative data. Quantitative approach involves numerical data subjected quantitative analysis whereas qualitative approach involves data in textual form that concerned with subjective valuation of attitudes, thoughts and behavior (Kothari, 2004). Therefore, in this study the researcher employed mixed research approach. Mixed research approach involves both quantitative and qualitative approach. John (2002) "a mixed approach is one in which the researcher tends to base information claims on pragmatic grounds (e.g., consequence-oriented, problem-centered, and pluralistic)".

3.3 Target Population

A population can be defined as all people or items (unit of analysis) with the characteristics that one wishes to study. The unit of analysis may be a person, individuals, organization, country, object, or any other entity that you wish to draw scientific inferences about. The target population of the research was taxpayers who were registered and pay in Ministry of Revenue Large Tax Payer's Branch Office. In addition to this, the study population included 786 Ministry of Revenue Large Tax Payer's Branch Office tax payers. All the population included in the study.

3.4 Sampling and Sampling Design

The target populations of the study are both taxpayers and employees. This study used from the total population of 786 taxpayers and 20 tax officials selected from four departments namely one branch manager, three deputy manager, sixteen process owners & team leaders, which have direct relations with tax, the total population 20 employees was taken. The researcher used purposive sampling technique for selecting tax office employees. Purposive or non-probability sampling involves deliberate selection of particular units of the total population for constituting a sample, which represents the universe (Kothari, 2004).

Sample size determination is a scientific task that should be performed with proper care (Zikmund, 2010). For taxpayers sample and the sample size calculated by the formula of finite population sample formula. (Jaro, 1989). The following formula is used by the researcher to determine the sample size for a given population. A representative sample size with known confidence level which is 95% is selected, based on the formula of (Yamane, 1967). Therefore considering the above given points the sample size for this study is calculated as follows:

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

Where:

n = the sample size/ required sample size

N = the total population size

1 = designates the probability of the event occurring.

e = the level of precision (Sampling error that can be tolerated which is 5%).

Assumptions: A 95% confidence level, and **e** = ±5%

Therefore:

$$n = \frac{786}{1+786(0.05)^2}$$

$$n = \underline{265}$$

So, a total of 265 respondents selected to gather relevant data to complete the research work.

3.5 Data type and Sources

In this study, in order to enhance the quality of data through triangulation multiple data sources used. The required data for the analysis collected from primary and secondary sources. In this research, both primary and secondary data sources were used. Primary data was collected using the application of close-ended questionnaire and interviews. It obtained from Ministry of Revenue Large Tax Payer’s Branch Office taxpayers and tax office staffs. Tax office staff who worked at different departments used as a source.

3.6 Data Collection Procedures

The Questionnaire: The questionnaire is divided into two sections. The first section contained the demographic characteristics of the respondents are requested to provide information about their gender, age, and education level. The second section of the questionnaire is designed to enable the researcher to gather information about determinants of tax collection efficiency. questionnaire is a set of questions that have structured questions in this case the questions contain close-ended questions type and responses to the question where measure on a five Likert rating scale such as: Strongly agree (SA) = 5; Agree (A) = 4; Neutral (N) = 3; Disagree (D) = 2; Strongly disagree (1).

The use of Likert scale is to make it easier for respondent to answer the questions in a simple way. But, while making interpretation of the results of frequency, percentage, mean and standard deviation. Moreover (Johns, 2010) noted that in statistical terms the level of measurement of the Likert response scale is ordinal rather than interval: that is way, we can make assumption about the order but not the spacing of the response options. On the other hand, the respondents can tick the appropriate clue of his/her opinions and also it is developed to measure the relationship between independent and dependent variable based on the basic questions.

3.7 Reliability and validity

Validity: Refers to the extent to which the concept one wishes to measure is actually being measured by a particular scale or index. According to Kothari (2004), validity aims at establishing the results, which are linked with the condition. It is concerned with the extent that the scale accurately represents the construct of interest. In order to assure the validity of the measurement instrument of the study is conducted based on the literally accepted conceptual framework that clearly indicate the theoretical construct and associated with the measurements valid to evaluate the determinants of tax collection efficiency. Where possible this should be supported and consideration given to practical things. So that pre-questionnaire were distributed to check the validity of questions to further data collection process.

Reliability: Aimed at the point that even if the research were repeated they would end up with similar results or the consistency or dependability of a measurement technique, and it's concerned with the consistency or stability of the score obtained from a measure or assessment overtime and across settings or conditions. If the measurement is reliable, then there is less chance that the obtained score is due to random factors and measurement error (Marczyh, 2005). According to George and Mallery (2003) Cronbach's alpha is a coefficient of reliability. It is commonly used as a measure of the internal consistence or reliability of a psychometric test score for a sample of examinees. Cronbach's alpha reliability coefficient normally ranges between 0 and 1.

Table 3.1: Rule of Thumb of Cronbach's Alpha

Cronbach's Alpha	Description
$\geq .9$	Excellent
$\geq .8$ but $< .9$	Good
$\geq .7$ but $< .8$	Acceptable
$\geq .6$ but $< .7$	Questionable
$\geq .5$ but $< .6$	Poor
$\leq .5$	Unacceptable

Source: Zikmund, 2010.

Therefore to ensure reliability and validity, this study was used methods such as interviews, and self-administration questionnaire. Then the questionnaire was pre-tested based on pilot study, to guarantee a common understating of questions among respondents.

3.8. Methods of data analysis

The quantitative data collected through the survey questionnaire was encoded in to Statistical Package for Social Science (SPSS) version 16.0 software after incomplete and invalid responses was removed using tables. Then descriptive statistics and correlation analysis was conducted on the data to identify the relationship between the model construct and to test the hypotheses. Finally, to evaluate the level of causal relationship between the constructs, variables that are found to have significant correlations undertook through multiple regression analysis. So that, the descriptive statistics was used to analyze raw data collected through the instrument on the determinant of tax collection efficiency, descriptive data analysis tools such as mean and standard deviation was used simply to describe the behavior data in terms how the determinates of tax collection efficiency enhancing tax collection efficiency and to make the data easily identifiable and understandable. In order to make the interpretation of the data easy, the following values were assigning to each scale.

Table 3.2 Guideline for Interpreting Quantitative Data

Range	Interpretation-1	Interpretation-2
1-1.8	Strongly Disagree	Very dissatisfied
1.81–2.6	Disagree	Dissatisfied
2.6 –3.49	Neutral	Moderately satisfied
3.5–4.9	Agree	Satisfied
5–5	Strongly Agree	Very satisfied

Source: (Best, 1977).

The qualitative data gathered through the interview technique is analysis with a general inductive approach for qualitative data analysis. The major purpose of general inductive approach are to condense extensive and varied raw text data into a brief, summary format, to establish clear links between the research objective and the summary finding derived from the raw data and to ensure these links are both transparent (able to be demonstrated to others) and defensible (justifiable given the objective of the research), to develop a model or theory about the underlying structure of experiences or processes which were evident in the text or raw data (Thomas, 2003). and the study have used different descriptive statistics to analyze raw data collected through the instrument on the determinists of tax collection efficiency, descriptive data analysis tools such as mean and standard devotion were used simply to describe the behavior.

Descriptive analysis

The descriptive statistical results were presented by tables, frequency and percentages to give a condensed picture of the data. This was achieved through summary statistics, which includes the means, standard deviations values which are computed for each variable in this study.

Multiple Regression Analysis

Multiple regression analysis is used to investigate the determinant of tax collection efficiency dimension (taxpayers' awareness, tax compliance, tax office capacity and tax exemptions) on tax collection efficiency.

Regression functions

The equation of multiple regression on this study is generally built around two sets of variable, namely dependent variables (tax collection efficiency), and independent variables (taxpayers' awareness, tax compliance, tax office capacity and tax exemptions). The basic objective of using regression equation on this study is to make the researcher more effective at describing, understanding, predicting, and controlling the stated variables.

Independent variables

Taxpayers' awareness,	Tax office capacity
Tax compliance,	Exemptions

Dependent variable

Tax collection efficiency

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + E \dots$$

Where Y is the dependent variable- tax collection efficiency

X1, X2, X3, and X4, are the explanatory (independent) variables

β_0 is the intercept term- it gives the mean or average effect on Y of all the variables excluded from the equation, although its mechanical interpretation is the average value of Y when the stated independent variables are set equal to zero.

$\beta_1, \beta_2, \beta_3,$ and β_4 , refers to the coefficient of their respective independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables.

E Errors

3.9. Ethical Consideration

Ethics are generally considered to deal with beliefs about what are right or wrong, proper or improper, good or bad. (Kimmel, 1998) clearly stated that it is responsibility the researcher to ensure that ethical standards are adhered or keep too. The following measures were taken while planning and conduction of the study to ensure that the right and welfare of each subject would be protected, and that nobody were harmed in any way during the research procedures;

The researcher has to receive informed consent from every respondent before the interview and questionnaires. The researcher were informed the respondents about the goals of the study and what the researcher hope to achieve. The researcher has to open and honest with the respondents and respondents was never mislead during the study.

Information obtained from respondents is remaining confidential. Collecting of data anonymous (no, name) and confidential (secret) the researcher was linked no names or identify the finding about the respondents. Make sure that any posted physical or mental discomfort to the respondents in the study.

CHAPTER FOUR

DATA PRESENTATION, DATA ANALYSIS AND DISCUSSION RESULT

Introduction

In accordance with the research questions and research objectives of the study, this chapter presents the findings of the study based on the research design employed in this study. In this respect, the chapter explain the response rate of the respondents, the instrument employed which is employed in this research to find out the reliability of the questions; the descriptive statistics of all the variables used in this study and the results of the estimated parameters of the correlation and regression analysis; the relation between the independent and dependent variable as per the sign and the value of the parameters for the regression model are presented and as well as discussed in detail through SPSS version.

In table 4.1 below shown that a total 265 questionnaire were distributed out of which 218(82.26%) were properly filled and returned the data was used for analysis purposes. 39 questionnaires were not returned that was (14.7%) and also 8 questionnaires filled and returned but was incomplete information on the questionnaire and that was 3%.

Table 4.1: Response Rate

Questionnaires	Large Taxpayer's Office	
	Respondents	Percentage
Number of Distributed Questionnaires	265	100%
Number of Returned Questionnaires	218	82.26%
Number of Not Returned Questionnaires	39	14.7%
Number of Incomplete Questionnaires	8	3%

Source: Computed from the Questionnaire, 2020"

4.1 Analysis of measures for assumptions

4.1.1 Data cleaning and preliminary analysis treatment

Data processing is necessary before the gathered data are being analyzed. This is to check through and filter any invalid or incomplete data that will affect the outcome of the data analysis.

4.1.1.1 Data entry

Before the data entry into the SPSS software for analytical purposes was used. After the data coding, The researcher keyed in 218 completed responses into the SPSS 24.0 Version software for data analysis. The researcher keyed in the data according to the rules of data coding and after the data entry, the researcher rechecked the data entered in order to ensure that the data has been entered correctly.

4.1.1.2 Data Processing (Checking the questionnaire for completeness)

Before processing the data, the completed questionnaires were sorted, checked and edited for completeness and consistency. The data was then coded to enable the responses to be grouped into various categories. The data processing was completed by Case Processing Summary. The process of assigning numerical was followed. Coding involves assigning numbers to answer so that responses can be grouped into limited number of classes and categories. The student researcher checked for the response of the questionnaires. Originally, there were 265 questionnaires has been distributed to the respondents, however, the researcher only managed to collect back 218 questionnaires from the respondents. Besides, the researcher found that there are 8 sets of questionnaires were incomplete, 39 sets of questionnaire were not returned in which 3% and 14.7 of the questions were left a blank and not collected. Therefore, the 39 questionnaires were forgone in order to increase the reliability and consistency of the response. Therefore, all the respondents' respondents filled the inquiries in survey appropriately.

C a s e P r o c e s s i n g S u m m a r y						
	C a s e s					
	V a l i d		M i s s i n g		T o t a l	
	N	Percent	N	Percent	N	Percent
Determinants of tax collection efficiency	218	100.0%	0	. 0 %	2 1 8	100.0%
Tax collection efficiency	218	100.0%	0	. 0 %	2 1 8	100.0%

Source: Computed from the Questionnaire, 2020”

4.1.1.3 Test of Validity

Construct validity is one of the most commonly used techniques in the social sciences. Based on theory, it looks for expected patterns of relationships among variables. Construct validity thus tries to establish an agreement between the measuring instrument and theoretical concepts. To establish, construct validity, one must first establish a theoretical relationship and examine the empirical relationships. Empirical findings should then be interpreted in terms of how they clarify the construct validity. For the purpose of this study, construct validity, appropriate because this study analyses the relationship between theories and empirical studies by state hypothesis.

For exploring the factor structure of the measures used in this study, Explanatory factor analysis was performed. As the questionnaire was adopted from literature, it was crucially important to assess their validity and reliability in Ministry of Revenue Large Tax Payer's Branch Office context. Another reason to employ these two methods of factor analysis was to reduce a large number of variables to a more easily manageable number. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy, which measures whether the distribution of value is .6 or above to conduct Explanatory factor analysis was 0.839. Tabachnick and Fidell (2007) the Bartlett's Test of Sphericity value should be significant (i.e. the Sig. value should be .05 or smaller). Therefore, the researcher is confident that factor analysis was appropriate. The result is below.

Table 4.2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.839
Bartlett's Test of Sphericity	Approx. Chi-Square	749.207
	df	15
	Sig.	.000

Source: Computed from the Questionnaire, 2020

4.1.1.4 Reliability test

Reliability analysis allows us to study the properties of measurement scales and the items that compose the scales. The Reliability Analysis procedure calculates a number of commonly used measures of scale reliability and provides information about the relationships between individual items in the scale. Alpha

(Cronbach), this model is a model of internal consistency, based on the average inter-item correlation. The Cronbach's Alpha coefficient was tested for both determinant factors and tax collection efficiency items for the reliability of the measures. The Cronbach's alpha coefficient acceptability scale was within 0.70 as proposed by Nunnally (1967 & 1978).

Table 4.3: Reliability test

Variables	Name of Variable	Cronbach's Alpha	N of Items
Tax collection efficiency	Dependent	.735	4
Tax office capacity	Independent	.792	6
Tax compliance	Independent	.748	8
Tax payer's awareness	Independent	.914	6
Tax exemptions	Independent	.897	5

Source: Computed from the Questionnaire, 2020

As table 4.3 above illustrates the Cronbach's alpha scores for all variables suit the stated condition. I.e. the alpha value for both dependent (Tax administration effectiveness) and independent (Tax administration, fairness/equity, Taxpayer awareness, Developing quality tax service, Tax law enforcement variables (.735 792, .748, .914 and .897, respectively), are greater than stated minimum standard.

4.2. Descriptive Statistics.

4.2.1 Demographic Characteristics.

Descriptive analysis is a set of procedures for gathering, measuring, classifying, computing, describing, synthesizing, analyzing and interpreting systematically acquired quantitative data. This basic analysis would be carried out on the data gathered from section one of the questionnaire, which focused on the respondents 'demographic profile. These data are more of self-explanatory data; therefore, the analysis outcome is to provide a summary of the respondents 'profile. For section one, the analysis was done on frequency and percentage distribution are created for each question to show the segmentation of respondents in terms of gender, age, and educational level. The above tables show that out of the total respondents/tax payer's 63% (137) were male and the rest 37 (81) were female, this implies that the number of the female respondents/tax payers were less than male respondents/tax payer's in Ministry of Revenue Large Tax Payer's Branch Office.

When we see the age profile of the respondents, 4% (9) respondents are aged between, 20 to 25, whereas 37 (17%) respondents are aged 26 to 35, while 77 (35%) respondents are 36 to 40, around 63 (29%) are aged between 41 to 54 and the respondents who are 55 and above are 32 (15%).The respondents were categorized into three educational background in respect to Grade 12 and below, Diploma, and Degree. With regard to educational level, the respondents of the largest group which make 41% (89) were grade 12 and below, diploma holders 48% (106) of the respondents and BA degree holders are 23(11%).

4.4: Demographic Characteristics

	Description	Frequency	Percent
Gender	Male	137	63
	Female	81	37
	Total	218	100
	Description	Frequency	Percent
Age	20-25	32	15
	26-35	37	17
	36-40	77	35
	41-54	63	29
	55 and above	9	4
	Total	218	100
	Description	Frequency	Percent
Education level	Grade 12 and below	41	19
	Diploma	64	29
	Degree	77	35
	Masters	36	17
	Total	218	100

Source: Computed from the Questionnaire, 2020”

4.2.2 Descriptive statistics on items for Determinants of tax Collection Efficiency

Descriptive statistics is used to look at the data collected and to describe the data captured through the questionnaire and it is desired to determine the user's perception to Determinants of tax Collection Efficiency. Four indicators of tax Collection Efficiency are considered for the study. These four broad antecedents are tax office capacity, tax compliance, taxpayer's awareness, and tax exemptions.

Mean: it is similar to average. The mean is calculated when the sum of total values divided by the number of total values in a given sample of the population. While making interpretation of the results of mean and standard deviation the scales were reassigned as follows to make the interpretation easy and clear.

Table 4.5 Guideline for Interpreting Quantitative Data

Range	Interpretation
1-1.8	Strongly Disagree
1.81–2.6	Disagree
2.6 –3.49	Neutral
3.5–4.9	Agree
5–5	Strongly Agree

Source: (Best, 1977).

Standard Deviation: It is taken to identify the differences among the variables and the square root of standard deviation shows the variance. Standard deviation was also used to show the variability of measurements from the mean (average). The higher standard deviation indicates a wider distribution of the scores from the mean. This distribution indicates more heterogeneous or dissimilar spread of scores on a scale. While, if the value is lower, it shows a smaller range with comparable or homogeneous spread of scores around the mean (Mark, Philip and Adrian, 2009).

4.2.2.1 Descriptive Statistics On Items on Tax Office Capacity

A series of six questions were presented to respondents and respondents were asked to rate their level of agreement with each statement. Table 4.6 shows the mean and standard deviation for each item under this category.

Table 4.6. Summary of Response for Tax office Capacity

Items of Tax office Capacity	Mean	Std. D.
Tax office has enough capacity	3.7569	1.111
The tax office uses quality system and technology	3.8165	1.035
Tax office offer suitable services	3.7064	1.080
Tax office place is appropriate	3.5917	1.091
Tax office employees are cooperative	3.2431	1.007
Tax office has enough employees	3.3670	0.956
Cumulative Mean of tax office capacity	3.580267	1.046667

Source: Computed from the Questionnaire, 2020

Go through Table 4.6 shows that tax office capacity has scored the mean of (M=3.580). This indicates that majority of respondents agree with the items meaning that tax office capacity is very important to improve tax collection efficiency. The standard deviation value indicates that the respondents' responses are heterogenous and widely spread from the mean. Since, the obtained result of standard deviation (1.046) is supported by (Mark, Philip and Adrian, 2009) i.e., value >1, implies that the responses of the respondents were dispersed towards the perceived/obtained mean result of tax office capacity. Therefore, the student researcher can conclude that the institution tax office capacity practice is good with the grand mean of (3.580) because the overall mean states as per the interpretation law set by (best, 1977) it is totally agree.

4.2.2.2 Descriptive statistics on items on Tax Compliance

A series of eight questions were presented to respondents and they were asked to rate their level of agreement with each statement. Table 4.7 shows the mean and standard deviation for each item under this category.

Table 4.7. Summary of Response for Tax Compliance

Items of Tax Compliance	Mean	Std. D.
Declaring tax is obligation	2.9862	.995
Tax collection and assessment is correct	3.1101	1.301
Rules and regulation are comfortable	2.9817	1.273
Time of tax payment is comfortable	3.3440	1.212
Tax declaration form is enough to fill all information	3.3119	1.234
The tax declaration form easy to compute tax	3.2248	1.131
Tax declaration form clear and understandable	3.1376	.978
The county has right tax rules and assessment	3.3761	1.113
Cumulative Mean of Tax Compliance	3.18405	1.154625

Source: Computed from the Questionnaire, 2020”

Go through Table 4.7 shows that tax compliance has scored the mean of (M=3.184). This indicates that majority of respondents moderately agree with the items meaning that tax compliance is important to advance tax collection efficiency. The standard deviation value indicates that the respondents’ responses are heterogenous and widely spread from the mean. Since, the obtained result of standard deviation (1.15) is supported by (Mark, Philip and Adrian, 2009) i.e., value >1, implies that the responses of the respondents were dispersed towards the perceived/obtained mean result of tax compliance. Therefore, the student researcher can concludes that the institution tax compliance practice is somehow good with the grand mean of (3.18) because the overall mean states as per the interpretation law set by (best, 1977) it is somehow agree.

4.2.2.3 Descriptive statistics on items on Tax Payer's Awareness

A series of eight questions were presented to respondents and respondents were asked to rate their level of agreement with each statement. Table 4.6 shows the mean and standard deviation for each item under this category.

Table 4.8. Summary of Response for Tax Payer's Awareness

Items of Tax Payer's Awareness	Mean	Std. D.
Tax is paid for the benefit of the country	3.1560	1.108
Tax rules and regulations are clear and understandable	3.4404	1.077
I know how to compute tax	3.0734	1.017
Tax office training is enough	3.0596	1.191
There are penalties about tax	3.0092	1.002
Easily tax information accessed from the tax office	3.0917	.890
Cumulative Mean of Tax Payer's Awareness	3.138383	1.0475

Source: Computed from the Questionnaire, 2020

Go through Table 4.8 shows that tax compliance has scored the mean of (M=3.138). This indicates that majority of respondents moderately agree with the items meaning that taxpayer's awareness is important to improve tax collection efficiency. The standard deviation value indicates that the respondents' responses are heterogeneous and widely spread from the mean. Since, the obtained result of standard deviation (1.04) is supported by (Mark, Philip and Adrian, 2009) i.e., value >1, implies that the responses of the respondents were dispersed towards the perceived/obtained mean result of tax payer's awareness. Therefore, the student researcher can conclude that the institution tax payer's awareness practice is somehow good with the grand mean of (3.13) because the overall mean states as per the interpretation law set by (Best, 1977) it is somehow agree.

4.2.2.4 Descriptive statistics on items on Tax Exemptions

A series of five questions were presented to respondents and respondents were asked to rate their level of agreement with each statement. Table 4.9 shows the mean and standard deviation for each item under this category.

Table 4.9. Summary of Response for Tax Exemptions

Items of Tax Exemptions	Mean	Std. D
The Ministry of Revenue Large Tax Payer's Branch Office exemption provisions used excessively by tax officials	3.1009	.889
The Ministry of Revenue Large Tax Payer's Branch Office tax exemptions issued to NGOs negative effects	3.7202	.964
The Ministry of Revenue Large Tax Payer's Branch Office tax exemptions are politically motivated	3.0459	.914
The Ministry of Revenue Large Tax Payer's Branch Office has modern and sufficient facilities	3.5367	1.038
The Authority utilizing modern technology to easy tax matters	3.1147	.931
Cumulative Mean of Tax Exemptions	3.30368	0.9472

Source: Computed from the Questionnaire, 2020

Go through Table 4.9 shows that tax exemptions has scored the mean of (M=3.30). This indicates that majority of respondents moderately agree with the items meaning that tax exemptions is important to improve tax collection efficiency. The standard deviation value indicates that the respondents' responses are homogenous and not widely spread from the mean. Since, the obtained result of standard deviation (.947) is supported by (Mark, Philip and Adrian, 2009) i.e., value <1, implies that the responses of the respondents were dispersed towards the perceived/obtained mean result of tax exemptions. Therefore, the student researcher can concludes that the institution tax exemptions practice is somehow good with the grand mean of (3.30) because the overall mean states as per the interpretation law set by (best, 1977) it is somehow agree.

4.2.2.5 Descriptive statistics on items on Collection Efficiency

A series of four questions were presented to respondents and respondents were asked to rate their level of agreement with each statement. Table 4.10 shows the mean and standard deviation for each item under this category.

Table 4.10. Summary of Response for tax collection efficiency

Items of tax collection efficiency	Mean	Std. D
The Ministry of Revenue Large Tax Payer's Branch Office assessment is efficient in tax collection.	3.5872	1.057
The Ministry of Revenue Large Tax Payer's Branch Office Collection is efficient in tax collection.	3.0367	1.024
The Ministry of Revenue Large Tax Payer's Branch Office Monitoring is efficient in tax collection.	3.1468	1.080
The Ministry of Revenue Large Tax Payer's Branch Office Enforcement is efficient in tax collection.	3.4541	1.090
Cumulative Mean of tax Collection Efficiency	3.3062	1.062

Source: Computed from the Questionnaire, 2020

Go through Table 4.10 shows that tax collection efficiency has scored the mean of (M=3.30). This indicates that majority of respondents moderately agree with the items meaning that tax collection efficiency of the company is with significant role. The standard deviation value indicates that the respondents' responses are not homogenous and widely spread from the mean. Since, the obtained result of standard deviation (1.062) is supported by (Mark, Philip and Adrian, 2009) i.e., value >1, implies that the responses of the respondents were dispersed towards the perceived/obtained mean result of tax collection efficiency. Therefore, the student researcher can concludes that the institution tax exemptions practice is somehow good with the grand mean of (3.30) because the overall mean states as per the interpretation law set by (best, 1977) it is somehow agree.

4.3. Inferential Analysis

4.3.1 Correlation Analysis

A Pearson Correlation coefficient is used when we are interested to measure the strength of the linear relationship between variables or, to be more precise, how the value of one variable changes when the value of another variable changes. The correlation, (often measured as a correlation coefficient), indicates the strength and direction of a linear relationship between two random variables. In general, it refers to the departure of two variables from independence. A number of different coefficients are used for different situations and Coakes and Steed (2007). Pearson correlation coefficient ranges from +1 to -1. A correlation of “+1” means that there is a perfect positive linear relationship between variables and a correlation of “-1” means that there is a perfect negative linear relationship between variables. A correlation of “0” means there is no linear relationship between two variables. These findings are presented below.

Table 4.11: Correlation Matrix

Correlations						
		Tax Office Capacity	Tax Compliance	Tax Payer’s Awareness	Tax Exemptions	Collection Efficiency
Tax Office Capacity	Pearson Correlation	1	.433**	.180**	.398**	.451**
	Sig. (2-tailed)		.000	.000	.000	.000
Tax Compliance	Pearson Correlation	.433**	1	.374**	.494**	.154*
	Sig. (2-tailed)	.000		.000	.000	.003
Tax Payer’s Awareness	Pearson Correlation	.180**	.374**	1	.583**	.167*
	Sig. (2-tailed)	.001	.000		.000	.000
Tax Exemptions	Pearson Correlation	.398**	.494**	.583**	1	.257**
	Sig. (2-tailed)	.000	.000	.000		.000
Collection Efficiency	Pearson Correlation	.451**	.154*	.167*	.257**	1
	Sig. (2-tailed)	.000	.023	.013	.000	

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

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

Source: Computed from the Questionnaire, 2020”

Concerning the relationship between the tax office capacity and collection efficiency, Pearson correlation analysis reported that it has $.451^{**}$ at a significance level of 0.000. This mean tax office capacity has a positive and significant relationship with collection efficiency. Hence, it is possible to conclude that tax office capacity has a linear relationship with collection efficiency.

Regarding the relationship between the tax compliance and collection efficiency, Pearson correlation analysis reported that it has $.154^{**}$ at a significance level of 0.000. This mean tax compliance has a positive and significant relationship with collection efficiency. Hence, it is possible to conclude that tax compliance has a linear relationship with collection efficiency.

Vis-à-vis the relationship between the taxpayer's awareness and collection efficiency, Pearson correlation analysis reported that it has $.167^{**}$ at a significance level of 0.000. This mean tax payer's awareness has a positive and significant relationship with collection efficiency. Hence, it is possible to conclude that taxpayer's awareness has a linear relationship with collection efficiency.

With reference to the relationship between the tax exemptions and collection efficiency, Pearson correlation analysis reported that it has $.257^{**}$ at a significance level of 0.000. This mean tax exemptions has a positive and significant relationship with collection efficiency. Hence, it is possible to conclude that tax exemptions have a linear relationship with collection efficiency.

4.4 Assumptions Testing

When someone choose to analyze the data using linear regression, part of the process involves checking to make sure that the data that one wants to analyze can actually be analyzed using linear regression. Therefore, it is needed to do this because it is only appropriate to use linear regression if the required data "passes" four assumptions (Multicollenarity, linearity, Auto-correlation/Durbin-Watson Test and normality) that are required for linear regression to give a valid result. Let us look at whether the following assumptions are met or not. One can check assumptions using SPSS Statistics and linearity assumptions should be checked first, before moving into others assumptions.

4.4.1 Multi co linearity Test

For this study, multi-Co linearity is not a problem for the set of independent variables with the conditions stated for tolerance and VIF values. The tolerance values of tax office capacity, tax compliance, tax payer's awareness, and tax exemptions are .758, .674, .642, and .533 respectively, which are all greater

than the minimum tolerance value (0.1) & VIF values for all independent variables are also, 1.319, 1.483, 1.557, and 1.875 which are less than 10. (10 is the upper maximum VIF value to be worried about).

Table 4.12: Multi Collinearity statistics result

Variables	Tolerance	VIF
Tax Office Capacity	.758	1.319
Tax Compliance	.674	1.483
Tax Payer’s Awareness	.642	1.557
Tax Exemptions	.533	1.875

Source: Computed from the Questionnaire, 2020”

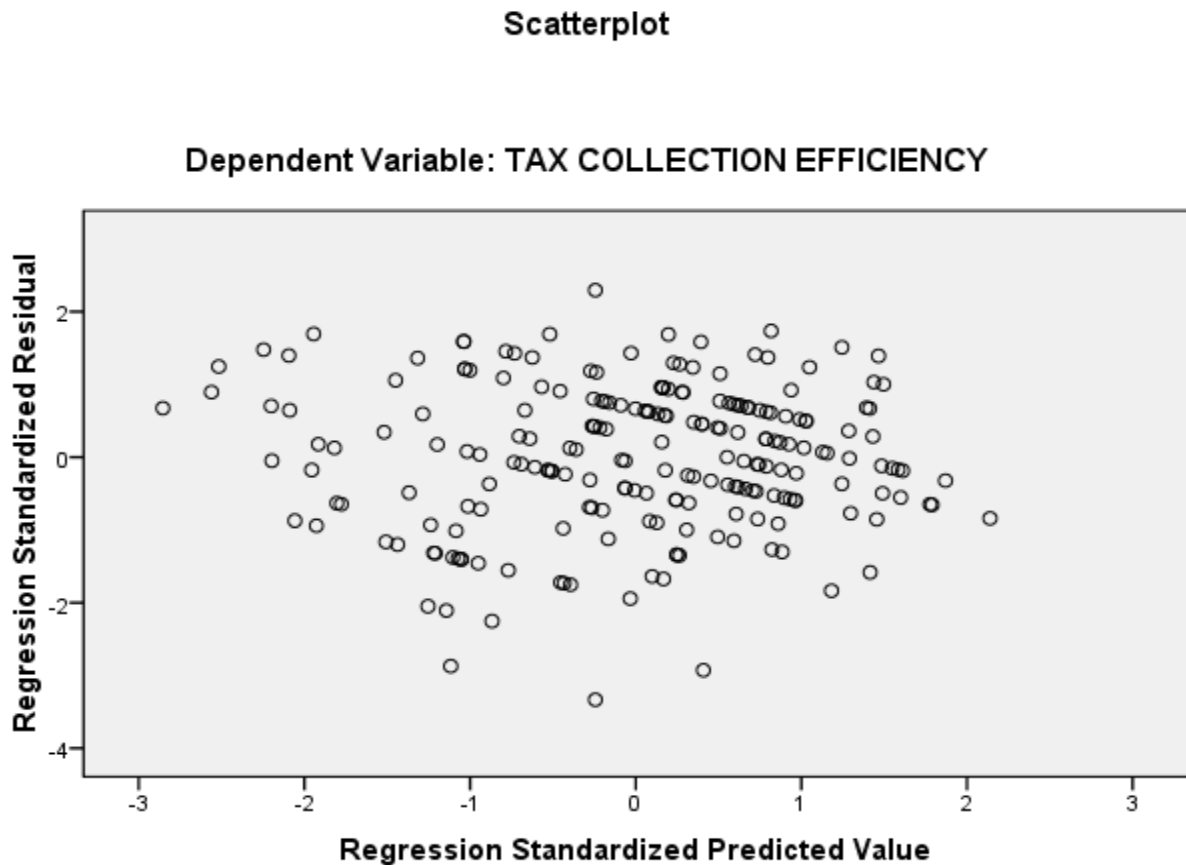
4.4.2 Auto-correlation/Durbin-Watson Test/

It is the assumption of independent error acceptable or reasonable test. Durbin-Watson used to test for serial correlation between errors. The Durbin-Watson statistic test can vary between 0 and 4. A value of 2 meaning residual statistics are uncorrelated Field, (2006). A value greater than 2 indicates a negative correlation between adjacent residuals, whereas a value below 2 indicates a positive correlation. Similarly, Ot and Long necker (2001), defines when there is no serial correlation, the expected value of Durbin-Watson test statistics d is approximately 2.0; positive serial correlation makes $d < 2.0$ and negative serial correlation makes $d > 2.0$. Although, values of d less than approximately 1.5 (or greater than approximately 2.5) lead one to suspect positive (or negative) serial correlation. If serial correlation is suspected, then the proposed multiple linear regression models are inappropriate. Referring this and the model summary table 4.13 below; the Durbin-Watson value of this study is 1.760. Therefore, the auto-correlation test has almost certainly met, since it falls between 1.5 and 2.5, and we can conclude that our model is free of serial correlation.

4.4.3 Assessing Normality Assumption

The rationale behind hypothesis testing relies on having something that is normally distributed in some cases; it’s the sampling distribution, in others the errors in the model (Field, 2009). Whether the distribution is normal/or not is one of the basic assumptions in parametric test: As such, if we draw a vertical line through the center of the distribution it displays a mirror image distance on both sides. This kind of distribution is known as a normal distribution and is characterized by the bell-shaped curve. This shape basically implies that the majority of the scores lie around the center of the distribution. As we see

from the figure below, the residuals are distributed normally from both sides and their distribution is considered as normal curve. Because without probability sampling, error estimates cannot be constructed (Shavelson, 1988).



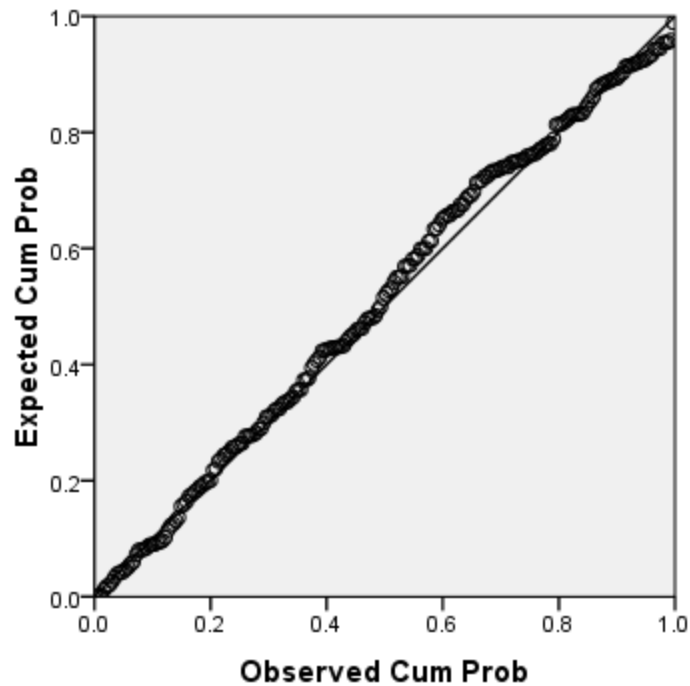
Source: Computed from the Questionnaire, 2020”

4.4.4 Assessing Linearity Assumption

Linear regression needs the relationship between the independent and dependent variables to be linear. The linearity assumption can best be tested by P-P plots. For linearity of the multiple regression. As we see from the figure illustrates the true relationship form of linear (Y is a linear function of X, plus random error).

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: TAX COLLECTION EFFICIENCY



Source: Computed from the Questionnaire, 2020”

4.5 Regression Analysis

In regression model the coefficients of multiple regressions explain the contribution of an individual explanatory variable on the dependent variable. So table 4.13 below summarizes and tests the hypothesis.

Table 4.13: Model summary

Model Summary^b										
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.471 ^a	.272	.267	.66637	.222	15.153	4	213	.000	1.760

a. Predictors: (Constant) TOC, TC, TPA, TE

b. Dependent Variable: Tax collection efficiency

Source: Computed from the Questionnaire, 2020”

In our case, in the model summary, table 4.13 above, the value of the adjusted R square.267 indicates that, **26.7%** of the variation (change) in collection efficiency is attributed to the total effect of independent variables/ tax office capacity, tax compliance, taxpayer’s awareness, and tax exemptions. The remaining 73.3% of the variation in collection efficiency is due to factors, which are not included in the model.

Test of ANOVA

We use ANOVA to see the share of regression in the total sum of squares by splitting the model into regression and residual.

Table 4.14: ANOVA

ANOVA ^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.915	4	6.729	15.153	.000 ^a
	Residual	94.584	213	.444		
	Total	121.499	217			
a. Predictors: (Constant), TOC, TC, TPA, TE						
b. Dependent Variable: Tax collection efficiency						

Source: Computed from the Questionnaire, 2020”

ANOVA (analysis of Variance) also explains the regression by splitting the total sum of squares into regression (explained) sum of squares and error (unexplained) sum of squares. If a regression model is adequate, the explained variance should be considerably higher than the unexplained variation. In the ANOVA table 4.14 the SPSS output illustrates, the total sum of squares (121.499) is split into regression (26.915) and residuals (94.584) which ascertain the condition, $F(4,213) = 15.153, \rho (.000) < \alpha (.05)$.

Table 4.15: Regression coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.531	.304		5.045	.000		
Tax Office Capacity	.420	.065	.451	6.491	.000	.758	1.319
Tax Compliance	.121	.078	.114	3.552	.002	.674	1.483
Tax Payer's Awareness	.265	.077	.277	5.015	.011	.642	1.557
Tax Exemptions	.184	.114	.190	2.385	.009	.533	1.875

a. Dependent Variable: Collection Efficiency

Source: Computed from the Questionnaire, 2020”

Based on table 4.15, the regression coefficient result table, we can formulate the regression equation (as per Model:

$TCE = \alpha + \beta_1 TOC + \beta_2 TC + \beta_3 TPA + \beta_4 TE + e$ as:

$$CE = 1.531 + .451TOC + .114TC + .277TPA + .190TE + e$$

From the Beta Coefficient table, the researcher highly concentrated on the values of the standardized Beta coefficient in order to figure out the relative importance of each independent variable, in predicting the dependent variable. Standardized beta coefficient is sometimes called, the Beta Weights and tells us about the relationships between the dependent variable and the independent variables. If the value is positive the relationship between the predictor and the outcome is positive. Negative coefficient represents a negative relationship (Field, 2006). According to Pedhazur, (1997), a β weight coefficient informs us, as to how much change in the criterion variable (i.e. collection efficiency in our case) we might expect with a one-unit change in the predictor variables, (i.e. tax office capacity, tax compliance, tax payer's awareness, and tax exemptions) holding all other predictor variables constant. That means from table 4.15, as tax office capacity of the company increases by one unit collection efficiency increases by 45.1% if the other factors kept constant (Field, 2006).

4.6. Research Hypothesis test

Proposed hypothesis are tested based on the results of the regression analysis. By looking at the Sig.-value in Table 4.15, it is possible to interpret whether the particular independent variable has a significant effect on the dependent variable. According to Weiers (2008), if P value is less than the specified level of significance (α), reject the null hypothesis; otherwise, do not reject the null hypothesis. Therefore, the rules of thumb for this study is if P- value. ≤ 0.05 , H_0 will be rejected, and conversely, if Sig. $> .05$, H_0 will not be rejected (Accepted). Beta coefficients were used to evaluate the effect of each independent variables on dependent variable. Therefore, interpretation by comparing Sig and beta estimates preceded for each hypothesis.

H1: Tax Office Capacity has a positive and significant effect on collection efficiency.

The results of multiple regressions, as presented in table 4.15 above, revealed that tax office capacity has a positive and significant effect on collection efficiency with a (Beta value =.451), at 95% confidence level ($p < 0.05$). The alternative hypothesis that states tax office capacity has a positive and significant effect on collection efficiency is accepted. Moreover, the regression coefficients Beta value of 0.451 confirming that, 45.1% of the variation in collection efficiency is affected by tax office capacity. This means that all things being equal, when the other independent variables are held constant, tax office capacity would increase by 45.1%. This was statistically significant ($0.000 < 0.05$) that is the variable (tax office capacity) is making a significant contribution to the prediction of the dependent variable (collection efficiency). Moreover, tax office capacity in better state seems at 45.1% chance of gaining collection efficiency. Because the effect of tax office capacity positively influences collection efficiency.

H1: Tax Payer's Awareness has a positive and significant effect on collection efficiency

The results of multiple regressions, as presented in table 4.15 above, revealed that tax payer's awareness has a positive and significant effect on collection efficiency with a (Beta value =.277), at 95% confidence level ($p < 0.05$). The alternative hypothesis that states taxpayer's awareness has a positive and significant effect on collection efficiency is accepted. Moreover, the regression coefficients Beta value of 0.277 confirming that, 27.7% of the variation in collection efficiency is affected by taxpayer's awareness. This means that all things being equal, when the other independent variables are held constant, taxpayer's awareness would increase by 27.7%. This was statistically significant ($0.000 < 0.05$) that is the variable (taxpayer's awareness) is making a significant contribution to the prediction of the dependent variable (collection efficiency). Moreover, taxpayer's awareness in better state seems at 27.7% chance of gaining

collection efficiency. Because the effect of taxpayer's awareness positively influences collection efficiency.

H1: Tax Compliance has a positive and significant effect on collection efficiency.

The results of multiple regressions, as presented in table 4.15 above, revealed that tax compliance has a positive and significant effect on collection efficiency with a (Beta value =.114), at 95% confidence level ($p < 0.05$). The alternative hypothesis that states tax compliance has a positive and significant effect on collection efficiency is accepted. Moreover, the regression coefficients Beta value of 0.114 confirming that, 11.4% of the variation in collection efficiency is affected by tax compliance. This means that all things being equal, when the other independent variables are held constant, tax compliance would increase by 11.4%. This was statistically significant ($0.000 < 0.05$) that is the variable (tax compliance) is making a significant contribution to the prediction of the dependent variable (collection efficiency). Moreover, tax compliance in better state seems at 11.4% chance of gaining collection efficiency. Because the effect of tax compliance positively influences collection efficiency.

H1: Tax exemptions have a positive and significant effect on collection efficiency.

The results of multiple regressions, as presented in table 4.15 above, revealed that tax exemptions has a positive and significant effect on collection efficiency with a (Beta value =.190), at 95% confidence level ($p < 0.05$). The alternative hypothesis that states tax exemptions has a positive and significant effect on collection efficiency is accepted. Moreover, the regression coefficients Beta value of 0.190 confirming that, 19% of the variation in collection efficiency is affected by tax exemptions. This means that all things being equal, when the other independent variables are held constant, tax exemptions would increase by 19%. This was statistically significant ($0.009 < 0.05$) that is the variable (tax exemptions) is making a significant contribution to the prediction of the dependent variable (collection efficiency). Moreover, tax exemptions in better state seems at 19% chance of gaining collection efficiency. Because the effect of tax exemptions positively influences collection efficiency.

Table 4.16: Summary of Hypothesis Testing Results

Hypothesis	Test	Reason
Tax office capacity has a positive and effect on Collection efficiency.	Accepted	Beta; .451, P<0.05
Tax compliance has a positive and effect on Collection efficiency.	Accepted	Beta; .114, P<0.05
Tax payer’s awareness has a positive and effect on Collection efficiency.	Accepted	Beta; .277, P<0.05
Tax exemptions have a positive and effect on Collection efficiency.	Accepted	Beta; .190, P<0.05

Source: Computed from the Questionnaire, 2020”

4.7 Qualitative / Interview Analysis

In order to supplement the qualitative data analysis interview was also conducted. Based on the items raised to the interview participants the following summarized findings were explained. Respondents stated that tax payers appeared to have inadequate knowledge on the technical aspects of the income tax. The absence of tax knowledge may lead to noncompliance behavior among taxpayers.

Taxpayers don’t meet deadlines. Some of the reasons are economic difficulties, tradition of rush hour payment. Be it for these or other reasons, according to James and Nobes(2000), though a tax payer might eventually pay his/her full liability, since the payment is late, the taxpayer cannot be considered to have been compliant. Furthermore, rush hour show up of taxpayers result in work overload of tax office personnel on the top of inadequate man power. Respondents also imply that tax laws and procedures are slightly violated with tax officers and taxpayers.

The amount of tax liability tax payers have paid is overstated. Keeping tax rates at a reasonable level can encourage the development of the private sector and the formalization of businesses. This is particularly important for large business enterprises, which contribute to growth and job creation but do not add significantly to tax revenue. Also it is indicated that tax payers complain frequently about the way the tax is assessed and collected. Major complaints raised by the taxpayers were unfair tax rate, double taxation on imported items, rejection of purchase invoices by tax officers.

Respondents were asked whether they receive trainings or not. Accordingly, Tax officers indicate that they get regular training relevant to their duties and responsibilities. As they have listed they have received short-term trainings on tax audit, tax assessment, tax regulations and guidelines, estimating daily income, computer applications and data encoding, other trainings based on respective job position. This

undoubtedly enables the tax personnel to develop simple and user friendly tax administrative systems and procedures as well as to have sufficient powers to effectively enforce them.

Based on the items raised to the interview participants it is stated that, the tax authority provides regular information to category 'A' taxpayers to create tax awareness through mass media such as television, radio, newspaper, brochure, poster (banner). Creating awareness helps to inculcate in taxpayers a sense of responsibility towards tax and ultimately promotes a positive view to voluntary compliance. On the other hand, the branch office did not assign sufficient number of adequately qualified personnel who are able to assess and collect tax efficiently. This inevitably affects the operations and effectiveness of the tax office. They mentioned the following as reasons for the assignment of less appropriate personnel, short term solution to address the shortage of manpower, assignment by political affiliation, loose recruitment procedures.

Moreover there is very frequent employees turn over in their office. Frequent employees turn over will drop productivity, It costs a company money to deal with turnover. Every time they have to spend resources on recruiting, hiring and training a new employee. Gaps in staff mean there aren't the correct number of team members to do the job, this means productivity simply drops. Add burden on the other employees, and dissatisfy other employees.

In general, it can be noted that the key challenges and their causes identified among both tax authority and tax payers. These are lack of tax education, the taxpayers' culture to evade and avoid taxes , tax rates are too high, great resistance to take or attend the tax awareness training or panel discussion arranged by the tax authority, hiding their actual taxable income intentionally and not to pay the true amount of tax to the government, lack of understanding the tax authority's employees work burden at the time of taking the tax authority's service, gossiping, running their business illegally, undesired communication of tax officers with taxpayers, tax revenues are not spent on public services.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION, AND RECOMMENDATION

This chapter deals with summary of the findings, conclusions and recommendations. Based on the analysis and data presentation the following finding are obtained, conclusions drawn, and recommendations forwarded.

5.1 Summary of Findings

Based on the cumulative result of descriptive statistics:

Tax office capacity scored a mean of 3.58, and this shows that respondents/tax payer's perception is moderate. Therefore, the above result is supported by best (1977), if mean score is under the range of 3.5–4.9, it is considered as agree.

Tax Compliance scored a mean of 3.18, and this shows that respondents/tax payer's perception is moderate. For that reason, the above result is supported by best (1977), if mean score is under the range of 2.6 –3.49, it is considered as average or moderate.

Tax Payer's Awareness scored a mean of 3.13, and this shows that respondents/tax payer's perception is moderate. Hence, the above result is supported by best (1977), if mean score is under the range of 2.6 – 3.49, it is considered as average or moderate.

Tax Exemptions scored a mean of 3.30, and this shows that respondents/tax payer's perception is moderate. Thus, the above result is supported by best (1977), if mean score is under the range of 2.6 – 3.49, it is considered as average or moderate.

Tax Collection Efficiency scored a mean of 3.30, and this shows that respondents/tax payer's perception is moderate. Thus, the above result is supported by best (1977), if mean score is under the range of 2.6 – 3.49, it is considered as average or moderate.

Regarding to the correlation between the determinants of tax collection efficiency (tax office capacity, Tax Compliance, Tax Payer's Awareness, and Tax Exemptions) and tax Collection Efficiency with (.451^{**}, P<0.01, .154^{**}, P<0.01, .167^{**}, P<0.01 and .257^{**}, P<0.01) respectively. This means tax office capacity, Tax Compliance, Tax Payer's Awareness, and Tax Exemptions have a positive and significant relationship with tax Collection Efficiency. Hence, it is possible to conclude that the tax determinants of tax Collection Efficiency dimensions have linear relationship with tax Collection Efficiency.

The regression coefficients Beta value of 0.451 confirming that, 45.1% of the variation in tax collection efficiency is affected by Tax Office Capacity. This means that all things being equal, when the other independent variables are held constant, tax collection efficiency would increase by 45.1%.

The regression coefficients Beta value of 0.114 confirming that, 11.4% of the variation in tax collection efficiency is affected by Tax Compliance. This means that all things being equal, when the other independent variables are held constant, tax collection efficiency would increase by 11.4%.

The regression coefficients Beta value of 0.277 confirming that, 27.7% of the variation in tax collection efficiency is affected by Tax Payer's Awareness. This means that all things being equal, when the other independent variables are held constant, tax collection efficiency would increase by 27.7%.

The regression coefficients Beta value of 0.190 confirming that, 19% of the variation in tax collection efficiency is affected by Tax Exemptions. This means that all things being equal, when the other independent variables are held constant, tax collection efficiency would increase by 19%.

5.2 Conclusion

Based on the cumulative result of descriptive statistics:

Tax office capacity, the respondents/tax payer's perception is moderate. Therefore, we can conclude that, the technology, man power, building and infrastructure for sake of well collection and makes the collection procedures easy the government should capacitate its office with profession, updated technology and different equipment's.

Tax compliance, respondents/tax payer's perception is moderate. Hence, we can presume that the readiness of persons to act in accordance with in both the 'spirit' and the 'letter' of the tax law and management without the application of enforcement action and compliance might be voluntary or enforced compliance

Tax Payer's Awareness, respondents/tax payer's perception is moderate. Consequently we can assume that something and acting or responding for some occurs. First of all the understanding of tax is a form of contribution in supporting the country's growth.

Tax Exemptions, respondents/tax payer's perception is moderate. Therefore we can expect that the monetary exemption of persons, property, income, or transactions from taxes that would otherwise be levied on them. Tax-exempt status can provide complete relief from taxes, reduced rates, or tax on only a portion of items.

Tax Collection Efficiency, respondents/tax payer's perception is moderate. Subsequently we can anticipate that based on voluntary compliance by a large number of decentralized taxpayers is better. Since, most transition economies have only recently started to address compliance issues and build up a modern tax administration with better overall revenue performance.

Regarding to the relationship, there is a positive and significant relationship between the determinants of tax collection efficiency and tax Collection Efficiency. Therefore, it is possible to conclude that the tax determinants of tax Collection Efficiency dimensions have linear relationship with tax Collection Efficiency.

Based on the regression coefficients result confirming that 45.1% of the variation in tax collection efficiency is affected by Tax Office Capacity. Therefore it is possible to conclude that the tax office capacity is making a significant contribution to the prediction of the tax collection efficiency. Because the effect of Tax Office Capacity positively influences tax collection efficiency.

Based on the regression coefficients result confirming that, 11.4% of the variation in tax collection efficiency is explained/affected by Tax Compliance. Therefore it is possible to conclude that the Tax Compliance is making a significant contribution to the prediction of the tax collection efficiency. Because the effect of Tax Compliance positively influences tax collection efficiency.

Based on the regression coefficients result confirming that, 27.7% of the variation in tax collection efficiency is explained/affected by Tax Payer's Awareness. Therefore, Tax Payer's Awareness is making a significant contribution to the prediction of the tax collection efficiency. Because the effect of Tax Payer's Awareness positively influences tax collection efficiency.

5.3 RECOMMENDATION

The management should understand that proper tax collections are necessary in order to raise adequate tax for social and economic development of the county. Ministry of Revenue Large Tax Payer's Branch Office management needs to determine what actions to do to ensure that it collects sufficient tax.

The following practices are better to be undertaken such as KC management should be visible in involvement and commitment to tax administration. In addition, Tax officials must communicate corporate values and cultures related to collect tax on time, recognize and appreciate efforts and success of all employees and actively promote service quality. Director must provide strong leadership and the management should frequently undertake market research for the purpose of formulating efficient policies regarding on seasonal business and tax law changes. This will enable managers to provide services according to customer expectations and requirements.

The researcher recommends to the tax branch office to strengthen the awareness creation programs. It is better for the tax office to give trainings to tax payers in order to create awareness on that tax is an obligation payment to the country. The tax office also must trained taxpayers how computing tax. The office should make training and different awareness creation materials addressable to tax payers. The other important thing recommended to be done by tax office is, training is better to give the responsible taxpayers or the owner of the business himself.

Taxpayers also recommended improving their culture or behavior such as hiding their true income to the tax office, being careless to give receipt to their customers for the services or goods they sold, and seeing the tax office employees as an enemy. Key measures to improve compliance are outreach and education. Outreach can be through business or civil society associations, which allow discussion or bargaining between government and citizens on tax issues. Education can be through different forms of media and schooling, and can involve teaching taxpayers their responsibilities, how to pay their taxes, and how tax money will be spent.

Appendix- I
Jimma University
College of Business and Economics
School of Graduate Studies in Business Administration

Dear respondent,

First of all my sincere gratitude goes to you. My name is Mastewal Minale. The researcher conducting this Thesis research for a partial fulfillment of master's degree in business administration (MBA). My study entitled “**Determinants of tax Collection Efficiency at Ministry of Revenue Large Tax Payer's Branch Office**”. Your responses were kept utterly confidential, and it was used for academic purpose only. Hence, you are kindly requested to give an accurate and sufficient data as much as possible.

Thank you in advance for your cooperation!

General Directions

You do not have to write your name

Put the symbol (√) that you think is/are the right choice (s)

Part 1: General information filled by Taxpayers

1. Gender:

Male Female

2. Age:

20-25 26-35 36-40 41- 54 55 and above

3. Education level:

Masters Degree Diploma Gra and below

Part 2: Please indicate your level of agreement (whether you agree or disagree) with each statement using the scale below as a guide: put (√) on your selection.

1= strongly Disagree 2= Disagree 3= Neutral 4= Agree 5= strongly Agree

S.N	Dimensions	SD	D	N	A	SA
TAX OFFICE CAPACITY						
1	Tax office has enough capacity					
2	File handling is good					
3	The tax office uses quality system & technology					
4	Tax office offer suitable services					
5	Tax office place is appropriate					
6	Tax office employees are cooperative					
7	Tax office has enough employees					
TAX COMPLIANCE						
1	Declaring tax is obligation					
2	Tax collection and assessment is correct					
3	Rules and regulation are comfortable					
4	Time of tax payment is comfortable					
5	Tax declaration form is enough to fill all information					
6	The tax declaration form easy to compute tax					
7	Tax declaration form clear and understandable					
8	The county has right tax rules and assessment					
TAX PAYER'S AWARENESS						
1	Tax is paid for the benefit of the country					
2	Tax rules and regulations are clear an understandable					
3	I know how tax compute					
4	Tax office training is enough					
5	There are pan plates about tax					
6	Easily tax information accessed from the tax office					
TAX EXEMPTIONS						
1	The Ministry of Revenue Large Tax Payer's Branch Office exemption provisions used excessively by tax officials					

2	The Ministry of Revenue Large Tax Payer's Branch Office tax exemptions issued to NGOs negative effects					
3	The Ministry of Revenue Large Tax Payer's Branch Office tax exemptions are politically motivated					
4	The Ministry of Revenue Large Tax Payer's Branch Office has modern and sufficient facilities					
TAX COLLECTION EFFICIENCY						
1	The Ministry of Revenue Large Tax Payer's Branch Office assessment is efficient in tax collection.					
2	The Ministry of Revenue Large Tax Payer's Branch Office Collection is efficient in tax collection					
3	The Ministry of Revenue Large Tax Payer's Branch Office Monitoring is efficient in tax collection					
4	The Ministry of Revenue Large Tax Payer's Branch Office Enforcement is efficient in tax collection					

Appendix II
Jimma University
College of Business, Economics and Social Sciences
School of Graduate Studies in Business Administration
Structured Interview Conducted with Manager’s
Members

The researcher would like to express my deep appreciation for your generous time, honest and prompt responses. These questions of interview are designed to collect data about the **“Determinants of tax Collection Efficiency at Ministry of Revenue Large Tax Payer’s Branch Office”**. The information that you offer me with this interview used as a primary data in my case study which I am conducting as a partial fulfillment of the requirements for the degree of Masters of Business Administration (MBA) at Jimma University. The researcher want to assure you that this research is only for academic purpose authorized by the Jimma University. No other person could access the collected data in any sort of report, but, The researcher can not include any information that will make it possible to identify any respondent.

1. What do you think about taxpayers’ general knowledge about taxation and public attitude towards taxation?
2. Does the Authority provide regular information to category large taxpayers to create tax awareness?
3. Are tax laws and procedures respected or violated at your office?
4. Do tax payers pay their tax on time? What would be possible reasons?
5. To what extent do taxpayers complain about the way the tax is assessed and collected?
6. Is the number and qualification of the employees at your office sufficient to assess and collect tax efficiently?
7. What measures should the tax authority undertake to motivate tax payers to pay tax?

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