

Taxpayers' Knowledge and Tax Compliance Behavior in Ethiopia: A Study of Tigray State

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Abstract: The issues of tax payers' knowledge and tax compliance behavior have received great attention around the world. Tax payers' knowledge indicates to obtain the degree of voluntary tax compliance. Therefore, understanding tax payers' knowledge and compliance behavior is an important issue for any government and revenue collecting authority particularly in a self-assessment environment. The objective of this study is to obtain a comprehensive overview of business income tax payers' knowledge towards the tax law in Ethiopia in case of Tigray state. To achieve the research objective researcher was adopted a mixed methods approach both quantitative and qualitative techniques.

A total number of 398 sample sizes were administered and questionnaires have distributed to the respondents. Of the 398 copies of questionnaires distributed to respondents, only 375 were dully completed and returned and all were used in the analysis. The researcher has adopted the five-point Likert scale rating method for this study. The statistical package for social sciences (SPSS) version 20.1 was employ in the different analyses to run the results. Study result indicated that tax compliance behavior of tax payers' influenced by tax payers' tax knowledge in Tigray state. Finally researcher suggested that, policy makers, tax authority and government should do further study to know in which extent tax payers' tax knowledge is influence noncompliance behavior in the study area.

Keywords: Taxpayers' knowledge and compliance behavior of Tigray state.

1. INTRODUCTION

1.1. Background of the Study:

Ethiopia is placed in the North-Eastern Africa, sharing a common border with Eritrea, Sudan, Kenya, Somalia, and Djibouti. Having with a total land area of 1.14 million square kilometers and a population of 96.5 million (Ethiopian Statics Agency 2014), with a rapidly growing young population (growth rate of 2.6%). Ethiopia's Gross National Income (GNI) per capita is as low as US \$ 170 (2008) and increase to US \$ 710 World Bank (2014). World Bank (2008) also reported that the national poverty rate as percentage of the population was 44% this also decreases to 29% (World Bank 2012). Ethiopia stands as the fourth largest in size and the second most populous country in Sub-Saharan Africa.

The Ethiopian economy is largely agrarian. A large portion of GDP is contributed by agriculture World Bank (2012). Agriculture is dominated by smallholders and predominant sector in the country and only a minor industrial and service sector. According National Bank of Ethiopia (2012) the agricultural sector accounts for about 46.4 per cent of GDP; the remaining output is attributable to others, mainly to the service sector.

Starting fiscal year 1992/93, the Ethiopian government followed on the route of a market oriented economy as contrasting to a command economy for the preceding the military government. This change leads with the establishment of regional governments followed by the accomplishment of Proclamation No. 7/1992, made the replacement of the central taxation system by federal taxation system in the country. Meanwhile 1992/93, the Government of Ethiopia has made a major economic policy change from Central Planning to market oriented economic system. In line with this change, a series of tariff and tax reform measures have been taken. The reasons to these were out-dated tariff and tax laws; weak customs and

tax administration; failure of the tariff and tax regime to attract investment, to facilitate trade and to generate adequate revenue to cover current and capital expenditure, and hence finance development and poverty reducing projects.

Ethiopia's tax law is basically emanate from three sources; legislative, administrative and judicial sources. The major sources of Ethiopian tax laws are legislative sources. There are a number of laws that have been adopted by the legislature of the country to deal with the different types of taxes in the country and their administration.

There are a number of proclamations and tax reforms dealing with taxes in the country, the most prominent of which include Income Tax Proclamation No. 286/2002; Council of Ministers Income Tax Regulation No. 78/2002; Value Added Tax Proclamation No. 285/2002; Council of Ministers Value Added Tax Regulation No. 79/2002; Turnover Tax Proclamation No. 308/2002; and Excise Tax Proclamation No. 307/2002. These proclamations and tax reforms are aimed at expansion the base, justifying rates, strengthening the administration and enhancing taxpayers' compliance behavior in order to generate adequate revenue to cover recurrent and capital expenditures of the government, and hence, finance new projects and poverty reduction programs in the country.

The issue of tax payers' tax knowledge and compliance behavior had received great attention around the world. Tax payers' tax knowledge and compliance behavior indicates to obtain the degree of voluntary tax compliance. In other words, a good understanding of taxpayers' tax knowledge is important for the tax authority to improve the tax system and consequently encourage taxpayers' compliance. Therefore, tax payers' tax knowledge and compliance behavior is an important issue for any government and revenue collecting authority to obtain knowledge and understanding of the taxpayer attitude and tax compliance behavior particularly in a self-assessment environment.

According to Ajzen's (1991) Theory of Planned Behavior, attitude relates to one's own personal views about behavior. Attitude may also be defined as positive or negative views of an "attitude object"; i.e. a person, behavior or occasion. In relation to taxation, taxpayers' attitudes may be defined as positive or negative views of tax compliance behavior. The outcome of positive views is tax compliance and a negative view is tax non-compliance.

The tax compliance studies indicate that many factors economic, social, psychological and demographic impact upon the compliance behavior of taxpayers. Studies have been carried out for long period of time. It has been studied thoroughly by academics, professionals and government agencies especially in the United States and other western countries (SitiMariam, 1994). According Fischer, et al., (1992) studies on tax compliance can be done in various fields such as accountancy, business law, economics, psychology, and sociology. Empirical evidence on the ground shows there has been hostility between the taxpayers and tax collectors on issue relating to tax payers attitude and compliance behavior. Taxpayers' behavior implies that given a chance taxpayers would not comply with tax laws. Perhaps, understanding the taxpayers' behavior in terms of factors which influence their attitude towards tax compliance and how to influence the very factors would be a solution to this "jigsaw puzzle".(Lumumba , et al., 2010). Tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance (Brown and Mazur 2003). Singh, (2003) also defined tax compliance as an act of filling the Income Tax Form, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority.

In line with this Alm, (1991) also defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments. According Jackson and Milliron (1986) the main factors that have influenced tax compliance as argued by various researchers are age, gender, level of education, income, status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority, income sources, perceived fairness of the tax system, possibility of being audited and tax rate, in addition to the above, researchers have enumerated factors that influenced tax compliance behavior such as demographic, income, compliance cost, and tax agents, in addition to moral or ethical factors (Singh, 2003; Kasipillai et al., 2003).

Income tax payers' knowledge and tax compliance behavior are of obvious importance for most countries. This work aims to study tax payers' knowledge and tax compliance behavior Ethiopia focusing on Tigray state, thereby supplementing empirical research on this important international problem. This is an opportunity to enlarge on the theoretical and empirical findings in the tax payers' knowledge and tax compliance behavior literatures before focusing on income tax payers'.

1.2. Statement of Research Problem:

It is debatable on what has been done towards the study of taxpayers' tax knowledge 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 enforcement efforts work, feasibly 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. In developing countries, tax noncompliance is a serious challenge facing income tax administration and hindering tax revenue performance. Alabede et al., (2011) even though the various tax reforms undertaken by governments to increase tax revenue over the years, prior statistical evidence has proven that the contribution of income taxes to the government's total revenue to GDP share is low and is relatively shrinking.

Ethiopian business income taxpayers have shown different levels of tax knowledge. Therefore,

Based on the above research gap to the knowledge of the researcher not even a hand full of researchers have worked on tax payers' knowledge and tax compliance behavior areas in the country, and only two thesis one in Ph.D. and one in masters were found; Value added tax in Ethiopia operating costs and compliance by Wollela Abehodie (2009) and The influence of tax education on tax compliance attitude by Zelalem Berhane (2011), even these were not fully covering the problem at hand in all income tax payers in the country tax payers category A, category B and category C. The issue of taxpayers' tax knowledge is major problem and it should be researched at length. Currently the government of Ethiopia is not collecting enough taxes and people are not complying, the issue is to identify the root problem. This relationship is not well understood due to lack of research in this area, so there is a gap which the researcher is trying to work on by formulating this study.

1.3. Objective of the Study:

The general objective of this study is to obtain a comprehensive overview of business income tax payers' knowledge towards the tax law in Ethiopia in case of Tigray state. In doing so, it seeks to:

- To examine individual business income taxpayers' tax knowledge towards the tax law in Tigray state.
- To investigate and analyse factors which affect business income tax payers tax knowledge in Tigray state.
- To assess how individual business income taxpayers' tax knowledge influences the attitude of taxpayers' in Tigray state.

2. RELATED LITERATURE REVIEW

2.1 Theoretical Review:

1) Social learning theory:

Rendering to social learning theory, human being may acquire knowledge through observation and direct involvements. According Bandura (1977) the procedure of social education comprises: The development of attention, retention, motoric reproduction process and the development of reinforcement. The retention progression is the procedure of considering the action of a model when the model is no longer readily available. The attention route is also a development by which human being learn through others or aware model and compensating attention to the other person or the model. In line with this, motor imitation procedure is process to transform the observation into action. Whereas the process of strengthening, the process by which individuals are provided a positive or punishment stimulus for behaving according to the model (Bandura, 1977). Social learning theory is applicable to explain the behavior of taxpayers' in meeting their tax obligations. Somebody will obey to pay his/her taxes responsibility on time, if they believe based on observation and experience that regime levied taxes pay substantially to the development of their country (Jatmiko 2006) cited in (Nurlis 2015) .

Individuals tax payers' also reverent to pay their tax obligation if they have been paying attention to the system of taxation services, especially service provided by the government. Associated to the procedure of firming, where individuals are provided a positive or punishment stimulus for behaving according to the model, it looks fairly relevant when linked with the effect of the tax penalties on tax compliance behavior (Jatmiko 2006) cited in (Nurlis 2015).

2) Theory of Planned Behaviour:

According the planned behavior, the theory enlightened that the behavior produced by the individuals get up because of the purpose to act. Although the emergence of an intention to act is determined by three factors (Ajzen, I., & Fishbein, M., 1975), listed as (1) Behavioral Beliefs, an individual's beliefs are the result of a behavior and an evaluation of the results,

(2) Normative Beliefs, that is beliefs about the normative expectations of others and motivation to meet these expectations and (3) Control Beliefs, is the belief of the existence of things that support or inhibit behavior that will be displayed and the perception of how strong the things that support and inhibit behavior that is the supposed supremacy.

Arum (2012) clarifies the theory of planned Behavior as believed applicable to the drive of his research to explain the behavior of taxpayers' to meet their tax obligations. Before an individual to do something, people will have confidence about the results to be found from such behavior. Therefore, his question would be decided that will do it or not do it. It is related to the awareness of the taxpayer. Taxpayers', who are aware of the tax, will have confidence on the importance of paying taxes to help preserve the country's development behavioral beliefs.

Individual tax payers' will have confidence about the normative prospects of others and motivation to meet these expectations normative beliefs. If this declaration is allied to the tax, that the existence of suitable of tax authority's service, tax system that is efficient and effective, and tax counseling to motivate taxpayers to obey the tax would encourage every taxpayer has the confidence and decide to become an obedient taxpayer's pay tax obligation. The level of taxpayer compliance will be determined based on the taxpayer's perception of how strong taxes penalties to support the taxpayer's tax obedient (Arum 2012).

In line with this, Mustikasari, (2007) defines behavioral beliefs, normative beliefs, and control beliefs as the three factors that determine a person's behavior. By these three factors, then individuals will reach the stage of intention, then the last stage is the behavior. Intention level is the level where a person has the intention to behave, but the behavior is the one behaving. Finally when the taxpayer has had to pay taxes awareness, driven by the authority's services reasonable, as well as the tax penalties then the taxpayer will have the intention to pay the taxes and then realize that intention.

3) Attribution Theory:

According Harold Kelley (1973) defines attribution theory is a progression of creating an impression. This theory refers to how people explain the causes of the behavior of others or him. It is also the process by which people draw conclusions about the factors that influence the behavior of others. The theory reflects the individual as an amateur psychologist who tries to understand the reasons for actions that occurred in the face. Therefore, the theory to try to discovery what is causing, what motivates anyone to do anything? Reply that we give to an event depends on our interpretation of the occasion.

Primarily, attribution theory states that behavior was caused by internal or external influences. Behavior due to internal behavior is believed to be under the personal control of the individual, while the behavior that caused the external is behavior that is influenced from the outside, which means that individuals will have to behave because the demands of the situation or the environment (Agus, 2006). Finally the motive of this theory is leading to the willingness of taxpayers' to pay taxes allied with the awareness of the taxpayer in making an assessment of the tax itself. Awareness of a person to make a judgment about something is influenced by internal and external from the individual tax payers'.

Taxes are the key basis of the country's development. Consequently, the problem of tax debts, tax calculation and other related tax administration will give a large problematic for the government in general and offices of inland revenues at large if taxation matters are not handle properly. In developing countries especially those who practices self- assessment tax system, tax education and awareness among tax payers' plays an imperative role on tax compliance behavior of individual tax payers'. Therefore, tax awareness and knowledge is important to guarantee that the tax administration to be going sound. As a result, individual tax payers' may able to asses and fill their tax liabilities correctly and also to file their tax returns forms on time.

Business income tax payers' tax knowledge empowers to well understanding of the countries tax system. Eriksen and Fallan (1996) supposed that, with rational understanding of the tax rules and regulations, citizens are willing to respect the tax system of the country, accordingly they are more compliant to pay their tax liabilities instead evading their tax share. Besides, individual tax payers' in one country should be educated, which is knowledgeable in the respect and apply of the tax laws, respect of tax declarations, preparations of tax planning and others. Thus leads better individual tax payers' awareness and ethics to decrease their tendencies of tax non-compliance behavior.

Tax knowledge as one of the factors in compliance is correlated to the taxpayers' ability to understand taxation laws, and their willingness to comply. The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Eriksen&Fallan, 1996). Previous studies have shown evidence the general tax knowledge has a very close relationship with taxpayers' ability to understand the

laws and regulations of taxation, and their ability to comply with them (Singh, 2003). In line with this, Eriksen and Fallan (1996) appealed that 'knowledge about tax law is assumed to be of more importance for preferences and attitudes towards taxation.

There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations'. The research done by Eriksen and Fallan has illustrated the importance of tax knowledge in a tax system, especially in a self-assessment system. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. In addition to this, Mohd (2010) presents taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. More importantly, it is necessary that current and future taxpayers are exposed to the roles that they could play in developing the country. Similarly, Eriksen and Fallan (1996) suggested that a taxpayer should be given better tax knowledge to improve perceptions of fairness, tax ethics and attitudes to others' tax evasion and thus suggesting that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system. It would be a step in the right direction to make teaching in tax law and tax knowledge a compulsory part of social science teaching in the schools.

2.2. Empirical Reviews:

White et al. (1990) in their experimental study on tax students examined that, a formal class in taxation would enhance their knowledge about the law and appreciation of fiscal policy goals, thus increasing perceived fairness. Further, the scholars suggested that, tax knowledge and fairness perceptions, scholars should have investigated possible ways to improve tax knowledge among taxpayers, and so their fairness perceptions.

Robert *et al* (1994) on their article, examine how tax payers' compliance behavior affected by tax knowledge and perception. Result has indicated that, principle of attitudes being affected by better tax knowledge and demonstrates that it holds other attitude dimensions as well as the fairness of enlightened tax compliance behavior of tax payers'. Thus leads that, study suggested that tax knowledge has a positive correlation with perceptions of fairness, tax ethics and attitudes to others' tax evasion and perception of the fairness of the tax system increases as tax knowledge is enhanced. In contradictory to this report was indicated by Collins, Milliron and Toy (1992) that, study was conducted in the USA from a random mail survey of 700 respondents from telephone directories. Out of 220 practical responses, they had found that tax knowledge and the level of education were negatively correlated with compliance behavior. The scholars further suggested that, knowledge about tax law is expected to be of importance for preferences and attitudes towards taxation in USA.

McKerchar (1995) in her article examined small business income taxpayers in Australia. Result indicated that small business taxpayers' were not even aware of their tax knowledge underperformance and this has been lead to unintentional non-compliance behavior in the country. In line with this, study was also supported by Loo et al (2008) evaluated among individual taxpayers in Malaysia on the title of "Malaysian individuals tax payers' tax knowledge" those who unintentionally committed mistakes in their tax return of tax liabilities in the country on the period November 2005 and July 2005 with a mixed method research design.

Mohamad et al (2007) examine the influence of tax knowledge on compliance behaviour by divided the tax knowledge in to groups those are, knowledge explicitly focused at possible opportunities to evade tax and knowledge gained through formal education. Study result indicated that, regarding the rules and regulation of the taxation, the level of education received by taxpayers' is an important factor that contributes to the general understanding.

According Loo et al. (2008) in their study, in a Malaysian environment, disclose a divergent research finding indicated that, the overall argument, where they reported that increases in taxpayers' knowledge had have a negative impact on their perceptions on conversation fairness. In addition to this, individual taxpayers' those who have good knowledge of tax felt that they are not receiving their fair share of benefits funded by tax revenue. Although the benefits have been provided in terms of public facilities such as free education and subsidized wellbeing system, the fact that the detailed information on the source of expenditure are not publicly available may have created this negative perceptions on the fairness of the income tax system in the country.

According Mohammad *et al* (2011) endeavored to regulate whether there is a associating between exact tax knowledge and compliance attitudes during completing the tax return. His study was to evaluate if any changes in the attitudes

towards taxation that result from enlarged knowledge about taxation which might have a significant impact on tax compliance. The study further said that there is insufficient knowledge about tax regulations and this situation leads to an increase the tax gap.

Rini (2014) in his article, inspect background and ethical tax awareness between business and non -business students and evaluate their perception if tax is significant therefore they need to learn since it is unavoidable obligation. Data was collected from a total of 341 respondents contains two groups business and non -business students. Study result indicated that, there is no significant difference contextual tax awareness between the two groups those are business and non-business students. Besides to this that tax function and the responsibility to do self -assessment are got into their head deprived of considering whether they come from business or non- business areas.in addition, there was statistically significant differences among the two group in perception. Finally researcher suggested that, there is importance of tax training and the essential to have tax as a subject between the groups. The business students mostly believe that the knowledge will be useful for their future than the other groups.

Nelson Maseko (2014) investigated the impact of personal tax knowledge on tax compliance cost on compliance behaviour of SMEs in Zimbabwe with qualitative research design. Finding indicated that, all the small and medium entrepreneur operators were faced different business situations from large businesses which cause them to bear high tax compliance burdens than SMEs. Besides to this, result also had showed the perceptions of SME operators about tax fairness; tax service quality and government expenditure priorities greatly affect their tax compliance decisions in the country.

Nurlis (2015) in his article, examines the outcome of taxpayer awareness, knowledge, tax penalties and service tax authorities on tax compliance a survey held on the individual taxpayer at Jabodetabek & Bandung in Indonesia. Study data was collected using the accidental sampling method that is questionnaires were distributed to those who visited tax offices of Jabodetabek & Bandung individual tax payers'. Result of the study indicated that, awareness of the taxpayer has a positive and significant effect on individual taxpayer compliance. In addition to, tax knowledge of tax payers' also has a negative and significant relationship of taxpayer compliance. This indicates that the level of knowledge of good tax really looking for gaps to avoid tax liabilities, tax penalties has a positive and significant relationship to the individual taxpayer compliance which performs at the tax office in the area. Further the study displays that the more effective application of tax penalties, the tax compliance rate will be higher. Service tax authorities have a positive and significant relationship of compliance individual taxpayers' that performs at the tax office in the country. Finally the study proposes that the better the service tax authorities, the tax compliance rate will be higher.

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Population of the study:

The target population for this study was incorporated business income tax payers' of category "A" category," B" and category "C" taxpayers, tax authority in Ethiopia, Tigray state who are registered at Ethiopian revenue and custom authorities (ERCA). According to 2014 total business income taxes payer's registered at Ethiopian revenue and custom authorities (ERCA) were about 82500. The study was carried over a period of one year from October 2014 to September 2015. One year period was assumed reasonable to demonstrate up-to-date tax payers' tax knowledge.

3.2. Sample size and sampling technique:

In view of the researcher's incapability to reach out to the entire population business income tax payer's in the region, and in order to gain the advantage of an in-depth study and effective coverage, samples are drawn using stratified with conveniences sampling techniques from the total populations of business income tax payers' category of A, B, and C. The researcher has used Taro Yamane (1967) formula in determining the size from the total population.

According to Yamani, (1964) $n = N / [1 + (Ne^2)]$

Where n = is the sample size

N = is the population

e = is the error limit (0.05 on the basis of 95% confidence level)

Therefore, $n = 82,500 / 1 + 82,500 (0.05)^2$

$n = 82,500 / 207.25 = 398$

Therefore, a total number of 398 questionnaires were administered and 398 copies of questionnaires have distributed to them. Of the 398 copies of questionnaires distributed to respondents, only 375 were dully completed and returned and all were used in the analysis.

3.3. Data Collection Methods and Analysis:

The data collection methods may be by questioners, opinion of experts and respondents, observation, and interview and survey and appraisal of performance. Surveys are used when researcher want to gather data from a large number of people and when it is impractical to meet them all face to face. Therefore, this study adopted survey research design for data collection by distributed structured questionnaires' to the respondents. Five –point Likert scale rating method questionnaire was employed in this study to collect the views of respondents. The Likert-scale rating method of questionnaire design enables researcher to ask respondents on how strongly they agree or disagree with a statement or series of statements was clarified by Sanders, Lewis and Thomhill (1997). The advantage of the Likert-style rating questionnaire is that it enables numerical value to be assigned to cases for easy quantitative analysis. Therefore, the researcher adopted the five-point Likert scale rating method for this study. The statistical package for social sciences (SPSS) version 20.1 was employ in the different analyses lead.

4. DATA PRESENTATION, INTERPRETATION AND ANALYSIS

4.1. Data presentation of demographic characteristics of respondents:

Gender:

From the total sample of the study, the male gender had 50.9% while the female gender had contributed 49.1% of the respondents. The respondents in the study were approximately equal. Therefore, we can conclude that, there is no visible differences among genders participate in business in the study area Tigray state. This indicated that, the perception of most people, the main duty of female gender was to keep the home front had been breakout and females are equally engaged in business in the state.

Table 4.1Frequency distribution of gender characteristics of respondents

Variables	Frequency	Percent	Valid Percent	Cumulative Percent
Male	191	50.9	50.9	50.9
Female	184	49.1	49.1	100.0
Total	375	100.0	100.0	

Source: Field study (2014)

Age:

Respondent's age category of 20-29 was 50.7% followed by age category of 30-39 with 31.5%. Study respondents who were less than 20 years old were accounted for 10.7% while, 5.6 % and 1.6% were age group for 40-49 and 50-59 years old respectively. We can see from the result majority of the respondents were in age category of 20-29 and 30-39 that was cumulative percent of 87.5% of the respondents in the sample study. This result indicated that, those who are fell at the productive age or those who are younger people their physical paramount would be found engaged in business and self-employed.

Table 4.2 Frequency distribution of age characteristics of respondents

Variables	Frequency	Percent	Valid Percent	Cumulative Percent
less than 20	40	10.7	10.7	10.7
20-29	190	50.7	50.7	61.3
30-39	118	31.5	31.5	92.8
40-49	21	5.6	5.6	98.4
50-59	6	1.6	1.6	100.0
Total	375	100.0	100.0	

Source: Field study (2014)

Marital Status:

Above 50% of sample respondents were single. The proportionate of the respondents shows that, about 50.9% were single while, 46.4 % were married. Of the sample 2.1% and 0.5% of the respondents were divorced and windowed respectively. The result shows majority of the respondents were single. Since the age of the respondents above were fallen in the age category of 20-29, it is not surprising that, most of the respondents were single.

Table 4.3 Frequency distribution of Marital Status characteristics of respondents

Variables	Frequency	Percent	Valid Percent	Cumulative Percent
Single	191	50.9	50.9	50.9
Married	174	46.4	46.4	97.3
Divorced	8	2.1	2.1	99.5
windowed	2	.5	.5	100.0
Total	375	100.0	100.0	

Source: Field study (2014)

Level of Education:

Of the total sample, 56.3 % of the respondents were degree and diploma holders. The breakdown of the responses indicated that 30.7% of the respondents were degree holders followed by 25.6% and 24.5 % of the respondents were diploma holders and completed secondary school respectively. Round 15.5 % of the sample were completed grade 7th to 10th while, only 2.4 % were elementary school attend followed by 1.3% had post graduates. From the result one can observe more than 80% of the respondents were completed grade 12th and above. Based on the result we can conclude that, respondents have a skill to operate their business with fewer challenges.

Table 4.4 Frequency distribution of level of education characteristics of respondents

Variables	Frequency	Percent	Valid Percent	Cumulative Percent
1-6	9	2.4	2.4	2.4
7-10	58	15.5	15.5	17.9
10-12	92	24.5	24.5	42.4
Diploma	96	25.6	25.6	68.0
Degree	115	30.7	30.7	98.7
Post Graduate	5	1.3	1.3	100.0
Total	375	100.0	100.0	

Source: Field study (2014)

Experience in business:

As study result indicated 61.3% of the sample respondents had one to five years' work experience in business followed by 28.3 % of six to ten years. The rest 8% and 2.4% had eleven to fifteen and sixteen to twenty years work experience. Anyone can observe majority of the respondents had few years' experience and had joined the business before few years ago. We can conclude that, there may be some challenges to run their business and to prepare all the necessary documents for the purpose of tax liability because lack of experience in business.

Table 4.5 Frequency distribution of experience characteristics of respondents

Variables	Frequency	Percent	Valid Percent	Cumulative Percent
1-5 years	230	61.3	61.3	61.3
6-10 years	106	28.3	28.3	89.6
11-15 years	30	8.0	8.0	97.6
16-20 years	9	2.4	2.4	100.0
Total	375	100.0	100.0	

Source: Field study (2014)

Position in the sector:

Respondents were asked to state who would lead their sector and whether they belong to as owner, employer and manager of the sector. Of the three categories owner of the sector had contributed 70.2% followed by 24.8% and 4.8% who had worked as an employer and manager in the sector correspondingly. Here we can conclude that, most of the business in the study area managed by owners instead by professional managers.

Table 4.6 Frequency distribution of position in the sector characteristics of respondents

	Frequency	Percent	Valid Percent	Cumulative Percent
Owner	262	69.9	70.2	70.2
Employer	93	24.8	24.9	95.2
Manager	18	4.8	4.8	100.0
Total	373	99.5	100.0	
Missing Value 99	2	.5		
Total	375	100.0		

Source: Field study (2014)

4.2. Tax Knowledge:

Tax knowledge is vital to assure that the tax administration to be going inclusive. As a result, individual tax payers' may able to asses and fill their tax liabilities properly and also file their tax returns forms on time. Tax knowledge as one of the factors in compliance is correlated to the taxpayers' ability to understand taxation laws, and their willingness to comply.

To understand the comprehensive overview of the tax knowledge of individual business income taxpayers' towards the tax law and how it would be affected tax compliance behavior the researcher used fifteen questions to measure tax knowledge of respondents. There were two sections, section one contains six structured questions and section two incorporated nine questions with five response classes namely, strongly disagree, disagree, uncertain, agree and strongly agree.

The method of interpretation was indicated that, the frequencies of the first two classes reponses were interpreted to mean the factors in the question was acceptable and indicated the tax payer had had tax knowledge. On the other hand, the fequencies of the last two classes signify in the interpretation the factores on respondents reflection was unacceptable and intrepreted the tax payer did not had tax knowledge. The threed responses class was taken uncertain.

Why do you pay taxes?

As shown in table 4.7 below 38.9 % and 37.1 % respondents' response were in anticipation of public services and it is an obligation towards the government respectively followed by fear of penalties, sanctions 21.3%. Of the sample study 1.6% does not know why they pay tax at all while 1.1% also responds because there is no opportunity to evade otherwise they did not want to pay tax. From this one can concluded that, about 24% of the respondents are not willing to pay their tax liabilities

Table4.7 Frequency of respondents why they pay tax

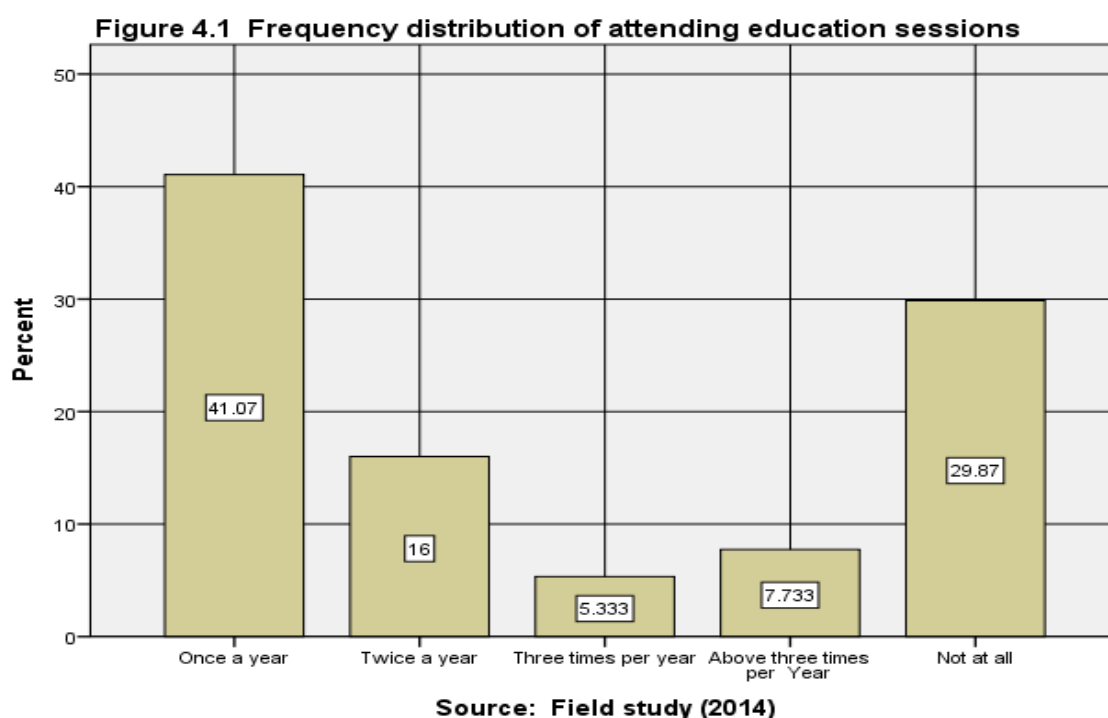
Variables	Frequency	Percent	Cumulative Percent
Do not know	6	1.6	1.6
It is an obligation towards the Government	139	37.1	38.7
Penalties, sanctions	80	21.3	60.0
In anticipation of public services	146	38.9	98.9
There is no opportunity to evade	4	1.1	100.0
Total	375	100.0	

Source: Field study (2014)

How often you are attending education sessions about taxation?

Respondents' response presented in the figure 4.1 shows that, 41.1% of business income tax payers' have attending education sessions once a year about taxation followed by 29.9% did not attend at all. Of the sample study 16% and 7.7 % respondents response were twice and above three times per year respectively. Final only 5.3 % of the respondents were

attend education sessions about taxation three times per year. asked on this result we can concluded that business income tax payers' in Tigray state have little tax knowledge and the government face challenges to collect the target revenue in the state.



Do you know which income tax brackets (table) you have been paying?

As shown in the table 4.8 from the total sample of the study 73.9% of the respondents have said yes. The remaining 26.1% of the respondent did not know in which income tax brackets (table) they have been paying. According the rules and regulation of Ethiopian Revenue and Custom Authority, every tax payer should know in which category is categorized. From this one can conclude that, large numbers of business income tax payers' do not know in which category is categorized.

Table 4.8 Frequency of respondents which income tax brackets knowledge

Variables	Frequency	Percent	Cumulative Percent
No	98	26.1	26.1
Yes	277	73.9	100.0
Total	375	100.0	

Don you know the penalty for not paying business income tax on time?

Of the total sample study 226 (60.3%) of the respondents do not know the penalty for not paying business income tax on time. Only 149 (39.7%) of the respondents have knowledge there is penalty if they are not paid on time. We can conclude that, above 60% of business income tax payers' in the state did not know the penalty for not paying business income tax on time.

Table 4.9 Frequency distribution payment of business income tax on time

	Frequency	Percent	Cumulative Percent
Don't Know	226	60.3	60.3
Valid Know	149	39.7	100.0
Total	375	100.0	

Source: Field study (2014)

Table 4.10 Mean score by tax knowledge factors

Statements	N	Mean	Std. Deviation
I understand the tax system of Ethiopia	375	3.63	1.072
I am aware of most tax laws and guidelines about taxation of incomes for organization	375	3.29	1.099
I understand most of the laws and regulations relating to income tax	375	3.19	1.100
I am able to interpret taxation laws when computing taxes	375	3.36	1.138
I do not have any problem with completing and filing the tax return form(s), if they are required	375	3.61	1.145
I know all what is required from me in respect of my business profit tax obligations	375	4.01	1.019
As far as I am aware, everyone who earns income sourced in this country is taxable, regardless of whether that person is resident or not	375	3.30	1.402
I have little idea about the deductions that I can claim as a taxpayer in the computation of my tax liability	375	3.62	1.215
Valid N (list wise)	375		

Source: researcher's computation (2016)

Study mean score of those that prominence of the statement, I understand the tax system of Ethiopia is 3.63 on five point Likert scale test items was applied in imploring the tax knowledge while Standard deviation is 1.072. This indicated that, on the average, business income tax payers' have understood the tax system of Ethiopia in some conditions but still they have difficulties to understand the tax system of the country.

The mean score of those respondents are aware of most tax laws and guidelines about taxation of incomes for organization in Ethiopia Tigray state is 3.29 and the Standard deviation is 1.099. This showed that, on the average of the respondents has awareness about most tax laws and guidelines about taxation of incomes for organization in the state but did not have full understanding about the tax laws and guidelines about taxation of incomes for organization. In addition to the above the mean score of respondents understand most of the laws and regulations' relating to income tax is 3.19 with standard deviation of 1.100. This implies that, even if respondents have some understanding still they have reservations to state most of the laws and regulations' relating to income tax are fully understand.

The mean score asked to respondents to state I am able to interpret taxation laws when computing taxes is 3.36 whereas standard deviation is 1.138. This indicated that, on the average respondents may able to interpret taxation laws when computing their taxes but the expected result would 5 if they can interpret taxation laws when computing their tax liabilities. Therefore, they cannot interpret taxation laws when computing their tax liabilities but have some abilities interpret taxation laws when computing their taxes.

Respondents were asked to state, I do not have any problem with completing and filing the tax return form(s), if they are required. Computations mean score result indicated that, 3.61 however standard deviation is 1.145. Result indicated that, they can complete and filing the tax return forms but still they have difficulties to do this. In line with this, respondents were asked to give judgment on; I know all what is required from me in respect of my business profit tax obligations. Based on that result of mean score are 4.01 though standard deviation is 1.019. This implies that, above the average of the respondents know all what is required from them in respect of their business profit tax obligations. It is not surprise it is because most of tax payers' are sensitive regarding profit tax.

The means score and standard deviation of respondents state, as far as I am aware, everyone who earns income sourced in this country is taxable, regardless of whether that person is resident or not is 3.30 and 1.402 respectively. This showed that, most of business income tax payers' are aware everyone who earns income sourced in this country is taxable, regardless of whether that person is resident or not. But still large number did not have knowledge about that in state. Finally respondents were asked to test whether they have little idea about the deductions that they can claim as a taxpayer in the computation of their tax liability? Result indicated that, the mean score of 3.62 with standard deviation is 1.215. This implies that, on average of those respondents has little idea about deductions that they can claim as a taxpayer in the computation of their tax liability.

5. CONCLUSION AND RECOMMENDATION

Though tax knowledge has been an academic research topic in many developed countries in the world, tax knowledge and tax compliance behavior has not been comprehensive attention in Ethiopia. This work was aimed to study a comprehensive overview of business income tax payers' knowledge towards the tax law in Ethiopia focusing on Tigray state. Based on the descriptive study result showed that, educated and younger people were found engaged in business and self-employed in the state. In contrary to this result indicated that, most of the respondents have exercise few years of work experience this may be lead to face challenges to run their business and to prepare all the necessary documents for the purpose of tax liability because lack of experience in business. In line with the above, most of the business in the study area are managed by owners instead by professional managers. According the rules and regulation of Ethiopian Revenue and Custom Authority, every tax payer should know in which category is categorized. But in this study result indicated that, large numbers of business income tax payers' do not know in which category is categorized. In addition portion of business income tax payers' have understood the tax system of Ethiopia in some conditions but still they have difficulties to understand the tax system of the country. Even though the various tax reforms undertaken by governments to increase tax revenue over the years, to create tax payers' awareness and build tax payers' knowledge is not given attention by the government. Tax payers may follow laws they know or trust to produce good results. But laws are not only chosen according to past experiences; they are also influenced by the acknowledgments tax payers give to them .tax payers' plays an important role in determining which laws are followed and which are not. In general tax payers are more inclined to comply with the laws if the relationship between the tax paid and the performed government services is found to be reasonable. Therefore, government and tax authority's procedure aimed at creating self-assurance in their integrity and their capacity is rewarded with higher tax knowledge.

Finally this study it is a good indication for government that possible taxpayers, in average, have been aware of tax rules and regulations in the state. Ethiopian Revenue and Custom Authority (ERCA) must accordingly take into account to keep the tax payers' knowledge to help tax compliance in the future to reduce tax noncompliance and give attention to tax education and awareness creation about taxation.

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