Determinants of Tax Compliance Behavior in Presumptive Taxation System. The Case of Dire Dawa Administration

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Abstract

In attempt to reverse the gap between public revenue and public good spendings, many researchers had identified multi-faceted factors using varity of tax compliance methods. However the issue is not yet clearlly known in many countries including Ethiopi due to the limited and inconclusive results. To furher the understanding of tax compliance behaviour in Ethiopia, this study examined the determinants of tax compliance behaviour found in Dire Dawa Adminstaration using behavioral model.The informations randomly collected from299 was analysed using both descriptive statistics and multiple regression Model.In the study,we found that majority of the respondents have settled their tax liabilities without any penality. However, poor services of tax authority , lower level of tax knowlede,and poor perception to government spendings were challenges to tax compliance behaviour.Thus we suggested improving tax knowledge and increasing the attitude of government spendings help to raise the tax complaince behaviour of individuals.

Keywords: Tax compliance; CDQ ; Presumptive taxation;and Dire Dawa Adminstration

1. Introduction

In this study we adopted an indirectlly phrased questions developed both from behavioural theories together with practical determinants factors. For the purpose of controling the real behaviour of respondants, we also used the Choice Dilemma Questionary Approach(CDQ) during the process of measuring factors that affect the complaince behavior of small business tax payers. Because the CDQ donot allow respondats to think a lot and therby mistakenly report (MOHD ,2010); Cartwright ,1971), and Nutt .1986)).

Since tax avoidance and tax evasion undermine the ability of developing countries to finance their public sectors, characterizing and explaining the observed patterns of compliance problem and ultimately finding ways to improve it are of obvious importance to the nations especially in developing countries (Asante and Baba, 2011).

However understanding of the factors underlying the individual tax payer's decision whether to comply with the rules or not comply are different and have uniques nature across Sub-Saharan countris including Ethiopia. Measuring the magnitude of non-compliance behaviour sepecially in small business sectors is difficult because tax is collected based on the Assesment Approach whithin which estimating the levels of uncollected tax is complexor impossible (Asante and Baba, 2011). As aresult of this, many tax authorities, including Ethiopa,throughout the world have become increasingly reliant on standard assessment system as a means of improving the administrative efficiency with regrad to small busines clases.

In Ethiopia more than 85% of the tax revenue is collected using the assesment approach from the small businesses (Mamo Abdi, 2012). All businesses with annual turnover of less than Birr 100,000 are grouped into Small business of category "C . Mamo also indicated that there was a rapid increase (7%) of formal and informal Small businesses in all spheres which they benefited with a reduced tax rate of 30%. This was true after the tax reform of 1992 which palnned to raise tax reveneu of the country. The reform makes paying taxes much easy for small business enterprises by avoiding a frequent filling requirements and book keepings. Though the government of Ethiopia set an increasing size of tax collection since 2010, its achivement was very small compares with sub-saharan countries. WerkinehA.(2013) showed that the average tax revenue of ethiopia during 1999/2000-2011/12 was 4.8% of GDP. But tts income tax was 3.7% of GDP while the average income tax of Sub-saharan countries was 4.79 (International monetary Fund ,2013).

In Dire Dawa Adminstartion, the tax revenue from small business also take the larger share (87%) out of

the total tax subjeced business groups with annual mean contribution of 62% (Yohannes M & Zerihun T,2013)..
This raises a question of why tax revenue is low-where its work and efficency is determined by diffent socio-
economic and behavioural factors. Therfore, examinenig determinants of tax compliance behaviour , depends on
identifying factors that affect tax complaince behaviour and hence understanding the rationale for low level of
tax revenue of the small business sector pose remedial mechanisms to correct the previling problems od tax
revue collection in Dire Dawa Adminstartaion.

Following the increasing of tax non-compliance in Sub-Saharan countries, including Ethiopia, has attracted
many researchers and policy makers to deal with it (Indris et'al, 2011). The tax compliance behavior of these
small business sectors, which donot declare their income or keep book accounts, was examined by many
researchers. For instance , in Sub-Saharan countries including Ethiopia, most tax compliance studies of small
businesses have given less attension to the sector and capture the real behavior of tax payers that affect tax
compliance behavior using comprehinsive tax compliance measurements.

In Ethiopia little is known about the individual tax compliance behaviour to the small business in which the
largest government revenue is based up on it. This is due to the fact that the existing few studies (Lemmesa T.
(2007), Zelalem B. (2011) , and Selamawit W.(2012)) marginalized the issue of real behavior of tax payers using
comprehinsive technique of like Choice Dilemmea Questionary approach and also most are
descriptive/assessment studies. The inconsistent results forwarded by such few studies also hardly affect Policy
makers in the understanding of individual tax complaince behavior in the sector.

Thus this study attempts to explore the tax compliance behavior of small businesses in which standard
Assesment of presumptive taxation is applied as a method of tax collection in Dire Dawa City. The study
examined what reasons motivate tax payers to comply& not to comply to the tax laws and what determinant
factors are important in influencing their tax complinace behavior. To manage the real behavior of tax payers by
minimizing the wrong doing responses , we framed our model using behavioral model of tax compliance and
adopt *Choice Dilemma Questionarie Approach* to control determinat factors. In the study ,the the attitude of tax
payers' to government spendings , horizontal equity and service of tax authoriy are addressed using indirectlly
phrased questions.

2. Literature Review
2.1. Tax Compliance Models
In this study we attempetd to use the Neoclassical Behavioural model of tax compliance variables such as
institutional factors, Economic factors and ,Social factors. In Ethiopian contex , institutional issues such as
perceptions to government spendi and services of tax authority have been missed by many researchers.

The models of tax payer behavior which expalin the decision whether or no to pay taxes according to the
tax laws and procedures reflect certain theories. Economic theories of tax compliance behavior which reflect tax
payers' decision to settle tax liabilities are either the classical Economic detternce or its extension of Behavioral
tax comliance behavior model.

In the Classical Economic deterrence theory, tax payers behavior is influenced by economic factors (such as
tax rate) that detremine the benefit of evasion ,probablity of detection and penalities for fraud (merima Ali.et
al.2012). The model assumes rational behavior among tax payers.The model predictes that an increase in
probablity of detection and penalty lead to higher level of tax compliance. Several studeis including Alm etal
(1992); Allingham,M. & Sandmo,A. (1972); Andreni,J..Erard,B. & Feinstein,J. (1998) and Olandipupo,A.O.&
Obazee,U.(2006) showed that the tax rates, penality and probablity of detection affect tax payers' behaviour.

Despite the grete contribution to the development of tax compliance literature, the model faces many critics;
one it fails to addresse the level of tax compiliance besides its assumption of rational utility maximizers; second
Joana, M. (2014). The classical economic models generally conclude that most people are tax evaders. However,
many emperical evidences suggest that many people are honest tax payers. Even with low level of deterence
some people will report the totality of their income There are some people who never paying taxe even then the
risk is sufficently low to encourage cheating behavior (,Coricelli et al.,(2003) and merima Ali.et al.2012)).

The study of Joana, M. (2014) ; Siqueira and Ramos (2005) ;Frey and feld (2002)) argue that tax evasion
cannot be fully explained by financial determinants and economic incentives. Thus Following the lmitation of
the classical's approach of tax complaince model, this study adopt the behavioral aspect of tax compliance
decesion model which it has gaine ground in the literature.

This is because the Tax Compliance Behavioral model of Neoclassical ,as it is explained by Jackson and
Milliron, 1986 ; Bordignon,1992 ;wenzel,2003; Mumford,2001, is built based on the basis of sociological and
psychological determinants. In the model tax payers are seen to no longer selfish utility maximizers like the
classical Economic Detterence of tax complinace behavior. Tax Payers act as human beings motivated to pay
taxes on the bases of different atitudes, norms, belifes, perceprtions, feelings, social characterstics, cultural
backgrounds like age, gender, race, religion, and etc.

The model is framed using socio-psychological determinants and works with "slippery slipe "framework of

Kirchler, Hoelzl and Wahl (2008). Having two dimensins ; trust in authorities and power of authorities. Trust in authorities is the opnion of individuals and social groups that the *tax authorities* benevolant and work beneficially for the common good with out anykind of inequality. Whereas the power of authority is concerned with tax payer's perception of potential of tax officers to detect illegal tax evasion and to punish tax evaion.

Eventhough the behavioral model of tax compliance have received an increasing attention from researchers, there is still a lot to explore in order to develop amodel that can fully explain tax compliance behavior in developing countries like Ethiopia. Based on the two dimensions, we identified important factos that affect tax payers' compliance behavior specially the socio-psychological determinants. Economic, social, demographic,institutional and individual factors are aslo involved using emperical evidences and contextual issues.

This study contribute to the development of tax compliance /behavioural model of tax compliance with its view of crucial behavioural policy variables such as tax payers' perceptions to government spendings, and change in governmental policies. It also adds knowldeg on methodlogy of tax compliance study of Sub-Saharan countries by using Choice Dilemma Questionary Approach for the measurement/control of tax payers' influential factors and use of Behavioral Tax Compliance model.

2.2. Determinants of Tax Compliance in Ethiopia

Tax compliance behaviour is not simple phenomen. It is affected by economic determinants, institutional factors,social factors, psychological factors and individual and demographic factors (MOHD (2010); Joana, M. (2014) ;and Alm,Jackson and Mckee (1992)). The study of Kidst M.(2013) on "tax assesment problems and collection procedure in Category C tax payers of Addiss ababa Nifas Silk sub-city" was aimed to identify problems in the process of tax collection procedure. Using a descriptive method of analysis, the study found that the method of collection is too vulnerable to unfair treatment of tax payers and created a loophone for corruption. It also found that tax payers do not know the rules and regulations of different types of taxes they pay. This led them to delay in ta+-x payments and evadsion. Similarlly the study of Selamawit W. et al. (2012) indicated that lack of awarness about tax procedures,problem of equity and simplicity of paying taxes and lack of objective tax estimation are the main problems happenings on collection of category C tax payers.

The study of Suresh V. and Sirinvas G. (2012) made on rental tax payers of Mekelle city aimed to identify the influencial fators that affect tax comliance behaviour. Using a descriptive method, it indicated that lack of awarness and inability in capturing the tax laws &regulations arised from little education and lack of trainings to tax payers are main obstakles tocomply positivelly to the tax laws. The study of Lemessa T. (2007) also aimed in assesming the factors that affect voluntary tax compliance behaviourin Dire Dawa City category C tax payers. Using purposive sampling and descriptive method , it found that fairness&equity,knowledge gap of tax payers and provision of social services by the govenments were the main factors which influence tax compliance behaviour.

The study of Zelalem B(2011) which targetd to examine whetehr education can influence respondants's compliance behavior in addis Ababa city. Using both survay and experimental approach , the study found that tax compliance behaviour is influenced by education. On the other side Yohannes M. and Zerihun A. (2013) assesed challenged by business community tax payers of Dire Dawa Adminstartion using qualitative information gatherd through a survay and focus group discusions with the city's chamber of commerce and sectoral association, tax and revenue authority and federal custor and internal revenue authority. Using discriptive statistics, the study found that most C tax payers face problems related to taxation system, and tax rate is reported as it is beyond their ability to pay.

3. Materials and Method
3.1. Materials
3.1.1. Measuring of dependent variable: Tax Compliance behaviour

In measuring tax comliance behaviour /attitutde , respondants were asked avarity of 26 questions if they have non-compliant behavior to pay taxes to the government during the period of payment. Ingeneral individuals are required to respond their perceptions ,using the five likert scale choice, regarding the statements about the efficiency of tax authority, government's policy and spending pattern, and tax policy. However, may studies indicated that individuals are tend to hide the truth when they asked about some sensitive but important questions such as fairness of tax authority and perception about government spendings. Obtaining of valid quantitative information about tax compliance is practically impossble with such kind of direcct method.

To solve the problem, other researchers like Kaufman (1997) and Reinikka (2006) adopt an indirectlly phrased questions to measure tax compliance so as to avoid the direct implication of wrong doing by respondants. However, this method is limited to address the wider scope of individuals' behavior to the governments procedures.

We adopted the works of MOHD (2010), Cartwright (1971),and Nutt (1986) to measure tax comliance

attitude using a 5 likert –scale based on questions extracted from practical as well as theoretical frameworks. The questionarie asks respondants to indentify reasons/pushing factors that lead them to comply or/and not comply. We asked them 11 variety of questions to directlly measure why they pay according to the rules. In this regard, they were asked to respond whether they think that government's spending pattern is not reasonable. They were also required whether there is vertical equity in paying taxex and no close friend ship with tax experts. They also required to state whether government public service provios are satisfactory. Finally they were required to state whether tax authority is capable of detecting fraud and punishing. In this regard, the high value represent is implied that tax payers are more compliant. Because high value is given to stronglly agree option.

On the other side, 14 questions were also provided to evalute individual's response why they did not comply. In this part, we asked respondents to state whether lower penality, lower earnings due to market condition, lower motivation of tax authority, priority is to personal liablity before taxes led them for their non-compliant behaviour. They were also asked to respond whether observing of no individual is penalized not to comply.

The order value of questions were presented in such away that they reflect tax compliant behaviour tough the questions directlly reflect why they became non-compliant.

In both part of the questionaire, respondants were asked to mark their opinion in the ranges provided from strongly dis-agree to strongly agree. This arrangement of scaling/measuremnt/ help respondants to immediatelly respond what they think with out taking much time. If they moderately agree, it was scored four points and if they strongly dis-agree they scored 1. Once all the twenty five questions are measured and summed, the tax compliance score or behavior is known. Based on this, individuals are said to be compliant if their compliance score is above the mean of total compliance score (85 points) and non-compliant if their score falls beelow the total mean score.

3.1.2.   Measuring of independt variables

The principal source of data for this study was the 2014/15 survay collected from small businesses or Schedule "C" tax payers registerd in Dire Dawa city ,Ethiopia. The survay was conducted using Chice Dilemma Qquestionary (CDQ) approach to collect information about tax payers' attitude on auditing/re-checking, governmental spending , equity & fairness , penalty , financial constraint, change in government policies, and referent groups. However, variables such as service of tax authority , ethicas,and tax knowledge were measured using indices arised from 1 to 5 likert scales.

The variables was measured using CDQ approach was made in a way that the Yes/No was initially weighted as 40% ("yes" =1 mark, "No"=2 marks) while the PROB was weighted as 60% (1=5 marks and 5=1 mark). We adopt this technique because of its ability control respondants's biasenes. Because the YN technique did not require respondents to think a lot rather to tick simply either "Yes" or "No". But the PROB part lead respondents to determine which scale (out of five scales) they were on. Here we prefer to use 40:60 weighting ratio instead of using other ratios like 70:30 due to the nature and different rigorousness of the questions we used.

During CDQ approach, first respondents were required to respond both to Yes/No (YN) and to "tick" a probability (PROB), had they been in place of others as a tax payer, from "very low probability to "very high probability", using a likert scale of 1 to 5. For instance if the respondents answer "yes" and ticked "very high probability", it indicated that he/she was highly non-compliant. The score for him/her would be 1 ((1*0.4 + (1*0.6)). All the seven variables were measured with the same techniques of YN and PROB(CDQ).

Based on the score values of these variables, the high value the variable has the more non-compliance score of the tax payers. This is due to the fact that the variables were measured indirectly in a way that the high value was attached if tax payers strongly dis-agree and low value if they strongly agree.

Other factors such as ethics of tax payers, general service of tax authority and level of tax knowledge were measured using indices of likert scale of 1 to 5 . The score value of each of these variable implied that the value above their respective mean is considered as high value and tax payers believed to be more tax complanit.

Because such variables were measure directly using likert scale of 1 to 5, strongly dis-agree (1point) to strongly agree (5poits). Once important informations were collected, the deteriminats factors for tax comliant behavior were explored Using Simple Ordinary Least Square regtesion (OLS). But the objectives of examing reasons for compliance/ non-complinace attitude was addressed using descriptive statistics like ANOVA and T-test.

3.2. The Method

3.2.1.   The Econometrics model of tax compliance

For the purpose of capturing the factors that influence tax comliance attitude , we framed our tax compliance study using ***Behavior model of Tax compliance*** adopted from Krichler, Hoelzl and Wahl (2008). **T**he model gave attention to the sociological and psychological determinatnts due to the reason that tax payers are seen no longer as selfish utility maximizers (as of the classical view) but as human being motivated to pay tax on the

basis of different attitudes, norms,beliefs, perceptions,feelings, social charcaterstics, cultural backgrounds (Wenzel, 2003; Wenzel, 2004a; Wenzel, 2004b; Wenzel, 2005a; Wenzel 2005b). Based on this context, the tax compliance behavioural model was framed using Gujarati, D. (2004):

$Y_i = \alpha_0 + \beta_i X_i + \gamma_i Z_i + \epsilon_i$……………………………………………………….. 3.1

Where Y_i is the dependent variable which reprents tax complaince behaviour. It is continous as we measure in section 4 below. X is avector individual characterstics sucg as education, monthly income , and age of respondants; Z_i is avector for variables that capture factors which affect tax compliance attitude. It includes factors such as economic, institututional, social,cultural and demographic issue. β_0 is the constant and γ & β_i, = are Regression parameters that is i=1, 2,….n whereas ϵ_i regression residuals.

The factors specifeid as deterinimats are grouped in Economic, social, demographic,institutional and individual factors.

Economic factors: These are factors related to the cost and benefit of performing the business. Tax payers attempt to minimize their tax liability by intentionally under reporting their income and enjoy tax saving if they were not detected by the tax authority. On the other hand, they are also willing to pay more, including penalty, if they were caught (Joana, M. (2014) ;and Alm,Jackson and Mckee (1992)). Thus we used perception of tax payers about probablity of auditing/rechecking, income constraint or lower earnings , perception of equity & fairness and perception of government spending as factors that influence tax complaince attitude among the many economic factors. Since tax rate is common to all tax payers , we did not conside it in this study.

Social factors: These factors that help to examine individuals tax compliance behavior in veiw of others people's behavior and their social-environmental context tax payers including friends, family and others referent groups. The dimension of social factors as a determinants of tax compliance can be extended to the psychology of tax payers such as ethics and individual's attitude towards tax compliance. In this study referent group (family and friends), change in current government policy, and ethics were taken as social determinants of tax compliance.

Institutional factors; While tax payers are influenced by the economic and social issues to comply or not to comply to the tax rules, many studies suggest that institutional factors also play an important role in challenging tax compliance decision. Efficency of tax authority, and simplicity of paying tax. In this study, we measured efficency of tax authority using avarity of 10 questions. Since simplicity of taxation is assumed to be solved by the system of standard presumptive taxation, we only focused on efficency of tax authority. During the measuremnt of efficiency of tax authority, we considerd issues like awarnes creation about the new procedures, provision of incentives and counsellings, solving complaints timelly and justlly, and equal service to customers.

Individual factors: Personl background about tax Knowledge and ethical manner of tax payers is believd to be important determinants factors. In this study, the knowldege base of tax payers is measured to asses wther tax payers know their duties and rights during the process of settling their tax liablities. It incorported issues about period of payment, punishment at time of delay , and system of appealing.

These are most critical to tax payers in the ethiopian case study because most research studies recommend to measure the knowledge base of tax payers. For this we include the variable whether it is true to Dire Dawa tax payers compliance behaviour.

Ethics of tax payers are also included as aregressor. It is measured using tax payer's feeling about reporting of deducted income, hiding of saling commodities at time of assesment, perception about reporting actual/aproximate income during assesments.

Demographic factors: These constitute essential elements that affect the tax compliance behavior of tax . As control variables , we used age , income , education and gender of respondants to capture issues emanet from personal demographic characterstics.

   The major data limitation of this study was that we faced many incomplte questionaries due to the sensitivity of the issue. However we attempted to manage the incompleted responses using respondants ID and their geographical units. On the other side, we did not use triangulation using experimental approache due to budeget constraint.

4. The Result
4.1. Descriptive Analysis
Reasons to comply and not comply;
The result of descriptive analysis showed (Seen table 1,2&3 in Appendix), that majority of the respondents, 90.66%, paid their taxes on time and also 71.24% of them did not pay penalty. We found that majority of tax payers have better education, low income , poor ethics and low level of tax knowledge. However , 38.46% of the respondents did not understand the tax laws and policies due to the fact that tax laws and policies did not written in local language such as Afan Oromo and Somali languages.

   Tax payers' knowledge, ethics of tax payers and efficency of Tax authority wee among the motivating factors for compliance behaviour. The non-compliant behaviour of tax payers are due to the probablity of being

auditing/rechecking, unfair treatment, reduction of business earnings , change in governemnt policy, and efficiency of tax authority. Equally important, low level of penalty (78%), poor motivation of the tax authority (61%), and absence of penality to friends when they do not pay (58%) are also challenges to their non-compliance behavior.

4.2. The Regresion Result
4.2.1. Robostness of the model
As it can be seen from Prob< F test (0.000) indicate, the overall fit of the model is significant which implies that the variables included in the regresion create a statistically significant improvement in the fit of the model. The R-square and adjusted R-square also supplements the good fit of our mode with R-squared (0.4136) and Adj R-squared (0.3569).

We also conducted Post estimation of link test to check whether the dependent variable (tax compliance behavior) is specified correctly. Accordinglly ,we found that the *hat* is significant and the *hats square* is not-which implies that the model is correctly specified -no omitted variable biase. To ensure the reliability and validity of the regresion, some diagonestic test like hetroschedasticity and multicollinerity was conducted. While the issue of hetroschedascity was found to be problem (tested via white test) but the VIF test of multicollinerity was no problem to the model. To avoid the proble resultedfrom hetroschedacity , we regresed our model with robost regresion.
4.2.2.   Determinants of tax compliance behavior

Source	SS	Df	MS	N.of obs.		294
Model	11945.8824	15	796.392163	F (15 , 278)		11.98
Residual	18483.5636	278	66.4876387	Prob > F		0.0000
Total	30429.446	293	103.85476	R- squared		0.3926
				Adj R-		0.3598
				squar		8.154
				Root MSE		

Total tax compliance score	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
GENDER OF TAX PAYER	-0.3171483	1.04329	-0.3	0.761	-2.3712	1.736904
EFFECT OF BEING AUDIT	-1.139405	1.652094	-0.69	0.491	-4.39208	2.113275
CHANGE GOV'T SPENDING	1.905595	1.109337	1.72	0.087**	-0.27849	4.089683
UNFAIR TREATMENT	1.513504	0.9626251	1.57	0.117	-0.38173	3.408741
EFFECT REFFERENT GROUPS	1.759672	1.041425	1.69	0.092**	-0.29071	3.810053
BEING PENALIZED	-0.0249485	0.5636599	-0.04	0.965	-1.13469	1.084798
EFFECT REDUCTION INCOM	1.108012	0.5018964	2.21	0.028*	0.119867	2.096156
Efficency of Tax Authority	1.004208	0.1003503	10.01	0.042**	0.806636	1.20178
ETHICS OF TAX PAYERS	0.9471375	0.2111585	4.49	0.024**	0.531404	1.362871
LEVEL OF TAX KNOWLEDGE	0.6063092	0.1947272	3.11	0.002***	0.222926	0.989692
_cons	45.10773	8.393501	5.37	0.000	28.58242	61.63304

N.B. *, ** and *** indicat the variable is significant at 1%, 5% and 10% level of significance

As it is shown from the regression result table, individual levelof tax knowledge and effiecncy of tax authority stronglly and positivelly influence tax compliance behavior at 5% level of significance. A unit increase in these variables couse tax compliance behaviour to increase stronglly by almost equal proportion,1 by 1. The increase in tax knowledge enforce tax payer to comply stronglly. Because these groups know the value being tax compliant. Similary tax compliance behavior increases by 0.99 for a unit increase in the efficiency of tax authority. Tax payers comply more if they are satisfied with the effieceny/service of the authority including provision of trainings and advising, fair treatment,and increase in capacity of the authority to resolve appeals timelly and fairlly.

Ethical manner of tax payers (which indicate fraud is perceived as immoral or wrong) is another variable that positively affect tax compliance behavior. Those who have good tax ethics (those who are truthful in declaring their income, donot hide sales goods at time of assesment and those who shay when they evade) are more compliant than otherwise. This indicated that as tax payer's ethics increase by one unit their compliance score increase by 0.908.

Change in market condition (especially fall in income) also influence tax payer's compliance attitude. Because individuals try to compensate the reduction of their income by untruthfully declaring their income. The result of this study assure that tax payers who face reduction of income , as a result of market variation, tend to reduce their compliance bahaviour by 1.108 for a one unit decrease in business income.

On the other side, referent groups strongly and positivelly influence compliance behaviors. Whenever tax payers get an increasing influenced from friends and family members, they surprisinglly tend to incresea their compliant behaviour. This could be due to low level of tax knowledge. Similarlly auditing/re-checking, and change in government spending policies (observing of governembt spending to luxur products of government oficials) have also apositive effect on compliance behavior . It could be due to the fact that tax payers believe

officials highlly authocrat and have not excuse to the faluts.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion: The result of descriptive analysis showed that majority of the respondents, 90.66%, paid their taxes on time but significant number (38.46%) of the respondents did not understand tax laws and policies due to language problem. In the study, absence /low level of penalty is mentioned among the factors for non-compliant behaviour. But statistically insignificant for compliance behaviour.

The result of the econometrics model indicated that tax compliance behavior is significantly and positivelly influenced by tax payer's level of knowledge, referent group, ethics of tax payers, and change of market condition, unfair treatment and role of tax authority.

5.2. Recommendation and policy implication

Since tax payers level of knowledge affect tax compliance, the authority has to increase its awareness creation though public relation program. Individuals need to be informed about the advantage of paying taxes regardless of any out side presures at society's institutional set ups like Edir, equip and reliogus organizations. Additionally, we adived the authority to aware potential tax payers at time of registration and assesment through leaf lets and traings. If information centers are established at kebele level, no doubt , tax compliance behavior of in the adimnstarion would improve.

- As others countries the simplicity and efficieny of tax authority has significant correlation/ effect with tax compliance behavior, we recommend dire dawa tax authority to improve its services at each department level through identifying which servuces of the tax authority are claimed by claints. We suggest the authority to increase its system of solving claims as it is now too poor. Equally important, the authority better design the assesmen system both in assigning ethical and profesional experts and increasing period of estimation. This is because un fair treatment is one factor fon non-compliance behaviour and business activities are now highlly affected by fluctuation prices in the the economy.

- Though tax compliance behaviour is found to be negativelly affected by spending pattern of the government , we believe that such spending pattern will no longer exist rather it will make tax payers non-compliant specially when they observe big inequality among residents. Thus we advised the authority to asure whether people's attension towards the government are positive . This could be done though arranging a media workes about short and long term governments public infrastructure undertakings /projects. People need to know what has beed done with their tax payments. The authority is expected to launch weekly regional media progrm together with tax experts and scholars.

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Appendices
Table 1. Profile of Respondants

Level of income	Option	Frequency	Percentage
	Below 1000 ETB	158	52.84
	1000-5000 ETB	114	38.13
	5000-10000ETB	23	7.69
	Above 10000	3	1.33
Year of experience	Below 1 year	78	26.09
	1-5 years	142	47.49
	5-10 years	53	17.73
	Above 10 years	26	8.7
Did u pay tax on time?	**Freq.**	**Percent**	**Cum.**
Yes	270	90.66	90.64
No	28	9.36	100.00
Total	299	100.00	
Did u paid penalty	**Freq.**	**Percent**	**Cum.**
Yes	86	28.76	28.76
No	213	71.24	100.00
Total	299	100.00	
Did you take training regarding tax	Freq.	Percent	Cum.
Yes	118	39.46	39.46
No	181	60.54	100.00
Total	299	100.00	
Did u audited by tax authority	**Freq.**	**Percent**	**Cum.**
Yes	70	23.41	23.41
No	229	76.59	100.00
Total	299	100.00	
Is there tax laws that is written by your local language	**Freq.**	**Percent**	**Cum.**
Yes	184	61.54	61.54
No	115	38.46	100.00
Total	299	100.00	
Did u visited by tax authority	**Freq.**	**Percent**	
Yes	149	49.83	
No	150	50.17	
Total	299	100.00	

Table 2. Reasons motivate tax payers to comply to the tax laws.

Reaons motivate tax payers to comply	Strongly disagree	Dis – agree	Not sure	Agree	Strongly agree	Mean score	t-test Pr (T>t)
Patience of tax office when they didn't comply	47.83	32.11	10.37	5.35	4.35	1.862	0.963
Ability to find mistake	17.39	35.79	24.41	15.72	6.69	2.585	1.0000
Reasonable gov't expenditure on poverty reduction	20.74	17.39	20.40	24.41	17.06	2.996	1.0000
Satisfaction on infrastructure provided by gov't	19.40	20.40	26.76	19.73	13.71	2.996	0.1235
Non extravagant government expenditure	18.73	27.42	29.43	15.72	8.70	2.682	1.0000
Horizontal equity	14.05	21.74	26.09	25.42	12.71	3.010	1.0000
Vertical equity	15.72	25.08	24.75	24.41	10.03	2.879	1.0000
Advantage of tax for the poor	20.07	23.75	22.74	24.75	8.70	2.78	1.0000
Low complexity of paying taxes in tax office	15.72	23.41	20.74	31.44	8.70	2.939	1.000
Expectation of high penalty	16.72	23.08	21.07	28.43	10.70	2.933	1.000
High intimacy of tax payers with tax office	23.08	19.06	30.43	21.07	6.35	2.686	1.00

Tabel 3: Reasons for non-compliant behaviour

Facto;rs which affects tax payers attitude	Strongly disagree	Dis-agree	Not sure	agree	Strongly agree	Mean	t-test
Low level of penalty	37.73	39.93	9.89	7.69	4.76	2.018	1.000
Lower motivation of tax office	20.82	39.78	17.10	13.38	8.92	2.498	1.000
Lower amount of penalty compared with income generated from delayed tax	24.34	41.57	17.60	9.36	7.12	2.333	1.000
Lower level of income in comparison to expenditure	21.05	34.59	12.03	24.44	7.89	2.635	1.000
Increase in utility expense	18.15	30.37	13.33	25.93	12.22	2.844	1.000
Paying other debts prior to tax.	17.16	30.97	14.55	26.87	10.45	2.824	1.000