Determinant Factors of Exist Gaps between the Tax Payers and Tax Authority in Ethiopia, Amhara Region: The Case of North Gondar Zone

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Abstract

The objective of the study was to assess the determinant factors of exist gaps between the taxpayers and the public sectors in tax collection in the case of North Gondar zone administration. The Knowledge of tax payers and tax assessment fairness are the major determinant factors of this study. A study is important to identify important variables affecting the existing gap.

The study used a cross-sectional survey method of research design and it used to both primary and secondary data and adopted mixed research approach. The data was collected from category "C", "B" and "A" taxpayers through questionnaire and in-depth interview tax collector. Stratified random sampling technique was adopted from which a total of 531respondents formed part of the sample size of tax payers and purposive sampling techniques from tax authority. To analyzing, to summarize the study findings and present the results of the collected data Statistical Package for Social Sciences) SPSS version 16 software was used. Descriptive statistical tools and Reliability test, and multiple regressions through log it model were used in analyzing the data collected. Moreover, the Kruskal Wallis chi square test was also implemented in testing the statistical significance of mean differences, with respect to some variables, between group one and group two tax payers.

Results and discussions indicated that tax payer's knowledge about taxation, awareness creation by tax authority and fairness on tax assessment has statistically significant effect on tax collection efficiency. This implies that the tax collection efficiency is influenced by those variables consequently, if tax authority and taxpayers try to work on these variables, it can improve tax collection efficiency. Finally, based on the findings possible recommendations were forwarded. These include, maintaining tax fairness and equity, building capacity of the tax authority, conducting extensive awareness creation programs, and providing social services to the general public.

Key words: - Tax Knowledge, Awareness, taxpayers, tax authority and Fairness

1. Introduction: Background to the Study

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009).The main objective of imposing certain taxes on the public is to generate revenues for the government for public expenditure (Singh, 1999; Shanmugam, 2003; Lymer and Oats, 2009:). However, there are other functions of taxes as suggested by Lymer and Oats (2009 :) including to reduce inequalities through a policy of redistribution of income and wealth so that income gap between the rich and the poor is not as significant. The economic resources available to society are limited, and so an increase in government expenditure normally means a reduction in private spending. In this regard James (2000) states that taxation is one method of transferring resources from the private to the public sector. Other writers (Auld & Miller, 1984) describe the role of taxes as an instrument that stabilizes the economy, and reduces private demand so that resources can be released for public sector use. Generally, governments levy taxes for multiple of purposes, but mainly to raise funds in order to cover public expenditures and on the other hand to properly allocate resources. When taxes are levied on, citizens are liable for their payment at the time and in the manner required and provided by the law authorizing their assessment and collection.

Every country aspires to have a good taxation policy. Kayaga (2007) explained that tax policy is concerned with the reasoning behind how much revenue is the government collecting, how much revenue is being used for and whether or not the government collects the revenue in the most appropriate manner. The efficiency of a tax system is not determined only by appropriate legal regulation but also by the efficiency and integrity of the tax administration.

In many countries, especially in developing countries, small amounts of collected public revenue can be explained by either incapability of the tax administration in realization of its duty, or with some degree of corruption. Regardless of how carefully tax laws have been made, they could not eliminate conflict between tax administration and tax payers. Tax administration with a skilled and responsible staff is

almost the most important precondition for realization of "tax potential" of the state. It is generally known that tax laws and tax policy are as good as good is the tax administration (Kaldor, 1980).

Knowledge of taxation is the reasoning and meaning of arrest on tax laws. The people should have a knowledge and understanding of tax regulations, due 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 understanding of tax good, the public will better 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 opening minded, that taxes are purely used for the needs of the nation and its people. With this understanding of the tax, the level of corruption and fraud that may occur can be minimized. Simultaneously, the level of compliance of taxpayers to pay taxes will increase. The influence of tax knowledge on compliance behavior has been described in various researches. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and Fallan, 1996).

Ethiopia, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experienced a consistent surplus of expenditure over revenue for sufficiently long period of time. To address this problem, the government introduced the enforcement of tax (direct and indirect), among others; as major and important sources of public revenue. However, this imposition of tax couldn't still bring the required result due to a number of reasons such as lack of clear understanding about the tax system by the tax payers, tax payers don't comply with their tax obligation, hostility between the tax payers and tax officials, negative attitude of tax payer towards the tax system, that is, understating their taxable income by significant amount,… etc. For these reasons, the actual amount of tax couldn't be collected properly (Tadele, 2010). This show that legal enforcement may not work always and forever tax, high number of taxpayers are outside the normal tax bracket, this leads to business profit tax is very low.

To the knowledge of the researcher, in addition to the above problem, it appears that there is no research conducted on the determinant factors of exist gaps between the taxpayers and the public sectors in tax collection in the case of North Gondar zone administration, Ethiopia to the best of the authors' knowledge. Hence, this study mainly intends to assess the determinant factors of exist gaps between the taxpayers and the public sectors in tax collection in the case of North Gondar zone administration.

2. Objective of the Study

The overall objective of this study is to assessed the determinant factors of exist gaps between the taxpayers and the public sectors in tax collection in the case of North Gondar zone administration, Ethiopia. In addition to the above general objective, have the following specific objectives:

✓ To assess taxpayers knowledge about taxation
✓ To examine the determinant factors of tax collection effectiveness
✓ To show tax assessment fairness
✓ To assess effective awareness creation on tax payers by the tax authority

3. Important term

3.1 Taxation

Taxation is a general concept for devices used by governments to extract money or other valuable things from people and organizations by the use of law. Taxation is the powerful instrument in the hands of the government for transferring purchasing power from individuals to government. The objectives of taxation are to reduce inequalities of income and wealth; to provide incentives for capital formation in the private sector, and to restrain consumption so as to keep in check domestic inflationary pressures.

3.2 Tax assessment fairness

Taxation should be governed by people's ability to pay, that is, wealthier individuals or firms with greater incomes should pay more in tax while those with lower incomes should pay comparatively less.

One of the main principles of the taxation system design is equity or fairness, which can be perceived via three dimensional views – horizontal equity (people with the same income or wealth brackets should pay the same amount of taxes), vertical equity (taxes paid increase with the amount of the tax base) and

2

Exchange Equity (Wallschultzky 1984; Richardson, 2006). The perceived fairness of the tax system also has an influence on the inclination towards tax evasion (Jackson and Milliron, 1986; Richardson, 2008).

3.3 Knowledge about taxation

Knowledge of taxation is the reasoning and meaning of arrest on tax laws. The people should have a knowledge and understanding of tax regulations, due to meet tax obligations, taxpayers need to know about taxes in advance. The level of education received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen and Fallan, 1996).

3.4 Taxpayers Awareness creation by tax authority

Tax education can constitute any informal or formal program organized by the tax authority by which to facilitate taxpayers in completing tax returns correctly and also to cultivate awareness of their responsibilities in respect of the tax system (OECD, 2013).

Taxpayer's Awareness is very important to remember that the tax system, we uphold the self-assessment system. Conversely, lack of awareness causes many potential taxes resident tax cannot be realized. Meanwhile, according to Manik Asri in Rahayu (2010), the taxpayer is recognized as having awareness if they: (1) recognize the existence of the tax laws and regulations, (2) knowing that the tax function is to finance state, (3) understand that the task taxes must be paid in accordance with the applicable rules, (4) calculate, pay, and report their taxes voluntarily and accurately. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such tax payers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons. On other side, other writers such as Smith and Kinsey (1987) argue that tax non compliance is an intentional behavior.

4. Methodology

The study was conducted in North Gondar Zone administration, located in north part of Ethiopia, Ahamara Nations and Regional State, in Gondar town administration at a distance of 742 km from Addis Ababa. And focused on the entire aggregation of items from which samples can be drawn for a study. The participants are 3510 Category "A" B" and C" tax payers and 64 tax collector officer in the three town administration in North Gondar zone administration (NGRA). That means, all the staff members of institutions that collect revenue for the government and registered members of the taxpaying public formed the basis for the study.

4. 1 Sampling Technique and Sampling Size

Depending on the nature of the respondents, the study used two sampling design methods: the stratified random sampling methods and the purposive method. The stratified sampling technique was used because of homogeneous tax payers and the purposive sampling method used to select proper officials from whom relevant information was gathered. And the researcher was selected 531respondants based on yemane (1967) formula.

4.2 Data collection method and analyses

To come up with pertinent findings and provide credible recommendations, this study has utilized both primary and secondary source of data by using both qualitative and quantitative data types. After data had been collected through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into statistical package for social sciences (SPSS) computer software for analysis SPSS version 16 was used to produce frequencies, descriptive and inferential statistics which was used to derive conclusions and generalizations regarding the population.

5. Result and Findings

5.1 taxpayers' Knowledge about Taxation

From the collected data, the investigator analyzed that there is a positive understanding about taxation, but any taxpayers are not known about the current and future issues affecting them. These are dangerous not only for the economy but also for individuals. In other words, if taxation issues are not regarded with special attention, that might cause certain financial problems which represent significant risks for endangering household financial stability. To Comparing the outcomes between the two

groups, the findings shows that category "C" tax payers have better sufficient knowledge rather than "A" and "B'. The result indicated that there is significant mean difference between the two groups since the significance value is less than 0.04 (Sig value .000).

5.2 Tax assessment fairness

From the data, majority of the respondents knows that it is fair to pay their legal share of tax. But the result showed that, since 20.0 percent category "A" and "B" tax payers are in respond with the statement lack of awareness among the tax payers, tax authorities examine accounting documents and supporting evidence for the purpose of reaching an opinion concerning taxpayers' liability and tax authorities carry out back duty assessment on taxpayers' liability on routine basis, as to whether paying their legal tax obligation is overstated or unfair.

The other point strongly raised by the respondents is that there are several individuals who are doing business but not paying tax or not known as tax payers. Similarly, they said that there are many individuals who are engaged in illegal (contraband) trades. They further elaborated their comment that individuals having equal income are not paying equal tax and this highly affects the efficient tax collection. The result indicated that there is significant difference between the two group since the significance value is less than 0.04 (Sig value .000) at 5 % probability level.

5.3Awareness creation of tax authority to tax payers

The result shows that above half of the respondents replied that the tax authority is not doing to the maximum of their capacity in order to create awareness to the business profit tax payers about the tax payment. What is the purpose of paying tax and where it is spent; still the business profit tax payers were not well aware of that. Consequently, they are resulting in less tax collection with the tax laws.

With respect the above finding, it is the duty and responsibility of the tax authority to conduct series training and consult to the tax payers, especially on new tax provision. However, the research indicated that majority of the respondents didn't attain the tax training sessions. The other point strongly raised by the respondents due to as a result of poor control and follow up mechanism of the tax authority or due to lack of awareness of the business tax payers. Therefore, it can be concluded that still many respondents are not attending or participating in the tax training session and were not consulted when new tax reform emerged to the tax system. The chi square test indicates that difference in awareness creation is statistically significant between the two groups (p=0.000).This implies that the awareness creation on tax payers by the tax authority significantly affects tax collection efficiency. However, the coefficient is positive (.781) which is the awareness creation affects positively to the tax collection efficiency. The result of this study confirms the earlier findings of Hagos (2011), Getnet (2010), Lemessa (2007) Still in Jatmiko (2006), and Larche (1980).

6. Conclusion and Recommendation

6.1 Conclusion

The focus of this research is assessed the determinant gaps that exist between taxpayers and tax authority. Therefore, the study concluded that effective awareness creation is done and fair tax assessment is conducted, collection effectiveness applied, financial constraint is considered, knowledge about taxation is better, there may not be efficient tax collection.

Even though efficient tax collection cannot be made over night, it is up to tax administrators to ensure sufficient tax revenue. Awareness is a corner stone as far as efficient tax collection is concerned. The survey data has shown that majority of the taxpayers (19percent) knowledge about taxation is not sufficient. 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. Based on the survey results, the study found that there exit lack of tax knowledge by tax payers. Most of them do not know the rules and regulations of different types of taxes they pay. Due to this, negligence, delay in tax payment and evasion are taken by taxpayers as solution to escape from payment of taxes. It can be concluded that tax authority were not conducting continuous training which focus on awareness creation and not enhance the smooth relationships with business profit tax payers**,** still many respondents are not attending or participating in the tax training session and if successive works are done probably better results can be registered.

Most of the respondents feel that they do not pay about the same amount of tax as others in similar situations. Generally as long as the tax being is not fair and equitable it may reduce the expected

4

amount income and voluntary compliance behavior of current taxpayer, created bad tax administration and also discourager potential taxpayers from joining the tax system voluntarily and even there were persons who don't pay tax properly to the government.

Finally, education and training for both tax collectors and tax payers will go a long way to remove the bottlenecks associated with tax collection in the zone administration.

6.2 Recommendation

Based on the above findings, the researcher forward the following points:

✓   To strengthen the relationship between the government and the tax payers ,the government create continuous communication about awareness creation. Awareness creation in general is making tax payers positive thinkers towards the taxation.

✓   Knowledge gaps should be identified, agendas should be set accordingly and well prepared catering to the seasonal issues, considering demographic characteristics and specific business areas are the important techniques.

✓   Maintaining tax equity and tax assessment fairness is not achieved only through imposing equal taxes on individual who have equal income, but also each taxpayer should pay according to his/her ability to pay. In addition, the question of fairness or equity is not only dealing with existing taxpayers but also concerned with people outside the tax system or bringing non taxpayers to tax system the tax assessment is equitable as long as several capable traders are not paying tax.

✓   Must also involve the taxpayers or their representatives while estimating the daily sales or revenue of taxpayers to address the question of fairness and equity. Generally, the authority has to try its level best in ensuring tax fairness and equity so that efficient tax collection can be developed.

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