JIMMA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

DETERMINANTS OF TAX REVENUE IN JIMMA TOWN;
THE CASE OF GINJO GUDURU SUB - CITY

A Thesis Submitted to the School of Graduate Studies of Jimma University in Partial Fulfillment of the Requirements for the Award of the Degree of Master in Accounting and Finance (MSc.)

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JIMMA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

MSC.PROGRAM IN ACCOUNTING AND FINANCE

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JIMMA, ETHIOPIA

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Certificate

This is to certify that the research paper entitles determinants of tax revenue in Jimma Town, Ginjo guduru sub - city. submitted to Jimma University to fulfill the degree of masters in Accounting and Finance carried out by Jaldhe Gonfa under our guidance and supervision.

Therefore, I hereby declare that no part of this title has been submitted to any other university for the award of any degree or diploma.

Main Adviser's name   Date   Signature

_____   _____   _____

Co. Adviser's name   Date   Signature

_____   _____   _____

Declaration

I declare that this research title, determinant of tax revenue in Jimma Town ,Ginjo guduru sub- city. was carried out by me under the guidance and supervision of Mohammed Getahun (ASS.pro) And Hayatu Hairu (Ma).

The title is original and has not been submitted for the award of any degree to any institution.

Researchers' name   Date   Signature

_____   _____   _____

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Abstract

The main purpose of the study was to evaluate the determinants of tax revenue in jimma town, Ginjo guduru sub - city. Descriptive and explanatory research design was used to examine the relationship between tax audit practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity and tax revenue of Jimma town association. Both quantitative and qualitative research approaches were used in the study. Target population of the study was 286 Ginjo guduru sub - city tax payers of jimma town. The researcher was employed both stratified and simple random sampling techniques. Primary data was used as a source. The collected data were summarized and analyzed using descriptive and inferential statistics. The major research findings were the tax revenue has a significant positive relation with tax audit practice, tax fairness, tax payers' knowledge, social and economic instability. Besides, the highest correlation coefficient was found between tax revenue and tax audit practice, followed by between tax revenue and tax fairness, tax payers' knowledge, social and economic instability and also there was insignificant relation between tax revenue and tax system complicity. The study recommends that the tax authority could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way and working procedures of the authority should be fully automated.

Key Words: tax revenue, tax audit practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity

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Acronyms

ORA..…………………………………… Oromiya Revenue Authority

JRA……………………………………... Jimma Revenue Authority

GDP…………………………………….... Gross Domestic Product

VAT…………………………………….... Value Added Tax

TOT…………………………………….…Turnover Tax:

ECM…………………………….....………Error Correlation Model

ERCA……………………………… Ethiopia Revenue and Custom authority

SPSS………………………………….… Statistics Package for Social Science

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Tax is an involuntary levy and a policy tool that helps to mobilize revenue to provide public goods and services. Tax helps to redistribute income/wealth in the society that addresses inequality issues. It can also be used to encourage economic activities such as work, investment, equity and supporting economic growth. Without expectation of direct and equivalent return from the government for the contribution made, tax is a compulsory contribution payable by economic units to a government. 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 (Charles, 2012).

All over the world the governments have started several public projects, such as social security, protection and other services of public utilities like electricity, water supply, railways, heavy electricity, atomic energy, and so on. To provide social amenities in the form of education, health and sanitation facilities and public utilities, the government requires adequate revenue. Tax is one of the most important sources of revenue for every government. Taxes are compulsory contributions imposed by the government on its citizens to meet its general expenses incurred for the common good, without any corresponding benefits to the taxpayer (Elke S. , 2010).

Taxation is a universal concept to forms the central pillars around the civilization has been built; plays a critical role in society and has the capacity to affect the lives of everyone. Tax is a payment required by a government that is unrelated to any specific benefit or service received from the government. The general purpose of a tax is to fund the operations of the government it means to raise revenues for the government expenditures. Taxes differ from fines and penalties in those taxes are not intended to punish or prevent illegal behavior. Most of the authors' in their definition as a key components of taxes they incorporates a payment is required involuntary, imposed with a government agency likes federal, state, or local governments and taxpayer not tied to receive of any benefits due to paying taxes. So, primarily the meaning of "taxation" is raising money for the purposes of government by means of contributions from the individual persons (Brian C. S. , 2018)

Tax systems in many developing countries are characterized by tax structures being not in line with international standards, by lack of tax policy management, low compliance levels and inappropriate capacities in tax administration that make the government to collect tax below the planned. When compared to the developed and developing countries taxation, most of the developed countries are characterized with a broad base for the direct and indirect taxes with tax liability covering the vast majority of citizens and firms; where as in developing countries were confronted with social, political and administrative difficulties in establishing a sound public finance system. As a result, developing countries are vulnerable to tax evasion and avoidance activities of individual taxpayers and corporations. This may be considered as a reasons for large differences in the ability to mobilize own resources between developed and developing countries (GIZ, 2010).

In the developing countries receive a very low amount of revenue from taxation because these countries face a number of institutional problems in the process of revenue generation like tax evasion and corruption of public officials in tax administration that can significantly reduce tax revenue and seriously hurts economic growth and economic development and unstable and shifting behaviors of government, which hinders the process of long-term reforms in the system. (Raymond E, 2014)

As cited by Emerta (2010) the findings of Volkerink (2009) shows that "tax- to-GDP ratio in Ethiopia is one of the lowest in sub-Saharan Africa which is 9.7% (MoFED, 2010) as compared to over 18% for the rest of Africa. It is even much lower than good performers such as South Africa and Namibia where tax revenue reaches 25% and 30.1 %, respectively".

In recent years, the Ethiopian government has been creating substantial efforts in reforming and modernizing the revenue administration with the aim of simplifying the income tax system and increasing government revenue (Temtime, 2014). Despite the efforts taken by government,

Ethiopia like several developing countries suffers from government revenue loss due to tax noncompliance (Ahmed and Kedir, 2015). Ministry of Finance and Economic Development of Ethiopia (MOFED) (2010), African Economic Outlook (2012) and International fund (2013) as cited in the study of Termtime (2014) revealed that the government revenue as a share of the gross domestic product was achieved 11.6 % that was not up to the ratio of tax to gross domestic product magnitude in 2003/4 (i.e.12.6). Therefore, the researcher was to identify determinant of tax revenue in Jimma town, Ginjo guduru sub- city.

1.2 Statement of the problem

All over the world, governments embark on huge public expenditure to provide basic amenities and other social services for their citizens that constitute the major tasks of an elected public officer. To achieve these tasks, governments require huge funds to fulfill its obligations and among the various sources that government generates revenue, taxes are the most important and most reliable means, contributing much more than any other sources (Modugu, & Anyaduba, 2014). From this perspective, tax is therefore, a compulsory levy imposed by the government on the income, profit or wealth of an individual, family, community, corporate or unincorporated bodies etc., for the purposes of financing public expenditures which centered on providing social amenities for her citizens. It is a tool used by the government to generate revenue needed to provide basic amenities or infrastructures in the State (Lymer & Oats, 2009, World Bank, 2011).

Like many other jurisdictions, Ethiopia's tax system is fraught with evasion. One factor that significantly contributes to tax evasion is lack of intensive audits and absence of predetermined audit criteria; to the greatest possible extent, tax systems should be supported by clear and straightforward laws and procedures that facilitate revenue collection, develop taxpayers' awareness, and minimize taxpayers effort and compliance costs. The administration should be provided with appropriate enforcement tools, including conduct of effective audit. Effective tax audit is important, because it assist the government in collecting appropriate tax revenue necessary for budget maintaining economic & financial order and stability. In addition effective tax audit ensure that satisfactory returns are submitted by the tax payers, organize the degree of tax avoidance and tax evasion, ensure strict compliance with tax laws by tax payers, improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government (ERCA, 2014).

According to the World Bank report of 2016 tax revenue (% of GDP) in Ethiopia was last measured as less than 23% which is even less than the average value of sub Saharan country that has 26% of GDP. As a result, Ethiopia has faced budget deficit every year since government expenditure exceed government revenue. To tackle this problem, the government impose tax (direct and indirect), among others; as major and important sources of public revenue. However, Tadele, (2015) forwarded that this imposition of tax couldn't still brought the required result due to a number of reasons such as lack of clear understanding about the tax system by the tax payers, tax payers inability to comply with tax obligation, hostility

between tax payers and tax officials, negative attitude of tax payer towards the tax system. For these reasons, the actual amount of tax couldn't be collected properly.

According to World Bank (2015) report 24% of GDP to finance investment requirement is being solicited from loans and grants. Furthermore, Tadele (2015) indicated that although the overall economic performance of Ethiopia, measured by growth in real GDP, between 2003/04- 2010/11, registered an average annual growth rate of 11.4%, and the contribution of tax revenue to GDP in 2010/11 is about 11.5% the ratio was proved to be low compared to other developing countries such as Botswana (35.2%), Djibouti (20%) Kenya (18.4%).

It is additionally highlighted within the study of Temtime (2014) that the ratio of tax to gross domestic product targeted by the top of the five-year Growth and Transformation set up in 2015 is 15.3% which is below the Sub-Saharan average (18%) in 2005. Temtime also expressed that as compared to some selected Eastern African countries, the Ethiopian tax performance is extremely low and even under the averages of these chosen African countries.

With regard to simplicity of tax system, previous studies argue that simplest tax system encourage tax payers to voluntarily comply with tax system such as (Palil, 2010; Richardson; 2008 & Stephen, 2011). Another study by Samuel and Viswanadham (2016) assessed business income taxpayers' tax knowledge, tax complexity, and tax compliance in Amhara Regional State of Ethiopia using a cross-sectional survey research design and a qualitative research approach. Song assumed that taxpayers are rational economic evaders who likely would assess the costs and/or benefits of evasion.

The tax compliance determinants associated with economic factors such as tax rates, tax audits and perceptions of government spending (Palil, 2010) are discussed as follows; previous studies examined the relationship of tax rate and tax compliance. Moreover, filling the gap in the study was to investigate determinant of tax revenue in Ginjo guduru sub - city.

1.3 Research Question

In order to address the researcher seeks to answer the following questions:

- What is the effect of tax audit practice on tax revenue in sub-city?
- What is the effect of tax fairness on tax revenue in sub-city?
- What is the effect of tax payers' knowledge on tax revenue in sub-city?
- What is the effect of social and economic instability on tax revenue in sub-city?
- What is the effect of tax system complicity on tax revenue in sub-city?

1.4 Objectives of the Study

1.4.1 General Objective of the study

The main objective of the study was to identify the determinants of tax revenue in Jimma town, the case of Guduru guduru sub - city.

1.4.2 Specific Objective of the study

The specific objectives of this study were**:**
  i.   To determine the effects of tax audit practice on tax revenue in sub-city.
  ii. To identify the effects of tax fairness on tax revenue in sub-city.
  iii. To examine the effects of tax payers' knowledge on tax revenue in sub-city.
  Iv. To analyze the effects of social and economic instability on tax revenue in sub-city.
  V.   To assess the effects of tax system complicity on tax revenue in sub-city.

1.5 Significance of the study

The study was conducted determinants of tax revenue in sub- city. The study helps different stake holders for different reasons as listed below; among these provide the information to the other researcher for future research that is similar or related with this study, Ethiopian government will be benefited in making policy measures under taken, Jimma town revenue authority will be benefited in increasing its performance in tax collection and future policy recommendations and the researcher will be benefited for the fulfillment of master's degree requirement. In addition, it is expected to help serve as an input for the upcoming researchers

to further investigate the points under considerations. Moreover, this study was contributed additional knowledge to the profession by presenting the results with respect to the variables.

1.6 Scope of the study

The study delimited itself by focused on the determinants of tax revenue in Jimma town. The study targeted tax payers of sub- city concerned in tax revenue. Different variables are chosen these are tax audit practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity is selected as independent variables and tax revenue as dependent variable in this study. The variables are selected owing to their ability to effect the level of tax revenue.

1.7 Limitation of the study

The researcher faced the following limitations while conducting the research; limited access of related study and respondents to give accurate information.Because of the scarcity of budget and time, the researcher collect sample from sub- city tax payer respondents only. Therefore, the study did not cover all sub-city tax payers.

1.8 Organization of the study

The research proposal contains five chapters. the first chapter deal with the introduction part such as; background of the institution , background of the study, statement of the problem, objective of the study, scope of the study, significance of the study, and organization of the study. The second chapter discusses the literature review. The third chapter is about the methodology of the research design .The fourth chapter deal about data result and discussion and fifth chapter all about summary of major finding, recommendation and conclusion.

CHAPTER TWO

Literature Review

2.1 Theoretical Aspects

2.1.1 Meaning and Definition of Taxation

Various authorities and professionals in several ways have defined tax. Conceptually, taxes are a compulsory contribution made by individuals and corporate bodies to the government of a given country with a view to complementing and/or providing income for the government (Aguolu, 2002). Taxes are a form of compulsory levy imposed by the government or other tax raising body, on income, expenditure, or capital assets for which the taxpayer receives nothing in return (Lymer and Oats, 2009; Anyaduba, 2006). The fact that the taxpayer may not receive anything in return for the tax payments differentiates taxes from other compulsory payments like charges, tolls, or other levies for which the payer expects specific and/or commensurate services (Ogbonna, n.d; Palil, 2010). The taxpayers only expect to have the benefit of living in a relatively educated, healthy and safe society (Fagbemi, et al., 2010), like every other members of the same society, whether taxpaying or not. In a democracy, the government has to take the approval of a majority of the representative of the people. Taxes have a compulsory aspect. Thus, they imposed a sacrifice on them. A tax is a compulsory levy payable an economic by a unit to the Government without any corresponding entitlement to receive definite and direct benefits from government. The benefits received by taxpayers from the government are not related to or based upon there being taxpayers. According to Bilquees (2016), a tax is a generalized exaction that may be levied on one or more criteria upon individuals, groups of individuals, or other legal entities. It may be noted that public receipt containing an element of compulsion does not automatically become a tax. We can also mention the case of 'special assessment', which is a kind of a special charge levied on certain members of the community who are beneficiaries of certain government activities or public projects. And certain common features of tax such as (1) it is a contribution whereby purchasing power is diverted from the hands of the people to the coffers of the State (ii) its proceeds are utilized for the common purpose and the taxpayers

derived no direct benefit in paying taxes, (iii) the extent of the levy does not depend upon the benefits derived from government expenditure by the tax - payment; and (iv) its main object is to raise revenue for the government. Taxes, by one definition, are compulsory levies without a quid pro quo. Most governments have wide powers to levy and collect taxes. Yet, the nature, extent and distribution of these powers between the different branches of government have a variety of patterns. There are not relatively few works, which treat this, subject comprehensively nor are comparative descriptions of current country practice widely available. The benefits received by taxpayers from the government are not related or based upon there being taxpayers. A tax is a generalized exaction, which may be levied on one or more criteria upon individuals, groups of individuals, or other legal criteria. The distinction between tax and non-tax ravenous of the Government is not watertight there are some borderline cases which pertain to certain fees and charges levied in connection with a specific services or activity. Sometimes, it is difficult to distinguish between a fee and a tax.

2.1.2 The benefit theory of taxation

According to this theory of taxation by Cooper (1994), citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the Government. This theory is based upon the assumption that there is an exchange relationship or quid pro quo between the tax payer and Government (Feinstein, 2008).

The assumption state that if SS is the supply curve of state services it is assumed that production of social goods is linear and homogenous. DDa is the demand curve of taxpayer A, and DDb is the demand curve of taxpayer B. The vertical summation of the two demand curves results in the community's total demand schedule for state services. A and B pay different proportions of the cost of the services. When ON is the amount of state services produced, A contributes NE and B contributes NF; the cost of supply is NG. Since the state is non-profit, it increases its supply to OM. At this level, A contributes MJ and B contributes MR (the total cost of supply). Equilibrium is reached at point P on a voluntary-exchange basis.

Under the benefit theory, tax levels are automatically determined, because taxpayers pay proportionately for the government benefits they receive. In other words, the individuals who benefit the most from public services pay the most taxes. Income tax, property tax and sales tax all reduce how much money consumers have to save or spend. Business taxes place some of the burden on commercial enterprises (Lewis, 2012). According to this theory, the state

should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government.

This principle has been subjected to severe criticism on the following grounds The world over, taxes is one major source of government revenue, however, not every national government have been able to effectively exploit this great opportunity of revenue generation. This can be attributed to a number reasons including the system of taxation; tax legislation; tax administration and policy issues; over reliance on other sources of revenue (such as foreign aid and grants); corrupt practices in the system – especially as it relates to the system of tax collection and behavior of citizens towards tax payment; and ease of tax payment (Thornhill, 2007).

2.1.3 Equal Sacrifice Theory of taxation

The theory Equal in taxation by Young (1987) is important for both principled and practical reasons. Citizens have, in general, the right to expect "fairness" in public policy, including taxation. As well, since tax systems perceived to be "unfair" tend to be resisted with special intensity, such tax systems tend to generate less revenue, and have higher administrative costs, than tax systems that are perceived to be "fair." However, it is not immediately obvious what a "fair" tax system would look like. Section of this paper, therefore, begins with four real-world tax examples rationalized by differing concepts of "equity (Alm, 2011).

The concept of tax equity states that people with different amounts of wealth and different amounts of income should pay taxes at different rates (Milliron, 2006). Ability to pay, the dominant theory of taxation, is usually interpreted in terms of sacrifice. It is held to justify progressive taxation under any one of three possible interpretations of sacrifice: the equal, equal-proportional, and least-sacrifice theories. These theories rest in turn on three assumptions: the declining marginal utility of money with an increase in its supply, the existence of sacrifice. Analysis discloses each of these supports to be defective and thereby breaks down the theory of ability to pay.

Equal absolute sacrifice (where e each taxpayer surrenders the same absolute degree of utility that he obtains from his income).Equal proportional sacrifice (where each sacrifices the same proportion of utility he receives from his income).Equal marginal sacrifice (where each gives

up the same utility from the last unit of income): It is often used to justify progressive taxation (Torgler, 2001).

This researcher explores how to think about fairness in relation to taxation. It seeks to make a paradigm shift, moving away from assuming the rationality and neutrality of the disciplines involved in creating the theory and practice of tax. Instead it argues for investigating tax practices and associated discourse as a social organization. I use feminist method and scholarship to problem realizes rationality and neutrality and argues that we need to seek fairness in relation to the everyday realities of people's lives (Somasundram, 2003).

According to Harris (2009)'s theory, equity or fairness in taxation demands that an individual should be asked to pay a tax in proportion to the benefits he receives from the services rendered by the Government. However, there are some difficulties in application of this theory. The most crucial problem faced by benefits received approach is that it is difficult to measure the benefits received by an individual from the services rendered by the Government.

Ahmed (2011) argues that the tax system department of revenue in Somaliland fills its role in equitable taxation in two broad ways: 1) by equalizing the value- action of property under the law and 2) by ensuring proper compliance with state taxes. The Department determines the classification of property and assesses its value directly. In this regard, the quality of the Department's classification and valuation practices largely determines the degree of equity in property taxes. In contrast, state taxes are generally self-assessed by taxpayers, with the Department checking compliance and correcting instances of non-filing or underreporting after the fact. For state taxes, the initial quality of taxpayer filing combined with the effectiveness of the Department's compliance activities determines the degree of equity achieved (Mohamed, 2013).

It is difficult to determine how the Fair Tax will affect the economy of Somaliland. If the Fair Tax act is ever passed, implementation would need to be slow and consistently evaluated. Perhaps the best approach is a gradual shift from income tax to the Fair Tax. Alternatively, perhaps a small region could be used as a test market to iron out the problems. The scale of the change alone would probably make this plan unworkable unless a great deal more research is done(inland revenue department of Somaliland) (Samatar, 2012).

Taxes must not only be fair they must also be seen to be fair if the taxpaying public is to find them acceptable. There is also a greater tendency for tax evasion when the tax system is perceived to be inequitable; it is often said that if there is widespread tax evasion, then it is

the system of taxation that is at fault, and not the taxpayer (Wartick, 2004). There are two types of equity to be considered. Vertical equity would require the rich to pay more than the poor, which advocates a progressive system of taxation. Horizontal equity is easier to achieve through the tax system than vertical equity, as there are different attitudes as to what is a necessary degree of inequality. Equity is concerned with the distribution of the tax burden. Equity means a tax system should be fair among individuals and taxes should be levied based on taxpayers' capacity. Horizontal equity means that taxpayers with the same income or wealth should pay the same amount of tax (tax burden) while vertical equity means that taxpayers with high income (capacity) should pay higher tax burden (Lymer, 2009).

2.1.4 Ability Theory

The ability-to-pay theory is one of the main theories of taxation. According to the theory, taxes should be based upon the amount of money people earn. For example, it is therefore assumed that Ability-to-pay taxation requires higher-earning individuals to pay a greater percentage of their income towards taxes, compared to individuals with lower incomes. The tax rate increases as a percentage along with income. For example, as of 2016, in the United States, taxable income up to N9,275 incurs a 10% income tax, while earnings over N415,050 face a 39.6% income tax rate. Earnings between those amounts face tax rates as set by income brackets. Remember, governments impose taxes to pay for services, like public schools, roads, police, and governance (Richardson, 2008).

Governments impose taxes to pay for their operations and state services. But how do governments decide how to use a system of taxation to charge taxpayers for those services? One of the most common theories of how people should pay taxes is the ability-to-pay theory of taxation (Milliron, 2006).

Torgler (2007) argues that the ability- to-pay theory of taxation does not take into consideration the amount of these services that taxpayers actually use. For instance, all taxpayers contribute to public schools, even if they do not have any kids in a school system. The ability to pay is another criterion of equity or fairness in taxation. This theory requires that individuals should be asked to pay taxes according to their ability to pay.

The rich have greater ability to pay; therefore they should pay more tax to the Government than the poor (Lowes, 2012). Essentially, the ability to pay approach to fairness in taxation requires that burden of tax falling on the various persons should be the same. In the

discussion of various characteristics of a good tax system, we mentioned about the two concepts of equity, namely horizontal equity and vertical equity based on the principle of ability to pay. According to the concept of horizontal equity, equals should be treated equally, that is, persons with the same ability to pay should be made to bear the same amount of tax burden. According to the vertical equity, the unequals should be treated unequally, that is, how the tax burden among people with different abilities to pay (Terkper, 2007).

In both these concepts of equity, what exactly do we mean by ability to pay and what are the objective measures of ability to pay are crucial. Some have explained the ability to pay treating it as a subjective concept. Others have treated the ability to pay in terms of some objective bases such as income, wealth, consumption expenditure etc. We shall explain below both these approaches to the measurement of ability to pay (Wenzel, 2004).

The ability-to-pay principle in taxation maintains that taxes should be levied according a taxpayer's ability to pay. This progressive taxation approach places an increased tax burden on individuals, partnerships, companies, corporations, trusts and certain estates with higher incomes. The theory is that individuals who earn more money can afford to pay more in taxes. Ability-to-pay taxation requires that higher earning individuals pay a higher percentage of income towards taxes. The tax rate increases as a percentage along with income (Torgler, 2007).

2.1.5 Classification of tax payers

All legal entities are required to register their financial activities in the books of journal and ledger as prescribed in the Commercial Law and are obliged to keep their accounting books and the relevant supporting documents in accordance with the accepted accounting principles and standards. According to Ethiopian proclamation number 285/2002, taxpayers are classified into three major categories based on the type of their legal obligations for records keeping: Category "A" Taxpayers, Category "B" Taxpayers and Category "C" Taxpayers.

Category "A" Taxpayers:

As of Ethiopian Tax Proclamation, 285/2002 "Category A" taxpayers as any company incorporated under the laws of Ethiopia or in a foreign country and any business having an annual turnover of Birr1,000,000 or more, have the obligations to recording their business activities in the books of journal & ledger and keeping the supporting documents. They are required to submit Balance sheet, profit & loss statement incorporate gross profit and the

manner in which it is computed, general and administrative expense, depreciation expenses, provisions, and reserves to the Revenue Authority at the end of the year.

Category "B" Taxpayers:

Unless not already classified in category "A", any business having an annual turnover of over

Birr500, 000 would be classified under Category "B" taxpayers. This category of taxpayers should submit to the Revenue Authority profit and loss statement at the end of the year similar to category 'A' taxpayers.

Category "C" taxpayers

Category C includes owners of businesses, which are not subject to the obligations of Categories

"A" and "B", and businesses whose annual turnover is estimated up to Birr500,000 are classified under this category of taxpayers. A standard assessment method should be used to determine the income tax liability of category C taxpayers. The taxpayer should pay the tax determined in accordance with standard assessment (ECC 2005).

2.1.6 Principles of taxation

A tax system (that is, the set of all taxes) for achieving certain objectives chooses and adheres to certain principles, which are termed its characteristics. A good tax system therefore, is one of which designed based on an appropriate set of principles, such as equality and certainty (Charles, 2012). Mostly, however, objectives of taxation conflict with each other and a compromise is needed. Therefore, usually economists select some important objectives and work out the corresponding principles, which the tax system should adhere to. Adam smith (which he called Cannons of Taxation) enunciated the first set of such principles Canons of Taxation. The four canons of taxation as prescribed by Adam Smith are the following:

 (1) Canon of Equality: This canon proclaims that a good tax is that which is based on the principle of equality (Edward & Wilson, 2015). In other words, subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion of their respective abilities, that is, in proportion to the reserve which they respectively enjoy under the protection of the State. It implies what the income, which a person enjoys under the protection of the State, should be taxed on the proportional rate of taxation. However, modern

economists do not agree with Adam Smith. They advocate progressive taxation to observe the canon of equality. In other words, they advocate progression should be the basis for imposing taxes.

(2) Canon of Certainty: This canon is meant to protect the taxpayers from unnecessary harassment by the 'tax officials. It implies that the taxpayer should be well informed about the time, amount and the method of tax payment. According to Dorsati and others (2016) "the tax, which each individual is bound to pay, ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor and to every other person and the government must also be certain of the amount, which it derives from a particular tax." Thus, this canon is equally important for both the individual and the state.

(3) Canon of Convenience: The third canon of Adam Smith is that of convenience. According to Michelle and Edward (2017) "every tax ought to be so levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it." In other words, taxes should be imposed in such a manner and at the time, which is most convenient for the taxpayer, i.e., the best time for the collection of land revenue is the time of harvest. Similarly, taxes on rent of houses should be collected when it is most convenient for the contributor to pay.

(4) Canon of Economy: The fourth canon is the canon of economy. This canon implies that the administrative cost of tax collection should be minimum, i.e., the difference between the money, which comes out of the pockets of people and that which is deposited in the public treasury, should be as small as possible. According to Sen (2016), administrative cost of tax collection should be minimum because levying of a tax may require a great number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose pre-requisites may impose another additional tax upon the people. Hence, the administrative cost should be minimum.

(5) Canon of Productivity: The canon of productivity advocated by Bastable implies that taxes should be productive. The productivity of a tax may be observed in two ways. In the first place, a tax should yield a satisfactory amount for the maintenance of a government. In other words, the tax should be such that it procures a considerable amount of revenue for the expenditure of the government, Secondly, the taxes should not obstruct and discourage production in the short as well as in the long run.

(6) Canon of Elasticity: Bastable also laid stress on the principle of elasticity. The canon of elasticity implies that yields of taxes should be increased or decreased according to the needs of the government. The government may need funds to face natural calamities and other unforeseen contingencies. It may need funds to finance a war or for development purposes. The government resources can be raised quickly only when the system is elastic.

(7) Canon of Diversity: The canon of diversity put forward by Bastable implies that the tax system should be diverse in nature. In other words, in a tax system, there should be all types of taxes so that everyone may be called upon to contribute something towards the revenues of the state. Thus, the governments should adopt multiple tax system.

(8) Canon of Simplicity: The canon of simplicity implies that the taxpayer should easily understand a tax, i.e., its nature its aims, time, of payment, each taxpayer should easily follow method and basis of estimation. In other words, the tax imposed on the taxpayers should be so simple that they are able to guess easily the aim of its imposition and they are not confronted with accounting, administrative or any other difficulties.

(9) Canon of Expediency: This canon implies that the possibilities of imposing a tax should be taken into account from different angles, i.e. its reaction upon the taxpayers. Sometimes it is seen that tax may be desirable and may be productive and may have most of the characteristics of a good tax, yet the government may not find it expedient to impose it, for example, progressive agricultural income tax, but it has not been imposed. So far, in the manner it should have been imposed.

2.1.7 Characteristics of good tax system

(1) Tax is a Compulsory Contribution: A tax is a compulsory payment from the person to the Government without expectation of any direct return. Every person has to pay direct as well as indirect taxes. As it is a compulsory contribution, no one can refuse to pay a tax on the ground that he or she does not get any benefit from certain public services the government provides.

(2) The Assesses will be required to pay: Tax if is due from him No one can be forced by any authority to pay tax, if it is not due from him. Suppose, if there is a tax on liquor, the state can force an individual to pay the tax only when he drinks liquor. However, if he does not drink liquor, he cannot be forced to pay the tax on liquor. Similarly, if an individual's income is below the exemption limit, he cannot be forced to pay tax on income.

(3) Taxes are levied by the Government: No one has the right to impose taxes. Only the government has the right to impose taxes and to collect tax proceeds from the people.

(4) Common Benefits to All: The tax, so collected by the Government, is spent for the common benefit of all the people. In other words, when the government collects a tax, its proceeds are spent to extend common benefits to all the people. The Government incurs expenditure on the defense of the country, on maintenance of law and order, provision of social services such as education, health etc. Such benefits are given to all the people-whether they are taxpayers or non-taxpayers. These benefits satisfy social wants. Nevertheless, the Government also spends on subsidies to satisfy merit wants of poor people.

(5) No Direct Benefit: In the modern times, there is no direct relationship between the payment of tax and direct benefits. In other words, there is absence of any benefit for taxes paid to the Governmental authorities. The government compulsorily collects all types of taxes and does not give any direct benefit to taxpayers for taxes paid. For example, when taxable income is earned by an individual or a corporation, he or it simply pays the tax amount at the specified rate cannot demand any benefit against such payment.

(6) Certain Taxes Levied for Specific Objectives: Though taxes are imposed for collecting revenue for the government to meet expenditure on social wants and merit wants, certain taxes are imposed to achieve specific objectives. For example, heavy taxes are imposed on luxury goods to reduce their consumption so that resources are directed to the production of essential goods, such as cheaper variety of cloth, less costly goods of mass consumption, etc. Thus, taxes are levied not only to earn revenue but also for diversion of resources or saving foreign exchange. Certain taxes are imposed to reduce inequalities of income and wealth.

(7) Attitude of the Taxpayers: The attitude of the taxpayers is an important variable determining the contents of a good tax system. It may be assumed that each taxpayer would like to be exempted from taxpaying, while he would not mind if other bears that burden. In any case, he would want his share to be within the general level of tax burden being borne by others. In other words, it is essential that a good tax system should appear equitable to the taxpayers. Similarly, overall burden of the tax system is of equal importance. The attitudes of the taxpayers in this regard are influenced by a host of other factors like the political situation such as war or peace, natural calamities like floods and droughts, economic situations like prosperity or depression and so on.

(8) Good tax system should be in harmony with national objectives: A good tax system should run in harmony with important national objectives and if possible, should assist the society in achieving them. It should try to accommodate the attitude and problems of taxpayers and should also take into consideration the goals of social and economic justice. It should also yield adequate revenue for the treasury and should be flexible enough to move with the changing requirements of the State and the economy.

(9) Tax-system recognizes basic rights of taxpayers: A good tax system recognizes the basic rights of the taxpayers. The taxpayer is expected to pay his taxes but not undergo harassment. In other words, the tax law should be simple in language and the tax liability should be determined with certainty. The mode and timings of payment should be convenient to the taxpayer. At the same time, a tax system should be equitable between taxpayers. It should be progressive and burden of taxation should be equitable on all the taxpayers.

2.1.8 Major Types of Taxes in Ethiopia

The major types of taxes that exist in Ethiopia, their meaning, rates and conditions, as provided by the Federal Inland Revenue Authority, are presented as follows:

1. Value Added Tax (VAT): This is a sales tax based on the increase in value or price of product at each stage in its manufacture and distribution. The cost of the tax is added to the final price and is eventually paid by the consumer. The rate and impose of VAT:

a. The rate of VAT is 15% of the value for every taxable transaction by a registered person, all imported goods other than an exempt import and an import of services;

b. The export of taxable goods or services to the extent provided in regulations for zero tax rate are:

c. The export of goods or services to the extent provided in the regulation; The rendering of transportation or other services directly connected with international transport of goods or passengers, as well as the supply of lubricants and other consumable technical supplies taken on board for consumption during international flights; The supply of gold to the National Bank of Ethiopia; and A supply by a registered person to another registered person in a single transaction of substantially all of the assets of a taxable activity or an independent functioning part of a taxable activity as a going concern, provided a notice in writing, signed by the transferor and transferee, is furnished to the authority within 21 days after the supply takes place and such notice includes the details of the supply.

2. Excise Tax: This is imposed and payable on selected goods, such as, luxury goods and basic goods, which are demand inelastic. In addition, it is believed that imposing the tax on goods that are hazardous to health and which are cause to social problems will reduce the consumption thereof. Excise tax shall be paid on goods mentioned under the schedule of 'Excise Tax Proclamation No. 307/2002'(a) when imported and (b) when produced locally at the rate prescribed in the schedule. Computation of excise tax is applied (a) in the case of goods produced locally, production cost and (b) in the case of imported goods, cost, insurance and freight /C.I.F. /. Payment of excise tax for locally produced goods is by the producer and for imported goods by the importer. Time of payment of excise tax for imported goods is at the time of clearing the goods from the customs area, and for locally produced goods, it is not later than 30 days from the date of production.

3. Turnover Tax: This is an equalization tax imposed on persons not registered for value-added tax to fulfill their obligations, also to enhance fairness in commercial relations, and to complete the coverage of the tax system. Administrative feasibility considerations limit the registration of persons under the value-added tax to those with annual transactions to the total value exceeding 500,000 Birr. Rate of turnover tax is 2% on goods sold locally and 10% on others; as provided by the 'Excise Tax Proclamation No. 307/2002'

4. Income Tax: Income taxable under the Ethiopian 'Income Tax Proclamation No. 286/2002' shall include, but not be limited to: Income from employment; Income from business activities; Income derived by an entertainer, musician, or sports person from his personal activities; Income from entrepreneurial activities carried out by a non-resident through a permanent establishment in Ethiopia; Income from movable property attributable to a permanent establishment in Ethiopia; Income from immovable property and appurtenances thereto, income from livestock and inventory in agriculture and forestry, and income from usufruct and other rights deriving from immovable property that is situated in Ethiopia; Income from the alienation of property referred to in (e); Dividends distributed by a resident company; Profit shares paid by a resident registered partnership; Interest paid by the national, a regional or local Government or a resident of Ethiopia, or paid by a non-resident through a permanent establishment that he maintains in Ethiopia; License fees including lease payments, and royalties paid by a resident or paid by a nonresident through a permanent establishment that he maintains in Ethiopia.

5. Business profit tax: Taxable business income of bodies is taxable at the rate of 30%, Taxable business income of other taxpayers shall be taxed in accordance with the following expenses:

2.1.9 Determinants of tax revenue

Agumas, A.L. (2016) argued that revenue is an income collected by public authorities (Federal, State and Local Government) from persons or body to finance expenditure. It is an income required by government to finance its growing expenditure. According to Ojo, O.D. (2016), tax revenue is a levy imposed by the government on the income and profit of individuals and companies respectively. According to Fave & Dabari (2017) cited in Agumas, A.L. (2016), taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income. This reflects that tax revenue is a compulsory levy imposed by the government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits petroleum profits, capital gains and capital transfer (Ojo, O.D. 2016). Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security.

A. Tax Audit on Revenue Collection

Revenue collection is the process of collecting state fees, charges, excise duties, customs, taxes, and other revenue sources, and depositing them to the state account. On the other side, tax reassessment is the process of examining the tax revenues to ensure tax compliance. Tax reassessment has an impact on revenue collection by encouraging taxpayers to comply with the tax acts and regulations. Tax audit is one of the measures that influences taxpayers' behavior, thus determines the level of tax compliance (Mebratu, 2016). In other words, tax reassessment improves voluntary tax compliance.

If taxpayers know the law well and are prepared to pay the tax they are required to pay, then tax revenue will rise. The reason behind this is that the taxpayers must report all their sources of revenue to the tax agency under the compliance principle. Therefore, tax audit can improve a state revenue collection by increasing the taxpayer's compliance rate. The second purpose of tax reassessment is ensuring the accuracy of tax returns submitted by taxpayers. It means tax audit increases revenue collection by collecting tax interests and penalties where

taxpayers could not pay the expected tax amounts on time. The third purpose of tax audit is minimizing tax dodging, and tax avoidance. Tax reassessment is a process of establishing, and maintaining a strong mechanism based on which a tax agency can deal well with tax avoidance techniques of taxpayers (Badara, 2012).

Nowadays, the role of tax reassessment in tax agencies is minimizing the tax avoidance and under reporting of taxes (Biber, 2010). According to Ramachandran (2004), the main aim of tax reassessment is determining the level of tax compliance, and decreasing tax evasion. A study by Harelimana in 2018 shows a tax audit increases revenue collection. It means if a tax agency conducts more tax reassessment, the agency will collect more tax revenues. Therefore, tax audit can positively affect revenue collection. It affects revenue collection directly through reassessment of tax returns, and improving the tax compliance with the tax laws, and indirectly through minimizing tax avoidance and tax evasion.

B. Tax knowledge and awareness

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. Tax knowledge as one of the factors influencing tax compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply. Through taxpayer education, the taxpayer is aware of the rights, obligations and the procedures of paying taxes as well as the consequences of non-compliance (Machogu & Amayi, 2013). The level of education received by taxpayers is an important factor that can contribute to the understanding of tax requirements, especially regarding registration and filing requirements (Maseko, 2015). Therefore, understanding tax payers' knowledge and compliance behavior is an important issue for any government and tax collecting authority particularly in a self-assessment environment (Redae & Sekhon, 2016). There is significant negative effect of tax awareness and the likelihood of misreporting (Alstadsæter et al., 2013). Furthermore, studies conducted by different researchers such as Ahmed (2013), Palil (2010), Beesoon, et al. (2016), Ndekwa (2014), Geletaw (2017), Lemessa (2007) and

Saad (2014) showed that tax knowledge and education has a negative and significant impact on tax compliance; when there is an improvement in educational background of the taxpayer, a decline in tax compliance attitude could be expected. However the study of Tadesse and

Goitom (2014), Ahmed & Kedir (2015) and Ahmed (2013) indicated that tax knowledge was not significantly correlated with tax compliance.

According to different findings, there exists a significant positive relationship between tax knowledge and tax compliance which implies that positive improvement of taxpayers' knowledge will lead to improved tax compliance (Mukasa, 2011; Agbadi, 2011; Oladipupo & Obazee, 2016; Palil & Mustapha, 2011; Waithira, 2016; Inasius, 2015; Razak & Adafula, 2013; Mansor, 2016; Oladipupo & Obazee, 2016; Muoki et al., 2014; Osebe, 2013; Tilahun, 2016; Ali, 2018; Daba, 2017). This suggests that taxpayers' higher understanding of tax matters can compel them to satisfy their tax obligation and thence do away with nonpayment tendencies. But, the study of Ahmed (2013) in Jimma town suggested that tax knowledge found to have a negative effect on compliance. This implies that those who have high tax knowledge found to be less compliant.

C. Complexity of Tax System

Tax system ought to be as easy as possible for the rationale that taxpayers are from varied background, with totally different level of education, earning level, various culture and different tax awareness. In serving to taxpayers to complete the tax returns accurately, the tax authority needs to have a simple, but sufficient, tax return (Ahmed & Kedir, 2015). This is because simplicity of tax returns and administration has positive and significant relationship with tax compliance (Agbadi, 2011). Tax payers' levels of understanding of tax laws are positively correlated to a significant degree with their tax compliance decisions (Razak & Adafula, 2013). In contrary, complexity of tax system negatively affecting tax compliance decision (Jayawardane & Low, 2016) and upsurges the possibility of misreporting of tax burden (Alstadsæter, et al., 2013; Sawyer et al., 2014). Therefore, reduced complex filing procedures had a positive marginal coefficient which suggested that an increase in this variable marginally increases the probability of a tax payers being tax compliant (Nelson, 2015).

Most of the time taxpayers not only find it difficult to file their own tax returns correctly but also perceive tax law complexity and ambiguity as causes of tax (Erich, et.al 2006).

Grant (2006) by taking data from 45 countries and applying Ordinary Least Square (OLS) regression analysis concluded that complexity is the most important determinant of tax evasion. Torgler and Schaffner (2007) argue that complexity may result in unintentional non-

compliance if taxpayers have problems filing the tax form. Moreover, complexity can reduce the moral costs of non compliance.

Reza, et.al (2011) concludes that excess of tax laws and their continuous adjustments and volatility in performance and performance of laws make tax system more complex which make tax collection more difficult.

D. Fairness and equity of tax system

Ahmed & Kedir (2015) express as tax fairness square measure typically seen from two angles: equity of trade, that's expounded with the profit received from paid tax and also the alternative is equity in reference to burden of liabilities compared to alternative tax payers.

Perceived tax fairness referred to as those activity aspects that utterly have an impact on the taxpayers' decision to conform. A remunerator of United Nations agency perceives the tax to be truthful is predicted to obey diligently (Mukasa, 2011). Tilahun & Yidersal (2014), Maseko (2015), Gerger, et al (2014), Aemiro et al. (2014), Desta (2010), Sawyer etal. (2014), Barineka Gberegbe, idornigie, & Okorite Nkanbia-Davies (2015) and Paper et al. (2016) also confirmed that perception on equity and fairness of the tax system is the factor that significantly affect tax compliance behavior equity and fairness of the tax system is statistically significant to affect tax compliance levels. But, in the studies conducted by

Ahmed (2013), Benk, Cakmak & Budak (2011), Tadesse and Goitom (2014) and Agbadi (2011) it was indicated that the relationship between the equity perceptions of the taxpayers and their tax compliance intention is not statistically significant.

Perceived tax fairness was found to have a positive and significant relationship with tax compliance. These findings imply that positive improvement of perceptions of fairness about taxes will lead to improved tax compliance (Mukasa, 2011). Therefore, the foremost obvious demand of equity or fairness is to treat equal individuals in equal circumstances in an equal method. Similarly, the studies conducted by Paper et al. (2016) in Rwanda and Geletaw (2017) in Addis Ababa City revealed that the equity and fairness of the tax system is positively and statistically important to have an effect on tax compliance levels in formal sector.

E. Social and economic instability

Perception of the government Spending

Government's legitimacy, the government's efficiency and the government's credibility influence taxpayers' compliance and thus determine the tax revenue the government can raise. Taxpayers can estimate the fair terms of trade between their private consumption and government provision of public goods (Ahmed & Kedir, 2015). Tax service quality and government spending priorities greatly affect tax payers compliance decisions (Maseko, 2015). In other words, taxpayers' assessment of the government in terms of accountability, probity, proper management, transparency and others virtues equals the level of compliance that should be expected.

Similarly, Paper et al. (2016), Palil & Mustapha (2011), Tilahun & Yidersal (2014), Ahmed & Kedir (2015) and Jayawardane & Low (2016) revealed that perception on government spending is factor that positively and significantly affect tax compliance behavior. But, the study of Razak & Adafula (2013), Agbadi (2011), Ahmed (2013) and Tadesse and Goitom (2014) discovered that the level of governmental accountability and transparency and perception of government spending did not significantly impact taxpayers' attitudes. This means that the levels of accountability and transparency in governance are matters that taxpayers have less regard for in their compliance decisions. The findings of Diana et al. (2015) indicated that goal congruence influences taxpayer compliance decisions in that those with higher goal congruence (i.e. larger support for a way tax bucks are spent) report higher amounts of taxable income. The study conducted by Aronmwan, et al. (2015) and Modugu & Anyaduba (2014) in Nigeria showed that the positive perception of taxpayers' towards the government of the day has a significant positive impact on how they comply with personal income taxation.

Tax rate

Regarding tax rate different scholars found different results. Some of them found a positive relationship between tax rate and tax compliance others found that negative relationship. Both findings have empirical support. Reza, Hadi and Hamid (2011), Feinstein, (1991) and AIm et al. (1993) also find inverse relationship between marginal tax rates and tax evasion. As one can see from the findings of different scholars the effect of tax rates on compliance remains unclear. It surely deserves further investigation.

Kirchler, Hoelzl, and Wahl (2008) claimed that the impact of the tax rate depends on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers. When trust is high, the same level of tax rate would be taken as contribution to the community.

Tax rate refers to the rate at which a business or person is taxed on income and it also refers to the rate of tax on goods and services (Muoki et al., 2014). Helhel & Ahmed (2014) pointed out that high tax rates is one of the crucial factors associated with low compliance. This implies that high tax rate reduces taxpayer compliance level. This is confirmed with the finding of Abdulsalam Mas'ud (2014) that states there is significant negative correlation between tax rate and tax compliance in Africa. Ahmed (2013) studied determinants of tax compliance in Jimma town, Ethiopia using binary logistic regression analysis and the result suggests that tax rate found to be a significant determinant of tax compliance and have a negative relationship with tax compliance. This implies that a tax rate which is perceived as heavy, unfair, and inequitable discourages taxpayers to comply with the tax rules and regulation. This is similar with the study of Inasius (2015) which was conducted on tax compliance of small and medium enterprises Indonesia and the result demonstrated as the income tax rate is negatively correlated with tax compliance.

The findings of Ali (2018), Aronmwan, et al. (2015), Alstadsæter, et al. (2013) and Waithira (2016) found that tax rate has positive and significant effects on income tax compliance. This implies that when taxpayers develop a positive affinity for tax administrators (likely because of proper fund management and utilization), they are likely to comply when there is increase in tax rate because they have or receive value for the taxes paid. But, the study of Mansor (2016) on the factors affecting tax evasion in Gombe state, Nigeria showed that tax rate positively but not significantly effects tax evasion. This is similar with the finding of Agbadi (2011) that tax rate was not significantly correlated with tax compliance.

Anware M. (2014) on the tit le Determinants of tax revenue performances in Ethiopia as mini research for Partial Fulfillment of the Requirements for the course Professional Training Program for Economists (a Case Study in Ethiopian Revenues and Customs Authority) the researcher used time series data set that consists of 21 years. For the time period covered 1990/91 to 2010/11with identifying six variable industry , agriculture, inflation, GDP per capital income, export and import he concluded that structural factors such as exports of

goods and services (% of GDP) and import of goods and service (% of GDP) significant ly affect tax revenue performance of Ethiopia.

Suresh V. & Srinivas G. on the tit le factors that influence rental tax payers' compliance wit h tax system: an empirical study of Mekelle cit y, Ethiopia with the objective of ident ifying factors that influence rental tax payers' and their degree or level of compliance with the tax system in Mekelle cit y. The researcher had drawn 140 sample sizes out of 5,480 total populations which constitute 37 rental tax payers from Hadnet, 41 from Hawelt i and remaining 62 from Kedamay weyane. The primary data were collected through structured questionnaire; the data were analyzed using the descriptive statistics like mean and standard deviations the researcher concluded that there were some dishonest rental tax payers. Some rental tax payers were intentionally understating their taxable income by substantial amounts. Even there are some individually who entirely don't report their taxable income to the concerned body. Consequently, there result in affecting the attitudes and compliance behavior of genuine rental tax payers towards the tax system. The study also disclosed that with the exception of minority of the rental tax payers who hold certificate and diploma, majority of them were wit h an educational background of elementary and high school completed. Hence, it can be concluded that rental tax payers lack knowledge of easily understanding the laws and regulations of the tax system and how their taxable income is computed. With respect to providing tax awareness training, it is the duty and responsibility y of the tax authority y to conduct a series training to the rental tax payers, especially for these whose educational background was elementary school and secondary school completed, However, the research indicated that majority y of the respondents didn't attain the tax training sessions. This may be either as a result of poor control and follow up mechanism of the tax authority y or due to lack of awareness of the rental tax payers.

2.2 Empirical reviews

Kazemi (Kazemi 2008) studied a multi-faceted fairness framework of taxation. He stated taxation fairness as not only related to the tax expenditure programme (distributive justice), but also to how tax decisions are made (procedural justice), how citizens are treated by the tax authorities/employees (interpersonal justice), and how tax decisions and the legislation are explained and justified to the citizens (informational justice).

Perception of fairness is mainly discussed as one of the determinant factor of tax compliance.

Jackson and Milliron (Jackson and Milliron, 1986), in their earlier review of 43 tax compliance studies undertaken from 1974 to 1985, identified fourteen key variables of compliance behavior, which include: age; gender; education; income level; income source; occupation; peer influence; ethics; fairness; complexity; tax authority contact; sanctions; probability of detection; and tax rates.

Several studies show that tax knowledge is considered as one of the most influential factor, which determine taxpayers' voluntary compliance or noncompliance behavior. Richardson (2006) study on 45 countries, found that complexity as the most important determinant of noncompliance, apart from education, income source, fairness and tax morale.

White (1990) and Sawyer (1996b), discussed the complexity scenarios preferred by various groups of tax professionals. Belay & Viswanadham (2016) also mentioned the complexity of the income tax system had benefited none other than the accountants and lawyers.

Studies in different countries show that in developed countries, about 90% of governmental expenses is provided with tax income and ratio of tax income to gross national production (GNP) is about 25-30%, while this ratio, in developing and specially undeveloped countries, is 28% and 5% respectively (Reza and et al ,2011). On the other hand, there have been a relatively few studies covered tax fairness issues in developing countries (Anna A. Che Azmi and Kamala A. Perumal 2008; Serkan Benk et al. 2012; Abubakari Abdul – Razak and Adafula 2013), including Ethiopia (Tessema 2015, Samuel Alemnew Belay and P. Viswanadham 2016), especially in the case of business profit tax system. Ethiopia like many developing countries suffers from tax revenue loss due to tax noncompliance.

Tessema (2015) who analyzed Addis Ababa business profit taxpayers' tax compliance behavior, identified that the taxpayers' tax compliance behavior significantly affected by tax knowledge, feeling of fairness, the influence of peer groups, income level of taxpayers and detection & punishments variables, while confidence in government spending doesn't have as such significant impact on tax compliance behavior of businesses.

A study conducted by G/Meskel (2011) on fairness perception of Addis Ababa business profit taxpayers and its impact on their fairness perception of the income tax system concluded that they perceived the system as unfair. The study showed that Addis Ababa City business profit taxpayers did not perceive positively in respect of general, vertical, personal, exchange, and administration fairness except horizontal fairness on the prevailing business profit tax system.

With regard to tax knowledge and complexity, the finding showed that, the taxpayers did not have sufficient knowledge and there were no easily understandable and vague procedures of the business profit tax system. The study also suggested improving tax policy and administration issues, educating the taxpayers' and creating awareness, and providing all necessary social service to the public, as well as maintaining the tax system fair and equitable.

Another study performed by Debere (2014) on Addis Ababa federal business taxpayers' satisfactions with the tax system also show dissatisfaction of the taxpayers'. The findings identified high compliance costs, a lack of clarity and access to information about tax regulations, arbitrary behavior of tax officials and a lack of transparency in the tax authority makes taxpayers unaware of their rights and exposes them to discretionary treatment by corrupt officers. In addition, the study found that taxpayer are encountered a lot of inconveniences, including from misconduct of the tax officers like an impersonal, insensitive and heartless bureaucracy and imbalance between location and accessibility of the tax office with number of taxpayer.

The study performed by Tulu (2007) on Dire Dawa City taxpayers' voluntary tax compliance finds out that, tax fairness and equity, organizational strength of the tax authority, awareness level of the taxpayers, socio-cultural factors, and provision of social services by the government as the main determinant of voluntary compliance in the city.

A study performed by Belay & Viswanadham (Belay & Viswanadham 2016) to evaluate the business income taxpayers' level of tax knowledge, perceived complexity of the income tax system and tax compliance issues in Amhara regional state of Ethiopia shows taxpayers' have inadequate technical knowledge and perceive the income tax system as complex. The result also revealed that tax knowledge and tax complexity as important factors towards non-compliance behavior among business income taxpayers'.

2.3 Conceptual Framework

A conceptual framework is a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Biklen, 2003). In conducting the study, a conceptual framework is developed to show the relationship between the independent variables and dependent variable. In this study, the dependent variable is tax revenue and the independent variables are; tax audit practice, tax fairness, tax payers' knowledge, social and economic instability and tax system complicity. The constructs and relationships between research variables are illustrated in the following figure 1.

Independent Variables   **Dependent Variables**
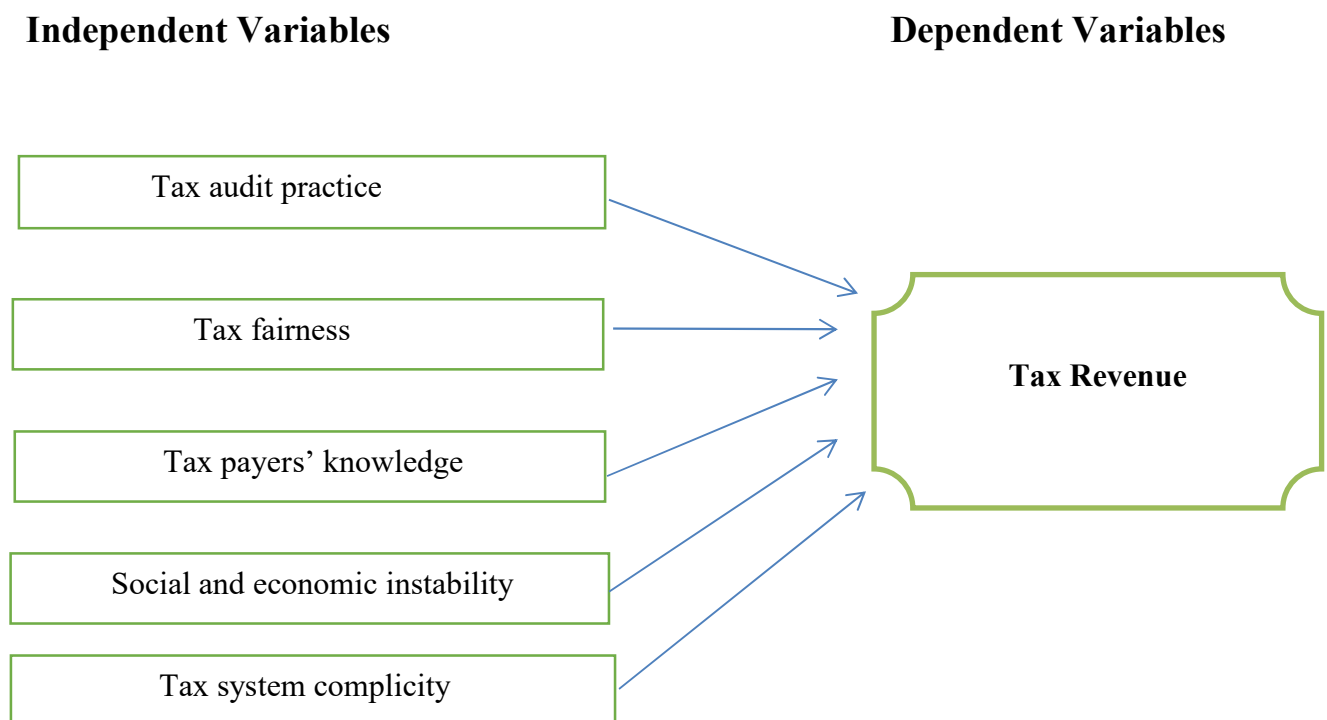
Figure 1: Conceptual Framework

Source: own developed from literature, 2021

CHAPTER THREE

Research Methodology

3.1 Research Design and Approach

Kothari (2004) stated that the research design is the conceptual arrangement within which the research conducted; it constitutes the blueprint for the collection, measurement and analysis of data. The general objective of this study is to examine the determinant of tax revenue in Jimma town, Ginjo guduru sub - city . This study adopted a quantitative research approach by using a primary data source. Quantitative approach uses statistical methods in describing patterns of behavior and generalizing findings from samples to population of interest, and employs strategies of inquiry such as experiments and surveys (Creswell 2003). Therefore, this research was adapted descriptive and explanatory (Cause and effect) research design to analyze the data. Adamset.al. (2007), states that explanatory research describes the phenomena as well as explains why behavior is the way it is. This research was applying descriptive and explanatory research design.

According to Kothari (2004), mixed research method is defined as the class of research welfare the researcher mixes or combines quantitative and qualitative research approaches. The quantitative research involves the generation of data in quantitative form which can be subjected to rigorous quantitative analysis in a formal and rigid manner. Qualitative research approach is concerned with subjective assessment of attitudes, opinions and behavior. For this particular research both quantitative and qualitative research approaches was used.

3.2 Target Population

Hair et al. (2010), target population is said to be a specified group of people or object for which questions can be asked or observation made to develop required data structures and information. Target population refers to the larger population to which the researcher ultimately would like to generalize the results of the study (Mugenda2003). The target population of the study was Ginjo guduru sub - city tax payers respondents of Jimma town in comprised of traders, service providers and those engaged in processing and manufacturing.

3.3 Sources of Data and Data Collection Instruments

The source of data was primary data. Data was collected through the structured close ended questionnaire which were administered to tax payer's respondents. The questionnaire was measured by five point Likert scale anchored by 1=Strongly Disagree, 2= Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree. A Likert scale is an ordered scale from which respondents chose one option that best aligns with their view. It is often used to measure respondents" attitudes by asking the extent to which they agree or disagree with a particular question or statement. The Likert scale has scales that assist in converting the qualitative response in to quantitative values (Mugenda&Mugenda, 2003). The researcher required to use these instruments because it was easier to analyze since they was in an immediate usable form. This was also economical to use in terms of cost and time. To support/triangulate/ the data gathered using questionnaires was make with Traders, service providers and are engaged in processing and manufacturing of the study area.

3.4 Sample size and sampling techniques

Sampling is the process of choosing from a much large population, a group about which wish to make generalized statements so that the selected part represent the total group (Leedy, 1989). Sampling is the process of selecting a group of subjects of study in such a way that the individuals represent the larger group from which they were selected. (Gay 1987).

Samplings is process of choosing a smaller and more manageable number of people to take part in the research process and generalize the results to the whole of the research population (Catherine, 2002).The researcher selected sample size of 286 from the total businesses lines of the organization, that is traders, service providers and are engaged in processing and manufacturing using the Taro Yamane"s formula for a finite population standard with 95% confidence level of interval (0.05 margin of error).Thus, the size of sample from different department was proportional to the size of the strata or department.

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

$$n = 1000/1 + 1000(0.05)^2$$

$$n = 286$$

Where:

n = total number of sample size needed

e = margin of error (Tolerable error)

N = Total number of population

The sampling method that has been used by the researcher is proportional stratified sampling which helps the sample size determination more representative, and the 1st sample was sellected by lottery method from each stratum followed by systematic sampling from each stratum. Ginjo guduru sub - city tax payers are stratified into trade (retailer and wholesaler), service sector and manufacturing (process) according to their field of work. Accordingly there are 701 traders, 211 service providers and 88 who are engaged in processing and manufacturing. sub - city tax payers has been done to distribute the sample size determined to the three sectors based on the population of each activity. The researcher used proportionate random sampling technique and the calculation presented in the following table:

Table 1: Sample distributions of the respondents among different units of the institution

Activity	Target Population	(Pi =Ni/N)	Sample Size = (Pi X n)
Trader	701	0.70%	200
Service providers	211	0.21%	60
Manufacturing and process	88	0.09%	26
Total	1000	100%	286

Source: Jimma town revenue bureau and researcher's computation, 2021; Pi= Number of population (Ni) divided by Total population (N)

After the sample size is stratified in the activities of taxpayers engaged in, respondents were selected randomly from each strata as the strata consists of homogeneous respondents this technique is appropriate and representative to conclude the findings to the population.

3.5 Validity and Reliability

Reliability and validity address issues about the quality of the data and appropriation of the methods used in carrying out the research.

3.5.1 Validity

Validity refers to the extent to which an instrument measures what is supposed to measure. Data need not only to be reliable but also true and accurate. If a measurement is valid, it is also reliable (Joppe 2000). The content of validity of the data collection instrument was determined through discussing the research instrument with the research experts in the field of study especially the researcher's supervisor. The valuable comments, corrections, suggestions, given by the research advisors and consultants on the subject matter assisted the validation of the instrument.

3.5.2 Reliability

Reliability refers to the consistence, stability, or dependability of the data. A reliable measurement is one that is repeated a second time gives the same results as it did the first time. If the results are different, then the measurement is unreliable (Mugenda and Mugenda 2008). To measure the reliability of the data collection instruments, internal consistency techniques using Cronbach's alpha was used. Cronbach's alpha is a coefficient of reliability that gives an unbiased estimate of data generalization. An alpha coefficient of 0.75 or higher indicated that the gathered data are reliable as they have relatively high internal consistency and can be generalized to reflect opinions of all respondents in the target population (Zinbarg 2005).

3.6 Methods of Data Analysis

The data collected from questionnaire was analyzed using data analysis tools. Verification was conducted and completed questionnaires were identified. Then the data was coded in to SPSS (Statistical package for social science).

According to the variables selected and the questions asked. The data analysis was performed using descriptive for demographic characteristics and inferential statistics for independent and dependent variables. SPSS Version 20 was used to analyze the data. The final report of the relevant demographic characteristics of the respondent's result was illustrated through central tendency measurements (frequency and percentage) and the variables mean and standard deviation was illustrated. In addition, tabular explanation was used to present the results.

In inferential statistical analysis, correlation and multiple linear regression tools was utilized. The use of these statistical tools and methods are correlation (r) was used to describe the strength and direction of relationship between two variables. All variables was measured an interval level; Pearson correlation was used. Correlation "r" output always lies between -1.0 and +1.0 and if r is positive, there exists a positive relationship between the variables. If it is negative, the relationship between the variables is negative. While computing a correlation, the significance level shall be set at 95% confidence level with error term„ε"value of 0.05.

Multiple regression analysis is a major statistical tool for predicting the unknown value of a variable from the known value of variables. And it is about finding a relationship between variables and forming a model. The model for this study was developed using independent variables of independent variables and dependent variable of tax revenue.
The multiple linear regression equation is in the formof

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

Where Y=Tax Revenue

β_i are coefficients to be estimated,

(x_1) = Tax Audit Practice

(x_2) = Tax Fairness

(x_3)= Tax Payers' Knowledge

(x_4)= Social and Economic Instability

(x_5)= Tax System Complicity

ε=error term normally distributed with zero

mean and variance.

Y is the dependent variable and Xi are the independent variables and„ε" is the error term.

To enhance understand ability of the result and table was used in presentation each accompanied by descriptive narrative.

3.7 Ethical Considerations

Each discipline should have its own ethical guidelines regarding the treatment of human participants on the research (Vanderstoep and Johnston 2009). . The researcher was keeping privacy (that left any personal questions), anonymity (protecting the identity of specific individuals from being known) and confidentiality or keeps the information confidential. Accordingly, the questionnaire was distributed to voluntary participants and had a clear introduction and instruction parts regarding the purpose of the research.

CHAPTER FOUR

Data Analysis, Interpretation and Presentation

4.1 Introduction

This chapter presents the results and discussions of the determinants of tax revenue in Jimma town, Ginjo guduru sub - city. A descriptive statistical analysis was used to present and interpret the data collected on various variables of determinant of tax revenue in Jimma town. Frequency tables and Percentages, mean and standard deviation are also employed to analyze the responses of the respondents and inferential analysis which conducted to achieve the aforementioned objective.

Response rate

The researcher distributed a total of 286 questionnaires for the respondents. Out of which were filled in and returned to the researcher, only 264 (92.30%) were correctly and completely filled in, while the rest 17 (5.944%) questionnaires were returned with incomplete responses and the remaining 5 (1.75%) questionnaires were not returned.

4.2 Demographic Characteristics of the Respondents

This part reviews the demographic characteristics of the sample, which includes gender, age, education level, marital status and etc. The purpose of the demographic analysis in this research is to describe the characteristics of the sample such as the proportion of males and females in the sample, age, education level, marital status and etc, so that the analysis could be more meaningful for readers.

Table 4.1: General Respondents Profile

Variable		Frequency	Percentage
Sex	Male	166	62.87
	Female	98	37.12
	Total	264	100
Age	Below 15 and 30	186	70.45
	31-45	65	24.62

	46-56	13	4.92
	Total	264	100
Education level	Primary school	15	5.68
	Secondary school	71	26.89
	Certificate/Diploma	149	56.43
	Degree	29	10.98
	Total	264	100
Marital Status	Single	120	45.45
	Married	138	52.27
	Divorced	5	1.89
	widowed	3	1.13
	Total	264	100

Source: SPSS output from survey data, 2021

As I can see from the above table indicated that, the respondents were found to be male constituting 62.87% and the remaining 37.12% were female respondents. This shows the samples taken represented that male respondents were slightly more than female

The age composition, as depicted in the table above, shows that majority (70.45%) of the respondents were under the age group between 15 and 30 years, 24.62% of the respondents were between 31 and 45 years and the remaining 4.92% were under the age between 46 and 56 years. This indicates that when analyzing the age relationship most of the respondent are young and highly implies the tax trend.

With respect to the education level of respondents', clearly indicated that majority (56.43 %) of the respondents were certificate and/or diploma holders and secondary school constitute 26.89% of the respondent while the rest 10.98% and 5.68 of the respondents are degree and primary school respectively. This shows that majority of the respondents are certificate and/or diploma holders.The marital status of respondents shows that 52.27% were married and the rest 45.45% were found to be single. Unluckily, there are 1.89% and 1.13% of the respondents are divorced and widowed respectively. Since marital status has its own impact on tax revenue, the researcher has accessed this result for comparison between their statuses.

Table 4.2:Reasons for Paying Taxes

Variable		Frequency	Percentage
Reasons for Paying Taxes	To avoid disturbances (penalties, sanctions)	27	10.22
	Anticipating of public services	182	68.93
	It is an obligation towards the government	49	18.56
	Total	264	100

Source: SPSS output from survey data, 2021

To analyze the reason of paying tax, respondents were asked: accordingly 68.93% responded that they pay tax in the anticipation of public service, 18.56% of the respondents, on the other hand, confirmed that they pay tax because it is an obligation imposed by the government; and the rest 10.22 % indicated that they pay taxes to avoid disturbance. Those taxpayers paying their tax liability anticipating public service were found to be more tax revenue than those paying because it is an obligation towards the government.

Table 4.3: Frequency of Attending Education Session

Variable		Frequency	Percentage
Attending Education Session	Once a year	51	19.31
	Twice a year	51	19.31
	Three times per year	16	6.06
	Above three times per year	60	22.72
	Not at all	86	32.57
	Total	264	100

Source: SPSS output from survey data, 2021

Respondents were asked how often they attend education sessions about taxation. Accordingly, the majority of the taxpayers 32.57% were responded that they did not attend at all, 22.72% of the respondents indicate that they attend above three times a year, 19.31%, 19.31% and 6.06% of the respondents confirmed that they attended the training session once a year, twice a year and three times a year respectively. As one can see from table, those taxpayers who were attending the tax education session above three times were found to be more tax revenue. This might be due to the reason that those who know more about tax revenue may be due to awareness.

Table 4.4: Frequency of audits conducted by the tax authority

Variable		Frequency	Percentage
Audits conducted by the tax authority	One time	98	37.12
	Two times	26	9.84
	Three times	25	9.46
	More than three times	23	8.71
	Not still	86	32.57
	Total	264	100

Source: SPSS output from survey data, 2021

Respondents were asked about how often they were audited by the tax authority, as shown in table 4.4 above, the majority of the taxpayers responded that they were audited one time 37.12% followed by 32.57% of the respondents who indicated that they were not at all inspected or audited by the tax authority. This is a clear indication of the weakness of tax authority which should be given an emphasis. However, those who were audited more than one time a year were found to be less taxation.

4.3 Descriptive statistics

Descriptive analysis is the first step in this study. It helped to describe relevant aspects of phenomena of tax revenue and provide detailed information about each relevant variable. SPSS software has been used for analysis of the different variables in this study. Descriptive statistics shows the mean and standard deviation of the different variables used in the study. The variables of the study whose descriptive statistics were computed included; tax audit

practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity and tax revenue. Thus, for this study the interpretation of mean values as per Zaidaton and Bagheri. A 5 – point Likert scale was adopted to answer each statement where 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = strongly agree.

4.3.1 Analysis of tax audit practice

Table 4.5: Mean and standard deviation score for tax audit practice

Characteristics	Mean	SD
Taxpayers may believe that there is a good chance of being seized in their underreporting and other noncompliance activities during an audit	3.24	1.761
Is there audit manual to perform the audit work	3.00	1.923
Taxpayers aware for the standard	3.02	1.975
I believe that tax audits can play an important role to increase voluntary compliance	3.48	1.199
Taxpayers who have never been audited before cause for malicious report	2.25	1.125

Source: SPSS output from survey data, 2021

The results, presented in table 4.5, the findings of the study revealed that respondents respond all the items corresponding to tax audit practice on tax revenue. However, notable variations were observed in relation to the different dimensions used to conceptualize tax audit practice, that is to say, the extent to which the respondents respond the system to be I believe that tax audits can play an important role to increase voluntary compliance had the highest mean of 3.48 and a standard deviation of 1.199 for the dimension of tax audit practice. This also was followed by the extent to which the respondents being the taxpayers may believe that there is a good chance of being seized in their underreporting and other noncompliance activities during an audit with a mean of 3.24 and a standard deviation of 1.761. This implies that these two particular items were accorded more relative importance in explaining tax audit practice by the respondents.

4.3.2Analaysis of tax fairness

Table 4.6: Mean and standard deviation score for tax fairness

Characteristics	Mean	SD
I believe everyone pays their fair share of income tax under the current income tax system	3.24`	1.165
Higher income earners should pay more taxes than lower income earners	2.90	1.211
The amount of tax I am paying is fair and based on my ability to pay	2.91	1.157
Individuals who deliberately evade their taxes should be penalized with the same amount of penalty regardless of the amount of tax evaded	3.01	1.112
I have little idea about the deductions that I can claim as a taxpayers in the computations of my tax liability	2.71	1.71

Source: SPSS output from survey data, 2021

As indicated in table 4.6, in relation to tax fairness, the respondents who participated in the study revealed that I believe everyone pays their fair share of income tax under the current income tax system with a mean of 3.24 and a standard deviation of 1.165. This was followed by the extent to which respondents believed individuals who deliberately evade their taxes should be penalized with the same amount of penalty regardless of the amount of tax evaded with a mean of 3.01and a standard deviation of 1.112.

4.3.3Analaysis of tax payers' knowledge

Table 4.7: Mean and standard deviation score for tax payers' knowledge

Characteristics	Mean	SD
I understand the explanations given in Ethiopian Revenue and Custom Authority guidebooks and other similar explanatory materials	3.44	1.154
The term used in the tax return forms are difficult to understand	2.65	1.106
I need assistance from professionals for tax related issues	3.40	1.095
I do not have any problem with completing and filing the tax return form(s)	2.74	1.058
I have fairly a good knowledge of what cause a penalty and fines this helps me to comply	3.31	1.135

Source: SPSS output from survey data, 2021

As shown in table 4.7 concerning tax payers' knowledge, respondents believe that I understand the explanations given in Ethiopian Revenue and Custom Authority guidebooks and other similar explanatory materials is high with a mean of 3.44 and a standard deviation of 1.154, and similarly respondents also indicated that I have fairly a good knowledge of what cause a penalty and fines this helps me to comply (mean=3.31, standard deviation =1.135). This shows more likely that tax payers' knowledge ascertains the study area.

4.3.4 Analaysis of social and economic instability

Table 4.8: Mean and standard deviation score for social and economic instability

Characteristics	Mean	SD
The composition of public spending provides necessary goods and services that the market does not provide this encourages tax compliance	3.15	1.291
Tax rates are so heavy that tax evasion is an economic necessity for many to survive.	3.07	1.166
The penalty that taxpayers have paid in the past affect the amount of tax that they are reporting.	2.65	1.057
Friends and family will affect taxpayers' decision to comply or not	2.94	1.105
If one is paid in cash for a job and then not reporting it in the tax return	2.64	1.058

Source: SPSS output from survey data, 2021

As show in the above table 4.8 in relation to social and economic instability, the respondents that agree on the composition of public spending provides necessary goods and services that the market does not provide this encourages tax compliance with a mean of 3.15 and a standard deviation of 1.291. These particular items were moderate implying that the respondents agreed that the items were compute social and economic instability.

4.3.5 Analysis of tax system complicity

Table 4.9: Mean and standard deviation score for tax system complicity

Characteristics	Mean	SD
I know all what is required from me in respect of my tax obligations	2.24	1.106
Tax laws are easy to understand i.e. calculation of tax filing I and paying dates, this encourages tax compliance	2.46	1.147
The tax office makes sure to have the necessary information available to take decisions	2.40	1.127
The tax system is transparent and understandable to taxpayers	2.42	1.179
I find tedious the procedural complications and to maintain I all my relevant records for the whole year for tax purposes. This leads me not to comply with the tax laws	2.81	1.287

Source: SPSS output from survey data, 2021

The above table indicated that, in relation to tax system complicity, the respondents who participated in the study revealed that I find tedious the procedural complications and to maintain I all my relevant records for the whole year for tax purposes. This leads me not to comply with the tax laws with a mean of 2.81and a standard deviation of 1.287. This was followed by the extent to which respondents are the tax laws are easy to understand i.e. calculation of tax filing I and paying dates, this encourages tax compliance with a mean of 2.46 and a standard deviation of 1.147. These particular items were low level implying the respondents that used to measure tax system complicity.

4.3.1.2 Analaysis of tax revenue

Table 4.10: Mean and standard deviation score for tax revenue

Characteristics	Mean	SD
The existence of collective consumption of goods and services necessitates putting some of our income into government hands	2.84	1.193
Government revenue is payment of the public expenses	2.75	1.171
Revenue collection is the process of collecting taxes, and not taxes revenues according to the provisions of the state laws	2.58	1.107
To collect suitable tax revenue for finance the public expenses, maintaining economic and financial growth and stability, government should collect revenue in an effective manner	3.08	1.212
Taxpayers treated rightly, equally and consistently (principles of non-discrimination)	3.11	1.279

Source: SPSS output from survey data, 2021

As shown in table 4.10, the findings revealed that on average, respondents respond all the issues relating to tax revenue. The extent to which respondents were believe Taxpayers treated rightly, equally and consistently (principles of non-discrimination) mean of 3.11and a standard deviation of 1.279 and followed by To collect suitable tax revenue for finance the public expenses, maintaining economic and financial growth and stability, government should collect revenue in an effective manner mean=3.08, standard deviation =1.212. These particular items were moderate as the all items dimension in regards to the tax revenue.

4.4. Correlation Analysis

Correlation analysis is a method of statistical evaluation used to study the strength of a relationship between the two dependent (Tax Revenue) and independent variables (Tax Audit Practice, Tax Fairness, Tax Payers' Knowledge, Social and Economic Instability, Tax System Complicity).The particular type of analysis is useful when researcher wants to establish if there are possible connection between variables. Its often misunderstood that correlation analysis determines cause and effect., however ,this is not the case because other variable that are not present in the research may have impacted on the results., so the researcher uses correlation to analysis the direct and inverse relationship between the variables each others. The correlation coefficient can range between -1 and +1, the larger the absolute value of the coefficient; the stronger the relationship between the variables.

Zero (0) indicates no relationship between two variables. The sign of the relationship indicates the direction of relationship. P-value ≤ α: The correlation is statistically significant; if the p-value is less than the significance level, then I can conclude that the correlation is different from 0. P-value > α: The correlation is not statistically significant; if the p-value is greater than the significance level, then you cannot conclude that the correlation is different from 0. As such the following table shows the correlation between dependent and independent variables.

Table 4.11: Pearson correlation coefficient

		TR	TAP	TF	TPK	SEI	TSC
Tax Revenue	Pearson Correlation	1					
	Sig. (2-tailed)						
	N	264					
Tax Audit Practice	Pearson Correlation	.490**	1				
	Sig. (2-tailed)	.000					
	N	264	264				
Tax Fairness	Pearson Correlation	. 436**	.083	1			
	Sig. (2-tailed)	.000	.200				
	N	264	264	264			
Tax Payers' Knowledge	Pearson Correlation	.374**	.124	.020	1		
	Sig. (2-tailed)	.000	.057	.756			
	N	264	264	264	264		
Social and Economic Instability	Pearson Correlation	.283**	-.048	.063	-.105	1	
	Sig. (2-tailed)	.000	.462	.332	.105		
	N	264	264	264	264	264	
Tax System Complicity	Pearson Correlation	.260**	.058	-.025	-.147*	.082	1
	Sig. (2-tailed)	.062	.375	.696	.038	.208	
	N	264	264	264	264	264	264

Source: SPSS output from survey data, 2021
**. Correlation is significant at the 0.01 level (2-tailed).

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

From the above table the Pearson Correlation coefficients are significant because the sig value is less than the 5% level of significant. Based on the classification of Dancey and Reidy's (2004), the correlation between dependent and independent variable was a statistical and significant relationship. Therefore the findings in table 4.11 show that correlation was a statistical and significant positive relationship between tax revenue and tax audit practice, tax fairness, tax payers' knowledge, social and economic instability because of this the p (sig) value is less than α=.05 level. The findings that there was insignificant relation between tax revenue and tax system complicity because of this the p (sig) value is greater than α=.05 level. This implies that when respondents of the study area have consideration for the tax revenue, they are more able to keep the tax.

4.5 Regression Analysis

In this topic the study is going to describe the relationship between the dependent variable (tax revenue) and the independent variable; (tax audit practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity). To do this, let start with the variables are significance or not for the regression model test.

4.5.1 Interpretation of R-square and Adjusted R-square

Table 4.12 : Model Summary

Model Summaryb				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.834a	.695	.689	.28378
a. Dependent Variable: Tax Revenue				

a. Predictors: (Constant), Tax Audit Practice, Tax Fairness, Tax Payers' Knowledge, Social and Economic Instability, Tax System Complicity

b. Dependent Variable: Tax Revenue

Source: SPSS output from survey data, 2021

A measure of the strength of the computed equation is R-square, sometimes called the coefficient of determination. R-square is simply the square of the multiple correlation

coefficients R in the Model Summary in the above table, and represents the proportion of variance accounted for in the dependent variable (Tax revenue) by the predictor variable. Table 4.12 above shows three important elements, thus R, R^2 and the adjusted R^2. From this table, the correlation coefficients R are 0.834 which is 83.4%. The R-square is .695. Thus, the predictor variables have shown 69.5% of the variance in the model can be predicted using the independent variables or in simple words 69.5% of tax revenue is explained by the constructed independent variables. However, the remaining 30.5% changes in tax revenue in the study area are caused by other factors that are not included in the model. Therefore, the constructed tax revenue factors are tax audit practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity are good explanatory variables of the factors for tax revenue among tax payers.

4.5.2 Multiple Linear Regression Coefficients

Regression coefficient is to identifying the relationship between a dependent variable and one or more independent variables. A model of the relationship is hypothesized, and estimates of the parameter values are used to develop an estimated regression equation. Various tests are then employed to determine if the model is satisfactory. If the Multiple Linear Regression model is supposed satisfactory, the estimated regression equation can be used to predict the value of the dependent variable given values for the independent variables.

Table 4.13 : Regression Coefficient

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	B	Std.Error	Beta		
(Constant)	.012	.131		.017	
TAP	.236	.021	.422	12.485	.000
TF	.182	.017	.418	12.495	.000
TPK	.167	.023	.287	8.793	.000
SEI	.175	.018	.390	11.523	.000
TSC	-.151	.022	.302	7.233	.052
a. Dependent Variable: Tax Revenue					

Source: SPSS output from survey data, 2021

The above table shows that, the P value of the four independent variables (tax audit practice, tax fairness, tax payers' knowledge, social and economic instability) is less than 0.05. That is the variables tax audit practice, tax fairness, tax payers' knowledge, social and economic instability have a positive significance effect on the tax revenue. The coefficient of tax audit practice is 0. 236 this value tells about, if the tax audit practice is increased by one percent, tax revenue is improved by 23.6%. According to the above table 4.13, the coefficient of tax fairness, tax payers' knowledge, social and economic instability is 0.182, 0.167 and 0.175 respectively. This table tells about if the tax fairness, tax payers' knowledge, social and economic instability is increased by one percent automatically the value of tax revenue can improve with 18.2%, 16.7%, and 17.5% respectively. The Standardized Coefficient result showed the P value of the remaining one independent variables tax system complicity have a negative significance effect on the tax revenue is -0.151(-15.1%).

The regression result presented in table 4.13 is summarized into the model specified in the methodology section of this study which is presented as follows.

$$TR= \beta + \beta1 \ (TAP) + \beta2 \ (TF) + \beta3 \ (TPK) + \beta4 \ (SEI) + \beta5 \ (TSC) + e$$

Therefore tax revenue described in the form of the multiple regression equation tax audit practice, tax fairness, tax payers' knowledge, social and economic instability, tax system complicity would be:

TR= .012 + 23.6 (TAP) +18.2 (TF) +16.7 (TPK) + 17.5 (SEI) + -15.1 (TSC) + e

This implies that the systematic variation in the tax revenue could be explained by tax audit practice, tax fairness, tax payers' knowledge, social and economic instability and tax system complicity.

4.5.3 Reliability

Reliability refers to the consistence, stability, or dependability of the data. A reliable measurement is one that is repeated a second time gives the same results as it did the first time. If the results are different, then the measurement is unreliable (Mugenda and Mugenda 2008). To measure the reliability of the data collection instruments, internal consistency techniques using Cronbach's alpha was used. Cronbach's alpha is a coefficient of reliability that gives an unbiased estimate of data generalization. An alpha coefficient of 0.75 or higher indicated that the gathered data are reliable as they have relatively high internal consistency and can be generalized to reflect opinions of all respondents in the target population (Zinbarg 2005).

Reliability Statistics

Cronbach's Alpha	N of Items
.834	5

Source: SPSS output from survey data, 2021

4.5.4. Linearity Test

Linearity is the degree to which the change in the dependent variables is related to the change in the independent variables. To determine whether the relationship between the dependent variable (Tax revenue) and the independent variables (tax audit practice, tax fairness, tax payers' knowledge, social and economic instability and tax system complicity) is linear, plots of the regr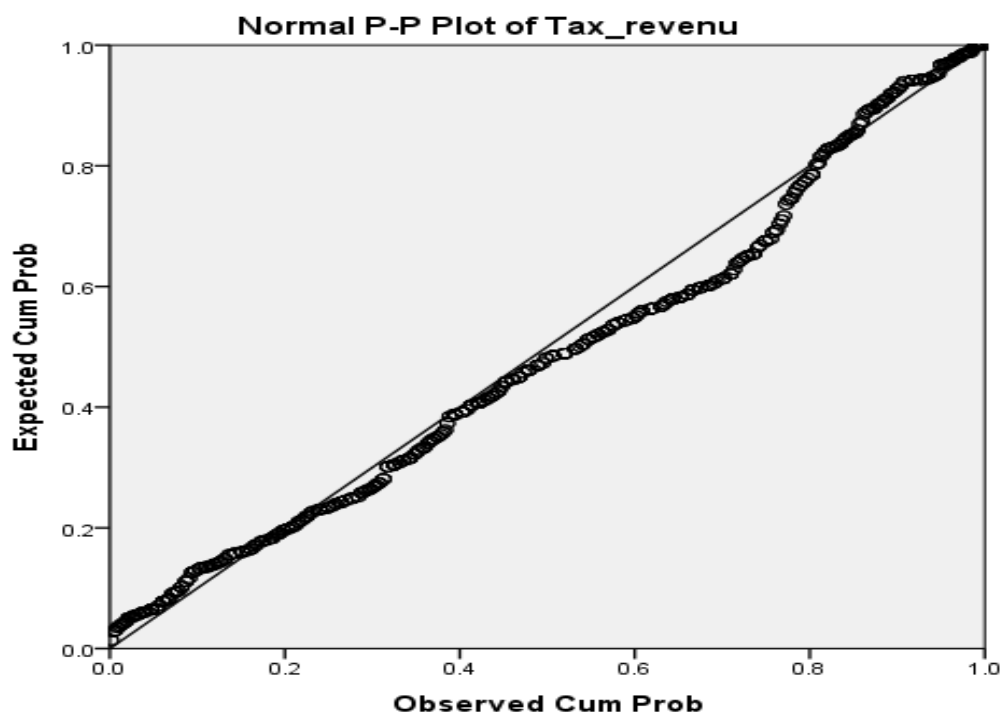ession residuals using SPSS software has been employed. The scatter plot of residuals show no significance difference in the spreads of the residuals. Therefore, the results suggest that the relationship between the dependent and the independents variables prediction is linear.

Graph 4.1: Normal Plot of Standardized Residual
Source: SPSS (2020) and Survey Result

4.5.5 Test for Normality

As indicated in the figure below the frequency distribution of the standardized residuals are fairly closed. So the researcher assumes that the distribution of the error term is normally distributed and the histogram is bell shaped which show the residual are normally distributed. Therefore, there is no violation of the assumption normally distributed error term.

Histogram

Mean = 2.87
Std. Dev = 1.192
N = 264
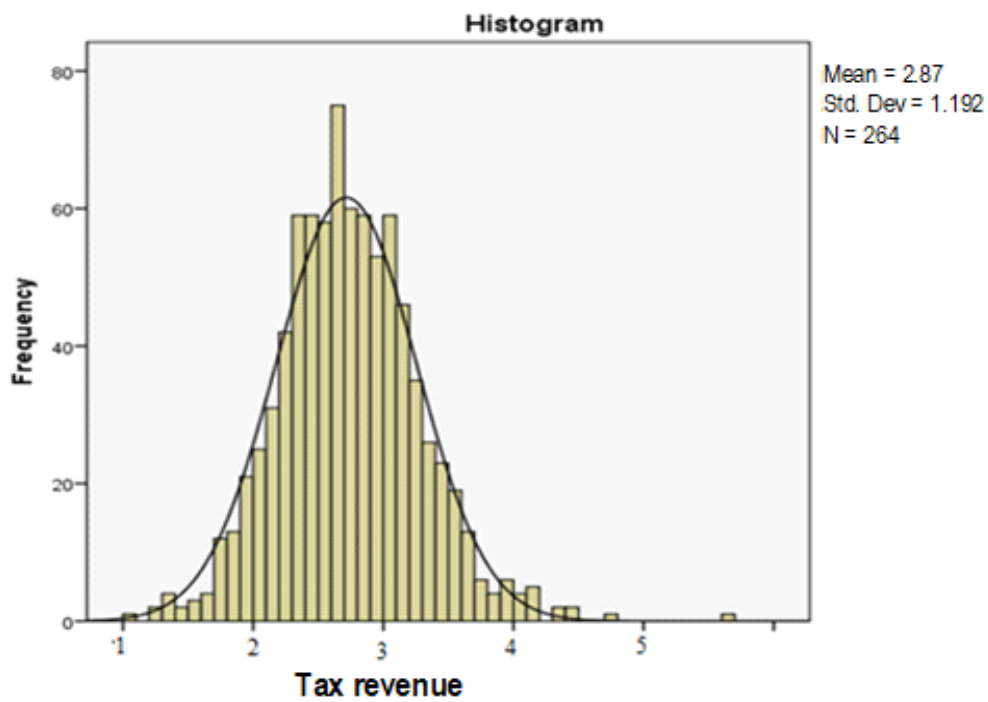
Source: SPSS output from survey data, 2021

Graph 4.2: Normality Test

CHAPTER FIVE

Summary of Major Findings, Conclusion and

Recommendations

This chapter includes summary of the major findings, conclusion drawn from the findings and the study recommendation.

5.1. Summary of Major Findings

The main objective of this research was to assess the determinants of tax revenue in Jimma town, Ginjo guduru sub - city. The findings of this study revealed that most of the identified factors have effects on the tax revenue of individual tax payers. The identified tax revenue factors included tax audit practice, tax fairness, tax payers' knowledge, social and economic instability and tax system complicity. Accordingly, this part of the research summarizes the major findings of the study from the mean value of descriptive statistics revealed that the tax audit practice, tax fairness, tax payers' knowledge, social and economic instability are high and moderate level, tax system complicity is in the level of low and tax revenue variable is in the level of moderate level.

In general the results of analysis shows that tax revenue have a positive relation with tax audit practice, tax fairness, tax payers' knowledge, social and economic instability. In other words concerning correlation matrix, the highest correlation coefficient was found between tax revenue and tax audit practice, followed by between tax revenue and tax fairness, tax payers' knowledge, social and economic instability. For this constructed variables have positive correlation with tax revenue because the p (sig) value is less than $\alpha=.05$ level. The findings that there was insignificant relation between tax revenue and tax system complicity because of this the p (sig) value is greater than $\alpha=.05$ level.

The regression model was result 69.5% of the variance in the model can be predicted using the independent variables or in simple words 69.5% of tax revenue is explained by the

constructed independent variables. The independent variables were tax audit practice, tax fairness, tax payers' knowledge, social and economic instability significant relationship on tax revenue. This indicates that the factors have positive effects on tax revenue among tax payers in the study area. And also the tax system complicity has negative effects on tax revenue. This result shows that the variable of tax system complexity was not found to be significantly correlated with tax revenue decisions during the period of the study, tax system complexity is negatively correlated with tax revenue as to the findings which implies if the tax system is difficult to understand taxpayers will reluctant to adhere to the tax rules and regulations that is discourages tax revenue.

5.2 Conclusion

Taxation is key source of revenue for the government of Ethiopia. In addition, taxation is used to allocate economic resources for government's priority by directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws. The responsibility to collect revenue in Ethiopia rests with the Oromiya Revenue Authority (ORA); in which one of the study area Jimma town. The main objective of this study was to examine the determinant of tax revenue in Jimma town, Ginjo guduru sub city with respect to the variables. The study has provided empirical justification for the framework that identifies five constructs of the independent variables and describes the relationship among the constructs and tax revenue within the context of Jimma town. Based on the findings, the study concludes that there is a relationship between the independent variables and dependent variables; the correlation shows that they have strong and a positive correlation with tax audit practice, tax fairness, tax payers' knowledge, social and economic instability and tax system complicity are negative correlation on tax revenue. In general, the study concludes that tax audit practice, tax fairness, tax payers' knowledge, social and economic instability affect tax revenue at Ginjo guduru sub - city.

5.3 Recommendations

Based on the finding of the study, conclusions drown in line with the study objectives; the following points are recommended in order to improve tax revenue of Jimma town, Ginjo guduru sub - city.

- To increase the audit coverage and voluntary compliance having inadequate staff resources, the Jimma town should adopt a wide range of audit methodologies in addition to full comprehensive audit. The spot (issue) audit should be widely applied to increase the audit coverage, and education type audits that are not yet in place should be implemented to improve taxpayers' awareness and voluntary compliance. In addition, Oromiya Revenue Authority should give emphasis and assign adequate audit staff to investigation audit.

- Tax authorities and other decision makers at various governmental levels (e.g. regional or local) should understand the taxpayers concerns and perception on tax system and improve tax system and tax policies accordingly.

- Tax authorities should work on the development of simple and transparent tax collection system. The authorities should work on the expansion of electronic system that adopts for tax payers. Furthermore, the tax authorities should build trust and confidence with taxpayers' rather than always consider as steal, it is better thinking as development partners.

- Educate tax collectors to improve the competences of service personnel's, ethical issues and decision making process in revenue offices. And also an educated tax collector is vital to increase tax collection efficiency and to take measure for the tax evaders. Educate taxpayers' to enhance their knowledge and fairness attitude so as to encourage their compliance.

- Tax payers should get continuous education programs about tax, acquire specific motivational packages to make them more interested to pay the required tax.

- The tax authority could also upgrade the skill and competency of tax officials in order to handle tax related offences in a better way and working procedures of the authority should be fully automated. This will increase tax payer's confidence about the tax authority.

5.4 Further research and limitation

It is suggested that there is a need for deep investigation regarding determinants of tax revenue in the study area. In the future research, the recommendation and the limitation of this research will be addressed and overcome. Furthermore, through applying different research model can enhance the accuracy of the result. The research model can be expanded so that it can fully reflect the determinants facing tax revenue. Researchers of this study envisions that additional new independent variables can be substituted or add on to the existing independent variables.

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APPENDIX

JIMMA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Dear Respondents

This research is conducted as a partial fulfillment for Masters of degree in accounting and finance at Jimma University and focuses on assessing „The determinant of tax revenue in Jimma town". To ensure the success of the research, I would like to seek your support and cooperation in responding the questionnaire as soon as possible.

The information that you are providing in this questionnaire was used for academic purpose only and was keep confidential.   The soundness and the validity of the findings are highly depending on your reliable and genuine responses.

Thank you in advance for your valuable time and cooperation!

Note: Please put a „√" mark on your choice on the space provided. You don't need to write your name on the questionnaire.

Research Questionnaire

Section A: Background Information

1. Gender   A. Female [ ]   B. Male [ ]

2.   Age   A. below 15 and 30 [ ]   B. 31-45 [ ]   C. 46-56 [ ]

3.   Educational level

A. Primary school [ ]   B. Secondary school [ ]   C. Certificate/Diploma [ ]

D. Degree [ ]   E. Other…………………

4. Marital status: A. Single [ ]   B. Married [ ]   C. Divorce   [ ]   D. Widowed [ ]

5. Why do you pay taxes?

A. To avoid disturbances (penalties, sanctions) [ ]

B. Anticipating of public services [ ]

C. There is no opportunity to evade [ ]

D. It is an obligation towards the government [ ]

E. Do not know [ ]

F. Others, Please specify………………

6. How often you are attending education sessions about taxation?

A. Once a year [ ]

B. Twice a year [ ]

C. Three times per year [ ]

D. Above three times per year [ ]

E. Not at all [ ]

7. How many times in a particular year you have been audited or investigated by tax authority?

A. One time [ ]

B. Two times [ ]

C. Three times [ ]

D. More than three times [ ]

E. Not still [ ]

Section B: Tax Audit Practice

The following questions are prepared on a 5 five point Likert Scale. If the item indicated strongly matches with your response choose number 5 and if you completely disagree with the item choose number 1. Be honest and give a true picture of your feelings.

(1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree)

No	Characteristics	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
8	Taxpayers may believe that there is a good chance of being seized in their underreporting and other noncompliance activities during an audit					
9	Is there audit manual to perform the audit work?					
10	Taxpayers aware for the standard					
11	I believe that tax audits can play an important role to increase voluntary compliance					
12	Taxpayers who have never been audited before cause for malicious report					

Section C: Tax Fairness

No	Characteristics	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
13	I believe everyone pays their fair share of income tax under the current income tax system					
14	Higher income earners should pay more taxes than lower income earners					
15	The amount of tax I am paying is fair and based on my ability to pay					
16	Individuals who deliberately evade their taxes should be penalized with the same amount of penalty regardless of the amount of tax evaded					
17	I have little idea about the deductions that I can claim as a taxpayers in the computations of my tax liability					

Section D: Tax Payers' Knowledge

No	Characteristics	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
18	I understand the explanations given in Ethiopian Revenue and Custom Authority guidebooks and other similar explanatory materials					
19	The term used in the tax return forms are difficult to understand					
20	I need assistance from professionals for tax related issues					
21	I do not have any problem with completing and filing the tax					

No	Characteristics					
	return form(s)					
22	I have fairly a good knowledge of what cause a penalty and fines this helps me to comply					

Section E: Social and Economic Instability

No	Characteristics	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
23	The composition of public spending provides necessary goods and services that the market does not provide this encourages tax compliance					
24	Tax rates are so heavy that tax evasion is an economic necessity for many to survive.					
25	The penalty that taxpayers have paid in the past affect the amount of tax that they are reporting.					
26	Friends and family will affect taxpayers' decision to comply or not					
27	If one is paid in cash for a job and then not reporting it in the tax return					

Section F: Tax System Complicity

No	Characteristics	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
28	I know all what is required from me in respect of my tax obligations					
29	Tax laws are easy to understand i.e. calculation of tax filing I and paying dates, this encourages tax compliance					
30	The tax office makes sure to have the necessary information					

		Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
	available to take decisions					
31	The tax system is transparent and understandable to taxpayers					
32	I find tedious the procedural complications and to maintain I all my relevant records for the whole year for tax purposes. This leads me not to comply with the tax laws.					

Section G: Tax Revenue

No	Characteristics	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
33	The existence of collective consumption of goods and services necessitates putting some of our income into government hands.					
34	Government revenue is payment of the public expenses.					
35	Revenue collection is the process of collecting taxes, and not taxes revenues according to the provisions of the state laws.					
36	To collect suitable tax revenue for finance the public expenses, maintaining economic and financial growth and stability, government should collect revenue in an effective manner					

Thank You for Your Cooperation