



**MEKELL UNIVERSITY**

**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**FACTORS AFFECTING COMPLIANCE BEHAVIOR OF  
CATEGORY 'C' TAXPAYERS: A CASE STUDY OF HADINET SUB  
CITY, MEKELLE**

**BY**

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## **Statement of Declaration**

I hereby declare that the thesis entitled “FACTORS AFFECTING COMPLIANCE BEHAVIOR OF CATEGORY 'C' TAXPAYERS: A CASE STUDY OF HADINET SUB CITY, MEKELLE” is an original work of my own submitted for the award of the degree in Master of Science in Accounting and Auditing submitted to Department of Accounting and Finance, College of Business and Economics, Mekelle University. The mater presented in the thesis has not been presented for the award of any other Degree, Diploma, Fellowship or other similar titles of any other university or institution, and all material sources used for the study have been appropriately acknowledged.

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The thesis has been submitted for examination with my approval as a university advisor.

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## **Statement of Certification**

This is to certify that the thesis work entitled “FACTORS AFFECTING COMPLIANCE BEHAVIOR OF CATEGORY 'C' TAXPAYERS: A CASE STUDY OF HADINET SUB CITY, MEKELLE” is a bona fide work of EPHREM BEKELE who carried out the research under our guidance. Certified further, that to the best of our knowledge the work reported here in does not form part of any other thesis report or dissertation on the basis of which a degree or award was granted on this or any other candidate.

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As members of thesis Approval Board of Examiners, we certify that we have read the thesis prepared by Ephrem Bekele entitled “FACTORS AFFECTING COMPLIANCE BEHAVIOR OF CATEGORY 'C' TAXPAYERS: A CASE STUDY OF HADINET SUB CITY, MEKELLE” and submitted in partial fulfillment of the requirements for the Master of Science in Accounting and Auditing complies with regulation of the university and meets the accepted standards with to originality and quality.

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## **List of Acronyms and Abbreviations**

EEA	Ethiopian Economic Association
ERCA	Ethiopian Revenues and Customs Authority
EMoR	Ethiopian Ministry of Revenue
GDP	Gross Domestic Product
IMF	International Monetary Fund
MLR	Multiple Linear Regression
MSMEs	Micro, Small, and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Square
STATA	Statistical Software for Data Analysis
VAT	Value-Added Tax

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## Abstract

*Tax is a compulsory financial charge imposed by governments on individuals or legal entities to finance public expenditures. Despite its crucial role in sustaining public services, many governments faced persistent challenges in collecting the appropriate amount of revenue. Understanding the factors that influenced taxpayer compliance was therefore essential for effective tax administration. Accordingly, this study employed an explanatory research design to identify the factors affecting tax compliance behavior among Category C taxpayers in Hadinet Sub-City, Mekelle. A total of 186 Category C taxpayers were selected using stratified sampling followed by random sampling from each stratum, and data was collected from 179 respondents through structured questionnaires. Descriptive statistics such as tables, means, and standard deviations were used to summarize the data, while multiple linear regression analysis was employed to identify the key factors influencing tax compliance. The findings revealed that tax knowledge and awareness, the probability of being audited, and the perceived fairness of the tax system had positive and significant effects on the compliance behavior of Category C taxpayers. In contrast, financial constraints have a significant negative impact. However, the complexity of the tax system, perceptions of corruption, and weak enforcement did not exhibit any statistically significant relationship with compliance decisions. Based on the findings, the study concluded that enhancing taxpayers' knowledge and awareness, promoting fairness in the tax system, and strengthening audit capacity are essential to improve compliance. It is recommended that continuous and problem-solving tax training be provided to taxpayers to foster a positive attitude toward taxation. Responsible authorities should also deliver accessible tax education and promote financial literacy among Category C taxpayers. Furthermore, building the capacity of tax auditors and employees to strengthen audit practices, along with implementing measures that ensure fairness in the tax system, is crucial. These interventions are expected to improve voluntary compliance among Category C taxpayers.*

**Keywords:** Tax compliance, Category C taxpayers, Explanatory research, Tax knowledge and awareness, Audit probability, Perceived fairness, Financial constraints



## CHAPTER ONE: INTRODUCTION

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*This chapter presents an overview of theoretical justification and the rationale for studying the factors affecting compliance behavior Category 'C' taxpayers. It starts with the background of the study followed by the problem statement, research questions, objectives, significance of the study, scope, and limitation of the study, and finally introduces organization of the overall proposal.*

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### **1.1 Background of study**

Tax compliance refers to policy actions and individual behavior aimed at ensuring that taxpayers are paying the right amount of tax at the right time and securing the correct tax allowances and tax reliefs (McLure, 2015). Tax noncompliance is a serious challenge slackening income tax administration and tax revenue performance in Ethiopia, as it does in some other developing countries (Gangle, Hofmann, & Kirchler, 2013). Like other developing countries, Ethiopia faces hurdles in raising revenue to the required level in order to scale up the development endeavors (International Monetary Fund (IMF), 2018). Ethiopia has experienced an unswerving surplus expenditure over revenue for a sufficiently long period of time (Akalu, 2016). To address this problem, the government classifies taxpayers to simplify tax administration and to improve public revenue although prior statistical evidence proves that the contribution of income taxes to the government's total revenue remained consistently low (Destaw, 2020).

Taxpayers in Ethiopia are classified into three categories according to their annual turnover they generate during a particular tax year. The Ethiopian income tax law classifies taxpayers into three categories, namely "A", "B", and "C" based on their volume of sales (Ethiopian Ministry of Revenue (EMoR), 2008).

Category "C" is the third and the last category. Small businesses are the main types of businesses incorporated in this category. Taxpayers below Birr 500,000 annual turnover are classified under "category C" taxpayers. On the other hand, standard assessment is used to determine the income tax liability of category "C" taxpayers. This type of assessment is a fixed amount of tax determined in accordance with the council of ministers' regulation established Schedules. This category of taxpayers is the most problematic category of taxpayers, and it is considered as hard to-tax group.

Despite this lengthy existence, the issue of compliance with the tax laws twisted petite interest and received minimal attention until the last few decades. Since the 1970s, however, research into tax compliance has intensified, with both governments and academicians giving significant attention to the concern (Alemayehu, 2020). This increased research into the area of tax compliance appears justified when the problem is still unsolved and the result of different researchers is inconsistent. Moreover, many of the available literature suggested that developing countries, particularly Sub-Saharan African countries are the hardest hit of tax noncompliance (IMF, 2022). This research has tried to identify the factors affecting the compliance behavior of category “C” taxpayers’ in the Hadinet sub city, Mekelle.

## **1.2 Statement of the problem**

Tax compliance is a growing concern for tax authorities and policymakers, as noncompliance significantly affects government revenue. Most developing countries face challenges in generating sufficient revenue to meet public demands. Although taxpayers’ noncompliance is a global problem, studies have revealed that it is more serious in developing countries, particularly in sub-Saharan Africa. As Yezina (2019) indicated, in Ethiopia, tax revenues and related income have not been sufficient to cover current and capital expenditures. Consequently, tax compliance has become an area of concern for the central government as well as regional tax authorities.

Tadele (2015) further noted that, despite Ethiopia’s strong economic performance—measured by an average annual real Gross Domestic Product (GDP) growth rate of 11.4% between 2003/04 and 2010/11—the contribution of tax revenue to GDP in 2010/11 was only 11.5%. This ratio remained low compared to other East African developing countries such as Djibouti (20%) and Kenya (18.4%). The Ethiopian government has undertaken several measures to improve tax revenue collection, including revising the income tax law in 2002, replacing sales tax with value-added tax (VAT), and merging the Ethiopian Revenues and Customs Authority (ERCA) with the Inland Revenue in 2006. Nevertheless, the outcomes of these reforms have not been fully satisfactory.

Dealing with the problem of non-compliance requires an understanding of the underlying

challenges behind taxpayers' decisions about whether to pay or evade taxes. Jackson and Milliron (1986, as cited in Yezina, 2014) identified several challenges of tax compliance, including the complexity of the tax system, lack of knowledge and awareness, financial constraints, weak enforcement, and corruption among tax officers. Since then, many researchers have further examined these and other factors in relation to taxpayers' compliance behavior. A study conducted by Tilahun and Yidersal (2014) revealed that complexity of tax system and lack of knowledge are significant challenges of tax compliance behavior.

According to Haile and Destaw (2020) tax rate, audit probability, and financial constraints are revealed as major challenges of tax compliance. Moreover, the researcher revealed weak enforcement, corrupted tax officers and lack of knowledge and awareness are insignificant challenges of tax compliance behavior. Also, Richardson (2008) revealed that the education level of taxpayers is not a major challenge of tax compliance. Another study conducted by Dereje (2020) concludes that a low probability of being audited is an insignificant challenge to taxpayer compliance behavior.”

Although the government has tried to take some important measures like revising income tax law in 2002, replacing sales tax by VAT, and merging ERCA with Inland Revenue in 2006 it claims that it is not earning equivalent tax from the growing economy due to taxpayers' noncompliance behavior (Alemayehu, 2020). The preceding discussion leads us to conclude that the findings of various researchers are inconsistent regarding the challenges. Besides, according to the researcher's knowledge of the field, there exists only one study by Muluken (2017) that evaluates the compliance behavior challenges faced by category C taxpayers in the selected research area. But this particular research did not address significant challenges such as the likelihood of being audited and the complexity of the tax system.

Moreover, to the knowledge of the researcher there are some challenges not yet studied in Ethiopia like perception towards fairness of tax system and weak enforcement. Thus, in this study the researcher has tried to identify the factors affecting category “C” taxpayers' compliance behavior, the case of Hadinet sub city by including the above discussed challenges (tax knowledge, presence of corrupted tax officers, financial constraints, complexity of tax system and probability of being audited) in addition to perception

towards fairness of tax system and weak enforcement. The research would make its own contribution to filling the knowledge gap and indicating some important direction for policy makers.

### **1.3 Objectives of the study**

#### **1.3.1 General Objective**

The general objective of this study was to identify the factors affecting tax compliance behavior among category “C” taxpayers, specifically in the Hadinet sub city, Mekelle.

#### **1.3.2 Specific objectives**

The specific objectives of this research were as follows:

- (i) To investigate if a lack of tax knowledge hinders tax compliance among category 'C' taxpayers in Hadinet sub city.
- (ii) To look into whether perception of tax system’s fairness impact compliance among category 'C' taxpayers in Hadinet sub city.
- (iii) To examine if financial constraints contribute to compliance issues for category 'C' taxpayers in Hadinet sub city.
- (iv) To analyze whether weak enforcement represents a compliance challenge for category 'C' taxpayers in Hadinet sub city.
- (v) To explore if a lower likelihood of being audited affects compliance behavior among category 'C' taxpayers in Hadinet sub city.
- (vi) To examine whether the presence of corrupt tax officials creates compliance challenges for category 'C' taxpayers in Hadinet sub city.
- (vii) To study whether the complexity of the tax system poses a compliance obstacle for category 'C' taxpayers in Hadinet sub city.

### **1.4 Significance of the study**

The study has focused on Category C taxpayers (small businesses, sole proprietors, and informal sector operators), who constitute approximately 40% of Ethiopia’s economy (World Bank, 2022) but contribute disproportionately low tax revenues. Understanding their compliance behavior was essential for the following reasons:

- ✓ Category C taxpayers represent a significant untapped revenue source (World Bank, 2023). Thus, this study will identify actionable strategies to enhance compliance.
- ✓ By examining barriers to compliance, such as complex procedures or lack of awareness; this research has formed conclusions that will be helpful the tax office at different levels to incentivize formalization, broadening the tax base and improving economic governance.
- ✓ This study has tried to assess perceptions of fairness and their impact on compliance, guiding reforms for a more equitable tax regime.
- ✓ Policymakers, the ERCA, and development partners would be benefited from empirically grounded recommendations.

### **1.5 Scope of the study**

This study focused on examining the factors that affected taxpayers' compliance behavior, with particular attention to Category 'C' taxpayers in Hadinet Sub-City of Mekelle City. Unlike Category 'A' and 'B' taxpayers, Category 'C' taxpayers were not legally required to declare their income or maintain formal books of account, and they were often considered a hard-to-tax group. Owing to this unique characteristic, the researcher selected Category 'C' taxpayers to investigate the factors influencing their compliance behavior.

Although the study would have been more comprehensive if it had included all categories of taxpayers, it was delimited to Category 'C' taxpayers in Hadinet Sub-City due to limitations of resources, time, and manpower. This delimitation also made the research more manageable and focused.

### **1.6 Limitation of the study**

The researcher has attempted to accomplish the objectives of the study successfully. However, certain inherent limitations should be acknowledged, as they may have influenced the findings. First, the study employed a relatively small sample size, which restricts the generalizability of the results beyond the specific population studied. Second, some respondents were reluctant to provide complete or accurate information regarding

their income and tax positions, which may have affected the reliability of responses. This is a common challenge in tax-related research, given the sensitivity of financial disclosures.

To mitigate these limitations, the researcher employed several strategies. Available literature was carefully reviewed to support and triangulate the findings. In addition, respondents were provided with clear explanations about the purpose of the study, and efforts were made to build trust in collaboration with the tax authority to encourage honest responses. Finally, available resources were utilized as efficiently as possible to reduce the risk of bias and enhance the quality of the data collected.

## **CHAPTER TWO: REVIEW OF RELATED LITERATURE**

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*This chapter presents a review of related literature to provide foundation of knowledge on the topic and to serve as background for this study. Currently several empirical studies have been conducted to identify the factors that influence tax compliance both globally and specifically in Ethiopia. Nevertheless, the variables that were identified as factors affecting tax compliance vary from study to study and from country to country. This chapter covers the theoretical and empirical reviews related to the study in an understandable way. Finally, the chapter ends with formulation of conceptual framework and hypothesis.*

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### **2.1 Theoretical literature review**

Tax refers to a compulsory levy to be paid irrespective of any direct corresponding return of services or goods by the government. In this section, theoretical literature regarding tax compliance has been presented.

#### **2.1.1 Tax Compliance**

Tax compliance is the full payment of all taxes imposed by government within the given time (Budak, Benk, & Cakmak, 2011). Tax compliance can be also defined as accurate reporting of income and claiming expenses in accordance with the stipulated tax laws (Abd Hamid, Hamazah, Noor, & Azah, 2018). On the other hand, Palia and Mustepha (2011) define tax compliance as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Palia and Mustepha (2011) stated that tax compliance requires a degree of honesty, adequate tax knowledge and capability to use this knowledge, accuracy and adequate records in order to complete the tax returns and associated tax documentation. Mohd et al. (2010) stated that the tax compliance is an act of filing their tax returns, declaring all nonexempt financial gain accurately, and disbursing all collectable taxes at intervals the stipulated amount while not having to attend for follow-up actions from the authority.

### **2.1.2 Tax non-compliance**

The best way to describe non-tax compliance is the difference between the total amounts of taxes due and the actual amount of taxes paid by taxpayers. The difference could be due to overstating or understating income, expenses and deduction on tax allowable. According to Cummings et al. (2009), reasons for non-compliance include intentional evasion and unintentional noncompliance such as calculation errors and inadequate understanding of tax laws. Taxpayers' mistakes can be unintended; thus, do not necessarily represent attempts to evade or could even lead to over reporting of tax (Abd Hamid, Hamazah, Noor, & Azah, 2018).

### **2.1.3 Benefits of tax compliance**

Tax compliance is an important issue for nations around the world as governments collect tax revenues to meet public needs (Abd Hamid, Hamazah, Noor, & Azah, 2018). For the taxpayer also tax compliance does not entail only costs, but there are also tax compliance benefits which need to be considered (Smulders, Stiglingh, Franzsen, & Fletcher, 2012). Of those benefits the following are most popular ones:

- Tax-deductibility benefits: arises when the income tax system permits some tax compliance costs to be treated as a legitimate deduction for tax calculation purposes, for example where the tax system permits a business a deduction for the services of their tax practitioners and tax-related incidental expenses from their taxable income (Smulders, Stiglingh, Franzsen, & Fletcher, 2012).
- Cash flow benefits: are the benefits derived from the use of tax revenues for a period before they must be paid over to the revenue authority, such as property tax collected by banks or supermarkets, the deduction of "pay-as-you-earn tax" (PAYE) by employers and VAT by vendors, before these are paid over to the relevant revenue authority (Smulders, Stiglingh, Franzsen, & Fletcher, 2012). A further example is the benefit from the lawful delay that arises when the income received by a taxpayer is not immediately or fully taxed on accrual or receipt.

- **Managerial benefits:** are the benefits that may arise due to a requirement in terms of tax legislation to maintain records, such as better recordkeeping, the use of technology, improved knowledge of the financial affairs of the business in particular in the form of increased knowledge of their complex accounting information systems and improved business or managerial decisions (Smulders, Stiglingh, Franzsen, & Fletcher, 2012).

#### **2.1.4 Costs of Tax Compliance**

Tax compliance costs are costs which are incurred because of fulfilling obligations related with tax (Smulders, Stiglingh, Franzsen, & Fletcher, 2012). As Alemayehu (2020) discussed in his research, those costs include:

- Costs paid to professionals or employees hired by taxpayers to have more understanding in the tax system and to get help in complying (monetary cost).
- Costs related to shifting businesses. Those costs have happened because governments provide some tax advantages for some businesses over the other and this results in altering businesses for taxpayers and subsequently, they will incur efficiency costs.
- Other costs include time costs (costs related to time spent complying with the tax obligation), and psychological costs (such as anxiety, stress, frustration, and fear)

#### **2.1.5 Characteristics of a good tax system**

A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease (Malik, n.d.). Although opinions about what makes a good tax system will vary, there is general consensus that these five basic conditions should be maximized to the greatest extent possible.

1. **Fairness;** fairness or equity means that everybody should pay a fair share of their income as taxes. There are two important concepts of equity: horizontal equity and vertical equity. Horizontal equity means that taxpayers in similar financial condition should pay similar amounts in taxes. On the other hand, vertical equity means that taxpayers who are better off should pay at least the same proportion of income in

taxes as those who are less well off. Vertical equity involves classifying taxes as regressive, proportional, or progressive.

**Regressive tax:** A tax is regressive if those with low incomes pay a larger share of income in taxes than those with higher incomes. Mostly governments use this type of tax system to encourage hard work. But it is criticized for its hardest burden on the poor class of society.

**Proportional tax:** A tax is proportional if all taxpayers pay the same share of income in taxes. No taxes are truly proportional. Property taxes often come closest since there is typically a close relationship between a household's income and the value of the property in which they live. Corporate income taxes often approach proportion because one rate applies to most corporate income.

**Progressive tax:** A progressive tax requires higher-income individuals to pay a higher share of their income in taxes. The philosophy behind progressive taxes is that higher income people can afford and should be expected to provide a bigger share of public services than those who are less able to pay. The Ethiopian income tax system is the best example of a progressive tax.

While no system of taxes is perfect, it is important to seek horizontal equity because taxpayers must believe they are treated equally. It is just as important to seek vertical equity, so the government does not become a burden to low-income residents.

2. **Adequacy:** - indicates that taxes must provide enough revenue to meet the basic needs of society. A tax system meets the test of adequacy if it provides enough revenue to meet the demand for public services, if revenue growth each year is enough to fund the growth in cost of services, and if there is enough economic activity of the type being taxed, rates can be kept relatively low.

3. **Simplicity;** it is all about taxpayers who can avoid a maze of taxes, forms and filing requirements. A simpler tax system helps taxpayers better understand the system and reduces the costs of compliance.

4. **Transparency**; this means that taxpayers and leaders can easily find information about the tax system and how tax money is used. With a transparent tax system, we know who is being taxed, how much they are paying, and what is being done with the money. We also can find out who (in broad terms) pays the tax and who benefits from tax exemptions, deductions, and credits.

5. **Administrative ease**; this indicates one that the tax system is not too complicated or costly for either taxpayers or tax collectors. Rules are well known and fairly simple; forms are not too complicated; the state can tell if taxes are paid on time and correctly, and the state can conduct audits in a fair and efficient manner. The cost of collecting a tax should be very small in relation to the amount collected.

### **2.1.6 Overview of Ethiopia's Tax System and Revenue Challenges**

The Ethiopian tax system classifies businesses into three categories A, B and C: according to whether the business is incorporated or not, and the size of the business as measured by its turnover (Haile, Tesfaye, & Worku, 2018). Incorporated taxpayers (corporations) are classified as Category A and face the same tax rate (30%) and administrative requirements regardless of their size. For unincorporated taxpayers, these categories determine the information that firms are required to submit when reporting to the revenue authority, and whether the firm must use cash or an accruals basis for accounting. Tax rates and bands for unincorporated businesses are, as for rental income tax, the annualized equivalents of the monthly ones used for employment income tax, except for Category C taxpayers, which are subject to a special presumptive tax regime.

for the case of category A (whose annual turnover is greater than 1 million), businesses are required to submit a balance sheet (a financial statement) and a profit and loss statement showing their gross profit and the manner in which it is computed, general and administrative expenses, depreciation, and provisions and reserves (Haile, Tesfaye, & Worku, 2018). Businesses must keep their accounts on an accruals basis and must file their returns within four months of the end of the financial year. Businesses liable for rental income tax are required to keep records of rental income received, fees and charges paid to a state or city administration in relation to the rented building, and expenditure incurred by the taxpayer in relation to the rented building, and keep a register of rental

buildings showing the acquisition date, the cost of acquisition, any cost of improvement in relation to the building and the current net book value of the building.

For the case of category B (whose annual turnover is between 500,000 and 1 million); Businesses are required to submit a profit and loss statement that summarizes the revenues and expenses of the business over the reporting period, but no balance sheet (financial statement) information is required (Harris & Seid , 2021). They can keep simplified books of accounts using cash-based accounting and must file their returns within two months of the end of the financial year, reflecting the simplified requirements. Similar to Category A taxpayers, if these businesses are liable for rental income tax, they are expected to keep records in relation to the rented building.

Category C taxpayers are businesses whose annual turnover is below Birr 500,000; they are generally subject to presumptive (standard) assessment and are not required to keep full formal books of account (Harris & Seid , 2021). However, they can pay according to the information from their own books of accounts if the EMoR finds that acceptable and grants them permission to do so. Category C taxpayers must pay their tax liability within one month of the end of the financial year (i.e. between 7 July and 6 August) (Harris & Seid , 2021).

### **2.1.7 Overview of category C taxpayers and challenges of their compliance**

The tax liability of Category ‘C’ taxpayers is determined using standard assessment (Harris & Seid , 2021). This type of assessment is a fixed amount of tax determined in accordance with the established Council of Ministers Regulation Schedules. In this regard, this category of taxpayers is the most problematic category of taxpayers, and it is considered as hard to tax group. This is due to the fact that these taxpayers pay taxes at fixed rate on the income estimated by the income tax authority rather than declaring their income by themselves. The table below depicts characteristics of category C taxpayers.

**Table 1 Characteristics of Category C Taxpayers**

<b>Feature</b>	<b>Description</b>
<b>Taxpayer Category</b>	Category 'C'
<b>Annual Gross Income Threshold</b>	Less than Birr 500,000 (estimated by tax authority)

<b>Obligation to Keep Accounting Records</b>	Generally, not obliged to keep proper accounting records
<b>Tax Assessment Method</b>	Presumptive taxation (standard assessment method), based on estimation by tax officers
<b>Key Characteristics/Notes</b>	Comprises a very large number of small businesses; business income is low; often sell largely for cash; considered the "most problematic" and "hard to tax" group; important source of government revenue

*Source: Harris & Seid (2021)*

### 2.1.8 Theoretical Foundations of Tax Compliance

There are various opinions as to the best ways to improve tax compliance. Given the opportunity, a lot of businesses will not pay taxes unless there is motivation to do so. Some believe that the best way is to increase tax incentives while others believe that the best way is to increase tax penalties. So far, literature has indicated that factors affecting taxpayer compliance are often discussed under groupings of between different theories/models. These factors are economic deterrence, social norms, fiscal psychology, institutional theory, and Slippery Slope Framework (Kirchler, Hoelzl, & Wahl, 2008). Below core assumptions, factors, contributions and limitations of each theory are presented.

**Table 2 Key Theoretical Frameworks of Tax Compliance**

<b>Theory Name</b>	<b>Core Assumption(s)</b>	<b>Key factors affecting of Compliance</b>	<b>Strengths/Contributions</b>	<b>Limitations/Critiques</b>
<b>Economic Deterrence Theory</b>	Taxpayers are rational economic actors; evade if payoff > cost of being caught.	Audit probability, penalty rates, tax rates, risk aversion.	Clear policy implications (e.g., increase audits).	Fails to explain observed higher compliance; ignores non-pecuniary factors; mixed empirical findings on direct impact of audits/rates.
<b>Fiscal Psychology / Behavioral Economics</b>	Tax decisions are influenced by cognitive biases, emotions, and risk perceptions.	Tax knowledge, cognitive biases (e.g., loss aversion, overconfidence), emotions (stress, optimism), tax complexity.	Explains deviations from rationality; offers behavioral interventions.	External validity issues with survey data; difficulty in measuring subjective states.

<b>Social Norms Theory</b>	Behavior guided by group rules and standards; individuals conform to perceived norms.	Peer behavior, internalized social norms (personal norms), perceived prevalence of evasion.	Highlights social influence; explains compliance beyond deterrence.	Varying impact of norms; difficulty in identifying relevant reference groups.
<b>Institutional Theory</b>	Compliance shaped by interaction of formal (laws) and informal (trust, fairness) institutions.	Tax administration effectiveness, trust in government/authorities, perceived fairness/equity, tax morale, corruption.	Comprehensive view of governance explains role of trust and morale.	Complexity in measuring institutional gaps; broad scope can make specific policy difficult.
<b>Slippery Slope Framework</b>	Compliance results from interaction of trust (voluntary) and power (enforced).	Trust in authority, coercive power, perceived legitimacy.	Integrates economic and psychological factors; offers nuanced policy insights.	It can be complex to operate and measure interaction effects.

*Source: Alemayehu (2020)*

### **2.1.9 Factors affecting tax compliance**

As Alm (2021) has explained there is an increase in the volume of research that has investigated factors that influence tax compliance and tax compliance behavior. Specifically, Kirchler et al. (2023) identified the factors that influence tax compliance as sanctions, probability of being audited, tax fairness, tax knowledge and awareness, financial constraint, perception of corrupt tax officials, complexity of tax system, and weak enforcement. Those factors that influence tax compliance behavior are varied from one country to another country and from one individual to another individual (Dereje, 2020). Thus, the factors recognized vary from one study to the other and are considered important to the specific context or situation at hand. Factors taken for this study are discussed as below.

#### **1. Tax knowledge and awareness**

Oladipupo and Obazee (2015) define knowledge as the level of awareness or sensitivity of the taxpayers to tax legislation. That is taxpayers' understanding of tax laws and regulations on the specific tax issues that relate to them. Knowledge of tax laws and regulations is important to compute actual income reporting, make true deductions and

reliefs claims and make accurate tax calculations and payments. Thus, it is an essential element in a voluntary compliance tax system (Saad, 2014).

Recent literature emphasizes that a lack of familiarity with tax laws, filing procedures, and allowable deductions contributes to unintentional non-compliance among self-employed individuals, small business owners, and freelancers (Alm, Martinez-Vazquez, & McClellan, 2016). Studies suggest that taxpayers with higher tax literacy are more likely to accurately report income and claim legitimate deductions, reducing errors and audit risks (Boll, Kirchler, & Muehlbacher, 2022). Conversely, low awareness exacerbates compliance gaps, particularly in jurisdictions with complex tax systems or frequent regulatory changes (Organisation for Economic Co-operation and Development (OECD), 2022).

The findings of Adimassu & Jerene (2016) showed that tax compliance is positively related to education level of taxpayers. Smith (2018) affirmed that one of the fundamental ways to increase public awareness is for taxpayers to have knowledge about taxation. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally made mistakes in their tax return forms (Lumumba, Migwi, & Obara, 2010).

This statement is supported by Malaysian Digest (2017) who observed that tax compliance is significantly related to general level of education. But the study of Tadesse & Goitom (2014) conducted in Mekelle city showed that education level of taxpayers has insignificant effect on the improvement of tax compliance level of taxpayers.

## **2. Probability of being audited**

Tax audit is an exercise undertaken by tax authorities to determine if a taxpayer paid the correct amount of tax (Muoki & Rawlings, 2014). The probability of being audited has been identified as a significant factor affecting tax compliance behavior among Category C taxpayers, who typically include self-employed individuals, small business owners, and freelancers. Recent literature highlights that audit probability exerts both a direct and indirect influence on taxpayer behavior, shaping compliance decisions through deterrence and perceived risk. Studies suggest that higher audit rates are associated with increased compliance, as taxpayers weigh the potential costs of penalties against the benefits of underreporting income Slemrod (2019) & Bjørneby et al. (2021).

Tax audit can play a major role in improving tax administration and overall taxpayer compliance by impacting taxpayer behavior. The contribution of tax audit on improving taxpayer's compliance is significant among other measures taken by revenue authorities of the country (Agumas, 2016). Tax audit towards achieving target revenue is that tax audit reduces the problems of tax evasion (Badra, 2012). Modugu & Anyaduba (2014), Inasius (2015) and Palil & Mustapha (2011) depicted that the probability of being audited was found to be the significant factor that positively affecting level of tax compliance. This suggests that the compliance rate rises if the tendency of being tax-audited is high. Insufficient tax auditing is most crucial factor associated with low level of tax compliance (Helhel & Ahmed, 2014).

### **3. Weak Enforcements**

A fine or penalty is money paid usually to a government authority, as a punishment for a crime or other offence (Muoki & Rawlings, 2014). In developing economies, weak institutional capacity often undermines enforcement, leading to a "culture of non-compliance" among small businesses (Naritomi, Kresch, Walker, Best, & Gerard, 2023).

Recent literature highlights that tax penalties and enforcement mechanisms significantly influence compliance behavior among Category C taxpayers, who typically include self-employed individuals, small business owners, and freelancers. Empirical studies suggest that the certainty and severity of penalties play a crucial role in deterring tax evasion, particularly in contexts where third-party reporting is limited (Slemrod & Weber, Deterrence with category C taxpayers: Evidence from randomized audits, 2022). For instance, increases in penalty rates have been shown to reduce underreporting by small businesses, though their effectiveness depends on the perceived likelihood of detection" (Ndlovu & Schutte, 2023).

Sawyer et al. (2014) depicted increases in tax deterrence sanctions pertaining detection likelihood and the severity of penalties resulted in lower non-compliance among taxpayers. Fines and penalties had positive effect on level of tax compliances; the greater the penalty and therefore the potential audit chance the higher discouragement for potential tax evasion (Muoki & Rawlings, 2014). The level of penalty rate is statistically significant to affect tax compliance levels. Further, Slemrod (2023) found that Category C taxpayers are more responsive to visible enforcement actions (e.g., publicized audits or

penalties) than to theoretical risks, as their compliance is often driven by immediate deterrence rather than long-term trust. However, Tilahun (2016) and Pambudi et al. (2015), in their studies on factors influencing tax compliance attitude in Ethiopia (Bahirdar City Administration), indicated that offences and penalties are not important variables in explaining tax compliance attitude.

#### **4. Fairness of tax system**

Fairness of a tax system refers to how just, equitable, and impartial the system is in distributing the tax burden among individuals and businesses (Sawyer, et al., 2014). The perceived fairness of the tax system is a critical factor of voluntary compliance among Category C taxpayers, who often lack formal accounting systems and operate with limited financial literacy. Recent empirical studies demonstrate that when small businesses and informal sector operators view tax burdens as equitably distributed (horizontal fairness) and believe their contributions fund meaningful public services (vertical fairness), compliance rates improve significantly (Nartey, 2023). Conversely, perception of a tax system as unfair, leading to widespread evasion, especially among Category C taxpayers who already face high compliance costs (Heggstad & Fjeldstad, 2012). For instance, a 2023 field experiment in Kenya found that taxpayers who received transparency reports linking their payments to local infrastructure projects were 22% more likely to file accurately (Mascagni, Santoro, & Mukama, Digitalisation and tax administration in Africa: A review of recent experience, 2023).

On the other hand, a Ugandan field experiment by Mukiibi & Okunogbe (2022) in World Development reported no significant link between perceived fairness and tax payments for street vendors, with evasion instead driven by liquidity constraints. These counter intuitive results suggest that fair interventions may backfire when: (1) taxpayers distrust institutions (e.g., due to prior corruption), or (2) survival pressures outweigh moral motivations (OECD, 2022). Maseko & Sawe (2022) investigates how perceptions of fairness in tax laws and regulations influence tax compliance among SMEs in Arusha, Tanzania. The findings indicate a significant positive relationship between perceived fairness and tax compliance, highlighting the importance of equitable tax policies in fostering compliance.

#### **5. Complexity of the tax system**

Tax complexity can be defined from different angles by different individuals (Evans & Tran-Nam, 2013). According to Evans and Tran-Nam (2013) three different definitions were given to tax complexity from the perspectives of tax accountants, tax lawyers, and taxpayers. To tax accountants, tax complexity refers to the time it takes to prepare income tax returns, planning, tax advice and consultancy. To a tax lawyer, tax complexity can be viewed from the point of difficulty in reading, understanding, and interpreting tax laws for their application in tax compliance. To a taxpayer, tax complexity is viewed from the point of the time taken and the cost incurred in complying with the relevant tax legislation. Thus, this study will view tax complexity from the difficulties of the tax procedures to taxpayers to comply with it.

The complexity of the tax system is a significant factors affecting tax compliance behavior, as evidenced by recent studies and practical observations (IMF, 2022; IMF, 2018). A convoluted tax structure, with intricate regulations, frequent amendments, and excessive paperwork, often discourages compliance by increasing the cost and effort required to fulfill tax obligations. For instance, Slemrod (2023) found that simplification measures, such as standardized deductions and digital filing platforms, improved compliance rates in several developing economies by reducing ambiguity and administrative burdens. Additionally, behavioral experiments conducted in 2024 demonstrated that taxpayers exposed to simplified tax frameworks exhibited higher voluntary compliance compared to those navigating complex systems (Büttner & Thiemann, 2024). These findings underscore the need for policymakers to prioritize tax simplification to enhance compliance, reduce enforcement costs, and foster trust in the tax administration.

## **6. Perception of Corruption**

Perception of corruption is one of the variables selected to be investigated in this study. The problem of corruption is probably as old as government itself (Campbell, 1979). Corruption is an intricate socio-political and economic issue that is widespread in all nations to a differing degree (Rohwer, 2009). Perceptions of corruption and tax non-compliance behavior are key challenges to state-building in developing countries (Rosid, Evans, & Tran-Nam, 2018). Corruption can be termed as gross abuse of power for personal benefit (Aguilera & Vadera, 2008).

When taxpayers believe that public funds are misused or that tax officials engage in bribery and favoritism, their willingness to comply voluntarily diminishes. A study by Fisman & Golden (2023) found that in countries with high perceived corruption, taxpayers exhibit lower compliance rates, as they view tax payments as contributing to elite capture rather than public welfare. Similarly, OECD (2022) reported that trust in government is a critical factor in tax morale, with corruption perceptions leading to higher tax evasion, particularly in developing economies. Experimental research by Mascagni et al. (2024) in *World Development* further supports this, showing that taxpayers who perceive corruption in public spending are more likely to justify non-compliance as a form of protest. These findings suggest that improving transparency, strengthening anti-corruption measures, and enhancing public trust in institutions are essential for fostering tax compliance.

## **7. Financial constraints**

Personal financial constraints are believed to have an impact on tax evasion as financial distress faced by an individual may encourage him to prioritize what has to be paid first as basic survival needs (such as food, clothing, housing etc.) Recent studies indicate that financial challenges force many small enterprises to prioritize operational survival over tax obligations, leading to delayed payments or non-compliance (World Bank, 2023). A 2023 survey by the Ethiopian Economic Association (EEA) revealed that 45% of non-compliant Category C taxpayers cited cash flow problems as their primary reason for failing to meet tax deadlines, with agricultural and retail businesses being particularly affected due to seasonal income fluctuations (Ethiopian Revenue Custom Authority (ERCA), 2023). Furthermore, Limited access to formal credit significantly affects small businesses in Ethiopia. Wajebo (2022) found that 46% of micro, small, and medium enterprises (MSMEs) are fully credit constrained, highlighting substantial barriers to accessing finance for these businesses.

The psychological burden of financial stress also reduces compliance willingness. Research by the EEA (2023) found that taxpayers facing severe financial strain are 30% more likely to underreport income or engage in opportunistic non-compliance, perceiving taxes as an unsustainable burden. This aligns with global evidence from OECD (2022), which shows that liquidity-constrained firms often adopt "tax triage," prioritizing essential expenses like payroll and inventory over tax payments.

## 2.2 Review of Empirical studies

The preceding section addressed theoretical aspects concerning taxation, tax compliance, and the factors influencing tax compliance behavior. In this section, the empirical literature pertaining to tax compliance has been examined.

A study by Taing & Chang (2020) using the Theory of Planned Behavior in Phnom Penh, Cambodia, found that tax system complexity, perceived fairness, and tax knowledge and awareness significantly influence tax compliance intention. In contrast, tax penalties, enforcement, and perceived corruption were not statistically significant predictors of compliance.

However, Sandy & Harnovinsah (2019) conducted a study analyzing factors affecting individual taxpayer compliance in Jakarta, Indonesia. Their findings indicate that tax knowledge, perception of tax fairness, and tax audits positively and significantly influence taxpayer compliance. Similarly, Obaid et al. (2022) investigated determinants of tax compliance among Yemeni manufacturing SMEs using the Fischer Model. Their study revealed that tax fairness has a significant positive effect on tax compliance behavior, whereas perception of corruption does not significantly influence compliance decisions.

Maseko (2014) conducted a study on the determinants of tax compliance among SMEs in Zimbabwe, concluding that perceptions of tax fairness, tax service quality, and government spending priorities significantly affect tax compliance decisions. But the study found no correlation between tax knowledge and tax registration compliance, and only a weak negative correlation with filing compliance. Also, Bărbuță-Mișu (2011) conducted a comprehensive review identifying that both economic factors—such as financial condition, audit probabilities, tax rates, penalties, and fines—and non-economic factors—including attitudes toward taxes, social and national norms, and perceived fairness—significantly influence tax compliance behavior.

Ali et al. (2014) explored factors that determine citizens' tax compliance behavior in Kenya, Tanzania, Uganda and South Africa using attitude and perception data and findings show that those individuals who perceive that their ethnic group is treated unfairly are less likely to have a tax compliant attitude in Tanzania and South Africa. Tax knowledge is also significantly correlated with tax compliant attitude in Tanzania and

South Africa. These findings are robust for different econometric specifications.

Tilahun & Yidersal (2014) attempted to reveal factors that determine tax compliance behavior in Ethiopia particularly in Bahirdar city administration. The results of the study revealed that perception on equity and fairness of the tax system, penalties and personal financial constraint are factors that significantly affect tax compliance behavior. However, probability of being audited has no significant impact on tax compliance behavior. Deyganto (2018) examined factors influencing voluntary tax compliance attitudes among taxpayers in the Gedeo Zone of Southern Ethiopia. The study concluded that demographic variables such as gender and age, along with factors like lack of tax knowledge, simplicity of the tax system, awareness of penalties, probability of being audited, and perceptions of tax rates significantly influenced taxpayers' voluntary compliance attitudes. Conversely, variables including education level, tax authority efficiency, peer influence, occupation, income level, perceptions of government spending, and fairness did not have a significant impact on voluntary compliance in the study area.

Haile & Destaw (2020) studied “determinants of tax compliance behavior in Ethiopia, based on evidence collected from South Gondar zone”. They found a positive and significant relationship between audit rate, attitude of taxpayers, perception on equity of the tax system with tax compliance behavior of category” A” and “B” taxpayers in South Gonder Zone. On the contrary, tax rate, social norm, compliance cost and sex are identified as statistically significant negative determinants of tax compliance behavior in the study area. But, penalty rate, perception of government spending, training to enhance tax knowledge and age of the respondent are found to have statistically insignificant effects on compliance behavior of category “A” and “B” taxpayers in the study area.

Girma (2019) studied determinants of business taxpayers' tax compliance in Addis Ababa city administration. The result indicated that knowledge of taxpayers has positive and significant relationship with tax compliance of large business taxpayers. Another researcher Tsegaw (2017) conducted research on determinants of taxpayers' tax compliance behavior, with six tax compliance determinants. The results of the research suggest that tax knowledge; feeling of fairness; the influence of peer groups; income level of taxpayers and detection and punishments have significantly affected Addis

Ababa City Business Profit taxpayers' tax compliance behavior.

Kibret (2016) found no significant relationship between tax compliance and perceptions of corruption and penalties. However, the probability of being audited and financial constraints had a significant impact on compliance. In contrast, Tilahun and Yidersal (2014) reported that the chance of being audited does not have a significant effect on tax compliance behavior. Similarly, Ahmed and Kedir (2015) found that audits have a negative and significant effect on compliance, indicating that the higher the probability of detection, the lower the level of tax compliance.

Ahmed & Kedir (2015) also find that age, sex, penalty, audit, simplicity, fairness and perception on government were found to affect tax compliance. They recommended that the tax authority has to work on educating society, making the tax system fair, strengthening the audit system and reducing complexity of the tax system.

Alemayehu (2020) has made a study with a title “determinants of tax compliance behavior among taxpayers, large taxpayers branch office, Addis Ababa” using Multiple Linear Regression (MLR) analysis. The result of his research indicated that fairness of tax system, penalty rate, peer influence, tax knowledge, gender and age affect tax compliance behavior.

Finally, an empirical study made by Tadesse and Goitom (2014) in Mekelle city, Tigray, Ethiopia to examine the determinants of taxpayers' compliance by incorporating determinants like perception of government spending, probability of being audited, changes to current government policies, referral group, the role of the tax authority and tax knowledge. The study results from the survey conducted in Mekelle using 102 respondents indicate that tax compliance was influenced by the probability of being audited, and changes in government policy. Furthermore, the study found insignificant influence between tax knowledge and tax compliance. But this study didn't assess important factors like financial constraint and weak enforcement.

As it is indicated in the empirical studies discussed earlier studies on determinants of tax compliance around the world and in Ethiopia show that tax compliance has been influenced by different factors such as complexity of the tax system, probability of being audited, penalties, perception of corruption, personal financial constraints, and knowledge.

## 2.3 Conclusions of the empirical review and knowledge gaps

The empirical research examined in the previous section concentrated on various factors influencing tax compliance behavior, and the results remain inconsistent among researchers. Certain variables may be significant in one study while proving insignificant in another, and these findings have been observed to vary across different countries. Furthermore, to the researcher's knowledge, variables such as perceptions of fairness and weak enforcement have not been studied in Ethiopia. Consequently, the researcher has aimed to address this knowledge gap by investigating the factors that affect the compliance behavior of category C taxpayers in the context of Hadinet sub-city, Mekelle, Tigray, Ethiopia.

## 2.4 Conceptual Framework

The study employs a conceptual framework in which the factors affecting tax compliance are considered as an independent variable, while tax compliance itself is treated as a dependent variable, as depicted in the subsequent Conceptual Framework. Additionally, the anticipated sign of each independent variable is provided alongside the respective independent variables.

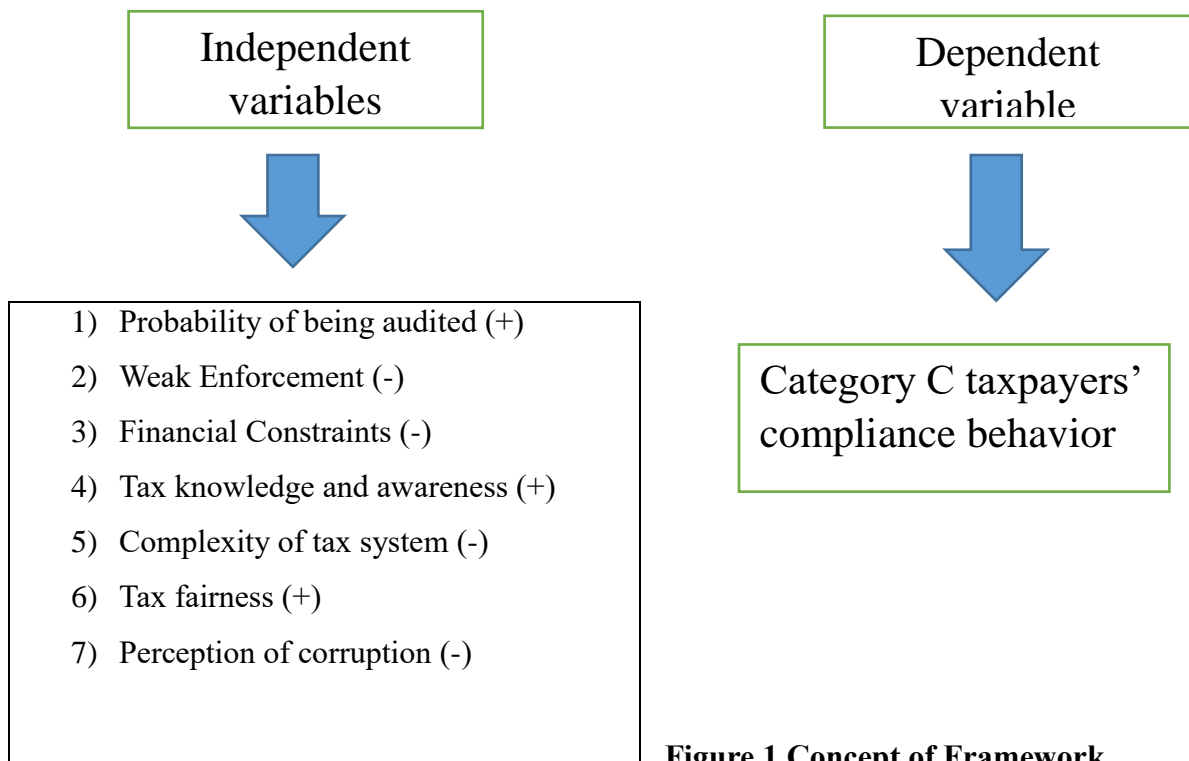


Figure 1 Concept of Framework

*Source: adapted from Dereje (2020)*

## **CHAPTER THREE: RESEARCH METHODOLOGY**

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*This chapter presents the underlying principles of research methodology and the choice of the appropriate research method for the thesis. It involves general research design, population of study, sample size and sampling techniques, sources of data, research instruments and methods of data analysis and presentation.*

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### **3.1 Research Design**

The research design refers to the overall strategy chosen to integrate the different components of a study in a coherent and logical way, thereby ensuring the research problem is effectively addressed. It constitutes the blueprint for the collection, measurement, and analysis of data (De Vaus, 2001). Note that the research problem determines the type of design to be used, not the other way around.

The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. It must ensure that the information collected is appropriate for solving a problem (De Vaus, 2001). This study applied an explanatory research design because, in almost all social research, the researcher has no control and could only explain what happened. In addition, this type of research design was the most suitable for conducting cause-effect research, as it helped the researcher identify the effects of independent variables (which could not be controlled) on the dependent variable.

### **3.2 Target population**

The target population for this study comprised taxpayers registered with the Hadinet Sub-City Revenue Bureau in Mekelle city.

### **3.3 Data type and source**

This study used primary data, which were collected through self-administered questionnaires with closed-ended questions also to allow respondents to provide additional comments and opinions, some open-ended questions were included in the questionnaire. Closed-ended questions require less effort from respondents to complete and facilitate easier analysis and including open-ended questions in the questionnaire is essential as it allows respondents to express their personal opinions, explanations, and experiences that cannot be fully captured through numerical responses. These questions

also help to uncover new insights or issues that may not be addressed by the closed-ended items, thereby enriching the overall understanding of the topic. The survey questionnaire was prepared in both English and Tigrigna versions. The questionnaire was written in English and utilized a five-point Likert scale to measure levels of agreement or disagreement, with the following scoring: (1) strongly disagree, (2) disagree, (3) neutral, (4) agree, and (5) strongly agree. These numerical values facilitated ordinal scale measurement and generated data appropriate for analysis (Boone Jr & Boone, 2012).

Clarifications about the purpose of the survey were provided in the questionnaire, and the researcher was involved only when respondents required explanation. The questionnaires were personally distributed to ensure respondents' willingness to participate and to provide an opportunity for the researcher to verbally and respectfully explain the importance of the study.

The questionnaire comprised three parts. The first part collected demographic information from respondents. The demographic characteristics of respondents, including gender, age, educational level, and business sector, were included in the questionnaire to describe the background of participants and to provide context for interpreting the results. These characteristics were not treated as variables in the analysis but rather as descriptive information supporting the overall findings of the study (Sekaran & Bougie, 2019). The second part of the questionnaire included questions related to taxpayers' compliance levels and the factors influencing tax compliance behavior, while the third part presented comments and recommendations from respondents and the researcher based on the findings, incorporating a few open-ended questions alongside the predominantly closed-ended items. The inclusion of open-ended questions allowed respondents to elaborate on their views and provide insights that could not be fully captured through the five-point Likert scale, thereby enriching the quality of the data collected (Bryman, 2016; Creswell & Creswell, 2018).

### **3.4 Sample size and techniques**

This study used a simplified sample size determination formula provided by Yamane (1967) to determine the required sample size at a 95% confidence level with a precision level of 5%. This sample size determination method is more applicable when the

sampling population is known and finite. Therefore, the sample size comprised 186 respondents, determined according to Yamane’s formula:  $n = N/(1 + N (e)^2)$  where:

N - total population

n - Sample size

e = 0.05 error term,

$$350 / (1 + 350(0.05)^2) \approx 186$$

The level of significance was 95%. To obtain sufficient and reliable data, 186 taxpayers were selected. Stratified random sampling was used to ensure proportional representation across business sectors (manufacturing, service, merchandise), followed by simple random sampling within each stratum. Sector proportions mirrored the population distribution (manufacturing: 50%, service: 30%, merchandise: 20%), which enhanced generalizability.

**Table 3 Sample size distribution by business sector**

Business sector	Number of taxpayers	Weight	Sample size
Manufacturing	158	45%	84
Merchandize	112	32%	59
Service	80	23%	43
Total	350	100%	186

*Source: researcher’s own computation (2025)*

### 3.5 Methods of data collection

Research method is a systematic plan for conducting research. There are different types of research methods that use various tools for data collection. Research methods include both qualitative and quantitative approaches, such as experiments, surveys, and observations. The objective of this study was to examine the factors that influence tax compliance behavior. Accordingly, the research was carried out using a quantitative research method. Data was collected through a self-administered questionnaire because it is simple to administer, enables respondents to complete it conveniently, and allows for efficient data analysis (Creswell & Creswell, 2018). The use of a self-administered questionnaire also helps to reduce interviewer bias and ensures greater anonymity of responses, thereby improving the reliability of the data (Saunders, Lews, & Thornhill, 2019).

### 3.6 Methods of data analysis and Model specification

The data collected through the questionnaire from the study's representative sample was processed and subjected to a variety of analysis techniques. Statistical packages, Statistical Software for Data Analysis (STATA) version 17.0, together with Excel spreadsheet, were applied by the researcher to process the quantitative data obtained from the structured questionnaire. Descriptive and inferential statistics were used to investigate the importance of determinant factors (independent variables) that helped to establish the tax compliance variables. The descriptive interpretation used the meaning as a base, while the inferential interpretation used the p-value, the coefficients ( $\beta$ ) of the independent variables, and the necessary regression analysis.

The study employed multiple regression analysis to identify the factors influencing tax compliance in the study area. As noted by Neway et al. (2023), MLR is an appropriate statistical technique for examining the relationship between a dependent variable and several independent variables. In this study, tax compliance was treated as the dependent variable, while the identified determinant factors served as independent variables. The regression model was used to evaluate the extent to which each independent variable significantly affected taxpayers' compliance behavior in Hadinet Sub-City.

The research model included seven independent variables considered relevant to all types of taxpayers, namely fairness of the tax system, complexity of the tax structure, probability of being audited, weak enforcement, tax knowledge and awareness, perception of corruption, and financial constraints. The dependent variable was tax compliance (TC), which was assumed to be influenced by these independent variables. Accordingly, the MLR model used in the study was specified as follows:

$$TC = \beta_0 + \beta_1(TKA) + \beta_2(FT) + \beta_3(FC) + \beta_4(WE) + \beta_5(PA) + \beta_6(PC) + \beta_7(CTS) + \epsilon_i$$

Where:

**TC** = Tax compliance

**TKA** = Tax knowledge and awareness

**FT** = Fairness of the tax system

**FC** = Financial constraints

**WE** = Weak Enforcement

**PA** = Probability of being audited

**PC** = Perception of corruption

**CTS** = Complexity of the tax system

$\beta_0$  = Constant term representing the expected value of tax compliance when all explanatory variables are zero

$\beta_1 \dots \beta_7$  = Coefficients indicating the magnitude and direction of influence of each independent variable on tax compliance

$\epsilon_i$  = Error term capturing other factors not included in the model that affect taxpayers' compliance behavior

### 3.7 Description of Variables and their Scale of Measurement

From the theoretical and empirical literature, traditional observable characteristics that may influence the probability of having voluntary compliance attitude of taxpayers are summarized with their respective unit of measurement in table 4 below.

**Table 4 Variables and their description**

Variables	Type of variable	Operational definition	Unit of measurement	Expected sign
Tax Compliance (TC)	Dependent	Paying correct amount of tax obligations on time.	Ordinal	+ or -
Probability of Being Audited (PA)	Independent	The perception of taxpayers regarding the likelihood of inspection or examination by the tax authority.	Ordinal	+
Tax Knowledge and Awareness (TKA)	Independent	Taxpayers' ability to understand and handle the administrative and legal requirements related to taxation.	Ordinal	+

Perception of Corruption (PC)	Independent	Taxpayers' perception of corrupt actions by tax officials and their influence on compliance behavior.	Ordinal	-
Complexity of the tax system (CTS)	Independent	The degree of difficulty taxpayers faces in understanding and complying with the tax system.	Ordinal	-
Weak Enforcement (WE)	Independent	The failure or inability of tax authorities to effectively enforce tax laws and ensure compliance.	Ordinal	-
Fairness of the tax system (FT)	Independent	How justly the tax burden is distributed among individuals and businesses.	Ordinal	+
Financial Constraint (FC)	Independent	The limited ability of individuals or businesses to meet their tax obligations due to insufficient income and cash flow problems.	Ordinal	-

+, Positive effect; -, Negative effect.

*Source: Own construct (2025)*

### **3.8 Ethical consideration**

The researcher used a structured questionnaire based on selected tax compliance factors. Research permission and a supporting letter were secured from Mekelle University (MU), and research guidance was obtained from the research advisor. The survey was conducted by distributing questionnaires to Category 'C' taxpayers who were registered at the Hadinet Sub-City Office of Revenue and those who visited the tax office for tax clearance, audit cases, tax appeals, tax filing, and other cases. To meet ethical requirements, the researcher assured the respondents that their information would be kept confidential and used only for academic purposes. During data collection, respondents were well informed about the objective of the research. Individuals who were not interested in providing any information were not included in the study. Moreover, for confidentiality purposes, respondents were not asked to write their names. In general, the study attempted to maintain ethical standards.

### **3.9 Hypotheses of the study**

Hypotheses are testable predictions about the expected relationship between variables (Creswell & Creswell, 2018). They may be formulated as directional alternative hypotheses ( $H_1$ ), specifying the nature of the relationship (e.g., positive/negative, higher/lower), or as null hypotheses ( $H_0$ ), positing no significant effect. Drawing on empirical evidence from the literature review, this study examines how compliance behavior of Category C taxpayers' in Hadinet sub city is influenced by selected seven key factors. The following hypotheses are proposed:

H1: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by tax knowledge and awareness.

H2: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by perceived fairness of the tax system.

H3: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by financial constraints.

H4: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by weak enforcement.

H5: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by probability of being audited.

H6: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by perception of corruption.

H7: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by complexity of the tax system.

## CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND DISCUSSION OF RESULTS

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*This chapter describes the findings and analysis of the research study based on the data collected. The researcher distributed a total number of 186 questionnaires to large taxpayers in the large taxpayers' branch office. Out of the total questionnaires distributed, 179 questionnaires were appropriately filled and returned, which accounts for a response rate of 96.2%. The data is analyzed using descriptive statistics (means, frequency and standard deviation) and inferential statistics (MLR). The results are presented in tabular summaries and graphs followed by discussions about the result. STATA SE 17.0 is used to analyze the research findings.*

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### 4.1 Demographic Characteristics of Respondents

As explained in Chapter 3, demographic characteristics were collected to describe the background of participants and provide context for interpreting the findings. These characteristics were not treated as variables in the analysis but served as descriptive information supporting the overall study. The respondents' profile includes gender, age, educational level, and the business sector in which the company operates.

#### 4.1.1 Gender

Gender has its own influence on the level of tax compliance in society. It is often believed that females are naturally less inclined to take risks compared to males (Harris & Jenkins, 2006). The respondents' gender profile is presented in Table 5.

**Table 5 Gender of respondents**

Gender	Count	Percent
Male	128	71.25%
Female	51	28.75%
Total	<b>179</b>	<b>100.00</b>

*Source: Researcher's own survey (2025)*

According to Table 5, more than two-thirds of the respondents (71.25%) were male, while the remaining 28.75% were female. Male respondents therefore had a higher

representation among Category “C” taxpayers. The dominance of males in this group may contribute to higher levels of tax non-compliance, as males are generally considered to be more risk-taking than females (Harris & Jenkins, 2006).

#### 4.1.2 Age

Age can influence taxpayers’ compliance behavior, as younger individuals are often less experienced in business and may exhibit lower compliance compared to older, more experienced taxpayers (Aladejebi, 2018). The age distribution of respondents is summarized in Table 6.

**Table 6 Age of Respondents**

Age Category	Frequency	Percent	Cumulative Percent
Less than 30	60	33.5	33.5
30 - 40	62	34.6	68.1
41 - 50	33	18.5	86.6
Above 50	24	13.4	100
<b>Total</b>	<b>179</b>	<b>100</b>	

*Source: Researcher’s own survey (2025)*

As shown in Table 6, approximately 68% of respondents are under 40 years old, while the remaining 32% are over 40. Confirming that most Category C taxpayers included in the study are relatively young. This aligns with prior research suggesting that younger business owners may have lower awareness and compliance levels than older business owners (Aladejebi, 2018).

#### 4.1.3 Educational level

Education plays an important role in creating and enhancing tax awareness in society. The educational level of respondents is summarized in Table 7.

**Table 7 Educational level of Respondents**

Educational level	Frequency	Percent	Cumulative Percent

High school graduate or less	47	26.3	26.3
Diploma	81	45.2	71.5
Degree	38	21.2	92.7
Master's Degree and above	13	7.3	100
<b>Total</b>	<b>179</b>	<b>100</b>	

*Source: Researcher's own survey (2025)*

As shown in Table 7, most respondents have a relatively low level of formal education, with over 71.5% holding a diploma or below. Only 21.2% of respondents have a first degree, and the remaining 7.3% have a master's degree or higher. This suggests that many Category C taxpayers may lack adequate formal knowledge about tax laws and obligations. Supporting this, Dori and Joshi (2024) highlight that taxpayers' awareness significantly affects tax compliance, suggesting that enhancing education and awareness about tax laws, regulations, rules, and procedures can improve compliance levels.

#### **4.1.4 Business Sector**

Ethiopia is currently one of the fastest-growing economies in Africa. According to the International Monetary Fund (IMF, 2025), the country's real GDP is projected to grow by 7.2% in 2025, surpassing the regional average for Sub-Saharan Africa. Despite this robust economic growth, small businesses, particularly those classified as Category C taxpayers, predominantly operate in the service and merchandise sectors. The manufacturing sector, while encouraged by national policies, remains less dominant among these small enterprises.

**Table 8 Business Sector**

<b>Business Sector</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Manufacturing	32	18	18
Service	64	36	54
Merchandize	83	46	100

<b>Total</b>	<b>179</b>	<b>100</b>	
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Source: Researcher's own survey (2025)

As shown in Table 8, 18% of respondents operate in the manufacturing sector, 36% in the service sector, and 46% in the merchandise sector. This indicates that merchandise businesses dominate among Category C taxpayers included in the study.

## 4.2 Descriptive Statistics for factors affecting Tax Compliance

This section presents the results of the statistical analysis and the interpretation of the data using means and standard deviations. The questionnaire was prepared using a five-point Likert scale, where 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree. To allow respondents to provide additional comments and opinions, some open-ended questions were included in the questionnaire. The scores were divided into five ranges, with a mean score of 1 or 2 representing “strongly disagree” and “disagree,” respectively, while scores of 3, 4, and 5 represented “neutral,” “agree,” and “strongly agree,” respectively.

Descriptive Statistics of Probability of Being Audited

**Table 9 Descriptive Statistics of Probability of being audited**

Descriptive analysis											
	N=179	Distribution of responses on Likert scale						Average response and dispersion.		Range of responses	
Q/No		1	2	3	4	5	Total Freq. %	Mean	Stan deviation	Min	Max
1	The tax office has no sufficient resources and capacity to audit every taxpayer.	25.9	25.2	17.9	19.8	11.2	100	2.82	1.41	1	5

2	If the probability of being audited by the tax office is low, then taxpayers will not comply with tax requirements.	11.4	23.4	18.6	26.5	20.3	100	3.2	1.31	1	5
3	Taxpayers who have never been audited are more risk takers and don't comply with tax requirements.	12.6	22.2	20.9	21.5	22.8	100	3.19	1.34	1	5

*Source: Researcher's own survey (2025)*

The results in Table 9 reveal mixed perceptions regarding the role of auditing in tax compliance. The belief that the tax office lacks sufficient resources and capacity to audit every taxpayer had the lowest mean, **2.82** (SD = 1.41), with about **51 percent** disagreeing. This suggests that many respondents consider the office relatively capable of carrying out audits.

In contrast, the view that a low probability of audit reduces compliance produced a mean of **3.20** (SD = 1.31), with **46 percent** in agreement and **34 percent** in disagreement. This reflects divided opinions but points to a tendency that stronger audit mechanisms may improve compliance.

Similarly, the perception that taxpayers who have never been audited are more risk-taking and less compliant recorded a mean of **3.19** (SD = 1.34), with **44 percent** in agreement. This indicates that many respondents associate the absence of audits with higher noncompliance, though opinions remain varied.

Overall, the findings highlight that while respondents are not unanimous, a considerable share believes that audit probability influences compliance behavior, underscoring the importance of consistent and effective auditing practices.

#### Descriptive Statistics of Tax Knowledge and Awareness

**Table 10 Descriptive Statistics of Tax knowledge and awareness**

	Descriptive analysis
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N=179		Distribution of responses on Likert scale					Average response and dispersion.		Range of responses		
Q/No	Tax knowledge and awareness	1	2	3	4	5	Total Freq. %	Mean	Stan dev	Min	Max
4	I know tax noncompliance distorts resource allocation to society, and it negatively affects growth and development of the nation.	6.6	13.2	18.6	36.5	25.1	100	3.60	1.18	1	5
5	I believe that I have sufficient tax awareness that helps me to fulfill my tax obligations.	6.6	11.4	19.2	28.7	34.1	100	3.72	1.23	1	5
6	I believe taxpayers with little tax knowledge/awareness don't comply with tax rules and regulations.	17.3	18	26.3	22.2	16.2	100	3.02	1.32	1	5

*Source: Researcher's own survey (2025)*

The results in Table 10 show that taxpayers generally demonstrate a moderate level of knowledge and awareness. Awareness of the negative consequences of noncompliance had a mean of **3.60** (SD = 1.18), with about **61.6 percent** of respondents agreeing or strongly agreeing, indicating that most recognize its adverse impact on society and national development. Perceived sufficiency of tax awareness recorded the highest mean, **3.72** (SD = 1.23), with **62.8 percent** agreement, suggesting that many taxpayers feel adequately informed to meet their obligations, possibly reflecting the effect of awareness programs.

By contrast, the view that limited knowledge directly leads to noncompliance produced the lowest mean, **3.02** (SD = 1.32), with only **38.4 percent** agreement. This result, which lies close to neutrality, highlights divided opinions and implies that taxpayers are less convinced of a strong link between awareness and compliance behavior.

Overall, the findings suggest that while taxpayers acknowledge the importance of awareness for themselves, they do not strongly regard it as a major factors affecting compliance among others.

#### Descriptive Statistics of Perception of Corruption

**Table 11 Descriptive Statistics of Perception of corruption**

		Descriptive analysis									
N=179		Distribution of responses on Likert scale					Average response and dispersion.		Range of responses		
Q/No	Perception of corruption	1	2	3	4	5	Total Freq. %	Mean	Stan dev	Min	Max
7	I evade taxes if I assume tax officials as corrupt, since I can bribe them simply.	3	10.8	13.2	36.5	36.5	100	3.93	1.09	1	5
8	Taxpayers can evade tax if they assume the government is corrupt, since the government will not use the tax revenue for the society.	5.4	10.8	15	28.1	40.7	100	3.88	1.21	1	5
9	Collusion between corrupt taxpayers and corrupt tax officials encouraging honest taxpayers to evade taxes.	3	9.6	23.4	38.3	25.7	100	3.74	1.04	1	5

*Source: Researcher's own survey (2025)*

The results in Table 11 indicate that perceptions of corruption are strongly associated with noncompliant behavior. The statement on evading taxes when tax officials are assumed corrupt had the highest mean, **3.93** (SD = 1.09), with about **72 percent** of respondents agreeing or strongly agreeing. Similarly, the belief that taxpayers evade if they view the government as corrupt recorded a mean of **3.88** (SD = 1.21), supported by **68 percent** of respondents. The view that collusion between corrupt taxpayers and

officials encourages evasion among honest taxpayers produced a mean of **3.74** (SD = 1.04), with **63 percent** in agreement.

Taken together, these results demonstrate that corruption—whether perceived within the tax administration or the government more broadly—undermines taxpayer compliance. This implies that strengthening institutional integrity and reducing opportunities for corruption are critical to fostering voluntary compliance.

#### Descriptive Statistics of Complexity of the Tax System

**Table 12 Descriptive Statistics of Complexity of the tax system**

		Descriptive analysis											
		N=179					Distribution of responses on Likert scale			Average response and dispersion.		Range of responses	
Q/No	Complexity of the tax system	1	2	3	4	5	Total Freq. %	Mean	Stan dev	Min	Max		
10	Ethiopian tax system is very complicated and affects the tax compliance level of taxpayers.	17.3	25.7	21.6	19.2	16.2	100	2.91	1.33	1	5		
11	I incur high professional fees to hire accountants	16.2	19.8	24	25.1	14.9	100	3.03	1.30	1	5		
12	Tax compliance will be improved if tax rules and regulations are easy to understand and apply	2.4	6.6	22.8	39.5	28.7	100	3.85	0.98	1	5		

*Source: Researcher's own survey (2025)*

The findings in Table 12 indicate that taxpayers' perceptions of the complexity of the Ethiopian tax system are mixed but highlight key compliance challenges. The statement regarding the tax system being very complicated yielded a mean of **2.91** (SD = 1.33), with **43 percent** of respondents disagreeing and **35 percent** agreeing. This suggests that

while some taxpayers perceive the system as complex, a substantial portion does not see it as a major barrier.

About **50 percent** of respondents reported incurring high professional fees to hire accountants, reflected in a mean of **3.03** (SD = 1.30). This indicates that even if complexity is not universally acknowledged, many taxpayers experience additional costs to comply with tax requirements.

Strong consensus emerged for the statement that simplifying tax rules and regulations would improve compliance. This item received a mean of **3.85** (SD = 0.98), with **68 percent** of respondents agreeing or strongly agreeing. This clearly underscores the importance of making tax procedures easier to understand and apply, suggesting that reforming the system’s complexity could enhance voluntary compliance.

#### Descriptive Statistics of Financial Constraints

**Table 13 Descriptive Statistics of Financial Constraints**

		Descriptive analysis									
		Distribution of responses on Likert scale					Average response and dispersion.		Range of responses		
Q/No	Financial constraints	1	2	3	4	5	Total Freq. %	Mean	Stan dev	Min	Max
13	There have been times when I could not file my tax return on time because I couldn't afford to pay the tax due.	7.3	15.7	21.6	29.2	26.2	100	3.69	3.33	1	5
14	Financial pressure has sometimes led me to underreport my income to reduce the immediate tax burden.	6.2	9.8	24	35.1	24.9	100	4.01	1.30	1	5

15	Paying the full amount of tax owed is often a major source of financial stress for my business.	2.4	6.6	22.8	39.5	28.7	100	3.85	0.98	1	5
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*Source: Researcher's own survey (2025)*

The results in Table 13 indicate that financial constraints significantly affect taxpayers' compliance behavior. The statement regarding inability to file tax returns on time due to lack of funds recorded a mean of **3.69** (SD = 1.33), with **55 percent** of respondents agreeing or strongly agreeing. This suggests that many taxpayers experience difficulties meeting deadlines because of limited financial capacity.

Similarly, the perception that financial pressure leads to underreporting of income to reduce immediate tax burdens had the highest mean, **4.01** (SD = 1.30), with approximately **60 percent** agreement. This highlights that financial stress is a key driver of intentional noncompliance.

Finally, the view that paying the full amount of tax owed is a major source of financial stress yielded a mean of **3.85** (SD = 0.98), supported by **60 percent** of respondents. This indicates that the immediate financial impact of taxes is perceived as burdensome, which may influence compliance behavior.

Overall, these findings underscore that financial constraints are a major factors affecting tax noncompliance, suggesting that policies to alleviate taxpayers' financial burden could improve voluntary compliance.

#### Descriptive Statistics of Weak Enforcement

**Table 14 Descriptive Statistics of Weak Enforcement**

Descriptive analysis				
	N=167	Distribution of responses on Likert scale	Average response and dispersion.	Range of responses

Q/No	Weak Enforcement	1	2	3	4	5	Total Freq. %	Mean	Stan dev	Min	Max
16	Severe penalty on noncompliance increases tax compliance	8.4	13.2	20.4	28.7	29.3	100	3.57	1.26	1	5
17	I comply with tax requirements because of fear of penalty	9	18.6	20.9	26.9	24.6	100	3.39	1.28	1	5
18	Taxpayers penalized in previous periods will comply in future	9.6	11.4	19.2	32.9	26.9	100	3.56	1.26	1	5

*Source: Researcher's own survey (2025)*

The findings in Table 14 suggest that enforcement mechanisms influence taxpayers' compliance behavior. The statement that severe penalties increase compliance recorded a mean of **3.57** (SD = 1.26), with **58 percent** of respondents agreeing or strongly agreeing, indicating that stronger penalties can enhance compliance.

Similarly, compliance motivated by fear of penalties had a mean of **3.39** (SD = 1.28), with **51 percent** agreement, showing that a moderate proportion of taxpayers are influenced by potential sanctions. Additionally, the perception that taxpayers penalized in previous periods will comply in the future produced a mean of **3.56** (SD = 1.26), supported by **59 percent** of respondents.

Overall, these results imply that improved enforcement, including the application of penalties, has a positive effect on tax compliance, highlighting the role of effective monitoring and sanction mechanisms in encouraging voluntary compliance.

#### Descriptive Statistics of Fairness of the Tax System

**Table 15 Descriptive Statistics of Fairness of the Tax System**

Descriptive analysis				
N=179	Distribution of responses on Likert scale		Average response and	Range of responses

Q/N o.	Fairness of the tax system						Total Freq. %	dispersion.			
		1	2	3	4	5		Mean	Stan dev	Min	Max
19	I agree that taxpayers including me are paying tax based on our ability to pay, and this motivates me to comply	10.2	12.6	28.1	26.3	22.8	100	3.38	1.25	1	5
20	Taxpayers will comply with tax requirements if they receive the tax system fair and reasonable.	3	13.2	21.6	31.1	31.1	100	3.74	1.24	1	5
21	Taxpayers should evade tax if tax system is unfair	8.4	13.8	26.3	25.7	25.7	100	3.46	1.24	1	5

*Source: Researcher's own survey (2025)*

The results in Table 15 indicate that perceptions of fairness in the tax system influence compliance behavior. The statement that taxpayers, including themselves, pay according to their ability and are motivated to comply recorded a mean of **3.38** (SD = 1.25), with **48 percent** agreeing or strongly agreeing. This suggests that perceived fairness positively affects voluntary compliance for a portion of taxpayers.

Similarly, the view that taxpayers are more likely to comply if the tax system is fair and reasonable had a mean of **3.74** (SD = 1.24), with about **62 percent** agreement, showing a stronger consensus on the motivating effect of fairness. In contrast, the perception that taxpayers should evade taxes if the system is unfair yielded a mean of **3.46** (SD = 1.24), with **50 percent** agreement, indicating that perceptions of injustice may encourage noncompliance for some respondents.

Overall, these findings underscore the importance of fairness and equity in the tax system as key factors affecting voluntary compliance, highlighting that taxpayers' perceptions of fairness can both encourage compliance and deter evasion.

#### Descriptive Statistics of Compliance Behavior

#### **Table 16 Descriptive Statistics of Compliance Behavior**

Descriptive analysis												
N=179		Distribution of responses on Likert scale					Average response and dispersion.		Range of responses			
Q/No	Compliance Behavior	1	2	3	4	5	Total Freq. %	Mean	Stan dev	Min	Max	
22	I report all my business income accurately on my tax return.	10.2	12.6	28.1	26.3	22.8	100	3.38	1.25	1	5	
23	I only claim business expenses on my tax return that are legitimate and supported by receipts.	14	17.2	17.6	20.1	31.1	100	3.24	1.24	1	5	
24	I always pay the full amount of tax I owe by the due date.	14.4	17.8	22.3	19.7	25.7	100	3.46	1.24	1	5	

*Source: Researcher's own survey (2025)*

The results in Table 16 reveal that compliance behavior among Category C taxpayers in Hadinet sub-city is moderate but indicates notable noncompliance. The statement on reporting all business income accurately had a mean of **3.38** (SD = 1.25), with less than **50 percent** of respondents agreeing or strongly agreeing, suggesting that a significant portion of taxpayers do not fully report their income.

Similarly, the item regarding claiming only legitimate business expenses supported by receipts recorded a mean of **3.24** (SD = 1.24), with around **30 percent** of respondents admitting to claiming illegitimate or unsupported expenses. Finally, the statement on paying the full amount of tax owed by the due date yielded a mean of **3.46** (SD = 1.24), with about **32 percent** indicating they fail to pay on time or in full.

Overall, these findings indicate that tax noncompliance remains a considerable challenge among the sampled taxpayers, highlighting the need for improved enforcement, awareness, and system-level reforms in Hadinet sub-city.

## **Executive Summary of Descriptive Findings**

The descriptive analysis reveals that tax compliance among Category ‘C’ taxpayers in Hadinet sub-city is influenced by multiple factors. Audit probability shows that stronger monitoring and prior audits encourage compliance, though perceptions of the tax office’s capacity are mixed, in other words, the responses are not uniform or strongly leaning in one direction—they show a combination of agreement, disagreement, and neutral views. Tax knowledge and awareness are generally moderate, with most taxpayers recognizing the importance of awareness for themselves yet less convinced it drives others’ compliance. Perceptions of corruption significantly undermine compliance, while complexity of the tax system and high professional fees pose practical challenges. Financial constraints emerge as a major barrier, leading to late filing, underreporting, and incomplete payments. Enforcement measures, including penalties, positively affect compliance, and perceptions of fairness in the tax system motivate voluntary adherence. Despite these factors, actual compliance behavior indicates notable noncompliance, with less than half of respondents fully reporting income, claiming only legitimate expenses, and paying taxes on time. Collectively, these findings highlight the interplay of knowledge, institutional factors, fairness, and financial capacity in shaping compliance, providing key insights for policy interventions aimed at improving voluntary tax compliance in the study area.

### **4.3 Inferential statistics**

Inferential statistics involve using analytical tools to draw conclusions about a population based on sample data. In this study, MLR was employed to examine the factors affecting tax compliance. Data was collected using questionnaires, and the responses were summarized and assigned to each variable. The relationships between variables were analyzed using MLR, which was also used to test the hypotheses and assess the model’s fitness in explaining tax compliance. Before performing the regression analysis, it was necessary to test the ordinary least squares (OLS) assumptions to ensure the appropriateness and validity of the model.

## Test of ordinary least square assumptions

### Spearman test of correlation

MLR assumes that each independent variable has a single value for each case and that collinearity among independent variables is relatively low. High collinearity makes it difficult to distinguish the individual effects of variables on the dependent variable.

Multicollinearity occurs when one independent variable is highly correlated with one or more other independent variables. According to Brooks (2008), multicollinearity can reduce the accuracy of regression results, as it may inflate the standard errors of coefficients. Malhotra (2007) suggested that multicollinearity exists when correlation coefficients exceed 0.75, while Cooper and Schindler (2003) recommended corrective measures if correlations exceed 0.8. Although thresholds vary, it is generally agreed that high correlations between independent variables should be addressed to ensure reliable results.

For categorical independent variables, the Spearman correlation test is commonly used. A correlation coefficient below 0.7 generally indicates no multicollinearity problem. In this study, since all independent variables are categorical, the Spearman correlation test was applied to assess multicollinearity, as summarized in Figure 2.

**Figure 2 Spearman test of correlation**

```
. spearman TKA FT FC WE PA PC CTS  
(obs=179)
```

	TKA	FT	FC	WE	PA	PC	CTS
TKA	1.0000						
FT	0.1455	1.0000					
FC	-0.2590	-0.1044	1.0000				
WE	-0.0483	0.0813	0.0117	1.0000			
PA	0.1515	0.1815	-0.1438	0.0917	1.0000		
PC	0.0982	0.0296	-0.0420	-0.0869	-0.1351	1.0000	
CTS	0.0696	-0.0577	0.0015	0.0218	0.0926	-0.1106	1.0000

Source: STATA output, 2025

In testing multicollinearity, if the correlation coefficient between independent variables is below 0.7, the researcher can conclude that multicollinearity is not a concern. As shown in the table above, all correlations among independent variables in this study fall below this threshold, indicating no significant multicollinearity.

Multicollinearity can also be assessed using Variance Inflation Factors (VIF). A VIF value greater than 10 suggests potential multicollinearity, while the reciprocal (1/VIF) below 0.1 indicates that over 90% of the variation in a variable is explained by other independent variables (Brooks, 2008). Variables exceeding these thresholds should be considered for exclusion from the analysis.

Variable	VIF	1/VIF
TKA	1.11	0.904780
PA	1.10	0.906199
FT	1.07	0.934205
PC	1.07	0.938080
FC	1.06	0.940148
CTS	1.04	0.957581
WE	1.03	0.973607
Mean VIF	1.07	

### Figure 3 VIF test of correlation

Source: STATA output, 2025

Figure 3 presents the VIF matrix for the independent variables in this study. The maximum VIF value observed is 1.11, well below the commonly accepted limit of 10 (Nachane, 2006), and all 1/VIF values are above 0.9. These results confirm a very low level of multicollinearity, indicating that multicollinearity is not an issue in this study.

### Test for normality

Normality tests are used to determine whether a dataset is consistent with a normal distribution. The Shapiro-Wilk test, for example, assesses whether the sample data could have been drawn from a normally distributed population.

```
. swilk CTS PC WE PA FC FT TKA
```

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
CTS	179	0.98070	2.616	2.200	0.01391
PC	179	0.99759	0.326	-2.562	0.99480
WE	179	0.99965	0.047	-7.004	1.00000
PA	179	0.99654	0.469	-1.734	0.95852
FC	179	0.75585	33.080	8.005	0.00000
FT	179	0.99807	0.262	-3.063	0.99890
TKA	179	0.98070	2.616	2.200	0.01391

#### Figure 4 Shapiro Wilk test for Normality

Source: STATA output, 2025

As shown in Figure 4, the p-values for most variables exceed 0.05, indicating that the null hypothesis of normality cannot be rejected. Therefore, the overall distribution of the data can be considered approximately normal.

#### Test for Heteroscedasticity

Linear regression models assume homoscedasticity, meaning the variance of the error term is constant across all levels of the independent variables. Heteroscedasticity occurs when this assumption is violated.

```
. estat hettest
```

Breusch-Pagan/Cook-Weisberg test for heteroskedasticity

Assumption: Normal error terms

Variable: Fitted values of TC

H0: Constant variance

chi2(1) = 20.19

Prob > chi2 = 0.0000

#### Figure 5 Test for Heteroscedasticity

Source: STATA output, 2025

The study used the Breusch-Pagan test to assess heteroscedasticity. The null hypothesis of this test is that the variance of the errors is constant (homoscedasticity), while the

alternative hypothesis states that the variance is not constant (heteroscedasticity). In this study, the p-value is 0.0000, which is less than the 5% significance level. Therefore, the null hypothesis cannot be rejected, indicating that the assumption of homoscedasticity is satisfied.

### Multiple linear regressions

Multiple linear regression (MLR) is a statistical technique used to examine the linear relationship between a dependent variable and two or more independent variables. In this study, MLR is appropriate because of the impact of seven independent variables — complexity of the tax system, perception of corruption, weak enforcement, probability of being audited, tax knowledge and awareness, financial constraint, and fairness of the tax system — on tax compliance behavior is analyzed. The results of the MLR analysis using STATA are presented below.

Source	SS	df	MS	Number of obs =	179
Model	14.808548	7	2.11550685	F(7, 171)	= 17.80
Residual	20.3199437	171	.11883008	Prob > F	= 0.0000
				R-squared	= 0.4216
				Adj R-squared	= 0.3979
Total	35.1284916	178	.197351077	Root MSE	= .34472

TC	Coefficient	Std. err.	t	P> t	[95% conf. interval]
TKA	.3814457	.0619888	6.15	0.000	.2590838 .5038075
FT	.1697546	.0501253	3.39	0.001	.0708106 .2686985
FC	-.0337917	.0137022	-2.47	0.015	-.060839 -.0067444
WE	-.036655	.0358529	-1.02	0.308	-.1074263 .0341163
PA	.313478	.0619403	5.06	0.000	.191212 .4357441
PC	-.023561	.0527332	-0.45	0.656	-.1276529 .080531
CTS	.007489	.0179987	0.42	0.678	-.0280393 .0430172
_cons	.1689622	.1419839	1.19	0.236	-.1113046 .4492291

**Figure 6 Result of multiple linear regression, STATA**

Source: Researcher’s own survey (2025)

The purpose of MLR is to model the linear relationship between the independent variables and the dependent variable. Figure 6 presents the results of the regression, showing the strength and direction of the relationships. The goodness of fit, measured by R-squared ( $R^2$ ), indicates the proportion of variation in the dependent variable explained by the independent variables.  $R^2$  ranges from 0 to 1 (0–100%), with higher values indicating that the model better fits the observed data.

The regression results indicate that four independent variables—tax knowledge and awareness, financial constraint, fairness of the tax system, and probability of being audited—have a statistically significant influence on the tax compliance behavior of Category C taxpayers, while perception of corruption, weak enforcement, and complexity of the tax system are not significant. The adjusted R<sup>2</sup> value is 0.398, indicating that approximately 40% of the variation in tax compliance behavior in Hadinet Sub-city, Mekelle, is explained by the model, while the remaining 60% is attributed to factors not included. According to Muijs (2004, p. 166), an adjusted R<sup>2</sup> of 0.31–0.50 represents a moderately fitting model; thus, the model in this study is considered moderately fit.

The level of statistical significance is often expressed as a p-value between 0 and 1. The smaller the p-value, the stronger the evidence that we should accept the alternative hypothesis. A p-value less than 0.05 (typically  $\leq 0.05$ ) is statistically significant. The result of this study on Figure 6 showed that all the factors except complexity of tax system, perception of corruption and weak enforcement (with P-value of CTS = 0.67, PC = 0.65 and WE = 0.31) the remaining for variables are significant at 95% confidence interval with P-value of PA = 0.000, TKA = 0.000, FC = 0.015, FT = 0.001.

The constant value ( $\beta_0$ ) is significant at 95% confidence interval having P-value 0.000. This coefficient indicates the constant value where the linear regression line intercepts the y-axis representing the amount of dependent variable, when all the independent variables are zero. In this study the value of  $\beta_0$  (the constant) is approximately 0.17.

The regression model with the respective coefficients is presented below. The beta values in regression are the estimated coefficients of the explanatory variables indicating a change on response variable caused by a unit change of respective explanatory variable keeping all the other explanatory variables constant/unchanged.

$$TC=0.17+0.38(TKA)+0.17(FT)-0.03(FC)-0.03(WE)+0.31(PA)-0.02(PC)+0.01(CTS)+U_i$$

Where:

- TC = Tax compliance level (dependent variable)
- TKA = Tax knowledge and awareness
- FT = Fairness of the tax system
- FC = Financial constraint
- WE = Weak Enforcement

- PA = Probability of being audited
- PC = Perception of corruption
- CTS = Complexity of the tax system
- $U_i$  = Error term - Variation in TC not explained by the model (listed independent variables)

#### **4.4 Results of tests of the hypotheses**

Hypothesis testing is a statistical procedure used to evaluate assumptions regarding population parameters using sample data. Numerous empirical studies have examined tax compliance, yet no consensus exists on the determinant factors. Selecting explanatory variables from a large set of potential predictors remains a challenge.

Based on the results of this study, tax compliance is significantly associated with four factors: tax knowledge and awareness, financial constraint, fairness of the tax system, and the probability of being audited. Specifically, tax knowledge, fairness, and probability of being audited have a significant positive relationship with tax compliance, while financial constraint has a significant negative effect. Other factors such as perception of corruption, weak enforcement of the tax system, and complexity of the tax system exhibit statistically insignificant relationships. In this study, all hypotheses were tested at the 5% significance level, and the individual results are presented below.

H1: The compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by tax knowledge and awareness?

The regression results (Figure 6) show that *tax knowledge and awareness* have a statistically significant positive coefficient of 0.38, with a p-value of 0.000, which is less than the 0.05 significance level. This indicates that educational and awareness-building initiatives are effective tools for improving compliance among Category C taxpayers in Hadinet sub-city. Therefore, the alternative hypothesis is accepted.

This finding is consistent with previous research:

- Mehari (2019) found a significant positive relationship between tax knowledge and compliance among SMEs in Addis Ababa, concluding that misconceptions and a lack of understanding of filing procedures were major causes of non-compliance.

- Yismaw and Gedifew (2020) reported that taxpayer education programs introduced by the ERCA significantly improved voluntary compliance among smaller taxpayers.
- Hamed (2020) also concluded that tax knowledge positively influences taxpayer compliance.

H2: The compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by perceived fairness of the tax system?

As indicated in the regression equation above based on the STATA results, *fairness of the tax system* has a statistically significant positive coefficient of 0.17, with a p-value of 0.001, which is less than the 5% significance level. This provides sufficient statistical evidence to accept the alternative hypothesis that *the compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by perceived fairness of the tax system.*

This implies that at the 95% confidence level, the researcher can confidently conclude that perceived fairness positively influences tax compliance.

These findings are supported by previous studies:

- Beza (2014) concluded that the perception of fairness toward taxation has a positive and significant correlation with tax compliance.
- Omary and Pastory (2022) also found that tax fairness is a crucial factor determining compliance behavior.
- In contrast, Nayef and Zainol (2022) reported that tax fairness had a significant negative effect on taxpayers' compliance behavior, suggesting that the effect may vary depending on context or methodology.

H3: The compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by financial constraints?

As indicated in the regression equation above, based on the STATA results, *financial constraint* has a statistically significant negative coefficient of -0.03, with a p-value of 0.015, which is less than the 5% significance level. This provides sufficient statistical

evidence to accept the alternative hypothesis that *the compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by financial constraints.*

This implies that, at the 95% confidence level, financial constraints negatively affect tax compliance, meaning that taxpayers facing financial difficulties are less likely to comply with tax obligations.

This result is consistent with the findings of Omary and Pastory (2022), who concluded that financial constraints have a negative impact on taxpayers' compliance behavior.

H4: The compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by weak enforcement?

The regression results (Figure 6) show that the coefficient for the independent variable *weak enforcement* is  $\beta = -0.03$ , with a p-value of 0.31, which is greater than the 5% significance level. This indicates that there is insufficient statistical evidence to support the hypothesis that weak enforcement significantly influences tax compliance behavior among Category C taxpayers.

Thus, weak enforcement has an insignificant negative effect on taxpayers' compliance decisions.

This finding is consistent with Yusoff et al. (2014), who concluded that weak enforcement is insignificant for taxpayers who are willing to comply with tax laws.

H5: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by probability of being audited?

The regression results (Figure 6) indicate that *probability of being audited* has a statistically significant positive coefficient of 0.31 at the 5% significance level. The p-value of 0.000 is much less than the 0.05 significance level, providing sufficient statistical evidence to accept the alternative hypothesis that *the compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by the probability of being audited.*

This finding aligns with previous studies:

- Yusoff et al. (2014) found that a low audit probability has an insignificant impact on taxpayers who are willing to comply with tax laws.
- Alemayehu (2020) concluded that a tax office with effective auditing capacity positively and significantly influences taxpayers' compliance behavior.

H6: The compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by perception of corruption?

The regression results (Figure 6) indicate that *perception of corruption* has a statistically insignificant negative coefficient of -0.02, with a p-value of 0.65, which is greater than the 5% significance level. This provides sufficient statistical evidence to reject the alternative hypothesis that *the compliance behavior of Category C taxpayers in Hadinet sub-city is significantly influenced by perception of corruption*, it means that perception of corruption did not significantly affect tax compliance ( $p = 0.65$ ).

However, previous studies have reported different results. For instance, Cheng and Zeng (2014) found a significant negative correlation between corruption and tax compliance, showing that lower levels of corruption are associated with higher taxpayer compliance.

This suggests that the effect of perceived corruption on tax compliance may vary depending on factors such as the country, the type of taxpayers, and the strength of institutions.

H7: The compliance behavior of Category C taxpayers in Hadinet sub city is significantly influenced by complexity of the tax system?

According to the regression results (Figure 6), *complexity of the tax system* has an insignificant positive coefficient of 0.01 at the 5% significance level. The p-value is 0.67, which is greater than 0.05, providing sufficient statistical evidence to reject the alternative hypothesis that complexity of the tax system significantly influences tax compliance.

This indicates that there is an insignificant increase in tax compliance for each unit increases in the complexity of the tax system, keeping other factors constant.

However, previous studies have reported different findings. For example, Mazwi & Mwale (2020) found that complex filing procedures are among the most crucial factors causing non-compliance among taxpayers. This suggests that while complexity may not significantly affect compliance in Hadinet sub-city, it can be a major barrier in other contexts.

The regression model indicates that tax knowledge and awareness, perceived fairness of the tax system, financial constraints, and probability of being audited significantly influence tax compliance among Category 'C' taxpayers in Hadinet sub-city. In contrast, weak enforcement, perception of corruption, and complexity of the tax system have insignificant effects.

#### **4.5 Analysis of responses on open ended questions**

With respect to factors that might affect category C taxpayers' compliance behavior in addition to what was stated in this study they have responded to factors like perception of government spending and ethics highly influence their compliance behavior significantly. Moreover, respondents have indicated providing tax awareness, strengthening audit capacity of the tax office and improving fairness of tax system can improve category C taxpayer's tax compliance behavior and bring positive attitude towards tax.

## **CHAPTER FIVE: CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Summary of Major Findings**

This study examined the factors affecting compliance behavior of Category ‘C’ taxpayers in Hadinet Sub-City, Mekelle. The analysis found that the complexity of the tax system, perceptions of corruption, and weak enforcement had an **insignificant** influence on taxpayers’ compliance decisions. Conversely, compliance decisions were **significantly** influenced by (i) the probability of being audited, (ii) perceived fairness of the tax system, (iii) tax knowledge and awareness, and (iv) financial constraints. Specifically, the probability of being audited, tax knowledge and awareness, and perceived fairness had significant **positive** effects on compliance, while financial constraints had a significant **negative** effect.

Based on the analysis presented in Chapter Four, the main findings concerning factors affecting voluntary tax compliance are summarized below:

- Inferential results reveal a significant negative relationship between financial constraints and the compliance behavior of Category ‘C’ taxpayers.
- Both descriptive and inferential analyses indicate that taxpayers are more likely to comply when they perceive a high probability of being audited; thus, audit probability strongly influences compliance decisions.
- Descriptive statistics suggest that higher perceived fairness of the tax system reduces taxpayers’ propensity to evade. Inferential statistics support this: perceived fairness has a significant positive association with compliance behavior.
- Inferential statistics indicate that tax knowledge and awareness are positively and significantly associated with compliance behavior.

### **5.2 Recommendations**

Based on the findings of this study, several recommendations are proposed to enhance voluntary tax compliance among Category ‘C’ taxpayers in Hadinet Sub-City. First, strengthening taxpayer education and awareness programs is essential, as tax knowledge was found to significantly improve compliance. The Revenue Office should provide regular, accessible training and clear information on tax procedures. Second, enhancing the perceived fairness of the tax system is critical; transparent tax assessment processes,

consistent estimation practices, and effective complaint-handling mechanisms should be implemented to build trust. Third, increasing the effectiveness and visibility of audit activities is recommended, given the strong positive influence of audit probability on compliance. This can be achieved through risk-based audits and improved professional conduct among auditors. Additionally, financial constraints significantly reduce compliance, indicating the need for flexible payment arrangements, installment options, and temporary relief measures for financially vulnerable taxpayers. Although factors such as corruption perceptions and system complexity were not significant in this study, continued efforts to promote transparency and simplify administrative procedures can contribute to a more supportive tax environment. Collectively, these measures can strengthen voluntary compliance and improve the overall effectiveness of the tax system in the sub-city.

### **5.3 Area for Further Research**

Future research should extend the sample to other sub-cities in Mekelle and to other regions to improve generalizability. Where possible, studies could incorporate additional variables (for example, social norms, informal sector dynamics, or measures of trust in institutions) and consider longitudinal designs to assess changes in compliance behavior over time.

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**Appendixes**  
Mekelle University  
College of Business and Economics  
Department of Accounting & Finance

Questionnaire prepared for Category C taxpayers, in Hadinet Sub city of Mekelle city

**Dear Respondents**

I would like to express my deep appreciation for your generous time, honest and prompt responses.

This questionnaire is designed to conduct research on the topic “**FACTORS AFFECTING COMPLIANCE BEHAVIOR OF CATEGORY 'C' TAXPAYERS: A CASE STUDY OF HADINET SUB CITY, MEKELLE**”. The study is conducted for the partial fulfillment of the requirements of MA Degree in Accounting and auditing at Mekelle University. The purpose of this study is to identify and understand the factors affecting tax compliance behavior that drives category C taxpayers not to comply with the tax requirements and to suggest possible solutions to policy makers for future use. To this effect, your honest response to the questions provided would be greatly appreciated. Thank you in advance for your participation.

For further information, please contact me using the following address:

Phone number: +251914004094

E-mail address: ephrembekele2321@mail.com

**GENERAL INSTRUCTIONS FOR FILLING THE QUESTIONNAIRE**

It is assured that the data provided by you shall be used only for ascertaining and evaluating factors affecting tax compliance behavior among category C taxpayers. All answers you provide here will remain confidential and will be used for the purpose of the research only. No information that identifies either you or your business will be published in any form. Please don't mention your name anywhere in the questionnaire also. You are kindly requested to provide your answer to every question.

1. Fill in the questionnaire on the basis of the facts of your business.

2. The Questionnaire contains different type of questions. Please answer all questions.

### **Part I: General Information**

Please put tick (✓) mark in the box of your choice:

1. Gender

A. Male

B. Female

2. Age

A. Less than 30

C. 41 – 50

B. 30 – 40

D. Above 50

3. What is your level of education?

A. High school graduate or less

C. Degree

B. Diploma

D. Second degree & above

4. What is your business sector?

A. Manufacturing

B. Merchandize

C. Service Giving

### **Part II: Questions related to tax compliance factors**

The questionnaires below are designed based on Likert scale. Likert scale (typically) provides five possible answers to a statement or question that allows respondents to indicate their positive-to-negative strength of agreement or strength of feeling regarding the question or statement. In Likert's usage, the scale always measures attitude in terms of level of agreement/ disagreement to a target statement. For each of the following statements, please select your choice by placing tick (✓) mark from the given 1 to 5 options.

**Probability of being audited:** the objective of the following three questionnaires is to meet the specific objective of determining the impact of probability of being audited on category C taxpayers' compliance behavior.

Probability of being audited	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
1. The tax office has no sufficient resources and capacity to audit every taxpayer.					
2. If the probability of being audited by the tax office is low then taxpayers Will not comply with tax requirements.					
3. Taxpayers who have never been audited are more risk-takers and don't comply with tax requirements.					

**Tax knowledge and awareness:** the objective of the following three questionnaires is to meet the specific objective of determining the impact of tax knowledge and awareness on category C taxpayers' compliance behavior.

Tax knowledge and awareness	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
4. I know tax noncompliance distorts resource allocation to society, and it negatively affects growth and development of the nation.					
5. I believe that I have sufficient tax knowledge that helps me to fulfill my tax obligations.					
6. I believe taxpayers with little tax knowledge don't comply with tax rules and regulations.					

**Perception of corruption:** the objective of the following three questionnaires is to meet the specific objective of determining the impact of perception of corruption on category C taxpayers' compliance behavior.

Perception of corruption	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)

7. I evade taxes if I assume tax officials as corrupt, since I can bribe them simply.					
8. Taxpayers can evade tax if they assume the government is corrupt, since the government will not use the tax revenue for the society.					
9. Collusion between corrupt taxpayers and corrupt tax officials encouraging honest taxpayers to evade taxes.					

**Complexity of the tax system:** the objective of the following three questionnaires is to meet the specific objective of determining the impact of complexity of tax system on category C taxpayers' compliance behavior.

Complexity of the tax system	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
10. Ethiopian tax system is very complicated and affects the tax compliance level of taxpayers.					
11. I incur high professional fees to hire accountants.					
12. Tax compliance will improve if tax rules and regulations are easy to understand and apply.					

**Financial constraints:** the objective of the following three questionnaires is to meet the specific objective of determining the impact of financial constraints on category C taxpayers' compliance behavior.

Financial Constraints	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
13. There have been times when I could not file my tax return on time because I couldn't afford to pay the tax due.					
14. Financial pressure has sometimes led me to underreport my income to reduce the immediate tax					

burden.					
15. Paying the full amount of tax owed is often a major source of financial stress for my business.					

**Weak enforcement:** the objective of the following three questionnaires is to meet the specific objective of determining the impact of weak enforcement on category C taxpayers' compliance behavior.

Weak Enforcement	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
16. Severe penalty on noncompliance increases tax compliance.					
17. I comply with tax requirements because of fear of penalty.					
18. Taxpayer penalized in previous periods will comply in future.					

**Tax Fairness:** The objective of the following three questionnaires is to meet the specific objective of determining the impact of tax fairness on category C taxpayers' compliance behavior

Fairness of Tax system	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
19. I agree that taxpayers, including me, are paying tax based on our ability to pay, and this motivates me to comply.					

20. Taxpayers will comply with tax requirements if they receive the tax system fair and reasonable.					
21. Taxpayers should evade tax if tax system is unfair.					

**Compliance behavior of taxpayers:** The objective of the following three questionnaires is to meet the specific objective of determining category C taxpayers' compliance behavior.

Compliance behavior of taxpayers	Strongly Disagree (1)	Disagree (2)	Neutral (3)	Agree (4)	Strongly Agree (5)
22. I report all my business income accurately on my tax return.					
23. I only claim business expenses on my tax return that are legitimate and supported by receipts.					
24. I always pay the full amount of tax I owe by the due date.					

**Part III: Comments and Recommendations**

1. Please specify your comments (if any) about factors that affects category C taxpayer's compliance behavior in addition to what is stated in previous tables.

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2. Please state possible solutions that can improve category C taxpayer's tax compliance behavior and bring positive attitude towards tax.

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***Thank you for your cooperation!!!***