



TAX COMPLIANCE AND ITS ADMINISTRATION

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ABSTRACT

The objective of this study is to assess factors affecting tax compliance behavior and the tax administration practice. In more specific case it tries to identify the determinant factors that affect tax payer's tax compliance behavior. A multistage sampling of stratified sampling and simple random sampling was applied to select the sample.

Descriptive and inferential data analysis techniques are applied to analyze data gathered through structured questionnaires. The statistical data analysis applied includes: percentages, frequencies, correlation, and regression.

The findings of the study revealed that perception on tax fairness, attitude towards tax, knowledge about taxation and the tax administration system are major components in compliance to tax policy by tax payers whereas the tax payers' attitude towards tax and tax administration systems are significantly affected tax payers' compliance to tax. Accordingly, sustainable awareness creation and attitude changing programs should be maintained. And also the tax system has to be fair so that it has to be reasonable and consider the benefit that is provided by the government.

KEYWORDS : TAX COMPLIANCE, TAX ADMINISTRATION**1. INTRODUCTION**

Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. Since each country has its own approach to managing tax compliance levels and each has different tax laws and regulations, the factors impacting tax compliance behavior appear to vary among countries (Palil, 2010). This can indicate that the amount of revenue collected alone could not explain the best tax compliance and tax administration. A poor quality of tax administration may also collect large amount of revenue from easy - to tax sectors such as wage earners, while unable to enforce taxes on business enterprises and professionals. Hence, measuring the effectiveness of the tax administration by the size of tax collected is unsophisticated judgment. Considering the size of the compliance gap is rather a much stronger criterion to the effectiveness of tax administration (FIRA, 2000). Thus, the primary mandate of most tax administrations is to ensure compliance with tax laws and improve tax collection. The extent of compliance with the legal obligations it imposes powerfully affects the revenue yield, efficiency and fairness of any tax system. (IMF, April 2015).

Low tax compliance is a major problem for the policy makers in many developing countries. This is because it limits the capacity of government to raise revenue for developmental purposes (Torgler, 2003). For its part, government must take actions to ensure compliance with the tax laws. Developing countries are in difficult situation to provide these basic public goods and services from taxes due to weak tax collection and administration (Damme, 2008). Tax administration is a complex and dynamic responsibility. On a regular basis, leaders are faced with new issues, conflicting priorities, taxpayer compliance and emerging commitments (Thomson 2008). Effective tax administration tries to minimize compliance cost and increase revenue, minimizes distortion of resource allocation and simplifies its administration (World Trade Organization 2003).

Thus, the objective of this study is to assess factors affecting tax compliance behavior and the tax administration practice. Specifically the aim of this study is to identify the determinant factors that affect taxpayers' tax compliance behavior and to assess the tax administrative system and its effect on tax compliance behavior of taxpayers.

2. LITERATURE REVIEW

Empirical evidence about the scope of tax non compliance for

different world regions is very limited. Marti (2010) stated that tax compliance is a complex term to define. Researchers have defined tax compliance as the accomplishment of all tax obligations as specified by the law freely and completely. Tax non-compliance occurs in different forms; it could either be failure to submit a tax return within the specified period or non submission, understatement of income, overstatement of deductions, failure to pay assessed taxes by due date (Kasipillai & Abdul Jabbar, 2006) and in some cases non-compliance may mean a complete failure to pay levied taxes. Studies have shown that the problem of tax evasion is an extensive one (Kasipillai & Abdul Jabbar, 2006). Furthermore, Fagbemi, Uadile and Noah (2010) found that it is common in developing countries and it hold backs development in that way leading to economic stagnation and other socioeconomic problems.

The taxpayers' attitude on compliance may be influenced by many factors, which in the end influence taxpayer's behavior. Kirchler (2007) stated that those factors which influence tax compliance and/or non-compliance behavior differ from one country to another and also from one individual to another. They include: taxpayers' perceptions of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude or subjective norms; taxpayers' understanding of the tax system or tax laws (Silvani, 1992; Le Baube, 1992); motivation such as rewards (Feld, Frey & Targler, 2006) and punishment such as penalties (Allingham & Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of discovery; perceived behavioral control (Furnharn, 1983); ethics or morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004).

This study holds that the factors that influence taxpayers' compliance on tax can be grouped into perceived fairness of taxation system, attitude towards taxation, knowledge, perception on tax administration system.

Fairness/Equity

As stated in Bhatia (2000), a good tax system, in order to achieve various objectives, chooses and adheres to certain principles which become its characteristics. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. Generally a positive effect of perceived fairness in tax related affairs will strengthen tax compliance. People who experience their tax burden to be higher

than others tend to be less compliant with tax laws (Kinsey, Grasmick & Smith, 1991). Likewise, the more people believe that the government takes good care of their paid taxes and spends it carefully; the more compliant they tend to be. Studies suggest that procedural fairness influences the acceptance of decisions made by the tax authority builds trust in the tax authority among private taxpayers (Braithwaite, 2003; Murphy, 2004).

Taxpayers Attitude towards the Government

The presence of government expenditures may motivate compliance. Positive benefits may increase the probability that tax payers will comply voluntarily, without direct coercion. Although most tax payers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and other's terms of trade with the government.

Awareness level of Taxpayers

James (2000) argues that the norm is usually to comply rather than not to comply. Many taxpayers might be willing to comply in full, but are unable to do so because they are not aware of, or do not understand, their full obligations. Even if such tax payers understand their obligations, they may not know how to meet them or may be unable to do so for other reasons. On other side, other writers such as Smith and Kinsey (1987) argue that tax non compliance is an intentional behavior.

Tax administration

Tax administration covers a wide area of study, encompassing aspects such as registration of taxpayers, assessments, returns processing, collection, and audits (Kangave 2005). The low revenue yield of taxation can only be attributed to the fact that tax provisions are not properly enforced either on account of the inability of administration to cope with them or on account of straight forward collusion between the tax administration and taxpayers. Since taxes are an involuntary payment for government services (Parameswaran, 2005), taxpayers have a strong incentive to minimize their tax liabilities either through avoidance (legal) or through evasion (illegal). Tax administration, therefore, has to secure compliance with the laws by applying an array of registration, assessment and collection procedures

Based upon the literature reviewed, the following four hypotheses were constructed:

H1: The perceived fairness of tax system by taxpayers has a significant effect on tax compliance behavior.

H2: The taxpayers' attitude towards taxation has a significant effect on tax compliance behavior.

H3: The taxpayers' awareness of tax issues has a significant effect on tax compliance behavior.

H4: The tax administration system has a significant effect on tax compliance behavior.

2. METHODOLOGY

The study adopted descriptive survey research design to establish the relationship between dependent variable which is tax compliance and the independent variables perceived fairness of tax system, taxpayers' attitude towards taxation, and taxpayers' awareness of tax issues. Quantitative data was collected using questionnaires. Convenience sampling technique was used to select respondents from the entire population. This ensured that all respondents were given an equal chance of being selected into the study sample. The sample size for this study was determined using the formula by Nassiuma (2000) where a sample size of 200 respondents was come up. To ensure reliability of the study findings, Cronbach's Coefficient Alpha was computed for the instrument which revealed a reliability coefficient of 0.89. The questionnaires

were then declared reliable for the study based on guidelines from (Fraenkel & Wallen, 2000). The formulated hypotheses were tested using the Pearson Correlations and Linear regression.

4. RESULT AND DISCUSSION

4.1. Correlation results

Table 4.1. Correlations					
	TCM	TF	ATT	ATI	TA
TCB					
TF	.421**				
ATT	.701**	.455**			
ATI	.182**	.307**	.195**		
TA	.510**	.397**	.468**	.206**	

**** Correlation is significant at the 0.01 level (2-tailed).**
Where: TCB (Tax Compliance Behavior), TF(Tax Fairness), ATT(Attitude Toward Taxation), ATI(Awareness of Tax Issue) and TA(Tax Administration)

The above table shows the correlation Matrix results. The correlation analysis has indicated that all the variables (TCB, TF, ATT, ATI and TA) were significant and positively correlated with that of the tax compliance behavior (TCB) at 1% significant level.

4.2. Regression Analysis

Table 4.2: Regression Coefficients a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.198	.180		1.102	.272
	TF	.080	.059	.078	1.358	.176
	ATT	.597	.062	.564	9.648	.000
	ATI	.003	.036	.004	.082	.934
	TA	.219	.058	.213	3.752	.000
a. Dependent Variable: TCM Where: TCB (Tax Compliance Behavior), TF(Tax Fairness), ATT(Attitude Toward Taxation), ATI(Awareness of Tax Issue) and TA(Tax Administration)						
Model Summaryb						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.733 ^a	.538	.528	.41620	1.760	
a. Predictors: (Constant), TA, ATI, TF, ATT						
b. Dependent Variable: TCM						

Table 4.2 revealed that TCB (Tax Compliance Behavior) are strongly influenced by the tax payers' Attitude toward Taxation and Tax Administration system. And it shows that 52.8% of compliance behavior of tax payers can be explained by those variables, such as: tax payers' perception on tax fairness, tax payers' attitude toward taxation, tax payers' awareness of tax issue) and tax administration system. In general, thorough examination of the above summary tables (Table 4.1. and 4.2) provides the following insights on proposed hypotheses.

Result of proposed hypothesis			
Hypothesis	Association between variables	Sign and Significant	
H1	TF with TCB	Positive but not significant	Rejected
H2	ATT with TCB	Positive and significant	Accepted
H3	ATI with TCB	Positive but not significant	Rejected
H4	TA with TCB	Positive and significant	Accepted

5. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

The tax payers' attitude toward taxation was negative which highly

influenced their non compliance. Taxpayers do not consider the implementation of taxation in good faith and also feel that taxes are not put into good use, which both are related to the tax payer's perception toward tax fairness. Therefore they only pay tax only when necessary and are ready to use any alternative to evade or underpay taxes. The tax administration system is also one of a major factor for the contribution of tax compliance. In other word, the poor tax administration system can create a loophole for the tax payers not to comply properly with the tax rules and policies.

In general, perception on tax fairness, attitude towards tax, knowledge about taxation and the tax administration system are major components in compliance to tax policy by tax payers.

5.2. RECOMMENDATION

In order to enhance the tax compliance behavior in the sub-city the following specific measurements should be taken:

- Taxpayers' attitude toward taxation should be changed mainly through sustainable awareness creation programs.
- The tax system has to be fair so that it has to be reasonable and consider the benefit that is provided by the government.
- The tax administration process and procedure should not be complex so that it should make the tax payers build trust in the tax system, assessment and on its collection procedures.

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