

Full Length Research Paper

Challenges of business income tax administration with special emphasis on collection process in Ethiopia: The case of Hadiya zone, Hossana town

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The objective of this study is to assess the challenges of business income tax administration with special emphasis on collection process in the case of Hadiya zone, Hossana town. To answer the research questions, the researcher used both primary and secondary data as a source of information. Initially, by using proportionally stratified sampling technique, 341 tax payers were selected as a sample size from the total population of 3077 tax payers of which 131, 163, and 2783 were categories “A”, “B”, and “C”, respectively. All the proposed sample size (341) was distributed to respondents. However, from the total distributed sample size, 280 (82% response rate) questionnaires were accurately responded and returned back. The descriptive statistical method was employed as a method of data analysis. As the results of this study revealed, there are some major challenges in the business income tax collection process such as: challenges associated with business income tax collection procedures, challenges associated with tax payers’ attitude towards tax system, lack of good tax administration and implementation; tax collectors unethical practice during tax collection; availability of unregistered traders or illegal traders; tax evasion and avoidance. Finally, the researcher gave some recommendations like distributing the tax laws and procedures to tax payers, increasing awareness to tax payers both in a short run and long run plan, developing tax authority’s administrative capacity using advanced technology to collect tax, revision of tax policy and others.

Key words: Tax administration challenges, business income tax compliance, tax payers’ attitude, tax payers’ perception, income tax collection procedure.

INTRODUCTION

Tax payers’ behavior towards tax system has evoked great attention among many revenue authorities in the world especially in developed countries. However, it is debatable on what has been done towards the study of tax payers behavior towards tax system in developing

countries as they concentrate more in studies which would increase their budgets “bottom-line” in terms of huge revenue collection and enforcement efforts at the expense of studies on taxpayers behavior which would make increase in this tax revenue to be realized and

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enforcement efforts work. Perhaps the less developed countries are not to blame as they run on “budget deficits”; hence, scarce resources to see through such studies which are perceived as adding no direct value to revenue collection. However, in the recent years even developing countries started to concentrate different studies on attitudes of taxpayers towards taxation by taking into account its contribution for economic development. And all countries follow their own tax regulation to collect the tax revenue (Marti et al., 2010).

The best instrument which the governments can use as a source of revenue is taxation. It can be said, therefore, that a major function of taxation is to marshal the necessary funds to finance the ever-expanding level of public expenditures. As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services which otherwise would not be available to the general public by the market. The central aim of the tax system in Ethiopia is to collect sufficient money to finance the administrative machinery of the government as well as to finance the fulfillment of basic infrastructures like roads, telecommunication, electricity and other basic social services like education, health and water supply facilities (The Ethiopian Chamber of Commerce, 2005). The tax system in Ethiopia is not only meant to raise revenue for current expenditure but also aims at directing economic agents to the development goals foreseen by the government through the incentive schemes embedded within the prevailing tax laws. The specific purposes of taxation in Ethiopia as indicated by The Ethiopian Chamber of Commerce, 2005 are: raising of as much revenue as possible to finance the country's social and economic development programs and to alleviate poverty; promotion of capital investment and trade; ensuring equity, fairness and consistency in the administration of tax laws; encouraging certain industries which are held important in developing the country; discouraging other industries which are likewise not important to the long run development of the country.

Statement of the problem

Taxes are one of the main sources of revenue for the government. Well organized business tax assessment and collection has good contribution for economic development of the country in general and Hosanna town in particular. In this regard, previous study by Alabede et al. (2011) shows that income taxes are important source of revenue to government in both developing and developed countries, but the amount of revenue to be generated by government from such taxes for its expenditure program depends among other things, on the willingness of the taxpayers to comply with tax laws of a country. The failure to follow the tax provisions suggests

that a taxpayer may be committing an act of noncompliance which occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due.

As Baer and Silvani (1997) stated, tax collection institutions and agencies should be well organized, properly managed and capable. For example, taxpayers' noncompliance depends directly on the possibility of control of their activities records or incomes. He stated that, “administrators overall effectiveness will be low if auditing are not effective in discouraging evasion”.

Again, Allingham and Sandmo (1972) stated that tax payers' behavior is also influenced by the tax laws of a given country. With a strong tax system, tax payers perceive that they are treated equally by the government. But perceptions of unfairness limit both revenue and willingness to pay. So knowing the tax payers attitude towards tax law such as appeal procedure, tax rate, method of assessment, amount of penalties are very important.

A research conducted in South Africa shows that there appears a substantial tax gap between the tax that is theoretically collectable from economically active persons in South Africa and the tax that is actually collected. One of the main reasons for the tax gap was non-compliance by taxpayers and potential taxpayers, with tax legislation. One of the causes of noncompliance has been demonstrated to be the attitudes and perceptions of tax payers (Oberholzer, 2008).

According to Ho et al. (2013), the Inland Revenue Services of USA indicated that there are 64 factors that are related with tax non-compliance by taxpayers or companies. Among the factors that are commonly used by previous researchers relating to tax non-compliance among individual taxpayers is tax system complexity.

Milliron (1986) concluded that the impact of tax complexity on tax compliance is a bit more complicated because of the interaction of two factors, that is, perception of fairness and opportunity for non-compliance.

Aligned with the aforementioned facts, Hossana town revenue bureau might face different challenges while collecting and administering business income tax. Therefore, the objective of this study is to assess challenges of business income tax administration with special emphasis on collection process in Ethiopia (The case of Hadiya zone, Hossana town). Hence, in order to successfully conduct this research, the researcher has set the following leading research questions.

Research questions

- (1) Do the business tax collection procedures affect the tax payers' compliance and non-compliance behavior in the study area?
- (2) Does attitude of tax payers towards business income tax affect income tax collection in the study area?

- (3) How do the existences of informal traders affect business income tax collection process in the study area?
- (4) What is the extent to which unethical behavior affects business income tax collection process in the study area?
- (5) What are the problems/challenges associated with tax administration and implementation by the tax authority in the study area?

Objectives of the study

This study focuses on the challenges of business income tax administration with special emphasis on collection process in Ethiopia.

The specific objectives of this study are:

- (1) To investigate the effect of business income tax collection procedures towards tax payers' compliance and non-compliance in the study area.
- (2) To investigate the attitudes of tax payers towards business income taxation in the study area
- (3) To analyze the effect of informal traders on business income tax collection process in the study area.
- (4) To investigate the extent to which unethical behavior affects business income tax collection process in the study area
- (5) To evaluate the tax authority regarding with tax administration and implementation in the study area.

RELATED LITERATURE REVIEW

Tax payers' attitude towards tax system

Attitudes of tax payers is dependent on the tax law of a given country; service providing by the tax authority as well as general activities of the government such as education, health, electricity, water supply, etc., and personal, demographic and attitudinal characteristics. This idea is empirically supported by different researchers subsequently.

Tax payers' attitude towards public goods and services

People's normative commitment to paying taxes is undoubtedly influenced by many factors. Among these their attitude towards government spending programs, that is, the use to which the taxes they pay are put is one of them. These factors establish a climate that may be more or less conducive to honest taxpaying behavior (Brooks, 2001).

Citizens' tax culture and morale are significantly and positively associated with their perception of the benefits delivered by society from the public delivery of goods and

services (Alm and Martinez-vatquer, 2001). This shows the willingness to pay taxes depends on the transaction of taxes in the public goods and services.

Tax payer consciousness of the exchange relationship with the government (sacrificing purchasing power in return for public goods and services) can be postulated as vital to the tax compliance decision. If it can be assumed that the tax payer implicitly carries out a cost benefit analysis of the taxes paid-benefits received tradeoff, then it follows that the amount of satisfaction (dissatisfaction) perceived in this exchange will be a powerful deterrent of the degree of tax compliance (Mann and Smith, 1988). This indicates that the tax payers are positive about paying tax if the government applies it appropriately for the benefit of the tax payers.

A survey conducted on tax payers' attitude in Scotland shows that the majority of the respondents did not think that the government spends tax payers' money wisely. And they said they would be ready to pay tax if governments show that public revenues are well spent (Dean et al., 1980). These shows knowing tax payer's attitudes towards public goods and services and explaining how taxes are spent and maintaining a relationship of trust with tax payers are crucial to increase the compliance behavior of the taxpayer because the willingness to pay taxes depends on the transaction of taxes into public goods and services.

Attitudes of tax payers towards organizational effectiveness of the tax authority

As empirical evidence by Baurer (2005) shows, from the various operating functions of the tax administration, the staff of the tax payer service function has by far the most interactions with tax payers and the general public. Their service will shape the tax payers feeling towards the tax administration. In most cases they are initial point of contact with tax payers. As such they are expected to have a good working knowledge of tax law, office procedures, filling requirements and the obligation of the tax payers. It is clear that the people are more likely comply with the tax laws if they perceive the tax collecting agency to be fair and efficient. If they believe that the tax revenue is wasted by corrupt employees may be disinclined to pay taxes.

Another evidence by Fray and Holler (1998) shows that the relationship between tax authorities and tax payers reflects a country's tax culture; therefore, how the tax authority treats different segments of the formal and informal economy shapes the tax culture at the same time, the attitudes of tax payers in the different aspects of the government, and the extent of corruption, are critical to trust in the government on which economic growth depends. This shows the way on which revenue authorities interact with tax payers have an impact on public perception of the tax system and the degree of voluntary compliance.

Attitudes of tax payers towards tax law

A number of theories of human behavior would suggest that reducing the inequality in the tax system might increase compliance. For example "equity theory" in psychology suggests that people are more likely to comply with rules if they perceive the system which determines the rules to be equitable (Brooks, 2001). This shows tax payers are more likely to obey laws if it is simple and easy to understand. A person's behavior is also influenced by the tax law (Allingham and Sandmo, 1972). With a strong tax system, tax payers perceive that they are treated equally by the government. But perceptions of unfairness limit both revenue and willingness to pay. So knowing the tax payers attitude towards tax law such as appeal procedure, tax rate, method of assessment, and amount of penalties are very important. As an empirical study by James et al. (2006) states, citizens' attitudes towards paying taxes depend on personal, demographic and attitudinal characteristics. Evidence by Everest-Phillips (2008) shows, understanding attitudes towards the level of tax morale, the effectiveness of the tax authority, and the resulting extent of compliance provides an essential diagnostic of the political realities for reform. It also offers a baseline for measuring progress on all aspects of success of tax reform, not least on tax morale and state legitimacy. Attitude and perception surveys of current and potential tax payers identify perceived weaknesses in the fairness of the tax system. Survey results clarify the extent of quasi-voluntary compliance, revealing the governance issues underlying tax reform and offering a baseline for measuring progress. When higher compliance strengthens effective enforcement, a virtuous circle of mutually reinforcing taxation and governance emerges, enabling tax authorities to focus attention efficiently on high-risk categories of taxpayers. These types of surveys are well established for OECD countries but are nascent in developing country contexts. However, surveys may be controversial in countries where the political contest is oppressive and tax authorities are unwilling to invite criticism of their integrity, public acceptance, and effectiveness.

Recently in March 2008 in Yemen the surveys on private sector views on problems in the tax system found that 57% believed reducing time to comply with tax was very important, 71% thought reducing the cost of tax compliance to be a top priority, 91% regarded as critical simplifying tax laws using revenues fairly and efficiently, 97% thought tax equity mattered to ensure that all firms paid a fair amount of tax and 100% believed tackling corruption was essential (ibid).

RESEARCH METHODS

Research design

To study the challenges of business income administration and

collection processes, and to answer the research questions, a descriptive research design was employed.

Sources of data

In this study, both primary and secondary data were used as a source of information. The sources of primary data were responses from both tax payers and employees in the tax authority bureau of Hosanna town. The secondary data were relevant published and unpublished materials, journals, articles, proclamations, procedures, ERCA directives, regulations, website information, and information available in the tax authority office like annual reports and revenue enhancement plan.

Sampling technique

To select sample from the total population (tax payers), proportionally stratified sampling technique was employed because the total population of the tax payers are divided into three sub-populations (categories): category "A" tax payers, category "B" tax payers and category "C" tax payers that enables to ensure elements to be more homogeneous within each stratum.

However, structured interview was conducted with most experienced and educated employees of the tax authority because their educational level and experience may determine the quality of response and they might easily understand the interview than from those who are less educated and inexperienced employees.

Sample size determination

There are 3,077 total population (number of tax payers) in Hosanna town which is divided into three strata (categories) such as category "A" tax payers which constitute 131, category "B" tax payers which constitute 163, and category "C" tax payers which constitute 2,783 (Hosanna town tax payers' list as of May 30, 2008 EC).

The sample size from the total population is determined using Yamane (1967) as follows:

$$n = NZ^2pq / e^2 (N - 1) + Z^2pq$$

$$n = 3077 \times 1.96^2 \times 0.5 \times 0.5 / (0.05^2(3077-1) + 1.96^2 \times 0.5 \times 0.5)$$

$$n = 341$$

where N = size of population, n = sample size, Z = the value of the standard variant at a given confidence level, e = acceptable error (the precision), p = sample proportion, and $q = 1 - p$.

By using 95% confidence interval the sample size is 341. After determining the sample size, sample for each stratum can be determined by adopting proportional allocation method. Accordingly, if P_i represents the proportion of population included in stratum i , and n represents the total sample size, the number of elements selected from stratum $i = n \cdot P_i$. Hence, my sample size $n = 341$ which is drawn from a population of size $N = 3077$ which is divided into three strata of size $A = 131$, $B = 163$ and $C = 2783$. Adopting proportional allocation, the sample sizes for each stratum is determined as follows:

For strata "A" with $N_1 = 131$, $n_1 = 131 / 3077(341) = 15$

For strata "B" with $N_2 = 163$, $n_2 = 163 / 3077(341) = 18$

For strata "C" with $N_3 = 2783$, $n_3 = 2783 / 3077(341) = 308$

Method of data collection

In this study the primary data was collected using both

Table 1. Response rate.

| Variable | Category 'A' | Category 'B' | Category 'C' | Total |
|------------------------------|--------------|--------------|--------------|-------|
| Questionnaires distributed | 15 | 18 | 308 | 341 |
| Questionnaires returned back | 15 | 18 | 247 | 280 |
| Response rate (%) | 100 | 100 | 80 | 82 |

Source: Researcher's Own Survey Result (2016).

questionnaires and structured interview. The questionnaires are designed on a Likert type-scale with a 5- point scale. Accordingly, 1 for "strongly disagree", 2 for "disagree", 3 for "neutral", 4 for "agree", and 5 for "strongly agree". Then the questionnaires were distributed to tax payers and the structured interview was conducted on employees of tax office by the assumption that it would enable to get more information.

Method of data analysis

Since the data which was collected from the respondents (business income tax payers and tax authority officials) are mostly qualitative data, the descriptive statistical methods such as, percentage and mean were employed as a method of data analysis.

RESULTS AND DISCUSSION

Response rate

This chapter presents analysis, interpretation and findings of data collected from categories 'A', 'B' and 'C' business income tax payers of Hosanna town. For category 'A' 15, for category 'B' 18 and for category 'C' tax payers 308 questionnaires were distributed, and 15, 18 and 247 questionnaires from categories 'A', 'B' and 'C', respectively were collected back. Accordingly, the response rate for categories 'A', 'B', and 'C' is 100, 100, and 80%, respectively. In general, from 341(sample size) questionnaires distributed to the business tax payers, 280 questionnaires were accurately responded and returned back. So the total response rate is 82% thus it is representative (Table 1).

Analysis on business income tax collection procedures or tax laws

Here was analyzed to identify how the business income tax procedures are operated or implemented and to know the attitude or feeling of business income tax payers towards the procedure. In relating to this procedure, developing the tax payers' knowledge about taxation and its purposes, providing sufficient services and constructing close relationship with tax payers to guide and support them enables to increase tax compliance and decreases non-compliance for taxation. Tax payers of the country in general and the town in particular,

required to understand all the laws and regulations that govern taxation in the country. This is necessary because tax payers are required to file and pay taxes for which they are liable in the period specified by law. Tax payers are also required to pay any penalties and interests which the law requires as a consequence of their non-compliance and if they are not satisfied by the amount of tax imposed, within 10 days after the decision is given, he/she can present a complaint by the established tax commissioner. Previous study shows that there is a positive relationship between individuals understanding of tax law and tax compliance (Milliron cited in Manaf et al., 2005).

As shown in Table 2, 66.66% of category 'A', 55.4% of category 'B' and 0% of category 'C' respondents were agreed on the statement of easy understanding of tax laws. On the other hand, 33.33% of category 'A', 44.43% of category 'B' and 100% of category 'C' opposed the statement. This result revealed that, more than half percent of categories 'A' and 'B' tax payers can understand the tax laws and procedures than category 'C' tax payers from which 100% of the respondents answered as the tax laws are difficult to understand. This may be due to the educational gap and awareness problem. As we have seen in the demographic characteristics of the respondents, category 'A' and 'B' tax payers are more educated than category 'C' tax payers as the result of both categories A' and 'B' tax payers have good understanding (awareness) about tax procedures. As supported by previous study in the aforementioned paragraph, this can be one of the challenges in the business income tax collection process or in tax compliance behavior.

Regarding the annual turnover specified to each category in Table 2, 19.99% of category 'A', 66.66% of category 'B', and 52.94% of category 'C' agreed. However, 79.99% of category 'A', 22.28% of category 'B', and 21.86% of category 'C' disagreed and the remaining percent of each category had no opinion or they remained neutral. This implies that a higher proportion of categories 'B' and 'C' agreed on the annual turnover specified to each category than category 'A' tax payers. This might have happened because of the gap of the annual turnover between each category and additional responsibilities of category 'A' tax payers like preparation of financial statement.

As further indicated in Table 2, majority of respondents,

Table 2. Responses related to business income tax collection procedures.

| No. | Questions | Response | Category A | | Category B | | Category C | | Total | |
|-----|--------------------------------------------------------------------------------------|-------------|------------|-------|------------|-------|------------|-------|-------|-------|
| | | | No. | % | No. | % | No. | % | No. | % |
| 1 | Easy understanding of tax laws, that is, rates of tax, filing and paying dates, etc. | S. Agree | 5 | 33.33 | 5 | 27.77 | 0 | 0 | 10 | 3.57 |
| | | Agree | 5 | 33.33 | 5 | 27.77 | 0 | 0 | 10 | 3.57 |
| | | Sum | 10 | 66.66 | 10 | 55.54 | 0 | 0 | 20 | 7.14 |
| | | Neutral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Disagree | 3 | 20 | 5 | 27.77 | 72 | 29.14 | 80 | 28.57 |
| | | S. Disagree | 2 | 13.33 | 3 | 16.66 | 175 | 70.85 | 180 | 64.28 |
| | | Sum | 5 | 33.33 | 8 | 44.43 | 247 | 100 | 260 | 92.85 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| 2 | Annual turnover Specified to each Category is good | S. Agree | 1 | 6.66 | 0 | 0 | 48 | 10.43 | 49 | 17.5 |
| | | Agree | 2 | 13.33 | 12 | 66.66 | 105 | 42.51 | 119 | 42.5 |
| | | Sum | 3 | 19.99 | 12 | 66.66 | 153 | 52.94 | 168 | 60 |
| | | Neutral | 0 | 0 | 2 | 11.11 | 40 | 16.19 | 42 | 15 |
| | | Disagree | 8 | 53.33 | 2 | 11.11 | 4 | 1.62 | 14 | 5 |
| | | S. Disagree | 4 | 26.66 | 2 | 11.11 | 50 | 20.24 | 56 | 20 |
| | | sum | 12 | 79.99 | 4 | 22.22 | 54 | 21.86 | 70 | 25 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| 3 | The provision of administrative penalties | S. Agree | 1 | 6.66 | 1 | 6.66 | 26 | 10.52 | 28 | 10 |
| | | Agree | 2 | 13.33 | 2 | 11.11 | 24 | 9.71 | 28 | 10 |
| | | Sum | 3 | 19.99 | 3 | 17.77 | 50 | 20.23 | 56 | 20 |
| | | Neutral | 0 | 0 | 1 | 6.66 | 34 | 13.76 | 35 | 12.5 |
| | | Disagree | 6 | 40 | 7 | 38.88 | 92 | 37.24 | 105 | 37.5 |
| | | S. Disagree | 6 | 40 | 7 | 38.88 | 71 | 28.74 | 84 | 30 |
| | | Sum | 12 | 80 | 14 | 77.76 | 163 | 65.98 | 189 | 67.5 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| 4 | The provision of declaration of taxable income and assessment of tax is good. | S. agree | 5 | 33.33 | 1 | 5.55 | 1 | 0.4 | 7 | 2.5 |
| | | Agree | 8 | 53.33 | 11 | 61.11 | 37 | 14.97 | 56 | 20 |
| | | Sum | 13 | 86.66 | 12 | 66.66 | 38 | 15.37 | 63 | 22.5 |
| | | Neutral | 0 | 0 | 2 | 11.11 | 40 | 16.19 | 42 | 15 |
| | | Disagree | 1 | 6.66 | 2 | 11.11 | 60 | 24.29 | 63 | 22.5 |
| | | S. disagree | 1 | 6.66 | 2 | 11.11 | 109 | 44.13 | 112 | 40 |
| | | Sum | 2 | 13.32 | 4 | 22.22 | 169 | 68.42 | 175 | 62.5 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| 5 | Procedure of appeal and selection of review committee is good | S. Agree | 2 | 13.33 | 3 | 16.66 | 9 | 3.64 | 14 | 5 |
| | | Agree | 1 | 6.66 | 2 | 11.11 | 53 | 21.45 | 56 | 20 |
| | | Sum | 3 | 19.99 | 5 | 27.77 | 62 | 25.1 | 70 | 25 |
| | | Neutral | 1 | 6.66 | 2 | 11.11 | 25 | 10.12 | 28 | 10 |
| | | Disagree | 4 | 26.66 | 5 | 27.77 | 89 | 36.03 | 98 | 35 |
| | | S. Disagree | 7 | 46.66 | 6 | 33.33 | 71 | 28.74 | 84 | 30 |
| | | Sum | 11 | 73.32 | 11 | 61.1 | 160 | 64.77 | 182 | 65 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| 6 | The provision of record keeping requirement is good | S. agree | 8 | 53.33 | 10 | 55.55 | 52 | 21.05 | 70 | 25 |
| | | Agree | 3 | 20 | 4 | 22.22 | 126 | 51.01 | 133 | 47.5 |
| | | Sum | 11 | 73.33 | 14 | 77.77 | 178 | 72.1 | 203 | 72.5 |
| | | Neutral | 1 | 6.66 | 0 | 0 | 27 | 10.93 | 28 | 10 |
| | | Disagree | 2 | 13.33 | 2 | 11.11 | 24 | 9.71 | 28 | 10 |

Table 2. cont'd

| | | | | | | | | |
|-------------|----|-------|----|-------|-----|-------|-----|------|
| S. disagree | 1 | 6.66 | 2 | 11.11 | 18 | 7.28 | 21 | 7.5 |
| Sum | 3 | 19.99 | 4 | 22.22 | 42 | 16.99 | 49 | 17.5 |
| Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |

Source: Researcher's Own Survey Result (2016).

that is, 80% of category 'A', 77.8% of category 'B' and 65.9% of category 'C' responded as they disagree on the administrative penalties listed in the provision. This is due to the amount of money that is specified in the provision to each penalty. As past research shows tax payers comply within their tax obligation to avoid legal sanctions (that is, penalties) whenever those sanctions are expected to be more costly than compliance Doran (2009). In this study, majority of the total respondents disagreed on the provision. This will have a positive impact on their compliance behavior if the probability of getting and penalizing them is very high.

Regarding the statement "the provision of declaration of taxable income and assessment of tax is good", 86.7% of category 'A', 66.7% of category 'B' and 15.3% of category 'C' agreed but 13.3% of category 'A', 22.2% of category 'B' and 68.4% of category 'C' show their disagreement. In the same way, 11% of category 'B', and 16.2% of category 'C' had no opinion. From this information, it is possible to generalize that a higher proportion of categories 'A' and 'B' agreed on the declaration. This may be due to the method of assessment. It is known that the two categories' tax is levied based on their profit and loss account. This assessment method considers their paying ability. On the other hand, more than half of category 'C' respondents did not agree on the declaration and assessment of tax. This might be due to the fact that their tax is levied based on standard assessment. This method is not considered tax payers specific conditions such as family size and loss in a particular year. And it may hurt tax payers due to high tax. Since more than 90% of Hosanna town business income tax payers are category 'C', the dissatisfaction may have a negative impact on the collection process or amount of revenue that will be collected from the business traders of the town.

Analysis on tax administration and implementation problems

Since tax administration employees are amongst the most frequently contacted government officials and often represent to the public what is right and wrong about the government, the responsiveness, integrity and quality of tax administration staff must therefore meet a very high standard (Baurer, 2005). An efficient tax administration system is integral to any country's well-being. Because

of this reason knowing the attitudes of the taxpayers towards service delivery, tax collection efficiency, their knowledge on tax related issue and their awareness creation activity are vital to increase the tax compliance of Hosana town. Thus an attempt is made to address these issues through the data gathered from the respondents (Table 3).

As shown in Table 3, majority of the respondents with a mean value of 3.57 agreed on the question stated as "There is a poor service delivery by the tax authority". As the interview conducted on the tax authority shows, there was lack of good service delivery to the tax payers. The other problems like lack of modern record keeping system and lack of cooperation by tax payers themselves and other stakeholders like town administration were the main reasons of delaying tax payers' service delivery which in turn might reduce the tax collection efficiency.

For the statement, "There is a poor public good and service provision in the town", the mean value of 4.1 clearly shows that the majority of the respondents did support or agreed on the idea of poor public good and service delivery in the town. This poor public good and service provision such as infrastructures like water, electric power, road and the like can make a challenge on business income tax collection process. In other words, the low provision of public good and services reduce the compliance behavior, and the reverse is also true. The interview conducted on tax officials also supports the tax payers' idea. This finding was supported by previous studies. For instance, as stated in the previous study, the taxpayer attitudes to the state (government) influence willingness to pay tax are the least understood but most fundamental dimension of compliance. This dimension emerges from taxpayers' assessment of the overall quality of governance at the instrumental and intrinsic levels (Everest-Phillips and Sandall, 2009). At the *instrumental* level, taxpayers assess government capacity to deliver the fiscal social contract, the instrumental side of governance in providing essential public goods such as security and core services such as infrastructure, health, and education. At the *intrinsic* level, taxpayer perceptions of the legitimacy of the state, called tax morale, combines political acceptance of state authority, the perceived fairness and effectiveness of state institutions, and trust in public institutions and officials. This shows people paid taxes in anticipation of services but if these services were not provided satisfactorily, it will negatively affect their willingness to

Table 3. Responses related to tax administration by the tax authority.

| No. | Questions | Response | Frequency | Percentage | Total | Mean value |
|-----------------------|------------------------------------------------------------------------------------------------------------------|-------------|-----------|------------|-------|------------|
| 1 | There is a poor service delivery by the tax authority | S. Agree | 98 | 35 | 280 | 3.57 |
| | | Agree | 84 | 30 | | |
| | | Neutral | 7 | 2.5 | | |
| | | Disagree | 63 | 22.5 | | |
| | | S. Disagree | 28 | 10 | | |
| 2 | There is a poor public good and service provision in the town. | S. Agree | 147 | 52.5 | 280 | 4.10 |
| | | Agree | 70 | 25 | | |
| | | Neutral | 21 | 7.5 | | |
| | | Disagree | 28 | 10 | | |
| | | S. Disagree | 14 | 5 | | |
| 3 | There is creation of awareness to the tax payers by the tax authority | S. Agree | 14 | 5 | 280 | 2.20 |
| | | Agree | 35 | 12.5 | | |
| | | Neutral | 49 | 17.5 | | |
| | | Disagree | 77 | 27.5 | | |
| | | S. Disagree | 105 | 37.5 | | |
| 4 | Qualification of tax collectors (officials) and their experience is good and is according to national tax system | S. agree | 0 | 0 | 280 | 2.22 |
| | | Agree | 63 | 22.5 | | |
| | | Neutral | 28 | 10 | | |
| | | Disagree | 98 | 35 | | |
| | | S. disagree | 91 | 32.5 | | |
| | | Agree | 84 | 30 | | |
| | | Neutral | 49 | 17.5 | | |
| | | Disagree | 63 | 22.5 | | |
| | | S. Disagree | 28 | 10 | | |
| 5 | There is no procedural fairness by the tax authority | S. agree | 56 | 20 | 280 | 3.65 |
| | | Agree | 150 | 53.6 | | |
| | | Neutral | 14 | 5 | | |
| | | Disagree | 40 | 14.3 | | |
| | | S. disagree | 20 | 7.1 | | |
| 6 | There is unethical behavior by the tax collectors | S. agree | 98 | 35 | 280 | 3.55 |
| | | Agree | 77 | 27.5 | | |
| | | Neutral | 35 | 12.5 | | |
| | | Disagree | 21 | 7.5 | | |
| | | S. disagree | 49 | 17.5 | | |
| 7 | There is no reward to taxpayers, that is, giving a trophy for being best taxpayer | S. agree | 180 | 64.3 | 280 | 4.57 |
| | | Agree | 80 | 28.6 | | |
| | | Neutral | 20 | 7.1 | | |
| | | Disagree | 0 | 0 | | |
| | | S. disagree | 0 | 0 | | |
| Cumulative mean value | | | | | | 3.41 |

Source: Researcher's Own Survey Result (2016).

answered as there is no procedural fairness by the tax authority. This might be because of the dissatisfaction of tax payers with the treatment of tax authority as the time

of tax assessment, appeal and selection of review committee, administrative penalties, etc. If the tax payers are not satisfied on the tax authorities' activity, they may

evaluate as the tax procedures or laws are not fair rather than evaluating individual or tax officials' weakness. Regarding this issue, previous studies have shown that when people evaluate authorities, they often refer to the procedural justice aspects of their encounter with that authority when making judgments; if they feel they have been treated poorly by an authority, people are likely to judge the procedural justice aspects of their encounter as unfair. Alternatively, if they feel they have been treated well by an authority, people are likely to judge the procedural justice aspects of their encounter as fair (Murphy, 2004).

Regarding the statement that "There is unethical behavior by the tax collectors", higher proportion of the total respondents with a mean value of 3.55 replied as there was unethical behavior by the tax collectors or tax administrators at the time of tax collection process. As interview conducted on employees of tax authority shows even though the tax authority did give training on ethical rules to newly hired employees before starting the normal work and recently office of ethics is established at a department level, still it is one of the most difficult areas to solve. This might be due to the long close relationship between the tax payers and tax collectors. So from this fact it is possible to conclude that unethical behavior by tax collectors is also another challenge in the business income tax collection process.

Regarding the statement "whether there is no reward to taxpayers that is, giving a trophy for being best taxpayer", almost all tax payers with a mean value of 4.57 said that there was no reward to tax payers. If the tax payers have given rewards to their best performance or being honest tax payer, the compliance behavior of the tax payer may increase which will increase tax collection efficiency, and the reverse is true. In this regard the income tax proclamation article 85 sub article 1 clearly states that the tax authority shall reward tax payers for their outstanding performance or for their being best tax payer. However, there was no such practice in the case of Hosanna town tax authority. The previous research conducted in Kenya also supports this finding in which tax compliance and tax non-compliance can be influenced by rewarding taxpayers, that is, giving a trophy for being best taxpayer, and motive for low profits, that is, through operating a legal business, accurate reporting of profits, etc. (Marti et al., 2010).

Analysis on attitudes of tax payers towards taxation

Here reflects attitudes of tax payers towards business income tax collection process or tax payers feeling towards tax system. In this case, attitude of taxpayers could be positive or negative on the tax system. Evidence by Everest-Phillips (2008) shows, understanding attitudes towards the level of tax morale, the effectiveness of the tax authority, and the resulting extent of compliance

provides an essential diagnostic of the political realities for reform.

As observe from Table 4, higher proportion of each category with a mean value of 4.07, 3.94, and 4.6 for categories 'A', 'B', and 'C' respectively did agree. This reflects almost all respondents know why they have to pay tax. However, their reason of why they have to pay tax is not in line with taxation objective. As most of the respondents suggested in the open ended question, they were paying business income tax because of the fear of legal penalties but not as a once obligation of being citizen of his or her country. This also might be because of lack of awareness, negative attitude towards tax administration, and low understanding of the purpose of taxation.

Regarding the statement, "the business income tax rate should be reduced", higher proportion of each category with a mean value of 3.6, 3.39, and 4.01 for categories 'A', 'B', and 'C' respectively wanted the business income tax rate to be reduced. For the poor tax culture or tax payers' non-compliance of the country in general and Hosanna town in particular, the high tax rate can be the reason to non-compliance behavior. In this regard, in previous studies it has been indicated that tax professionals believes reducing tax rate possess the best opportunity for increasing tax compliance (Collins et al., 1992).

Concerning the statement "Some people do not pay tax honestly because they believe that large portion of collected money is not used to the public", large proportion of each category with mean value of 4.07, 4 and 3.6 for categories 'A', 'B', and 'C' respectively shows believes as the large portion of the collected money is not used to the public. This indicates the tax payers do not trust those government officials who have the responsibility and direct relation with tax revenue collected. As some studies indicate, tax compliance is low in many developing countries where citizens neither believe governments nor trust the state to use revenue wisely (Everest-Phillips and Sandall, 2009). This shows the compliance depends on the confidence of tax payers towards the wise use of tax revenue by the officials.

For the statement "The burden of tax is so heavy that many people are forced to evade in order to survive", respondents with mean value of 2.13, for category 'A', and 3.8 for category 'B' said that the burden of tax is not the reason for evading tax. But according to category 'C' tax payers heavy tax burden was the reason for tax evasion. The response of both categories 'A' and 'B' may not be true because their response is controversial with their agreed response in another section of these analyses. That means they agreed on the reduction of business income tax rate on one hand and opposing the heavy tax burden on the other hand even if both statements reflected the same idea. This may be due to the fear to give right answer to tax evasion related statement.

Table 4. Responses related to attitudes of tax payers towards taxation.

| No. | Statements on tax payers attitudes | Response | Category A | | Category B | | Category C | | Total | |
|-----|---------------------------------------------------------------------------------------------------------------------------|-------------|------------|------|------------|------|------------|------|-------|-------|
| | | | No | % | No | % | No | % | No | % |
| 1 | I know why I have to pay tax | S. Agree | 7 | 46.7 | 8 | 44.4 | 174 | 70.4 | 189 | 67.5 |
| | | Agree | 6 | 40 | 7 | 38.9 | 64 | 25.9 | 77 | 27.5 |
| | | Neutral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Disagree | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | S. Disagree | 2 | 13.3 | 3 | 16.7 | 9 | 3.6 | 14 | 5 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 4.07 | | 3.94 | | 4.6 | | |
| 2 | Business income tax rate should be reduced | S. Agree | 6 | 40 | 6 | 33.3 | 79 | 32 | 91 | 32.5 |
| | | Agree | 4 | 26.7 | 5 | 27.8 | 117 | 47.4 | 126 | 45 |
| | | Neutral | 1 | 6.7 | 1 | 5.6 | 33 | 13.4 | 35 | 12.5 |
| | | Disagree | 1 | 6.7 | 2 | 11.1 | 11 | 4.5 | 14 | 5 |
| | | S. Disagree | 3 | 20 | 4 | 22.2 | 7 | 2.8 | 14 | 5 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 3.6 | | 3.39 | | 4.01 | | |
| 3 | The business income tax rate should be the same regardless of the amount of income earned. | S. agree | 1 | 6.7 | 1 | 5.6 | 5 | 2 | 7 | 2.5 |
| | | Agree | 1 | 6.7 | 2 | 11.1 | 45 | 18.2 | 48 | 17.1 |
| | | Neutral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Disagree | 7 | 46.7 | 11 | 61.1 | 87 | 35.2 | 105 | 37.5 |
| | | S. disagree | 6 | 40 | 4 | 22.2 | 110 | 44.5 | 120 | 42.85 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 1.93 | | 2.17 | | 1.98 | | |
| 4 | Some people do not pay tax honestly because they believe that large portion of collected money is not used to the public. | S. agree | 6 | 40 | 10 | 55.6 | 89 | 36 | 105 | 37.5 |
| | | Agree | 7 | 46.7 | 4 | 22.2 | 73 | 29.6 | 84 | 30 |
| | | Neutral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Disagree | 1 | 6.7 | 2 | 11.1 | 32 | 13 | 35 | 12.5 |
| | | S. disagree | 1 | 6.7 | 2 | 11.1 | 53 | 21.5 | 56 | 20 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 4.07 | | 4.0 | | 3.6 | | |
| 5 | Government receives enough tax so it does not matter if Some people evade tax | S. agree | 2 | 13.3 | 4 | 22.2 | 54 | 21.9 | 60 | 21.4 |
| | | Agree | 1 | 6.7 | 2 | 11.1 | 17 | 6.9 | 20 | 7.14 |
| | | Neutral | 1 | 6.7 | 1 | 5.6 | 3 | 1.2 | 5 | 1.8 |
| | | Disagree | 6 | 40 | 5 | 27.8 | 84 | 34 | 95 | 33.9 |
| | | S. disagree | 5 | 33.3 | 6 | 33.3 | 89 | 36 | 100 | 35.7 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 2.27 | | 2.61 | | 2.45 | | |
| 6 | The burden of tax is so heavy that many people are forced to Evade in order to surviving | S. agree | 1 | 6.7 | 2 | 11.1 | 91 | 36.8 | 93 | 33.2 |
| | | Agree | 3 | 20 | 1 | 5.6 | 95 | 38.5 | 100 | 35.7 |
| | | Neutral | 0 | 0 | 0 | 0 | 2 | 0.8 | 2 | 0.7 |
| | | Disagree | 4 | 26.7 | 7 | 38.9 | 39 | 15.8 | 50 | 17.9 |
| | | S. disagree | 7 | 46.7 | 8 | 44.4 | 20 | 8.1 | 35 | 12.5 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 2.13 | | 2.0 | | 3.8 | | |
| 7 | There is Positive peer attitude, that is, a belief that your neighbors are reporting and paying tax honestly. | S. agree | 1 | 6.1 | 2 | 11.1 | 7 | 2.8 | 10 | 3.6 |
| | | Agree | 1 | 6.1 | 1 | 5.6 | 78 | 31.6 | 80 | 28.5 |
| | | Neutral | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| | | Disagree | 7 | 46.7 | 7 | 38.9 | 71 | 28.7 | 85 | 30.4 |
| | | S. disagree | 6 | 40 | 8 | 44.4 | 91 | 36.8 | 105 | 37.5 |
| | | Total | 15 | 100 | 18 | 100 | 247 | 100 | 280 | 100 |
| | | Mean | | 1.93 | | 2.0 | | 2.35 | | |

Source: Researcher's Own Survey Result (2016).

As further shown in Table 4, for the statement “There is positive peer attitude, that is, a belief that your neighbors are reporting and paying tax honestly”, higher proportion of each category with a mean value of 1.93, 2, and 2.35 for categories ‘A,’ ‘B,’ and ‘C’ respectively did not agree on the idea. This shows there is negative peer attitude on tax evasion. If a tax payer assume as his or her neighbors are evading tax, he or she will also evade or attempt to evade tax. A research conducted in Kenya shows that there is a relationship between negative peer evaluation and tax evasion (Marti et al., 2010).

Analysis on problems of illegal traders on business tax collection process

Here analyzed using data collected from respondents in relation to unlicensed/unregistered traders’ existence, their impacts and measures taken by the concerned body. Unlicensed or unregistered traders are one of the economic shadow of the society which influences the income of the tax compliance in particular and revenue of the government in general because as the availability of illegal traders increases, the income of the voluntary taxpayers decreased. As a result, the tax revenue of the government decline since tax compliance is influenced by non-compliance and their incomes (Jackson and Milliron, 1986). Table 5 shows the answers given for the questions asked to know the availability and impact of illegal traders to the tax compliance in Hosanna town.

As indicated in Table 5, for the statement “There are unlicensed/unregistered traders found in the town”, respondents with a mean value of 3.92 agreed that there are unlicensed or unregistered traders found in Hosanna town.

Concerning the idea “Illegal traders are harmful to society since they sell expired items.” Majority of the respondents with mean value of 3.85 agreed that illegal traders can sell harmful products and thus it can harm the society.

Regarding the statement “The existence of unregistered traders has a negative impact on government revenue” majority of the respondents with a mean value of 4.35 knows that existence of unregistered traders has a negative impact on government revenue. In fact the planned government’s revenue in Hosanna town can be affected by the existence of unregistered traders. This is true in many developing countries since there are large proportions of unregistered medium and small enterprises exist in these countries. In this regard previous studies indicate that developing countries loss revenue in proportionally greater amounts than developed countries from the informal sectors because small and medium traders (Hard-To-Tax) tend to thrive in underground economies (Terkper, 2003).

In Table 5, for the item which states “Legal traders refuse to pay tax honestly by opposing of the existence of

illegal traders”, large proportion of the respondents with a mean value of 3.38 said that the existence of the unregistered traders can be the reason for legal traders to be refused to pay the right tax obligation. This can be the case for tax payers’ non-compliance or for business income tax collection challenge because the existence of unregistered traders can harm the competitive advantage of the legal traders.

Furthermore, for the statement “There is no strong action by the government bodies to control illegal traders”, respondents with a mean value of 3.45 agree that the government do not taking strong actions on those illegal traders. If the government body or the tax authority does not take necessary actions to control and register those unregistered traders, collecting all the planed business income tax revenue become difficult.

In general interview conducted on employees of the tax authority regarding the illegal traders or informal business and actions that should be taken by the tax authority depicted as follows: as they stated, the tax authority was facing challenges with ever increasing illegal business or traders at each and every corner of the town. The reasons for this problem are absence of properly managed market places, frequent displacement and leaving out of traders from trade activities due to lack of follow up and support, poor cooperation between the town administration and the tax authority, poor application of trade laws and legal tax enforcement, lack of systematic data recording and data base (both interims of technology and skilled man power) that limit the provision of fast registration service and updating of past records and absence of modern technologies of tax collection.

Conclusion

Based on the analysis of this study, the following conclusions are made by the researchers.

In general, the following business income tax collection challenges have been observed in this study: challenges associated with business income tax collection procedures; challenges associated with tax payers’ attitude towards tax system, lack of good tax administration, and implementation problems; tax collectors unethical practice during tax collection; availability of unregistered traders or illegal traders; tax evasion and avoidance.

As the further analysis of data shows, within the challenges associated with business income tax collection procedures, variables such as inability to easily understand tax laws (how they have to calculate their taxes, tax rate, filing, paying dates, conditions subject to penalties, etc.), the process of assessment and declaration of the amount of tax to be paid by tax payers, and procedure of appeal and selection of review committee determine the tax payers’ compliance and

Table 5. Responses related to informal traders on the business income tax.

| No. | Statements on tax payers attitudes | Response | Frequency | Percentage | Mean |
|-----|----------------------------------------------------------------------------------------------------|-------------|-----------|------------|------|
| 1 | There are unlicensed/unregistered traders found in the town | S. Agree | 91 | 32.5 | 3.92 |
| | | Agree | 140 | 50 | |
| | | Neutral | 0 | 0 | |
| | | Disagree | 35 | 12.5 | |
| | | S. Disagree | 14 | 5 | |
| | | Total | 280 | 100 | |
| 2 | Unlicensed traders have no negative impact on legal traders' turnover. | S. Agree | 42 | 15 | 2.78 |
| | | Agree | 84 | 30 | |
| | | Neutral | 0 | 0 | |
| | | Disagree | 77 | 27.5 | |
| | | S. Disagree | 77 | 27.5 | |
| | | Total | 280 | 280 | |
| 3 | Unlicensed traders are important to society since they sell with lesser prices than legal traders. | S. Agree | 28 | 10 | 2.33 |
| | | Agree | 56 | 20 | |
| | | Neutral | 0 | 0 | |
| | | Disagree | 91 | 32.5 | |
| | | S. Disagree | 105 | 37.5 | |
| | | Total | 280 | 100 | |
| 4 | Illegal traders are harmful to society since they sell expired items. | S. agree | 133 | 47.5 | 3.85 |
| | | Agree | 70 | 25 | |
| | | Neutral | 21 | 7.5 | |
| | | Disagree | 14 | 5 | |
| | | S. disagree | 42 | 15 | |
| | | Total | 280 | 100 | |
| 5 | The existence of unregistered traders has a negative impact on government revenue. | S. Agree | 189 | 67.5 | 4.35 |
| | | Agree | 56 | 20 | |
| | | Neutral | 0 | 0 | |
| | | Disagree | 14 | 5 | |
| | | S. Disagree | 21 | 7.5 | |
| | | Total | 280 | 100 | |
| 6 | Legal traders refuse to pay tax honestly by opposing of the existence of illegal traders. | S. agree | 70 | 25 | 3.38 |
| | | Agree | 84 | 30 | |
| | | Neutral | 35 | 12.5 | |
| | | Disagree | 63 | 22.5 | |
| | | S. disagree | 28 | 10 | |
| | | Total | 280 | 100 | |
| 7 | There is no strong action by the government bodies to control illegal traders. | S. agree | 98 | 35 | 3.45 |
| | | Agree | 77 | 27.5 | |
| | | Neutral | 0 | 0 | |
| | | Disagree | 63 | 22.5 | |
| | | S. disagree | 42 | 15 | |
| | | Total | 280 | 100 | |

Source: Researcher's Own Survey Result (2016).

non-compliance behavior or have negative impact on business income tax collection process. Inability to easily

understand the tax laws is mostly seen in category "C" tax payers this is due to lack of awareness about taxation

and their low educational level compared to categories "A" and "B" tax payers. Tax non-compliance in opposing with the procedure of assessment and declaration of amount of tax to be paid is a severe problem of presumptive tax payers compared to the other two categories. This is due to subjective nature of assessment or their tax is levied based on standard assessment or absence of the use of book of account. As the tax officials responded in the interview, standard assessment is one of the most challenging areas in the collection process and they stated that determining the exact amount of tax to be paid is very difficult.

As the findings show, variables such as poor service delivery by the tax authority, poor public good and service provision, lack of awareness creation to tax payers, unethical practice by the tax collectors and absence of reward or motivation to the best or honest tax payers are the main tax administration and implementation problem found in this study. So, the researcher can conclude that among other reasons lack of good tax administration and implementation problem is also the reason for the business income tax collection challenges or non-compliance behavior of the tax payers.

Under the challenges associated with tax payers' attitude towards taxation, variables such as: high business income tax rate, perception of tax payers as the large portion of collected many is not used to the public and negative peer attitude are found as the reasons to non-compliance behavior of tax payers or to the tax evasion in this study. So it is possible to conclude that taxpayers' attitude towards taxation is one of the reasons for the business income tax collection challenges and to the noncompliance behavior of tax payers.

The findings also show the ever increasing informal business or illegal traders at each corner of Hosanna town is one of the major problems in business income tax collection process and is observed as one of the factor that reduce the tax collection efficiency and effectiveness of the tax authority. As observed in this study this problem is two directional: on one hand, since large number of illegal or unregistered traders are not in the tax payers net, the tax revenue that should be collected from economically active person is decreasing. On the other hand, the existence of illegal traders has a negative impact on the voluntary compliance of legal traders. It is observed that legal traders are refusing to pay tax liability by opposing the existence of illegal traders and absence of strong controlling actions by the government body. As the finding shows the reasons for this problem are absence of properly managed market places, frequent displacement and leaving out of traders from trade activities due to lack of follow up and support, poor cooperation between the town administration and the tax authority, poor application of trade laws and legal tax enforcement, lack of systematic data recording and data base and absence of modern technologies of tax collection system limit the provision of fast registration

service and updating of past records.

RECOMMENDATIONS

Based on the findings and conclusions of this study, the following recommendations have been given.

To solve the problem of poor understanding of business income tax procedures and laws, the tax authority should distribute the tax laws (that means income tax regulation, proclamations and directives) in written form to business traders. This can serve as a guide in explaining taxpayers' rights and responsibilities as well as the consequence of non-compliance. In addition, the tax authority should provide necessary awareness creation program.

To develop positive attitude towards the payment of tax and to increase awareness about taxation, both short run and long run plan should be set. In the short run the tax authority should introduce tax week, work shop, and seminar as well as local medias. In the long run, the government shall introduce different types of simple technologies and methods which enable to create awareness. Again, the tax authority should motivate tax payers by providing rewards (trophy) for the best model tax payers or for their outstanding performance which is already stated in the article 85 sub articles 1 of income tax proclamation that will increase the voluntary tax payment compliance behavior of tax payers.

To solve problems associated with subjective nature of tax collection or assessment from presumptive tax payers, the tax authority should encourage this category of taxpayers to use book of account.

To develop the capacity of the tax authority towards tax administration and tax collection efficiency, the tax authority should provide additional training and development to the employees on tax related issues, aware them about their accountability in compliance and appeal procedures, and should provide education opportunities especially for those who are bellow certificate level. To increase tax collection effectiveness and efficiency it is better to use modern tax collection technologies like SIGTAS.

To solve problems associated with unethical behavior of tax officials or tax collectors, establishing office of ethics and training the tax officials towards ethical standards are meaningless unless the tax authority or the concerned body to take possible actions like punishments (taking to imprisonment, imposing financial charge, terminating their job contract, and others) according to the law on those tax officials who are acting an ethical behavior. Again, the tax authority should shrink down the long existing close relationship between the tax collectors and tax payers by assigning different tax collectors at different site and at different time rather than assigning the same individual at the same site for every tax collection period.

The city administration and other concerned bodies could improve the provision of public good and service like health service, water supply, road and electric power supply of the town. And the tax administrator should create visible links between tax revenue and public expenditures this will create a positive image on the local government activities as the result tax payers' voluntary compliance behavior will be improved.

Finally, to solve the problems associated with informal or illegal traders, the town administration should cooperate with the tax authority in activities of controlling and solving such problems. More specifically, providing facilities like market places and shops at reasonable low cost; trade consultancy and advisory service, and taking strong legal action (imposing penalties) as a last option rather than considering it as a source of revenue.

CONFLICT OF INTERESTS

The author has not declared any conflict of interests.

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