

# Determinants of Tax Evasion in South Omo Zone Revenue and Custom Authority

Mohammed Abdella  
principal investigators; Ethiopia  
Jinka University, College of Business and Economics,  
Department of Accounting and Finance lecturers

Addisu Karafo  
co investigators; Ethiopia  
Jinka University, College of Business and Economics,  
Department of Accounting and Finance lecturers

Abatneh Mengistu  
co investigators; Ethiopia  
Jinka University, College of Business and Economics,  
Department of Accounting and Finance lecturers

Tiblets Nguse  
co investigators; Ethiopia  
Jinka University, College of Business and Economics,  
Department of Accounting and Finance lecturers

## Abstract

Tax evasion is a major obstacle that highly affects tax revenue which the government consumes to support its activities. It hinders socio economic and political aspects of every country whether it is developing or developed nation. With this background problem that this study focused on assessing the factors affecting tax payers to evade government revenue in south Omo Zone. To achieve the objectives, explanatory type of research was used because the intension of the study was to investigate the cause and effect relationships between variables. In addition; both primary and secondary data was collected from tax payers, officials, and written materials using questionnaires, interview, and reviewing were used. The participants for the study were selected through purposive and stratified sampling techniques. Finally, the collected data were edited, coded, and analyzed using statistical software. Accordingly, the result of the study revealed that that high tax rate, unfair tax system, ineffective tax audit, low accountability and transparency of public institution and low level of taxpayers' awareness are the main factors increasing tax evasion in south Omo. The researchers through their assessment find out that there is high amount of evasion exist in south Omo zone revenue and custom authority. Finally researchers recommended that, to lower tax evasion rate the tax authority should develop a fair taxing system. Tax system should be easy & easily understandable for the public. Tax revenue authority should have to be accountable and responsible in the use of funds and give appropriate service to the public in return for their payment to discourage evasion of taxpayers.

**Keywords:** tax evasion; taxpayers' awareness; tax rate; tax system; tax audit

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## 1. INTRODUCTION

The socio-economic and political development of every country depends on the amount of revenue generated. One means of generating revenue to provide the needed infrastructure is taxation. Tax is a compulsory levy imposed on a subject or upon his property by the government (Edame, 2014). It is a civic duty and an imposed contribution by government on its subjects and companies perform its responsibilities. Thus, tax constitutes the principal source of government revenue (Adebisi, 2013). Government use tax proceeds to render their traditional functions, such as provisions of public goods, maintenance of law and order, defense against external aggression, regulation of trade and business to ensure social and economic maintenance (Edame, 2014).

Tax evasion is a situation whereby a taxpayer out rightly refuses to pay tax, or tries illegally to minimize his/her tax liability by hiding income or information from the tax authorities" (Farny, 2015). It is fraud and deceit deliberately refusing to declare all sources of income when filing returns or understate income in tax returns (Ellawule, 2018, Jasmine, 2014). Tax evasion is a problem in almost all countries. It is criminal act since it is achieved principally by making false declarations such as under reporting income or over reporting deductions. Today tax evasion seems to take place in practically every country in the world, and should be considered a potential problem everywhere. According to Ellawule (2018) anecdotal evidence from different developing

countries indicate that half or more of the taxes that should be collected cannot be traced by the government treasuries due to corruption and tax evasion. For example, (Gupta, 2013) calculates a sum of US\$285 billion per year which developing countries lose because of tax evasion in the domestic informal economy. Also, global Financial Integrity (GFI) calculates that developing countries loose between \$859 billion to \$1.06 trillion a year through illicit financial flows. Illicit financial flows are defined as money that is illegally earned, transferred, or utilized (Gupta, 2013). A new study by GFI estimates that African countries have lost US\$854 billion in cumulative capital flight over the period 1970-2008 (GFI, 2010).

### 1.1. JUSTIFICATION OF THE STUDY

Globally, governments are burdened with the responsibility of providing basic infrastructures for its citizens. They are held responsible to provide public goods and service like schools, hospitals, roads, bridges, defense, and other which are impossible to be provided by private firms. They have many sources of income/finance to finance these projects like internal and external borrowings, aids, grants, sale of public assets, tax and other. Among aforementioned sources of finance, tax is the indispensable, principal and stable source of finance in helping the government to undertake its functions appropriately if it was raised and mobilized properly.

Tax is an integral part of countries' development policies, interwoven with numerous other areas, from good governance and formalizing the economy, to spurring growth. It promotes SME and stimulates export activities, provides governments with the funding required to build the infrastructure on which economic development and growth are based; creates an environment in which business is conducted and wealth is created, shapes the way government activities are undertaken and plays a central role in domestic resource mobilization (Mike, 2009). It needs the efficient and effective mobilization of revenue from every activity to support government and public body that is responsible for the administration of the mobilized tax. Nevertheless, domestic resource mobilization in developing countries like Ethiopia is challenged by a number of factors frequently illicit financial outflows tax evasion (UNDP, 2016).

Tax evasion remains the greatest problem confronting African and most countries of the world. There has been a silent agreement from many quarters that there is a tax gap between the actual tax collected and potential tax collections (Somorin, 2001). However, this seems to be a problem that every tax system faces. A number of empirical studies showed the amount of illicit flows of cash per year in developing countries as between \$35 billion to \$160 billion (Okfam, 2000), \$285 billion (Cobham, 2005), between \$500 to 800 billion (Mike, 2009), between \$859 billion to \$1.06 trillion (GFI, 2010) and other. As a result of this, many countries in sub-Saharan fails to raise sufficient revenues to finance the government deficit and support the development needs according to UN development program (2013). The report also stated that half of these countries rose 16.8% of GDP from tax revenue which is below the UN standard 20%, to achieve the millennium development goal (MDGs).

Like other developing countries, Ethiopia faces difficulty in raising revenue to the level required for the promotion of economic growth (Tesso, 2015). The tax revenue collection performance of the country is lowest compared to an average tax collection performance of sub Saharan African countries, World and Euro zone area (Alemayehu, 2015) and even below its neighboring countries such as Kenya and Rwanda (Worku, 2016). Moreover, the amount of tax evasion reached 10% of the economy (Asaminew, 2010). To deal with this problem government takes different measures but, they did not bring the required result (Alemayehu, 2015).

Tax is a major source of government revenue all over the world so to investigate determinants of tax evasion is important for reducing evasion practice. Accordingly, The objective of this study was to investigate the determinant of tax evasion in south Omo zone revenue and custom authority.

The specific objectives of the study are going to be:

- To examine the effect demographic factors (Age, gender and educational level) on tax evasion.
- To examine the effect of economic factors (tax rate) on tax evasion.
- To examine the effect of administrative factors (penalties, unfair tax system and Ineffective tax audit) on tax evasion.
- To examine the effect of behavioral factors (low tax moral & low accountability and transparency) on tax evasion.

## 2. REVIEW OF LITERATURE

### 2.1.1. Definition of Taxation

Tax, in the simplest form, can be explained as economic obligations imposed by the governments on natural and legal persons (Helhel & Ahmed, 2014). The basic functions of this economic burden imposed on citizens by the states is to provide source of funds used for development projects such as provision of infrastructure like good roads, stable power supply, stable water supply etc.

Taxes are compulsory levy, imposed by government on income, expenditure or capital asset for which the tax payer receives nothing specific or indirect return of goods or services by the government. Tax is one of the important sources of government revenues. Stability and continuity of the flow of tax collection play an important

role in the government planning's for providing variety of the required public services in different areas (Anteneh et al, 2014).

#### **2.1.4. Definitions of Tax Evasion**

Tax evasion is a word used to describe efforts of individuals and corporate entities towards dishonest reduction of tax liabilities (Muzainah, & Zakariya, 2016). Tax evasion, in general, refers to illegal practices to escape from tax liability. In case of tax evasion, taxable income; profits liable to tax or other taxable activities, i.e. the amount and/or the source of income, are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated. Tax evasion can occur in two major ways: i, in legally registered activities when businesses or individuals completely fail to report their income, understate their income, overstate their deductions/expenses or delay in paying their tax returns; and ii, in the informal/underground economy where the whole activity takes place in an informal manner in which businesses are not only evading tax payments but also not fulfill the legal requirement necessary for their operation. (Ketema, 2013). Tax evasion is a process in which a tax payer does not pay tax to the tax authorities (Waseem (2014), tax evasion in wider sense, any activity which is against the law designed for reducing, avoiding or delaying one's tax liability that is, if found may bring imprisonment, penalty or monetary fine to such person who is evader.

(Zakariya'u, Muzaineh, & Abdurrahman, 2015) define Tax evasion is characterized as an intentional wrongful attitude, or as a behavior involving a direct violation of tax laws, norms and ethics regarding citizenry obligation to escape the payment of tax. The intentional underreporting of income, as well as over-claiming of a tax deduction, is an obvious example of tax evasion. Different researchers define tax evasion as their own perception.

#### **2.1.5. Tax evasion in Ethiopia**

In Ethiopia there is a significant amount of economic activity (36% of the recorded economy) that is not reported and captured by the official statistics. The amount of tax evasion reached 10% of the economy. The result has important implication for tax policy (increasing the tax rate versus the tax base) and incentive structure towards the small and medium scale enterprises if these sectors are to be the deriving engines of Ethiopia's transformation (Emrta, 2010). In most developing countries, like Ethiopia, the revenue generated by the government is quite less than the expenditures spent. This low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration due to the noncompliance behavior of taxpayers (Worku, 2016). Tax evasion was higher during the 1970's and 1980's reaching as high as 10.4% of the recorded economy. Although the share as percentage of GDP is declining recently, it is growing on average by about 19 percentage points in nominal terms since 2000. It remained high but declining since 1991 while tax revenue to GDP ratio start to increase before it start to bend downward since 2004. The declining trend in tax-to-GDP ratio since 2004 is mainly due to the rapidly growing economy in the face of stagnated tax collection efforts (Emrta, 2010). Note 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. In Ethiopia the informal economy was widespread between 1977-1991 when the country was under continuous civil war and instability providing a favorable condition for the development of the underground activities. During this period, it reached an average size of 41.5% of the recorded economy. After the reform packages since 1993, the size of the informal economy declined to 30% (1998-2006 average) of the official economy. Informality seems to revive again recently and reached to a high level of 33.3% during 2007-2008 (Emrta, 2010).

#### **2.1.6. Modes of Tax Evasion**

The various techniques adopted to evade tax are impossible to totally outline, because in their craftiness many of the techniques adopted are hidden away and new ones conceived every now and then (Zebulun, 2016). According to (GIZ, 2010) The overview does not provide a comprehensive list of all possible modes of tax evasion but rather focuses on the most relevant ones in terms of tax losses in developing countries.

**Non-declaration of financial assets in offshore financial accounts:** - These include misreporting and non-declaration of personal income or corporate profits to circumvent direct income taxation or tax obligations resulting from sales of goods and services. In this context, holding offshore financial accounts to conceal taxable income from tax authorities in the country of residence allows tax evaders to benefit from low or zero taxes abroad, exploiting bank secrecy and poor financial regulation abroad.

**Trade Mispricing:** - through faked invoices between colluding exporters and importers serves as a commonly used way to illegally transfer money from developing countries to financial accounts abroad usually with the purpose to evade taxes (GFI, 2010).

**VAT fraud:-** False statements of business transactions subject to VAT represents a type of tax evasion that has attracted increased attention in the course of broader adoption and rising rates of VAT or goods and services taxes (GST) in developing countries. Fraudulent exploitation of the VAT system thereby takes a number of different forms and is carried out within as well as across national borders. All different forms of VAT fraud rely on the principle that all registered businesses are able to credit VAT expenses from purchasing input goods against VAT due on their sales. Missing trader fraud / carousel fraud, Misclassification of goods and Smuggling of goods are some examples of VAT fraud.

**Bribing tax officials:** - Developing countries that suffer from inefficiencies in the administration and enforcement of taxes are exposed to bribing activities by companies as shown in the case of Bangladesh where sugar importers evaded 90 % of excise taxes in collaboration with corrupt tax officials (TJN, 2003).

#### **2.1.7. Causes for Tax Evasion**

In order to develop methods and instruments for fighting tax avoidance and evasion, it is important to establish a broad understanding of the different causes underlying these problems. To understand what might be done to tackle the issues of tax avoidance and evasion, the mechanisms used to undertake such activities need to be understood first of all (Ketema, 2013).

##### **2.1.7.1. Knowledge of taxpayers**

The people should have a knowledge and understanding of tax regulations, to meet tax obligations, taxpayers need to know about taxes in advance. Without their knowledge and understanding of the tax rules, the public may not want to pay taxes. With their good understanding of tax, the public will be better to understand the importance of paying taxes, and what benefits can be felt directly and indirectly. With the knowledge and understanding of tax rules, the people will be open-minded, that taxes are purely used for the needs of the nation and its people. With this understanding of the tax, the level of evasion, avoidance, corruption and fraud that may occur can be minimized.

##### **2.1.7.2 Ineffective tax audit**

Auditing is a systematic process of objectively obtaining and evaluating evidence regarding information about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users (American Accounting Association, 2017). Tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently. It has contributed immensely in creating awareness amongst stakeholders, strengthening of the self-assessment tax system, bringing of more taxpayers into the tax net, increased generation of tax revenue and checking of various abuses in the tax system and also to discourages tax evasion & avoidance.

##### **2.1.7.3. High Tax Rate**

There is significant relationship between the tax rates and tax evasion (Adebisi, and Gbegi, 2013). The relationship between tax rates and evasion is significant, because tax rates are an instrument that can be manipulated for policy goals and because such rate changes may have a substantial effect on evasion. Supposedly that tax rate go up, people report less taxable income, because they are engaging in more tax evasion (Jon, and Williams, 2011). High tax rate that make evasion more attractive, encouraging and economical, absolute ignorance of tax laws, lack of physical benefits accruing to the taxpayer and lack of confidence and trust in government for effective management of the tax (Zakariya'u et al, 2015). Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer. However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes.

##### **2.1.7.4. Unfair Tax System**

Tax System is a system that is characterized with tax policies, tax laws and as well as tax administration. These coupled of policies and laws are expected to work together in concord with one another in order to achieve the overall objective for economic growth of the country (Zakariya'u et al, 2015). Tax systems are expected to perform many different roles such as Raising of revenue, redistribution of wealth or re-allocation of resources and behavior modification ('regulation') are the three main areas. Most modern tax systems incorporate a mixture of taxes on income (personal and corporate), on consumption (VAT or GST) and, to a lesser extent, on wealth.

##### **2.1.7.5. Low transparency and accountability of public institutions**

Lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the services rendered by the government in return For the tax paid. This, in turn, increases the willingness to evade taxes. (Kirchler, et al., 2008), Corporate taxation has long been an extremely complex and demanding issue in business. Corruption and the misuse of government revenue often provide the moral justification for tax evasion.

##### **2.1.7.6 Low tax morale**

Taxpayers' willingness to pay taxes differs widely across the world. It cannot be viewed as simply depending on the tax burden. Rather, empirical research indicates that taxpayers throughout the world pay more taxes than can be explained by even the highest feasible levels of auditing, penalties and risk aversion (Alm et al. 2007). These high levels of tax compliance result from the tax morale of society that fosters self-enforcement of tax compliance. Tax morale is, however, not easy to establish. Especially countries without a deep-rooted 'culture' and habit of paying taxes find it difficult to establish tax morale.

### 3. Research methodology

#### 3.1 Research design

The research design for this study was explanatory type of research. The major purpose of explanatory research design is formulating the relationship between dependent variable (tax evasion) and independent variables (Knowledge of taxpayers, tax rate, tax system, Ineffective tax audit, low transparency & accountability & low tax moral). The method employed in the research was qualitative & quantitative research approach.

#### 3.2 Data type and source

The researchers have used both primary and secondary data. The primary data was collected from category 'A' & 'B' taxpayers' in south Omo zone. The secondary data was collected from written manuals, text books, journals and internet.

#### 3.3 Target Population

The target population of the study here were category 'A' & 'B' taxpayers' in South Omo zone and tax officials as was shown in the following table

**Table 1 Description of target population**

Character	Number
Category A	462
Category B	242
Employees	196

#### 3.6. Sample and Sampling Technique

It is difficult to incorporate all participants in data collection process, so needs taking a part of the participants that are representatives of the entire population (both category A and B tax payers) of 704. Accordingly; the researchers used Yamani formula to determine the sample size from tax payers shown in below.

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

$$n = \frac{708}{1 + 704(0.05)^2}$$

Where n = Sample size  
 N = Population  
 e = Level of significance (0.05)  
 n = 255

**Table 2 Sample determination from each district and city administration**

District and city	Frequency of category A & B taxpayer	Sample respondent from each district
Jinka	431 (60.8% coverage)	0.60*255=156
South Ari	37 (5% coverage)	0.05*255= 15
North Ari	44 (6.2% coverage)	0.062*255= 17
Selamago	48 (6.8% coverage)	0.068*255= 18
Bena tsemay	29 (4% coverage)	0.04*255= 11
Male	23 (3.2% coverage)	0.032*255=9
Dassenech	42 (5.9% coverage)	0.059*255= 15
Nyangatom	14 (1.9% coverage)	0.019*255=6
Hamer	20 (2.8% coverage)	0.028%*255=8
<b>Total</b>	<b>708</b>	<b>255</b>

#### 3.7. Methods of Data Collection

To achieve the objectives of the study, primary data was collected from tax payers and employees using questionnaires that comprise both open and closed ended questions and unstructured interview.

The method of collecting primary data requires the assistance of individuals because of the vast nature of the sample that the researchers are going to take. For this purpose, the researchers hired Ten (10) individual from the respective area as an assistant for collecting required data.

#### 3.8. Methods of Data Analysis

The objective of analysis is to analyze the data obtained and to explain the results of the study. The data collected through questionnaire has been summarized by using statistical package for social science SPSS version 20 by means of statistical methods such as tabulation, average mean and frequency count. The collected data was

analyzed and processed using both qualitatively and quantitatively by using descriptive data analysis techniques. The researchers employed multiple regression analysis.

### **3.8.1. Variable Presentation**

This study used explanatory variables such as: age, gender, Knowledge of taxpayer's, tax rate, tax system, income level, audit probability, tax moral & low transparency & accountability, while the dependent variable was tax evasion of south Omo zone revenue and custom authority.

#### **3.8.1.1. Dependent variable**

Tax evasion is the dependent variable in this study. Tax evasion is usually measured by Knowledge of taxpayers', tax rate, tax structure/system, audit probability & low transparency & accountability and low tax moral.

#### **3.8.1.2. Independent Variables**

**Age:** A universal demographic variable for tax evasion is the taxpayers' age. A positive link between age and taxpayer compliance is reported (Jackson and Milliron, 1986). Noncompliance is significantly less common and of lower magnitude among householders in which either the head or the head's spouse is over age 65 (Andreoni et al., 1998: cited in Chau and Leung, 2009). In general, young taxpayers are more willing to take risks and are less sensitive to sanctions (Chau and Leung, 2009).

#### **H1: Age has significant impact on tax evasion**

**Gender:** Early research (Tittle, 1980: cited in Jackson and Milliron, 1986) testing the tax compliance level of males versus females reports that females are more likely to tax compliance. Traditionally, females have been identified with conforming roles, moral restraints and more conservative life pattern (Jackson and Milliron, 1986). All these attributes may promote higher tax compliance.

#### **H2: Gender has significant impact on tax evasion**

**Knowledge of taxpayers:** Knowledge of taxpayers' means awareness or understanding of taxpayers about tax rules, laws and procedures. The people should have knowledge and understanding of tax regulations, due to meet tax obligations, taxpayers need to know about taxes in advance. Tax knowledge will be expected to have negative influence on tax evasion & avoidance. As the tax knowledge of the tax payers is improved the probability to commit tax evasion gets decline but as the knowledge is less the probability to evade & avoid tax gets increased Worku (2016). The researchers used taxpayers' knowledge to measures how it affect tax evasion.

#### **H3: Knowledge of taxpayers has negative and significant impact on tax evasion**

**Penalty:** Doran (2009) stated that tax penalties remain important for the following reasons. For the norm model assumes that certain taxpayers will not comply with tax obligations and those taxpayers must be deterred by the threat of legal sanctions and, for, taxpayers who complied must be assured that noncompliant taxpayers will be sanctioned. Similarly, Chau and Leung (2009) argued that tax penalty is an important factor affecting tax evasion and that the idea is that the fear of penalty may prohibit the noncompliance tendency.

#### **H4: tax penalty has negative and significant impact on tax evasion**

**Improper tax audit:** Tax audit is a process of determining and judging whether the tax payers adhered to the tax rules and regulations (Kirchler, Hoelzl, & Wahl, 2008). Tax audit is Examination of a taxpayer's records, accounts and financial affairs to ascertain the taxpayer's tax compliance (Richard, 2016).

#### **H5: Ineffective tax audit has negative and significant impact on tax evasion**

**High tax rate:** There is significant relationship between the tax rates and tax avoidance & tax evasion. High tax rate fosters evasion and avoidance (Adebisi, and Gbegi, 2013). The researchers have used tax rate to know in what percent it affect evasion.

#### **H6: Tax rate has positive and significant impact on tax evasion**

**Low tax morale:** Taxpayers' willingness to pay taxes differs widely across the world. It cannot be viewed as simply depending on the tax burden. Rather, empirical research indicates that taxpayers throughout the world pay more taxes than can be explained by even the highest feasible levels of auditing, penalties and risk aversion (Alm et al. 1992, 2007).

#### **H7: Tax moral has negative and significant impact on tax evasion**

**Effective Tax System:** Tax System is a system that is characterized with tax policies, tax laws and as well as tax administration. These coupled of policies and laws are expected to work together in concord with one another in order to achieve the overall objective for economic growth of the country (Zakariya'u et al 2015). The researcher use tax system to measure tax evasion because of the overall structure of the tax system has a significant effect on the disposition to evade taxes.

#### **H8: Effective Tax System has negative and significant impact on tax evasion**

**Low Transparency and accountability of public institutions:** Lack of transparency and accountability in the use of public funds contributes to public distrust (lack of trust) both with respect to the tax system as well as the services rendered by the government in return For the tax paid. This, in turn, increases the willingness to evade taxes (Kirchler et al, 2007). The researcher measure the effects of Low transparency and accountability on tax evasion.

**H9: Transparency and accountability of public institutions has positive and significant impact on tax evasion**

**3.9 Ethical Considerations**

In order to conduct this study a variety of ethical considerations have been implemented. All the proposed research participants are appropriately informed about the purpose of the research through the cover letter which briefly stated the aims of the research in order to give prospective participants an idea of the research project and the intention of the questionnaire. Regarding the right to privacy of the respondents, the study has maintained the confidentiality of the identity of each participant. In all cases, names have been kept confidential thus collective names like ‘respondents’ or ‘guests’ are used. Most importantly, the proposed study assures that all the materials and literatures referred are properly acknowledged to avoid any possibility of plagiarism.

**4. Data Presentation and Discussion**

This chapter deals with the results and analysis of the findings and it contains five sections. The first two sections presented the descriptive and correlation analysis on variables of the study; and then the third section presented the regression model test and the fulfillment of the classical linear regression model (CLRM) assumptions; the fourth section laid down the results of regression analysis. Finally, the last section and the most important part of the study in which detail discussion of regression results based on the findings and empirical literatures reviewed for the study were presented.

**4.1 Descriptive analysis**

**Table 3 Demographic characteristics of respondents.**

Demographic Variable	Definition	Frequency	Percentage
Gender	Male	189	81.1%
	Female	44	18.9%
Age	Years 18-28	103	44.2%
	Years 29-38	87	37.3%
	Years 39-48	37	15.9%
	Above 49	6	2.6%
	Illiterate	5	2.1%
Level of Education	Primary school	32	13.7%
	Secondary school	76	32.6%
	Diploma	43	18.5%
	BA-Degree	77	33.0%

On the count of age, almost half of the subjects (44.2%) were in the 18-28-year-old range and 37.3% fell within the age range of 29-38% whereas 15.9% were in between 39-48 year 2.6% cover above 49. The above table shows that most of the taxpayer were young aged group which is nearly Years 18-28 with percentage of 44.2% and the other group 29-38 year comprise with 37.3% and the rest percentage goes to years 39-48 and above 49 age group with covers 15.9% and 2.6% respectively. As milliron and leung (2009) reported in their findings that young taxpayers are more willing to take risks and are less sensitive to sanctions. Therefore, this is an indication of tax payers possibilities to evade tax because of their age distribution is young dominated.

The above table also indicate that Respondents participated in this study were of different level of education. Only 2.1% of the respondent constitute uneducated portion of the sample. Most of the respondents nearly 32.6% have vocational certificate holder (10+ complete) and 13.7% are 1-8th grade complete. Other respondent fill 33% with BA degree holder. This shows most of the taxpayers can read, write and understand written material. Consequently, the taxpayers can get information about tax from journals, tax rules and regulation. So, that the respondents are in a good position to know more about tax.

#### 4.1.4 Knowledge of tax

**Table 4 Respondent response for the survey in relation with the knowledge of tax**

Variables	Percentage of respondents under each weight (%)					Weighted average Mean	Std. dn
	1	2	3	4	5		
Low knowledge of tax increase tax evasion	7.3	10.3	6.4	35.5	42.5	3.94	1.24
Ignorant of tax laws increases tax evasion.	15.9	8.6	6.9	33	35.6	3.64	1.44
Tax revenue authority cannot give advice and information to taxpayers.	22.3	18.5	17.2	22.3	19.7	2.99	1.44
Tax revenue authority has not access to information about taxation.	13.3	37.3	11.2	20.6	17.6	2.92	1.34
Inadequate tax education and awareness increases tax evasion.	10.3	17.2	9	32.2	31.3	3.57	1.35
I do not know why I have to pay Tax	38.2	31.3	8.6	11.2	10.7	2.25	1.35

From the result in this table majority of the respondents agreed (mean=3.94) Low knowledge of tax increase tax evasion and most of the respondent with the mean value 2.99 said that tax revenue authority cannot give advice and information to taxpayers and tax payers also proved that tax authority has an access to information about taxation for tax payer even though it is not sufficient. Sample respondent also agreed (mean=3.57) that inadequate tax education and awareness increases tax evasion practice of the tax payer. Finally respondent responded that they know why they pay tax for the government even though they have complained over the tax administration

#### 4.1.7 Ineffective tax audit

The table below indicate that Most of respondents are indifferent (mean=3) that Probability of being audited is low penalties and sanctions are too severe in the tax office for tax evasion practices, and probability of being detected by the tax office for not declaring the exact income is too high. This can imply that tax payers are not sensitive to penalties' and sanctions' severity and probability of being detected by the tax office for undeclared tax; therefore, they can evade tax [table 9]. In addition to this the in-depth interview supports this finding. One participant from the office said that "tax penalties and sanctions by the tax office are neither severe nor poor in addition to this legal enforcement are not best practiced that is why there are much tax liabilities which are not collected on time." But nowadays "tax penalties and sanctions are too severe and legal enforcements are getting improved."

Majority of respondent with a (mean value 3.63) replied that the existence of un-proportional number of auditors and audit clients' increases tax evasion. From the above table one can easily understand that most of the respondent also supported the idea which untimely audit of taxpayer's financial statement can highly increases tax evasion.

**Table 5 survey in relation with ineffective tax audit**

Variables	Percentage of respondents under each weight (%)					Weighted average Mean	Std. dn
	1	2	3	4	5		
Probability of being detected by the auditor for not declaring the exact income is too high.	9.4	8.6	14.2	39.5	28.3	3.58	1.23
Un Proportional number of auditors and audit clients' increases tax evasion.	12	9	14.6	37.3	27	3.63	1.30
Low quality service of Auditors for taxpayers increases evasion	8.6	17.2	8.2	34.8	31.8	2.29	1.31
Untimely Audit of taxpayer's financial statement increases tax evasion.	4.7	11.2	7.3	39.9	39.6	3.93	1.15

### Chapter five

#### Conclusion and recommendation

##### Conclusion

Accordingly, the result of the regression revealed that age, knowledge, tax rate and tax penalty have positive and significant effect on tax evasion at 1% significant level (p-value= .000) indicating that an increase in age of the respondents, tax rate and ineffective audit increases tax evasion holding other variables constant. The positive effect of age and knowledge also implies a good understanding about how to systematically evading tax; whereas the positive effect of tax rate on tax evasion creates additional burdens on tax payers which will in turn push them



in to informal system. However; gender of the respondent has positive but insignificant effect on tax evasion.

Tax system, tax audit, low transparency and accountability on the other hand have negative and significant effect on tax evasion holding other things remain constant. The negative sign is due to the fact that having effective tax systems / structure decrease taxation complexity to the tax authority and tax payers.

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