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## **Taxpayers' Moral and Compliance behavior in Ethiopia: A study of Tigray state.**

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**Abstract:** Tax payers' moral is an important and integral attitude and determinant of taxpayer compliance and other forms of behavior. Taxpayers' moral and tax compliance behavior is growing international concerns for tax authorities and public policy makers. Every government to generate enough revenue more likely it will put in place developmental plans for the enhancement of the living standard of the civilizations. To achieve these goals, a high, tax payers' moral is required to achieve a high degree of tax compliance. This work aims to study tax payers' moral and tax compliance behavior in Ethiopia, the case of Tigray state. The general objective of this study is to examine business income tax payers' moral and the tax payers' compliance behavior. Survey was used with questionnaire as the major tool of data collection covering business income tax payers' category of A, B, and C. Sample size 398 respondents were drawn using stratified random sampling techniques. Of the total respondents, only 387 were dully completed and returned and all were used in the analysis. Simple Regression analysis was used to interpret and analyze the data. The result shows that there is a significant correlation between tax payers' moral and tax payers' compliance behavior. The study recommended that: In the study area, the Ethiopian Revenue and Custom Authority should set awareness creation sensations to increase the taxpayers' ability to understand tax laws, rates of tax, filing, and paying dates, taxpayers' should also know what is needed by tax officials in case of tax audit and inquiries and the tax authority should build absolutely confident about the legitimacy of the claims in their income tax return.

**Keywords: Taxpayers' Moral and compliance behavior.**

## **1. Introduction**

### **1.1 Background of the Study**

The issue of tax payers' attitude and tax knowledge has received great attention around the world. Tax payers' attitude and knowledge indicates to obtain the degree of voluntary tax compliance. In other words, a good understanding of taxpayers' attitude is important for the tax authority to

improve the tax system and consequently encourage taxpayers' compliance. Therefore, tax payers' attitude and compliance behaviour is an important issue for any government and revenue collecting authority to obtain knowledge and understanding of the taxpayer attitude and tax compliance behaviour particularly in a self-assessment environment.

The tax compliance studies indicate that many factors economic, social, psychological and demographic impact upon the compliance behaviour of taxpayers. Studies have been carried out for long period of time. It has been studied thoroughly by academics, professionals and government agencies especially in the United States and other western countries (SitiMariam, 1994). According Fischer, et al., (1992) studies on tax compliance can be done in various fields such as accountancy, business law, economics, psychology, and sociology. Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax payers attitude and compliance behaviour. Taxpayers' behaviour implies that given a chance taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers' behaviour in terms of factors which influence their attitude towards tax compliance and how to influence the very factors would be a solution to this "jigsaw puzzle".(Lumumba , et al., 2010).

Tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance (Brown and Mazur 2003). Singh, (2003) also defined tax compliance as an act of filling the income tax form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority.

In line with this Alm, (1991) also defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. According Jackson and Milliron (1986), as cited in Mohd (2010), the main factors that have influenced tax compliance as argued by various researchers are age, gender, level of education, income, status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority, income sources, perceived fairness of the tax system, possibility of being audited and tax rate, in addition to the above, researchers have enumerated factors that influenced tax compliance behaviour such as demographic, income, compliance cost, and tax agents, in addition to moral or ethical factors (Singh, 2003; Kasipillai et al., 2003).

Income tax payers' moral and tax compliance behaviour are of obvious importance for most countries. This work aims to study tax payers' moral and tax compliance behaviour Ethiopia focusing on Tigray state.

### **1.2 Statement of Research Problem**

Taxpayers' compliance behaviour growing international concerns for tax authorities and public policy makers as tax evasion seriously threatens the capacity of government to raise public revenue. Low tax compliance is a matter of serious concern in many developing countries. This is because it limits the capacity of government to raise revenue for developmental purposes. This implies that the higher the revenue, the more likely government will put in place developmental plans for the enhancement of the living standard of the societies.

In developing countries, tax noncompliance is a serious challenge facing income tax administration and hindering tax revenue performance. Alabede et al., (2011) even though the various tax reforms undertaken by governments to increase tax revenue over the years, prior statistical evidence has proven that the contribution of income taxes to the government's total revenue to GDP share is low and is relatively shrinking.

Since tax compliance literature in the developed countries have found several factors that could affect income tax compliance behaviour, namely tax audits, penalties, positive incentives, tax amnesties, and attitudes and perceptions toward tax systems together with control variables such as tax rates, actual income levels, and other demographic characteristics.

In addition to the above research gap to the knowledge of the researcher not even a hand full of researchers have worked on tax payers attitude and tax compliance behaviour areas in the country, and only two thesis one in Ph.D. and one in masters were found; Value added tax in Ethiopia operating costs and compliance by Wollela Abehodie (2009) and The influence of tax education on tax compliance attitude by Zelalem Berhane (2011), even these were not fully covering the problem at hand in all income tax payers in the country tax payers category A, category B and category C. The issue of compliance is major problem and it should be researched at length. Currently the government of Ethiopia is not collecting enough taxes and people are not complying, the issue is to identify the root problem. The problem of not complying is highly assumed to be related to attitude and tax compliance behaviour of the tax payers. This relationship is not well understood due to lack of research in this area, so there is a gap which the researcher is trying to work on by formulating this study.

### **1.3 OBJECTIVE OF THE STUDY**

The general objective of this study is to examine business income tax payers' moral and the tax payers' compliance behaviour with the tax policies of government in Ethiopia in case of Tigray state.

- ❖ To examine individual business income taxpayers' tax moral towards the tax compliance behaviour.

- ❖ To investigate and analyse factors which affect business income tax payers' tax moral in the state.
- ❖ To assess how individual business income taxpayers' tax moral influences the tax payers' compliance behaviour in the state.

## **2. Related Literature Review**

### **2.1. Theoretical Framework of Tax Moral**

According Schmolders, (1960), and Strumpel, (1969) Scholars at Cologne School of Psychology, theory is a thoughtful and rational type of abstract or generalizing rational, or how and why specific facts are associated. Depending on the situation, "the results might include universal explanations of how nature works" and possible hypotheses that can be tested in order to provide support for, or challenge, the theory in researches. Therefore, in this research work, the researcher discusses three theories and indicate their importance for explaining tax morale and tax compliance behavior in business income tax payers'.

#### **2.1.1 Ipsative Theory**

According Frey and Foppa (1986), human action is defines as, under certain circumstances, human actions can be constrained by a set of possibilities which is considered to be relevant only for oneself. Other alternatives are disregarded. In line with this, Frey (1997:196) describe it the "ipsative possibility set". The theory strongly relies on psychological evidence and can be seen as an attempt to model an aspect of human- imperfection.

Frey (1997) statements under-extension of the ipsative set is a common phenomenon among rational actors. Tax morale can be seen as such an issue, which is not open to a marginal but rather an absolute evaluation. Besides the above he states there are taxpayers' who do not even search for ways to cheat at taxes while others act contrarily. Comparative price changes, by reason of higher punishment, are only considered by taxpayers' with a low morality and can cheat. If the government distrusts them, tax morale can be undermined. He expresses of a perverse effect that arises when the government threatens citizen of high tax morality with increased punishment. Citizens can take this as an indication that the government does not honor compliant behavior.

#### **2. 1.2 The Theory of Crime**

The prevention principle can be traced back to the classical works of Jeremy Bentham and Cesare (Murphy 2008) as cited in (Fakile Adeniran 2011). Their classical utilization theory of crime is that people are rational actors who behave in a manner that will maximize their expected utility. In line with the above arguments tax experts and authorities required to take an appropriately remedy to balances between detection of non-compliers and sanctions to the point where non-compliance becomes unsound (Becker (1968).

Murphy and Harris (2007), creative compliance, McBarnet (2003), criminal behavior or opposition and Fehr and Rokenbach (2003), focus their research on researching compliance rather than discouragement. In fact, the researchers have shown that the use of threat and legal force, mainly when supposed as unlawful, can develop negative behavior for non-compliance.

### **2.1.3 Intrinsic Motivation Theory**

Pardee, R. L. (1990), defines intrinsic motivation is to study one's capacity, to perceive and to gain knowledge. Frey (1997) on his study, he looks at tax moral as a particular kind of intrinsic motivation. He demonstrates that intrinsic versus extrinsic motivation are also relevant for explaining compliance behavior. His approach contains a gathering out effect of intrinsic motivation in the analysis of tax compliance. It is a try to introduce a psychological effect into economics without giving up the rational choice framework.

Increasing monitoring and penalties for noncompliance, tax payers' will sign that extrinsic motivation has enlarged, which on the other hand multitudes out intrinsic motivation to comply with taxes. Thus, the net effect of a severer tax policy is unclear. Tax moral is not expected to be bursting out if the honest taxpayers perceive the stricter policy to be directed against dishonest taxpayers in supporting or damaging the intrinsic motivation (Frey 1997).

## **2.2. Empirical Studies Tax Moral and Compliance**

Tax obligations of citizens to comply or not with the rules and regulations of the nation is a difficult decision, determined by variety of factors affect by tax payers' tax moral and ethics. Scholars at "Cologne School of Psychology" (Schmolders, 1960, Strumpel, 1969), have been conducted research on tax moral and tried to narrow the bridge between economics and communal psychology by underlining that "economic phenomena should not only be analyzed from the old-style neoclassical point of view but also from social psychology perspective". In particular, they saw tax moral as an important and integral attitude that was related to tax noncompliance. In compression with the above its relevance high level of compliance understanding was observed by (Frey 2003) and (Torgler 2002).

Some of the key factors are important in understanding tax moral: they are moral rules and sentiments, fairness, and the relationship between taxpayer and government. Morale rules and thoughts focus on social norms and debate the four thoughts those are guilt, shame, duty and fairness. An improper declaration may causing anxiety, guilt, or if caught, shame and thus a prejudgment to taxpayers' self-perception. It is assumed that a taxpayer senses these moral costs which act as a restriction on non-compliance behavior. On the other hand, if a tax payers' believes that the tax system is partial, that is, having a high tax burden, moral cost to behave honestly will decrease and tax evasion can be seen as indicator of resistance against the tax system (Faile 2011). According Edlund & Åberg (2002), tax payers' morale is an important and integral attitude and a determinant of taxpayer compliance and other forms of behavior. Besides, tax compliance is

improved when individuals opinion the paying of taxes as a fair fiscal exchange and as transparent. Taxes paid by individuals can be interpreted as the price paid for the government's positive actions. In line with this taxpayers' morale differs between countries because taxpayer values are influenced by varying cultural and social norms, with different societal institutions acting as constraints (Alm & Torgler 2006).

Benno Torgler (2003), examine tax moral in Latin America in his study indicates that, the higher age, married people (females) have a positive effect on tax moral than lower age and singles (males). The economic and religiosity situation of the individuals affected tax moral. The results show the tendency that the lowest group (reference group) and stronger religiosity have higher tax morale than the groups with a better economic situation and weak religiosity. In line with this, trust in the government and the officials also leads individuals obey the law and attitude of tax payers' have a substantial positive effect on tax moral individual tax payers'.

Fakile Adeniran (2011), in his study he tries to analyze tax moral and tax compliance behavior in Nigeria. The chief objective of his study was to inspect the outcome of Tax Moral on the taxpayers' compliance behavior to tax rules of government. A survey research design was adopted The result shows that there are a number of significant correlations between tax compliance and tax moral, trust in government, tax evasion and trust in legal system. Though, insignificant correlations are found among tax compliance and social norms, tax avoidance and traditional institutions. Mostly, according the researcher's finding tax moral has a statistically significant effect on tax payers' compliance behavior.

Martin Halla (2010), in his discussion paper 4918, presents on the "tax morale and compliance behavior evidence from a causal link" based one importance of tax payer's moral considerations to inspect compliance behavior. In his discussion he has been found there is causal link between tax moral and compliance behavior.

Marcelo G.L, (2011), on his PhD thesis, examined the role of trusting government institutions supplying public goods to taxpayers', philosophical views, individual support for political regimes, and keeping post-materialist values, on tax moral. His research finding has been indicated those who living in democratic nations show a positive relationship between trust in government institutions and continuation democratic values on tax moral; a negative relationship between keeping conservative views and tax moral, and no relationship between keeping post-materialist values and tax moral. On the other side, those who living with non-democratic regimes differ in some respects; while support for democracy is related with higher tax moral, additional results trust in government and ideological beliefs differ from theoretical expectations were found in his study.

Martins and Gomes (2014), in their article they analyze the impact of professional status, income level, behavioral, political and psychological factors on tax morale level of Portuguese taxpayers

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on the title of “tax morale, occupation and income level: An Analysis of Portuguese tax payers” In their article a sample of 1,514 respondents have been taken from Portuguese individual business income tax payers’ and used multiple regression to discover the relationship between the dimensions discovered by factor analysis in the variables. The finding of the stud has been indicated the variables occupational status, income, political democratic system, individual satisfaction, and trust in officials, and have been a strong significantly outcome on tax morale.

Hafidiah.A and Sumartaya.D (2014) examines the consciousness of taxpayers’ awareness and tax moral on the level of tax evasion on the title of “the influence of taxpayers’ awareness and tax moral toward tax evasion” on the period covered from August 5, 2014 to August 30, 2014. On their article tested the independent variables awareness of tax payers and tax moral with dependent variables was tax evasion. The data was collected from 500 respondents by using a purposive sampling method from the individual reviews those taxpayers who had earned income over non-taxable income in Bandung City. On their study examinations were done through two simultaneous equations and result indicated partial of the independent variables has affected tax evasion indication that the awareness of tax and tax moral both partial and simultaneous significant effect on the close of tax evasion. Finally the scholars suggested that tax evasion affected by the attitude of awareness of the taxpayers’ and tax moral has present in every taxpayer in the city.

Bjorn Jahnke (2015), his article examine tax payers’ tax moral a case study at Vietnam. Measures based on vertical and horizontal interchange of tax moral and tax compliance behavior at Vietnam. He examines the effect of the perceived compliance behavior of other tax payers’ in his study. Finally his finding has been indicated that both reciprocity measures that are vertical and horizontal are significantly correlated with tax morale but that vertical reciprocity overcomes. His analysis was grounded on a consumer survey in the City of Hue which syndicates and spreads questions from earlier versions of the European and the World Value Survey. In line with the above research finding, Schnellenbach (2010) wide-ranging a theory of tax payer compliance that highlights two types of reciprocity and includes the factors itemized by Alm and Torgler (2006). According Cowell (1992), Bordignon (1993) and Traxler (2010), the first type is horizontal reciprocity which considers reciprocity as responsive behavior to the actions of other tax payers. According to their models, tax payers bring into line their evasion decisions on the behavior of other tax payers’. The reality of temporary collaboration based on the donations of other contributors was tested in several laboratory experiments.

## **Conclusion**

Tax moral of individual tax payers’ in the previous empirical and theoretical finding shows share some similarities. The scholars all share a common finding for understanding the role of individual norms, communal norms and organizations in clarifying tax compliance behavior of tax payers’. Tax payer’s tax compliance behavior is the intrinsic motivation to pay taxes. Individual tax payer’s

willing to comply with the tax laws and regulations of one country and how influenced by moral norms, social norms, and institutional organize because tax moral emphasizes on what initiatives individual attitudes towards tax compliance, it may require supplementary work to develop how tax compliance attitudes translate into tax compliance behavior.

Even though, some experimental work done in other social and natural sciences studies had done in developed countries suggest that there is a line connecting individual attitudes with behavior, still it needs additional investigation how tax moral affected tax compliance behavior in developing countries like Ethiopia . Therefore, the study will be examine how tax moral affected tax compliance behavior in Ethiopia a case study of Tigray state.

### **3. Research Design and Methodology**

#### **3.1 Population of the Study**

The target population of the study business income tax payers' and tax officials, auditors, and tax consultants were 85100. The study was carried over a period of one year from October 2014 to September 2015 .One year period was assumed reasonable to demonstrate up-to-date tax payers' moral and attitude influences tax payers' tax compliance behavior.

#### **3.2. Sample Size and Sampling Technique**

samples were drawn using **stratified random sampling techniques** from the total populations of business income tax payers' category of A, B, C and tax officials, auditors, and tax consultants'. The researcher has used Raro Yamane (1967) formula in determining the size from the total population.

According to Yamane, (1967)  $n = N / [1 + (Ne^2)]$

Where n = is the sample size

N = is the population

e = is the error limit (0.05 on the basis of 95% confidence level)

Therefore,  $n = 85,100 / 1 + 85,100 (0.05)^2$

$n = 85,100 / 213.75 = 398$

#### **3.3 Method of Data Analysis**

Descriptive statistical tools like percentages mean and standard deviation were employed to analyze and Econometric analysis which is linear regression model was used to test the relationships between and among variables.

In this study the dependent variable is tax compliance behavior of business income tax payers' whereas the independent variable are denoted by tax moral and obedience of taxpayers' to tax rules and regulations.

The null hypothesis is usually stated in terms of the independent of the variable, and it is used to analyze the objectives raised in this study through the primary data obtained from respondents by the use of questionnaires.

### 3.4. Inferential statistics

In this study, liner Regression model was chosen to answer the objectives of the study since the response variable, tax compliance behaviour and some predictors are qualitative nature. This method also allows us to investigate the predictor variables effect on response variable simultaneously (Kutner *et al.*, 2005). In general, a first order multiple linear regressions model is of the form:

$$Y_i = \beta_0 + \beta_1 X_{i1} + \beta_2 X_{i2} + \beta_3 X_{i3} + \dots + \beta_{p-1} X_{ip-1} + \varepsilon_i$$

where:

$Y_i$  =dependent variable (tax compliance behaviour) for the  $i^{th}$  respondent,

$\beta_0, \beta_1, \dots, \beta_{p-1}$  = partial regression coefficients.  $X_{i1}, X_{i2}, \dots, X_{ip-1}$  = the known

constants, namely, the values of the predictor variables of the  $i^{th}$  respondent.  $\varepsilon_i$  = a

random error term which is assumed to be independent and normally distributed with the

mean zero and constant variance  $\sigma^2$

Regression Model is

$$MODEL TAXCOMP = \beta_0 + TAXMOL + \varepsilon_i$$

Where

$MODEL TAXCOMP$  = Tax payer's tax compliance behavior

$TAXMOL$  = Tax payer's tax moral

## 4. Data Presentation, Interpretation and Analysis

### 4.2. Mean Comparison of Tax Moral Factors

Study mean value of highlighted that, everyone is morally obliged to pay his or her tax obligations is 3.48 on 5 point scale while standard deviation is 1.190. This means that, above average of the respondents in study area accepted the moral obligations regarding taxation.

The mean score of those respondents said I feel a moral obligation to pay my tax and Cheating on taxes if I have a chance are 4.10 and 1.74 respectively. This implies that, respondents asked directly and indirectly responds above the average respondents morally obligated but still huge number respondents responds immorally.

Respondents means score of I would agree to an increase in taxes if the extra money were used to my country development is 3.77 on the five point scale although standard deviation is 1.282. This

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indicated that, above the average respondents accepted the incremental in tax if their government spent extra money for the development of the country.

Five statements were asked consecutively to know respondents tax moral. Those are the government should reduce unemployment but it should not cost me any money, trading or exchanging goods or services with friends or neighbor and not reporting it in your tax form, reporting their main income fully, but not including small outside income, being paid in cash for a job and then not reporting it in your tax form and not reporting some earnings from investment or interest that the government would not be able to find out. The mean values of these five items are 2.90, 2.48, 2.53, 2.25 and 2.28 respectively. This indicated that, all of the five items mean score is below the average. Depending on the meaning of the statement this shows in same what respondents were morally obligated.

Two items were asked to respondents regarding trust in fairness of tax officials and trust in tax administration. The means score of those items as indicated in the table 4.20 is 2.99 and 3.39 on the five point scale while standard deviations are 1.314 and 1.208 respectively. This shows the respondents have trust in tax administration but not tax officials.

Respondents were asked to agree or disagree on the statement I will give part of my money if I were certain that the money would be used to build infrastructures. Study means score of the total respondents is 3.54 with standard deviation of 1.257. This result indicated that, above the average of the respondents agreed on the statement.

Lastly three items were asked by the researcher to understand tax payers tax moral. Those items are I can participate in tax avoidance, I think the tax I pay is fair given the goods and services I get from the Government and I voluntarily registered as a tax payer with ERCA. Study means score on the three items are 2.36, 3.09 and 3.90 correspondingly. This indicated that, even if tax payers have morally accommodated in some extent in the study area but it needs lot of efforts to build tax payers tax moral.

Table 4.1 Mean score by Tax Moral factors

Statements	N	Mean	Std. Deviation
I think that everyone is morally obliged to pay their tax obligations	375	3.48	1.190
I feel a moral obligation to pay my tax	375	4.10	1.035
Cheating on taxes if you have a chance	375	1.74	1.063
I would agree to an increase in taxes if the extra money were used to my country development	375	3.77	1.282
The government should reduce unemployment but it should not cost me any money	375	2.90	1.305
Trading or exchanging goods or services with friends or neighbor and not reporting it in your tax form	375	2.48	1.142
Reporting your main income fully, but not including Small outside income	375	2.53	1.240
Being paid in cash for a job and then not reporting it in your tax form	375	2.25	1.073
Not reporting some earnings from investment or interest that the government would not be able to find out	375	2.28	1.067
Trust in Fairness of Tax Officials	375	2.99	1.314
Trust in Tax Administration	375	3.39	1.208
I will give part of my money if I were certain that the money would be used to build infrastructures	375	3.54	1.257
I can participate in tax avoidance	375	2.36	1.282
I think the tax I pay is fair given the goods and services I get from the Government	375	3.09	1.322
I voluntarily registered as a tax payer with ERCA	375	3.80	1.174

*Source: Researcher's Computation (2016)*

### 4.3 Hypothesis Testing

1. Ho; Tax moral has no significant effect on business income tax payers' tax compliance behavior and do not positively correlates with tax compliance.

Pearson correlation was used to test this hypothesis. There is significant correlation between tax moral and business income tax payers' tax compliance behavior in this study area at 0.05 levels. Therefore with this result, we reject the null hypothesis and we accept the alternative hypothesis. In other arguments tax moral has a significant effect on business income tax payers' tax compliance behavior and positively correlated.

### 5. Summary of Theoretical Findings

Psychology theories of tax compliance assume that psychological factors – including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. According Schmolders, (1960), and Strumpel, (1969) Scholars at Cologne School of

Psychology, theory is a thoughtful and rational type of abstract or generalizing rational, or how and why specific facts are associated. Depending on the situation, “the results might include universal explanations of how nature works” and possible hypotheses that can be tested in order to provide support for, or challenge, the theory in researches. Therefore, in their research work, the researchers discuss three theories and indicate their importance for explaining tax moral and tax compliance behavior in business income tax payers’. This study also supported the above theories was positive relationship between tax moral and business income tax payers’ tax compliance behavior in study area.

### **5.1 Summary of Empirical Findings**

According Mason and Calvin (1984) examine tax payers’ compliance behavior of respondents to accept income tax noncompliance in Oregon and stated that more men accepted to one form of tax evasion than women. The same result with this, women have high tax moral than men in Switzerland and Belgium (Torgler and Schneider 2009). According Edlund & Åberg (2002), tax payers’ moral is an important and integral attitude and a determinant of taxpayer compliance and other forms of behavior. In line with this (Benno Torgler 2003) examine tax moral in Latin America in his study indicates that, the higher age, married people (females) have a positive effect on tax moral than lower age and singles (males). This also supported our study in Ethiopia Tigray state.

### **5.2 Conclusions**

Even though business income tax payers’ tax moral, and tax payers’ compliance behavior had been an academic research topic in most developed countries. There have not been broad attentions in Ethiopia. This is a pioneer study on business income tax payers’ moral and tax payers’ compliance behavior. To the knowledge of the researcher this is also for the first time studied in Ethiopia Tigray state.

Our empirical finding indicated that, there is a significant effect taxpayers’ tax moral on business income tax compliance behavior and positively correlated taxpayers’ tax moral with tax compliance behavior in the study area.

As we know tax compliance is an act of filling the income tax form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority. But here in the empirical finding there is gap to do this by the tax payers.

This study can be seen as one that integrates the relationship of the above elements and the study of tax compliance. Tax compliance is not just a function of chance, tax rates, probability of outcome and so on but of each individual’s willingness to comply designed by knowledge, tax morale, perception and attitude. This means that if tax knowledge, tax morale, perception and attitude are high, tax

compliance will be relatively high. Overall tax payers are more motivated to comply with the laws if the relationship between the tax paid and the achieved government services is found to be reasonable. Consequently, government and tax authority outlook aimed to building confidence in their reliability and their capability is rewarded with higher knowledge, tax moral, perception and attitude.

### **5.3 Recommendations**

- [1] Finding indicated that, there is positive relationship between taxpayers' knowledge, taxpayers' moral, taxpayers' perception, taxpayers' attitude and taxpayers' tax compliance behavior of tax payers in the study area. Therefore ERCA should frequently provide tax awareness programs for tax payers in order to reduce their tax non-compliance behavior. The positive relationship between the dependent and independent variables would be considered as a key input for ERCA to enhance surveillance and monitoring to confirm that all the taxpayers' are brought into the tax net, to increasing taxpayers' awareness regarding tax issues and communicating and evaluate efficiently and effectively the implementation of all the rules and regulations of the Authority.
- [2] The Ethiopian Revenue and Custom Authority should set awareness creation sensations with the tax payers' and create close relationships to bring more citizens in to the tax net and also decrease tax non-compliance. Frequent tax issue conferences should be encouraged the citizens can more fully understand taxation concerns, filling the income tax form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority.
- [3] In the study area, it should backer its education campaigns to increase the taxpayers' ability to understand tax laws, rates of tax, filing, and paying dates, taxpayers' should also know what is needed by tax officials in case of tax audit and inquiries and the tax authority should build absolutely confident about the legitimacy of the claims in their income tax return.

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