BUSINESS PROFIT TAXPAYERS' PERCEPTION TOWARDS TAX SYSTEM: AN EMPIRICAL EVIDENCE FROM AFAR REGIONAL STATE, ETHIOPIA

Management

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ABSTRACT

Tax is the way of charging obligatory by the government without benefiting directly the economic units from his/her contribution made. Even if it is known that taxpayers are obligated to pay the required amount to the government, some of business profit taxpayers doubt on the assessment techniques used by the tax authority. As a consequence, it is very important to investigate why business profit taxpayers make non-compliance with governed rules and regulations settled in the country, to review their level of tax knowledge and perception towards tax system. The researchers employ multistage stratified sampling technique to select sample units of 231. The findings reveals, the level of perception is difference in a geographical area; however, all sectors and at all levels of experience have a negative perception towards a tax system except "B" business categories have good perception towards tax system.

KEYWORDS

Business profit tax payers, Perception, Tax knowledge, Descriptive and Sampling technique etc.,

INTRODUCTION

Tax is an obligatory influence payable by an economic unit to a government without anticipation anything benefits (Bloomquist, 2003), Government charges tax on Consumption, income and capital through the agencies and also levies on capital transfer, profit as well as on companies capital gain (Bello, 2001 and Al Zakari, 1995). In addition, assessment of tax in both developed and developing countries, it plays a significance role in handing national income in the civilization of the societies (Lymer & Oats, 2009). According to Alabede, 2001; and Olaofe, 2008, even if governments financial resources comes in the form of non-tax revenue and tax revenues. Nevertheless, incomes generated from tax remains the primary source of government revenue in some countries, Hammer et al. (2005) suggested that if people is unable to pay the intended, government can not fulfill the infrastructural as well as demands of the society. According to Singh, (1999) the purposes of impressive certain taxes on the public is to reduce inequalities through redistribution of income and wealth policy, so that the income gap between the rich and the poor is not as such significant. Moreover, tax systems are designed for societal drives, for instance discouraging certain activities, which are considered objectionable and protecting the environment. As Smith (1776) noted, a tax system is practiced based on certain principles, like efficiency, equity, convenience, and certainty are the principles to practice tax system. Alm, Martinez- Vazguez & Schneide (2003) declared that, it is well known and accepted that some taxpayers unlike to taxes, and because of this ground, it is arduous for government to charge and accumulate levy anywhere and time. OECD (2007) rumored that tax collection in higher income countries like United Kingdom, United State of America, and OECD as a percentage of GDP were 36.6%, 28.33%, and 35.9% respectively (OECD, 2010). For middle and lower income countries, like Malaysia, Indonesia, and average Asian countries in 2008, the tax collection as a percentage of GDP were 15.3%, 13.35, 22.5% respectively. However, in sub-Saharan countries like Ethiopia its contribution is very low. For example, according to African Economic Outlook report 2012, the Ethiopia tax contribution to GDP in the year 2011 was 11.3%. Another researcher has also systematically verified low tax endeavor to GDP. For instance, it's 1/3rd of GDP in rich countries; the Caribbean and Latin America, 17% and in Sub Saharan Africa countries showed below 15% of GDP. It remains a big dispute for low income countries.

Tax systems is undeniable in a country (Palil, 2010); statistical evidence opts tax is the main income sources throughout the world for many governments, but Allingham and Sandmo (1972) stated that, it is difficult in practice to maximize tax collection and minimize tax evasion among taxpayers. According to Ruanda (2008), honesty of taxpayers primarily leads to a government's success or failure to levy tax. Similarly Oberholzer (2008) stated, non-compliance by taxpayers as well as potential taxpayers are the main reasons for the tax gap, with tax legislation. Attitudes and perceptions has been verified as the

causes of non-compliance of people. Empirical evidence on the ground has also shown that, there have been some factors, which influenced taxpayers' behaviour towards tax system. In explaining taxpayers' compliance behavior, that is, the reasons why taxpayers comply and do not comply, like wise Trivedi and Shehata (2005) rumored, psychological-based theories and economic based theories there are the broad two classes of theories which, the first one emphasized on behavior and the second one on incentives.

Economic based studies suggest that taxpayers' behavior is influenced by economic motives such as profit maximization and probability of detection Trivedi and Shehata (2005), Erard & Ho (2002); Cobham (2005), they also noted that, among money factors business income taxpayers operating in informal economy. Trivedi and Shehata (2005) concluded that a mixture of the two theory is possible as some taxpayers follow behavior of psychological and another might follow economic theory. To study a taxpayer's behavior towards taxation, as many research showed, is difficult (Palil, 2010; AJBUMA, 2010. Moreover, as ATO (2009) advocated on the journal Taxing Democracy, understanding taxpayer behaviour is risk management of a tax system. A number of researchers suggest that taxpayer acceptance is important for the work ability of the tax system (Song and Yarbrough, 1978). Mohammed et al. (2008) confirmed that, satisfied taxpayers have normally complied with the requirement to submit the tax return on time. These conclusions are also consistent with prior researches (Richardson, 2006). Furthermore, empirical studies show that complied taxpayers are more understand of the importance of the tax revenue to the economic growth of a country. As evidenced by the array of programs in place to assist taxpayers comply as well as to deter from non-compliance, influencing taxpayer behavior is not a new concept in tax administration. However, OECD (2010) stated that, the extent of research being undertaken to better understand what motivates tax compliance is the new event. To contribute a sustainable tax system, revenue bodies are expected to have strong design and implement effective compliance strategies for better understanding of taxpayers behavior.

Moreover, the OECD (2010) stated, the main task of any tax system is encouraging tax compliance. Doing so demands a conscientious apprehension of taxpayer's perceptions of the tax system, and the encouraging for more effectiveness of compliance. Studies on the determinants of tax compliance elaborates the significance of encouraging "quasi-voluntary" compliance, which depends on taxpayers trusting the government to provide reciprocal services, tax administrators to treat them fairly and other taxpayers to pay their fair share. However, most of the time these conclusions derive overwhelmingly from more advanced countries. Astonishingly little is known about, the taxpaying experiences, taxpayer perceptions and incidence of different taxes in low-income countries like Ethiopia. Through a combination of survey study evidence works on this area

will enhance understanding of taxpayer experiences. Therefore, the researchers conducted their study on business profit taxpayers' perception towards tax system evidence from the Afar Regional, State.

STATEMENT OF THE PROBLEM
Ethiopia has raising revenue to meet the public expenditure for supply of goods and services publicly which would not be available to the public by the market. So as to fulfill the basic infrastructure (electricity, road, intercommunication) and other basic social needs which can not be afford by private. Government is expected to fill the gap, to finance the projects, government had collect sufficient money to finance i.e, tax. In Ethiopia, Business profit taxpayers frequently complain that the tax assessment system is based on subjective estimation, like other developing countries of the world, as they are frequently exposed to over-taxation. This does not evince that the people are always right for their judgment based on the information, or immune from prejudice. Perception of people's matter, and that when such perceptions are strongly held and enduring, principles of good governance demand responsiveness from relevant authorities. Most business profit taxpayers i.e., Category B and C, do not have simplified access to and clarification on information about the tax laws, they lack awareness on tax rules and regulations and their implementation. In addition, they do not keep their books, which leads to general estimation, which are often arbitrary. Similarly, in Afar Regional State, as one part of Ethiopia, this practical problem has been observed. This may adversely affect the government's expectation of tax to GDP contribution. Therefore, with these all this, the study will emphasize on understanding and analyzing business profit taxpayers' perception and attitudes towards tax system. As a result, the focus of the study will be on the perceptions among the various population groups surveyed of Afar regional state with selected five urban towns.

OBJECTIVES OF THE STUDY
1) To Analyze business profit taxpayer's perception towards tax system
2) To Assess business profit taxpayers level of tax knowledge.

RESEARCH METHODOLOGY
Decisions concerning where, how and when to gather the data; deciding what data-collection tools are to be used, where data collection is to be carried out, how many and which subjects or organizations are to be studied. cross-sectional survey designs which described as snapshots of the populations about which they gather data. Explanatory studies look for explanations of the nature of certain relationships. The sources of primary data for this study were obtained from sampled business profit taxpayers (which were acquired through stratified random sampling technique. The instruments that were applied for this study was questionnaires close ended questionnaires, especially five point Likert scale. The formulated series of questions was distributed based on schedule and household drop off. The study was conducted in Afar regional state in five urban towns: Logia, Asayita, Mille, Awash and Aba'ala. Tar gate population 2900 taxpayers. Multistage sampling has been used to get the required sample from Trade, Service and Manufacturing enterprise. At the end of the fieldwork, out of these 250 sample size, 231 response has been earned. Response rate representing 92 % is considered adequate according to Sekaran (2010) who state that the response rate of above 60% is acceptable for any surveys
Sample unit; individual business taxpayers category "C" & "B".

DATA ANALYSIS
TAXPAYERS PERCEPTION AND LEVEL OF TAX KNOWLEDGE
Respondents' Experience by Sector
As below shown in table 1, of the respondents involved in service activity 35 (48.61 %) of them have an experience of less than two years, 33 (44.6 %) of them have in between three to five-year experience. Concerning respondents under trade sector category, 39 (52.7 %) of them have an experience of three up to five years in their business life, whereas 23 (53.5 %) of the respondents have an experience greater than 11 years. More of respondents have an experience of 146 (63.22 %) below five years; and 85 (34.8 %) above six years' experience.

Experience (year)	Service Fre.	Service %age	Mnfg Fre.	Mnfg %age	Trade Fre.	Trade %age	Other Fre.	Other %age	Total	%age
1-2 years	35	48.61	1	1.4	36	50	0	0	72	31.17
3-5 years	33	44.6	2	2.7	39	52.7	0	0	74	32.05
6-10 years	18	42.86	0	0.00	24	57.14	0	0	42	18.18
>11 years	20	46.51	0	0.00	23	53.5	0	0	43	16.62
Total	106	100	3	100	122	100	0	0	231	100%

Table 1. Respondents' Experience by Sector

Source: Own Survey (2014/15)
Taxpayers Perception towards the tax system
Several researchers like Walsh (2012) and Palil (2010) found taxpayers' perception has impact on taxpayers' compliance behaviour. The following sections present about the relationship between taxpayers' perception and their business sector, taxpaying experience, tax category, and geographical areas respectively.

Taxpayers' Perception by Category (Cross Tabulation): According to table 2 shown below, even both categories have similar perceptions, but comparatively Category "B" has positive perceptions 17 (95 %), then category "C" 197 (92.5 %). Similarly, the participant's response 16 (7.5 %), and 1 (5 %) perceives negatively. Moreover, the perceptions of the respondents in both categories (B and C) is 214 (92.6 %) and 17 (7.4 %) positively and negatively perceived respectively. Participants on a particular issue like on tax procedures, fairly levying taxes, tax policies, incentives for paying taxes, justifiable of income taxes, convenience location, waiting time to be served, easiness of tax forms and on other point replies; same aspects positive and negative in another aspect.

Table 2: Taxpayers' Perception by Category

Perception towards Tax system	Category C No.	%	Category B No.	%	Total No.	%
Above average	197	92.5	17	95	214	92.6
Below average	16	7.5	1	5	17	7.4
Total	213	100	18	100	231	100

Source: Own Survey (2014/15)
Taxpayers' Perception by Business Sector
As presented in Table 3, confirm that among 122 respondents of the trade sector business taxpayers, 71 (58.2 %) have scored less than the average score that means they have a bad perception towards the tax system. On the other hand, the remaining 51 (41.8 %) respondents have attained above the average score point which indicates they have good perception of taxation system. Furthermore, among the 106 respondents of the service sector, 59 (55.66 %) have a bad perception and the remaining 57 (44.34 %) have good perception concerning the tax system. In addition, when we look at the responses of manufacturing sector business taxpayers, 2 (66.67 %) participants have scored less than average that indicates they have bad perception, whereas the rest 1 (33.33 %) of the respondent's business profit taxpayers have good perception towards the tax system. In general, out of the total 231 respondents from all sectors predominance 132 (57.14 %) have a negative perception while the remaining 99 (42.85 %) respondents have positive perception towards the taxation system.

Table 3. Taxpayers' Perception by Sector

| Score point	Manufacturing Number	Manufacturing Percent	Trade Number	Trade Percent	Service Number	Service Percent	Total
Less than Average	2	66.67	71	58.2	59	55.66	132
Greater than Average	1	33.33	51	41.8	47	44.34	99
Total	3	100	122	100	106	100	231

Source: Own Survey (2014/15)
Taxpayers' Perception by geographical area
As chart 1 below shown, Aba'ala (100%), Logia-Semera (80%), Asayta (48.53%), Awash (43.66%), and Mille (35%) taxpayers have positive perception towards the tax system. In contrast to these Mille (65%), Awash (56.34%), Asayta (51.47%) taxpayers have a negative perception towards the tax system. In terms of taxpayers' town, those taxpayers who are located in aba'ala and Logia-semera have a relatively positive perception towards the tax system in the remaining geographical areas negative perceptions of the tax system of the country on the stated points. The perceptions of income taxpayers towards a tax system comprise of the tax procedures, fairly levying taxes, tax policies, incentives, tax officers, justifiable and fair tax deduction, convenient location and accessibility, prompt response of

tax officials, the friendliness behaviour of tax officials, short time taken to be served, ease in filling up the tax forms and administration of income tax system are some of the questions raised to achieve the objectives.

Chart1.Taxpayers'Perceptionbygeographicalarea
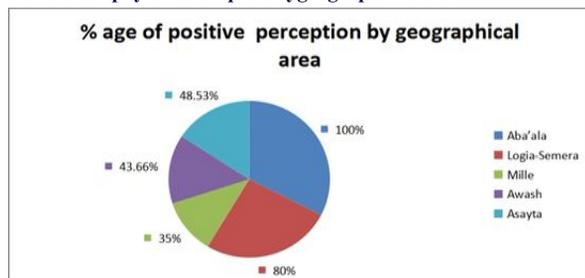
Source: Own Survey (2014/15)
Taxpayers' Perception by their taxpaying Experience
Based on the table 4, below shown data depicted, from the 72 respondents who have less than one-year taxpaying experience, majority 49 (68 %) has a negative perception but the rest 23 (32 %) has a positive perception. Taxpayers experiences engaged 3 up to five years of the 74 respondents 41 (55.4 %) and 33 (44.6%) positive and bad perception about the tax system, respectively, with the experience of two up to five years, in the same way majority 28 (66.67 %) of the respondents have good perception and the remaining 1 4(33.33 %) of the respondents have bad perception from experience in years six up to ten. When we look at the 43 tax payers having above 11 years of experience, again majority 29 (67.44 %) of the respondents have a score point greater than average, which indicates they have positive perception whereas the rest 14 (35.56 %) have a negative perception.

Table 4. Taxpayers' Perception by their taxpaying Experiences

Score points	Experience in years							
	Less than 2		3 up to 5		6 up to 10		Greater than11	
	Number	%age	Number	%age	Number	%age	Number	%age
< Average	49	68	41	55.4	28	66.67	14	35.56
> Average	23	32	33	44.6	14	33.33	29	67.44
Total	72	100	74	100	42	100	43	100

Source: Own Survey (2014/15)
Taxpayers' level of Tax Knowledge
Taxpayers' level of Tax Knowledge by Category
As table 5 below shown, in both tax payers' categories overall 228 (98.8 %) of the respondents are to score point greater than average this indicates they have good tax knowledge, on the other hand, 3 (1.2 %) of the respondents have a score point less than average that means they have less knowledge on tax system. Moreover, when we see particularly in each category, 211 (99.2 %) and 17 (94.4 %) of the participants replied as they have a good tax knowledge respectively in category "C" and "B". This result may be shown that the higher the level of category does not indicate the more the tax knowledge.

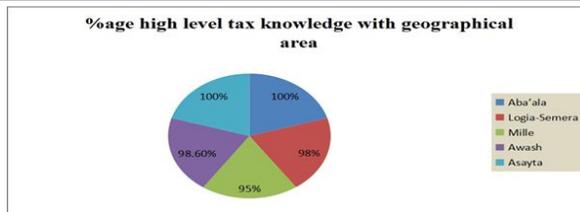**Table 5. Taxpayers' Knowledge by Category**

Tax knowledge	Business profit Tax Payer Category				Total	
	B		C			
	Number	Percent	Number	Percent	Number	Percent
Less than Average	1	5.6	2	0.9	3	1.2
Greater than Average	17	94.4	211	99.1	228	98.8
Total	18	100	213	100	231	100

Source: Own Survey (2014/15)
Taxpayers' level of Tax Knowledge by Geographical Areas
According to the chart 2 presented below shown clearly stated among the selected urban towns of the afar regional, state included in the survey of this study, almost all urban towns under the study indicates that their level of tax knowledge is shown the highest average score points 100 %, 100 %, 98.6 %, 98 %, and 95 % in Aba'ala, Asayta, logia-semera, Awash, and mille respectively.

Chart 2. Taxpayers' level of Knowledge of geographical areas

Source: Own Survey (2014/15)
Tax payer's knowledge by level of Education
According to the respondents replied, for questions related whether education will have a contribution for tax knowledge or not. As table 7 shown below, most of the respondent's scores above average, but when we see separately, participants who have an educational level above first degree 8 (100 %) with no below average scores. This indicates that the more the educated person can perceive positively even they know the loop hole how they evade tax; as a result, they want to be a role model to another taxpayer.

Table 7. Tax payers' knowledge of education

Score Point	Knowledge with Education							
	Below 10/12		Diploma		First degree		Above 1st degree	
	Number	%age	Number	%age	Number	%age	Number	%age
< Average	8	3.3	13	12	2	4.6	0	0
> Average	56	96.7	96	88	41	95	8	100
Total	64	100	109	100	43	100	8	100

Source: Own Survey (2014/15)
Tax payer's knowledge by sector
As table below, 8 shown about the tax payers knowledge by sector (manufacturing, trade and service) as participants of the study replied, the result indicates that in all sectors they have good tax knowledge which is above average like trade 125 (100 %), manufacturing 17 (100 %) followed by service 86 (96 %) sector taxpayers.

Table 8. Tax payers' knowledge by sector (Cross Tabulation)

Score point	Knowledge by sector							
	Service		Trade		Manufacturing		Total	
	Number	%age	Number	%age	Number	%age	Number	%age
< Average	3	3.4	0	0	0	0	3	1.2
> Average	86	96	125	100	17	100	228	98.8
Total	89	100	125	100	17	100	231	100

Source: Own Survey (2014/15)

CONCLUSIONS
Based on the findings discussed in the previous chapter the following conclusions are drawn with respect to research objectives. According to the participant's response concerning the taxpayers' perception towards tax system was presented in the first part. Even though both categories have a positive perception towards tax system, but comparatively category "B" has better positive perceptions. Furthermore, negative perceptions are more in category "C". In addition, respondents respond, among sector's trade, manufacturing and service sector business tax payers have negative perception towards the tax system. This result supports Walsh (2012) demonstration as certain economic sectors have a negative perception towards the tax system and as a result their probability of non-compliant behaviour is high. According to the findings, as the experience of taxpayers increase they will have a better understanding of the tax system and build up a positive perception towards the tax system, even a little fluctuation is there. Respondent's with 3 to 5 and above 10 years' experiences have a positive perception of the tax system. In addition, in terms of taxpayers' location, those taxpayers who are sited in Aba'ala and Logia-semera have a relatively positive perception towards tax system. Whereas Mille, awash and Asayta taxpayers have a negative perception towards the tax system. Tax knowledge with taxpayer's category has good tax knowledge in both categories even the extent is higher tax knowledge in "C" category. An overall study area they have good tax knowledge Aba'ala, Asayta, logia-semera, Awash, and mille, even some taxpayers have less level of tax knowledge.

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