

Tax Payers' Perception towards tax complexity and tax efficiency in Ethiopia; the Case of Non-Incorporated Category "A" Business Profit Tax Payers in Gondar Town

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Abstract

The objective of this study is to assess how the Gondar town taxpayers perceive the existing tax system in relation to tax complexity and tax efficiency. A survey using self-administered questionnaire has been used to collect the primary data. The survey included 285 respondents among business profit taxpayers in Gondar, Ethiopia but just 268 copies are received. In order to achieve the objective of the study, both descriptive and inferential statistics have been applied. The collected data are described using mean and standard deviation. And also, two hypotheses are developed and tested using one sample t-test. The study reveals that, taxpayers perceive that, the existing tax system is too complicated, complex and tedious in procedural complications. And the tax system is economically inefficient because, the current Ethiopian tax system isn't attractive for foreign investors to invest their money in Ethiopia. Finally the researcher concludes that, the Ethiopian tax system is complex and economically inefficient from tax payers' point of view. Based on conclusions drawn the researcher recommends that, the tax authority in particular and government in general shall try to empower the tax payers with knowledge and changing their perception through sustainable awareness creation programs.

Keywords: Perception • Tax complexity and tax efficiency

Background of the Study

The most obvious purpose of most taxes is to raise revenue to finance public expenditures, but this is not the only rationale for taxation which may also be employed to regulate social and economic behavior and to shape the distribution of economic resources. Taxation is one of the most important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago. The ultimate objective of any government's tax system is to achieve its legitimate projected revenue to finance the country's expenditure. This can only be realized if all taxpayers perceive the tax system properly [1].

Tax complexity may be responsible for the misperception of the tax system. In this study, tax complexity is understood from two dimensions that is, excessive detail in the tax rules and numerous computations required. According to Martin et.al, (2010), at least a reasonable level of simplicity should be there because; taxpayers come from various backgrounds, with differing levels of education, income and tax knowledge. In helping taxpayers to complete the tax returns accurately, the tax authority is responsible to come up with a simple, but sufficient, tax return. With this regard Adams [2] states that, the success of income tax rests primarily upon the honesty of the taxpayers and one of the factors that contribute to dishonesty in taxpayers is the complexity of the tax system as it may lead to administrative failures. As the tax law has become increasingly complex, complexity has come to recognize as a possible reason for tax payers' misperception thereby for tax noncompliance [3].

Although the most obvious purpose of most taxes is to raise revenue to finance public expenditures, this is not the only rationale for taxation which may also be employed to regulate social and economic behavior and to shape the distribution of economic resources. According to Jones [4] there are two

perspectives about tax efficiency. The classical perspective considers a tax system as efficient when it does not affect the different economic patterns of taxpayers' behavior. Based on this perspective, tax is not purposive, so it is imposed and collected just to generate revenue for governments. On the other hand, the British economist, John Maynard Keynes, considered a tax system as efficient when it has the ability to influence the different patterns of taxpayers' economic behavior.

In general, understanding of taxpayers' perception towards the tax system that can influence compliance will bring more revenue and less administrative cost to the tax authority. Therefore, a study on taxpayers' perceptions towards the tax system is important. Hence; this study mainly intends to assess taxpayers' perception towards the existing tax system in Ethiopia in terms of tax complexity and tax efficiency with a particular emphasis of non-incorporated category "A" business profit taxpayers on Gondar town.

Statement of the Problem

It is clear that, Ethiopia is a country that comprises a diverse collection of cultures, languages, beliefs and religious backgrounds. It is conceivable that these different population groups may have different perceptions of taxation which results from their educational, cultural backgrounds and even their political and social histories. According to Fochmann [5] these perceptions may, in turn, influence their attitudes towards the tax system. If taxpayers' perceptions influence their attitudes towards tax system, it is therefore important to assess the tax payers' perception. So that, Taxpayers' perception of the broader aspects of the tax system, such as government spending of the tax revenue, methods for distribution of tax burden and the benefits received is the first concern of this study.

As we all known, there is a substantial tax gap between the tax that is theoretically collectable from economically active persons and the tax that is actually collected. One of the main reasons for the tax gap is misperception by taxpayers and potential taxpayers, towards the tax system. It is therefore utmost importance to determine taxpayers' perceptions towards taxation, not only to influence government policy regarding taxation and protecting the country's tax base but also to enable government to provide its services more effectively to the general public.

The other issue is that, the tax authority as a responsible organ to activate

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tax system may not effectively utilize a reasonable amount of tax revenue to achieve social goals and it spends much of the tax revenue for unnecessary welfare assistance. So that, the tax payers felt that tax is used by government for meaningless purposes and that the government does not provide enough information about how they utilize taxpayers' money.

In addition, many taxpayers perceived that the tax system is too complex, difficult to understand and the terminologies used are unfamiliar to taxpayers [6]. The absence of clear-cut objectives, programs, procedures, rules and regulations which have, direct impact with the taxpayers awareness have brought about complex tax system.

The other main issue is that, one of the responsibilities of a government is to modify unreasonable patterns of behavior. That means, when tax payers feel that, there is a tax imposed on unreasonable patterns of behavior, most taxpayers will avoid these patterns, or they will try to reduce them. On the other hand the tax system should encourage investors through different means and it must be attractive for outsiders also. This is what we call it tax efficiency. However, it is worthless to be actually efficient unless the tax system is efficient in the minds of taxpayers, or to be perceived by taxpayers as efficient that means, the taxpayers perceive that the existing tax system is used in influencing their behavior. Whether taxpayers perceive, or do not perceive that the tax system is actually used to influence their economic behavior, is therefore the concern of this study.

Since taxpayers' perception towards the tax system has a serious influence on their compliance with the tax law, a study on taxpayers' perceptions is important. Thus, the researcher attempts to assess the tax payers' perception towards the existing tax system in terms of tax complexity and tax efficiency in Ethiopia with a particular emphasis of category "A" tax payers in Gondar town by seeking answers for the following research questions;

1. How do the tax payers perceive tax complexity?
2. How do the tax payers perceive tax efficiency?
3. What are the factors affecting tax payers perception?

Objectives of the Study

General objective

The general objective of this study is to assess the tax payers' perception towards tax efficiency and tax complexity with a particular emphasis of category "A" tax payers in Gondar, Ethiopia.

Specific Objectives

Specific objectives of this study include the following;

1. To analyze the tax payers' perception towards tax complexity
2. To examine the tax payers perception towards tax efficiency
3. To identify factors affecting tax payers perception

Scope of the Study

In this study the researcher attempts to assess the taxpayers' perception towards tax efficiency and tax complexity in Ethiopia. To make the study manageable and to evaluate the problem in detail, the researcher is only confined to the examination of "business profit tax payers" perception towards the existing tax system with a particular emphasis of category "A" tax payers found in Gondar, Ethiopia. This study is including only those non-incorporated taxpayer that is, sole proprietorship and partnership (personal business profit taxpayers).

Operational Definitions

1. Perception refers a way of regarding, understanding or interpreting the tax system.
2. Personal business profit tax payers refer non-incorporated business profit tax payers that is, sole proprietorship and partnership.

3. Tax efficiency "a tax system is considered as efficient when individuals and institutions react to this system by deliberately changing their economic behavior." Keynesians perspective.

4. Tax complexity refers excessive detail in the tax rules and numerous computations required.

Significance of the Study

This study is believed to be an input in improving the perception of taxpayers towards the existing tax system. Since the aim of this study is to assess the taxpayer's perception, it gives some insights into how the tax authority creates awareness among the society to improve the taxpayer's perception. This study is expected to assist the tax administration to identify aspects or areas where taxpayers experience challenges. The findings of this study could also help the tax authority to improve public confidence on the existing tax system. Finally, this study believed to be relevant for further and future researchers.

Review of Related Literature

Theoretical literatures

Taxation

Taxation is one of the most important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago. Tax is defined as a compulsory levy or contribution made by the public to the government for which nothing directly is received in return or without a quid pro quo [7]. As stated by Strauss [8] the first goal of a tax system in any democracy government is to finance budgetary programs through spending for public goods such as national defense, infrastructure such as roads, and education, and providing an income maintenance system which meet societal objectives. Taxpayers' attitude towards taxation is crucial in any tax system's success to achieve compliance. Perceptions of taxpayers' compliance are influenced by the many variables such as education, age, gender, norms, self interest, complexity, fairness, audit rate, tax rate, peer reporting and tax administration. These variables can provide critical judgments to develop methods to increase compliance.

Understanding taxpayer perception is crucial for policy makers to develop strategies to overcome problems of noncompliance among individual taxpayers' and prevent evasion [3]. A tax system is meant to provide the revenue necessary for pursuing collective goals like social security, economic prosperity and redistribution of wealth, internal and national safety, and cultural life [9]. In general, a tax is defined as a payment to support the cost of government. Tax differs from fine or penalty imposed by a government in that, tax is not intended to deter or punish unacceptable behavior. To be a good tax, the tax should be sufficient, convenient, efficient, and fair. The tax is considered as sufficient if it generates enough money to the government, so that government will be more able to pay for the public goods and services that it provides to people. A tax is considered as convenient when the government has a method for collecting the tax, which most taxpayers understand, and with which they routinely cooperate [4].

The term efficiency is used by tax policymakers in two different ways. Sometimes the term describes a tax that does not interfere with or influence the economical behavior of the taxpayer as efficient, and in other times, policymakers describe a tax as efficient when individuals or organizations react to the tax by deliberately changing their economic behavior

Tax efficiency

Tax systems efficiency is important, especially because the term of efficiency is used in two different perspectives under the context of taxation. The first one describes a tax system as efficient when it does not interfere with or influence taxpayers' economic behavior. The second perspective considers a tax system as efficient when individuals or institutions react to this system by deliberately changing their economic behavior. The former perspective is attributed

to the classical economists Adam Smith, while the later one is attributed to the new conservative economists, John Maynard Keynes. Two perspectives are available nowadays concerning tax efficiency. The classical perspective considers a tax system as efficient when it does not affect the different patterns of taxpayers' behavior. Based on this perspective, tax is not purposive, so it is imposed and collected just to generate revenue for governments. According to this perspective, a tax that is designed to modify taxpayers' behavior is considered inefficient because it distorts the market. The classical economist, Adam Smith, believed that a tax system should have as little as possible influence on taxpayers [4].

On the other hand, the British economist, John Maynard Keynes, considered a tax system as efficient when it has the ability to influence the different patterns of taxpayers' behavior. As a result, each type of tax is considered purposive according to Keynes perspective. It is worth noting that many unreasonable patterns of behavior can be modified and improved. It is worth noting that there is a difference between tax efficiency in fact and in appearance. Most income systems are, in fact, efficient, but the way that this efficiency perceived by taxpayers is sometimes more important issue. Efficiency in appearance means that a tax system consists of efficient rules, items, and regulations, when these are applied. It is inadequate to be actually efficient, but it is more important to be efficient in the minds of taxpayers, or to be perceived by taxpayers as efficient. The way taxpayers perceive a tax system is an important issue, because it determines the level of taxpayers' compliance, and their level of cooperation. Moreover, a tax system determines peoples' loyalty to their government.

Taxpayer as a rational actor

A taxpayer is any person or organization required by law to pay tax to a governmental. Achieving tax compliance from the public is a challenge to almost every tax authority. Early research concentrated on model that made taxpayer behave like actors who will decide their action based benefit they can get from their actions [10]. Several research findings show that taxpayer will not comply if the systems persist to be unfair, unjust and illegitimate e.g reports understanding taxpayers' attitudes will give IRS (US) a better position to design strategies to achieve greater compliance.

Braithwaite highlighted a position of resistance of protest as a motivation postures that one has against the tax system. These resistances encourage evasion and avoidance. But on the other hand taxpayers are of the view that they are bound by the rules of the tax authority which tries to collect as much as tax as it could while the taxpayer try to get away with paying little tax as they could. The law can be perceived as wrong and the type of behavior that follows cannot be blamed because the interpretation of the law and obeying the law for one may not be the same for another if the other perceive the system to be unfair so he will evade tax or become a non complaint taxpayer, he will underreport, over-claim deduction, not file in his returns and delay payments [9].

Tax complexity

The complexity of a decision problem can be characterized by the variety of influencing factors and by the extent of their dependences. Tax complexity may be responsible for the misperception. Congdon [11] claim that, "individuals will respond not to the tax rate as it is set but as they construe it." Conceivably, the more complex a tax system is the larger may be this difference between the legal tax and the construed tax. As a result, this bias can affect real decision problems. However, additional information reduces complexity and recipients adjust their behavior [5].

What is Tax Complexity?

There is almost certainly likely to be universal agreement among tax academics and practitioners that tax complexity is itself a complex concept. It is widely regarded as a multi-faceted concept that cannot be simultaneously and adequately characterized by a single definition or measure. An implication of the multi-dimensionality of tax complexity is that it is basically a comparative concept. Thus, it is more meaningful to say "tax A is more complex than tax B" rather than "tax A is complex".

Although the concept of tax complexity is widely used and much discussed,

with the complaint always being made that the tax system is "too complex" no one ever complains that the system is "not complex enough" the concept turns out to be a bit more elusive when one tries to pin it down. Certainly it is a concept that doesn't figure in standard economic analysis of tax systems, and has not been given any very precise definition. I think that much of the popular discussion of tax complexity uses the term "complexity" as a catch-all term that might encompass a number of different features such as lack of transparency rather than complexity.

According to Ulph, in thinking about what one might mean by tax complexity the first issue to address is what we mean by "the tax system."By a tax system we have in mind the set of tax laws/rules that define the various rates and duties that apply to the various transactions that individuals and companies might undertake and to the set of administrative procedures that individuals and companies have to go through in order to comply with the rules relating to providing information, completing tax returns, paying tax, and undergoing investigations where tax returns are challenged.

Potential causes of tax complexity

Tax complexity is arisen wherever taxpayer reported any difficulty in completing his or her own tax return for the year. According to Mc Kerchar [12] the following are the six potential causes of tax complexity;

- Ambiguity (or uncertainties in the law lead to more than one defensible position);
- Computations (many or difficult computations to be made);
- Change (there have been frequent or recent changes to the law);
- Detail (there are numerous rules and exceptions to the rules);
- Record keeping (detailed special records must be kept)

Major aspects of complexity of the tax system

Slemrod [13] identified four aspects of complexity of the tax system: predictability, enforceability, difficulty and manipulability. Predictability and enforceability pertain to the tax law while difficulty and manipulability refer to taxpayers' responses to the tax law. McCaffery stressed the normative feature of simplification and identified three types of tax complexity: technical, structural and compliance complexity. It can be inferred that these layers of complexity correspond to what Slemrod termed predictability, manipulability and difficulty, respectively.

Similarly, Cooper pointed out that tax complexity contains within it intimations of predictability, proportionality, consistency, compliance, administration, coordination and expression. Cooper's administration and compliance are then analogous to what Slemrod considered as enforceability and difficulty, respectively.

Harris has approached tax simplicity from a slightly different perspective. He identified three aspects of tax simplicity, namely policy, form and action simplicity. However, it seems that policy simplicity is a monotonic function of form simplicity and action simplicity. If policy simplicity is in fact dependent monotonically on form simplicity and action simplicity, then it should be dropped as a primary attribute of tax simplicity.

It is useful to distinguish between legal complexity and effective complexity where legal complexity includes both statutory and procedural (administrative) complexities. Statutory complexity refers to the difficulty by which a tax law can be read, understood, applied and resolved (in cases of disputes at court) in various practical situations. Procedural complexity refers to the difficulty by which tax administrative requirements can be met by taxpayers and tax administrators. It is interesting to note that statutory and procedural complexities do not make explicit reference to those who use or are affected by tax laws/administrative practices. Effective (or economic) complexity refers to the time and effort (that is, value of resources) expended by the society in raising a given amount of tax revenue. In shifting from comprehensibility to applicability, effective complexity emphasizes the interaction of the tax law and the economy (as characterized by the population of taxpayers in particular).

Review of empirical studies

Perception towards tax complexity

A number of experimental analyses show that, the correct perception of tax effects in individuals' decision making is influenced by the complexity of the tax system. Saez find in a field experiment that extra information about the Earned Income Tax Credit (EITC) affects labor supply and earnings decisions of the recipients. It seems that the EITC system is too complicated to be perceived correctly. However, additional information reduces complexity and recipients adjust their behavior.

Using in-depth interview with 30 business profit tax payers and survey instrument, with regard to the complexity of the business profit tax system, Wubshet investigate that the majority of the interview participants (business profit taxpayers) claimed that the system is generally too complex for taxpayers to understand. Since business profit taxpayers deals with various tax matters including income tax, turnover tax (goods and service tax) and so on, which expected to result in high compliance costs. Whereas participant put the blame on the multitude forms and tax itself is inherently causing the complexity in the business profit tax system.

In an experiment by Bartolome complexity is generated by a variation in the presentation of the tax scale. The first form of presentation is a tax table in which the absolute tax burden is specified for a given taxable income but no explicit tax rate is given. In the second form the tax scale is described verbally and the marginal tax rates are stressed out explicitly. Thus, both descriptions represent the same progressive tax scale but the marginal tax rate cannot be identified immediately with the first form. The results of this experiment reveal that subjects consider taxation in their investment decisions independent of the tax scale presentation. However, the majority of participants use the average and not the marginal tax rate for their decisions in the treatment with the tax table. The author concludes that the correct use of marginal tax rates can be obtained by a transparent specification of marginal tax rates whereas tax tables tend to mislead taxpayers.

With an experiment, Rupert et al. analyze to what extent a more complex tax system influences the perception of marginal tax rates and the decision making process of an individual. Complexity is measured by the limitation of possible tax deductions in a tax system. Therefore, the more limitations exist the more complex is the tax system. The limitations are chosen in such a way that the effective marginal tax rate is the same for all treatments independent of the complexity of the respective tax regime. The authors show that subjects in the more complex tax systems are not able to estimate their effective marginal tax rates accurately. The results suggest that subjects do not adjust their estimates to account for the effects of limitations and, therefore, undervalue their true marginal tax rate. An increase of complexity leads to more misperceptions. As a result of this misperception, participants in the more complex treatments choose the optimal investment less frequently. Thus, low complexity leads to a better performance and to more efficiency.

Orlieb examine complexity's influence on individual decisions with a conjoint analysis. In this study, higher tax complexity is achieved with an increase of tax compliance costs measured by the time participants needed to understand the respective tax regime. Therefore, the length of the tax instructions and the number of technical terms, calculating operations and cross references are varied. The authors show that subjects base their decisions less often on their after-tax return if tax complexity is high. However, even in a low complexity tax system subjects often do not calculate their after-tax return but base their decisions on the advice offered by a third party in the interview.

Perception towards Tax efficiency

A study titles as "How Taxpayers Perceive the Efficiency of Jordanian Tax Systems?" was carried out by Ibrahim et.al, (2009) to investigate taxpayers' perception to the Jordanian tax system efficiency according to the perspective of Keynes using survey instrument with a convenience sample consisting of 175 respondents. In this study Ibrahim finds that, taxpayers perceive the Jordanian tax system as economically efficient. Taxpayers perceive that the current applied tax system in Jordan influence some of their economical

patterns of behavior. In this regard, Ibrahim argues that, this conclusion means many important things for decision makers in the concerned governmental units of Jordan, and for other decision makers in other governmental or semi-governmental institutions. Because taxpayers in Jordan recognize that their economical patterns of behavior are affected by the current tax system, decision makers can use the tax system to eliminate or reduce some of the unreasonable economical patterns of taxpayers' behavior, through increasing the tax rates or tax basis on goods and services related to these unreasonable patterns.

The other finding by Ibrahim is that, taxpayers perceive that the Jordanian tax system influences many socio-cultural patterns of their behavior. This conclusion is important because it means that the government can use its current tax system to modify many socio-cultural patterns of taxpayers' behavior. In occasion, in Jordan and in many other countries, there are many unreasonable socio-cultural patterns of behavior. To exercise these unreasonable patterns, people often need to purchase many goods and services related to these patterns. Therefore, the government can impose higher tax rates on the purchase of goods that are used to practice these unreasonable socio-cultural patterns of behavior.

Kaplow [14] analyzed the effect of factors on the equity and efficiency of income tax system. In this study, he mentioned that much criticism of income tax system involves administrations, and the complexity of the system is responsible for large compliance costs, public and private, and the tax gap is large despite substantial resources devoted to enforcement. He also mentioned that the desire for simplification and an improved compliance motivates various incremental reforms as well as proposals for fundamental restructuring of the tax system. The author declared that the evaluation of such changes is difficult because the underlying problems had not been analyzed in terms of the equity and efficiency concerns that animate more familiar assessments of income tax policy. This study provides a framework for a unified analysis, in which the same factors that are used to justify the choice of the tax base and the rate structure were employed to resolve problems involving complexity, compliance costs, and enforcement difficulties.

A related study to the subject of income tax efficiency was carried out by Werning. The study investigates the set of Pareto Efficient Tax Schedules in Mirrlees' [15] model. The analysis of this study provides versions of the optimality condition that may be useful in testing this condition, or provides a framework for quantitative work, along the lines of Saez. The efficiency condition generalized the well-known zero-tax-at-the-top result: taxes should be low in regions where the density of income falls rapidly. The study finds that both the set of efficient and inefficient tax schedules are large. The author uses the framework to explore the optimality of a flat tax to bind the top tax rate of a nonlinear schedule, and to evaluate the efficiency of a tax system that does not condition on observable traits.

The tax system in Algeria was analyzed by Murad [16]. In this study, the author analyzed different aspects of Algerian tax system. The author mentions that tax efficiency is one of the most important issues to decision makers of tax policy in Algeria, because these decision makers believe that tax system efficiency leads to many economic improvements. The study finds that leaving the indirect taxes dominate the tax structure do not enhance the efficiency of this system because those taxes are unfair.

Conceptual framework of the study

The study is conceptualized in such a way that its objectives can potentially be achieved and its research question can be addressed and its hypothesis can be tested as well (Figure 1). For the study purpose, the conceptual frame work of the study is summarized as follow:

Research Hypothesis

This research examines the following research hypotheses in their null form;

Ho₁: The Gondar town business profit taxpayers don't perceived that, the Ethiopian tax system is complex system.

Ho₂: The Gondar town business profit taxpayers do not perceive that, the

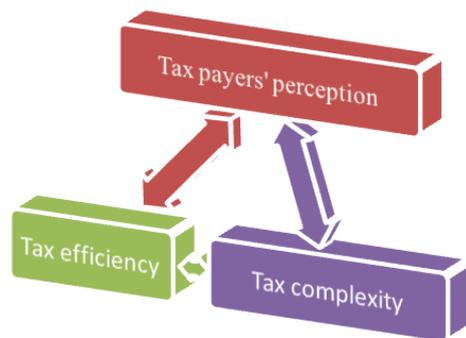


Figure 1. Conceptual framework.

Source: The researcher's own design

Ethiopian tax system has influence on their economical pattern of behavior.

Research Methods

Research design

Research design is a conceptual structure within which research would be conducted. The preparation of such a design facilitates research to be as efficient as possible yielding maximal information. In order to achieve the objective of this study, quantitative research approach is used. Data are collected through questionnaires that are self administered. Quantitative data collection methods are centered on the quantification of relationships between variables. Quantitative approach is useful as it helps the researcher to prevent bias in gathering and presenting research data [17].

Research instrument

A survey using self-administered questionnaire (quantitative approach) is conducted to assess taxpayers' perception towards the existing tax system. Respondents are asked to indicate their opinions for each listed item in the questionnaire by choosing one among the following five available options to them: (5) strongly agree, (4) agree, (3) neutral, (2) disagree, and (1) strongly disagree. The reliability of these questionnaires is tested using Cronbach's Alpha reliability test and the validity of these research instruments is also checked and consulted by a group of professionals in tax issues and academicians.

After preparing the questionnaire, it was self administered to 285 taxpayers in Gondar town. The number of usable questionnaires that are received from those targeted respondents are 268. In other words, 17 copies of the administered questionnaires had not been received. The response rate is computed as 94% which is considered high when compared with other prior researches (Table 1).

Five-point Likert scale (scaled from strongly agree to strongly disagree) of 4-items tax complexity scale with discrete response categories are used in the survey questionnaire regarding the issue perception towards tax complexity. The reliability of the 4-item scale is assessed using Cronbach's Alpha and the result is 0.74. Five-point Likert scale of 6-items tax efficiency scale with discrete response categories are also used in the survey questionnaire regarding the issue perception towards tax efficiency. The reliability of these 6-item is assessed using Cronbach's Alpha and the result is 0.69. Since the Cronbach's Alpha coefficients are above 0.6, the scales used to measure the study variables are consistent and therefore the instrument is reliable.

Sampling method

Survey population

The target population for the survey study is personal business profit tax payers who are subject for business profit tax. Sole proprietorship and partnership (non-incorporated business tax payers) in Gondar town are used as participants in the survey study. Therefore, the target for the sample includes population

Table 1. Reliability test results of the study variables.

Variables	Cronbach's Alpha
Perception of tax complexity	0.742
Perception of tax efficiency	0.690

Source: The Researcher Own Computation

Table 2. Numerical points to each option.

Optional answer	Numerical weight
Strongly Agree	5
Agree	4
Neutral	3
Disagree	2
Strongly Disagree	1

consists of all personal business profit taxpayers in Gondar town. There are 993 category "A" business profit taxpayers in Gondar town, as the information obtained from Ethiopia revenue and custom authority (ERCA) Gondar branch.

Sample size

In deciding the desired sample size it is customary to consider the availability of time, resources and the aim of the research. In this regard, taking the available resources, time, budget and geographic distances into account, a sample size of 285 is found to be feasible from the 993 category 'A' business profit taxpayers found in Gondar. In order to determine the sample size Yamane's sampling size determination formula is used. This formula is used at 95% confidence level and at 0.05 level of significance.

$$n = \frac{N}{1+N(e)^2}$$

Where; n is the sample size and e is the level of precision

$$n = \frac{993}{1+993(0.05)^2} = 285$$

Methods of Data analysis and presentation

After administering and scoring research tools scripts, data are collected and organized. The collected data are known as 'raw data.' But, the raw data are meaningless unless certain statistical treatment is given to them. Analysis of data means to make the raw data meaningful or to draw some results from the data after the proper treatment.

As used by other authors for instance Ibrahim and Khasawneh in this study the collected data are analyzed using descriptive and inferential statistics analysis techniques. In this analysis, basic features of the survey data presented where the mean, standard deviation and minimum and maximum value for each item are calculated. In addition, the frequency distribution is also determined (Table 2). The standard used by the researcher in this study is that, if the mean score is greater than or equal to 3, it is considered as Agree and if the mean score is below 3 it is considered as Disagree. The following numerical points were given to each available option:

Based on the above numerical points, the mean of these five numerical points is 3, so it is assumed that when the mean of all answers of an item is equal or greater than 3, most respondents agree with the content of this item, otherwise, they disagree.

On the other hand, one sample t-test is used to test the hypothesis of the study. The t-test is used as a decision criterion for the acceptance or rejection of the hypotheses. Each hypothesis is tested using t-value at 0.95 confidence level, which equivalent to 0.05 (1- 0.95) level of significance. The decision criterion is to accept the null hypothesis when the computed t-value is lower than the tabulated one, and to reject it when the computed t-value is higher than the tabulated one. A null hypothesis can alternatively be accepted when

the computed level of significance is higher than the predetermined one, while it is rejected when the computed level of significance is lower than the predetermined one. All these measures are obtained from the descriptive statistics available in the SPSS software which is the latest version.

Results and Discussions

This section is divided into two parts which present the findings of the study. The first part presents the respondents profile /background information. The second part presents the findings which are related with tax payers' perception towards tax fairness, tax complexity and tax efficiency. The purpose of this section is to address the specific research question and hypotheses through considering broader objective of the study at large, using data presented. Accordingly, the analysis presents; how the research question and all the hypotheses were addressed. In order to achieve the objective of this study, two hypotheses are developed and tested using one sample t-test. This is followed by a discussion of the results of the research (Table 3).

Respondents profile /background information

The above Table 4 shows the frequencies and percentage related to the respondents' profile. From the total of 268 respondents, individuals participated in the survey are at their taxable working age between 18 and 60 years old. With regard to the sectors distribution of respondents, the highest percentages of respondents are merchandisers and the highest percentages of the respondents are sole proprietors. In the case of educational qualification of respondents, the survey showed that about 11(4.9%) percent have master degree while 50(39.1%) have a Bachelor Degree. Nearly 89(32.2%) of respondents have diploma. In respect of knowing the position of the respondent in the sector, the highest percentages of the respondents are employees. With regard to the experience of the respondents in the position, the result revealed that the highest percentage of respondents 82(30.6%) have less than one year experience.

Tax payers' perception towards tax complexity

Table (4) reveals the four items that are used to measure the tax payers'

Table 3. Respondents' profile.

No.	Respondents' profile	Categories	Frequency	Percentages
1.	Tax payers survey respondents by Sex	Male	139	51.9%
		Female	129	48.1%
		Total	268	100%
2.	Tax payers survey respondents by age	Between 18 and 25	42	15.7%
		Between 25 and 35	79	29.5%
		Between 35 and 50	105	39.17%
		Between 50 and 60	42	15.7%
		Total	268	100%
3.	Sectors distribution survey of respondents	Manufacturing	3	1.12%
		General merchandize and trade	137	51.1%
		Service sector	128	47.8%
		Total	268	100%
4.	Forms of business ownership	Sole proprietorship	146	54.5%
		Partnership	86	32.1%
		Private limited companies	36	13.4%
		Total	268	100%
5.	Business duration	Less than 1 year	25	9.32%
		1 to 5 years	106	39.6%
		5 to 10 years	96	35.8%
		More than 10 years	41	15.3%
		Total	268	100%
6.	Respondents' educational background	Below 12 grade	11	4.1%
		12 grade completed	50	18.7%
		Diploma	89	33.2%
		Bachelor degree	105	39.2%
		Masters or above	13	4.9%
		Total	268	100%
7.	Respondents' position	Owners	89	33.2%
		Managers	54	20.1%
		Employees	122	45.5%
		Other	3	1.1%
		Total	268	100%
9.	Respondents' experience on the position	Less than 1 year	82	30.6%
		1 to 5 years	75	28%
		5 to 10years	22	8.2%
		More than 10 years	8	3.0%
		Missing	81	30.1%
		Total	268	100%

Source: Business profit taxpayers' survey and own computations

Table 4. Descriptive statistics of tax complexity.

No.	Measures	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
		No	%	No	%	No	%	No	%	No	%		
	Tax complexity												
10.	The rules related to business profit tax are clear and understandable.	153	57.30%	94	35.21%	2	0.75%	12	0.45%	7	0.27%	1.6	0.9
11.	I find tedious in procedural complications and to maintain all my relevant records for the whole year for tax purposes.	2	0.7%	10	3.7%	2	0.7%	161	60.1%	93	34.7%	4.21	0.71
12.	The Ethiopian business profit tax system is too complicated.	0	0.0%	9	3.4%	7	2.6%	108	40.3%	143	53.6%	4.44	0.70
13.	The Ethiopian business profit tax rules are bulky and hard for tax payers like us to navigate.	1	0.4%	14	5.2%	4	1.5%	138	51.5%	111	41.4%	4.28	0.77
	Total		14.6%		11.87%		1.39%		38.08%		32.49%	2.63	1.28

Source: Business profit taxpayers' survey and own computations

perception towards tax complexity. As a result, as it is shown in table (12), out of 268 respondents' 153(57.30%) respondents are Strongly Disagree and 94(35.21%) Disagree that is, the rules related to business profit tax aren't clear and understandable and 2(0.75%) of respondents are Neutral. The rest 161(93%) respondents Agree while, 93(34.7%) respondents Strongly Agree that, the rules related to business profit tax are clear and understandable. The mean score of this result is 1.6 which is below the standard. Therefore, the majority of the taxpayers perceive that, the rules related to business profit tax aren't clear and understandable.

With regard to procedural complication, the outcomes of the business profit taxpayers' survey revealed that, about 2(0.7%) respondents Strongly Disagree and 10(3.7%) Disagree and 2(0.7%) tax payers are Neutral. The rest 161 (60.1%) respondents Agree while, 93(34.7%) respondents Strongly Agree that statement. The mean score of this result is 4.21 which is above the standard. Thus, the majority of tax payers' believe that, the tax system is tedious in procedural complications and to maintain all their relevant records for the whole year for tax purposes.

The respondents are also asked whether the tax system is complicated or not. In respect of knowing their perception the outcome of the tax payers' survey indicated that, out of the total respondents no respondent were Strongly Disagree and 9(3.4%) Disagree with that statement. The Ethiopian business profit tax system is too complicated and 7(2.6%) of respondents are Neutral. The rest 108(40.3%) respondents Agree while, 143(53.6%) respondents Strongly Agree that, The Ethiopian business profit tax system is too complicated. The mean score of this result is 4.44 which are above the standard. Consequently, the highest percentage of the respondents perceives that, the Ethiopian tax system is too complicated.

In respect of knowing the tax payers' perception towards the business profit tax rules, the outcome of the respondents survey show that, out of the total respondents 1(0.4%) Strongly Disagree and 14(5.2%) Disagree with that statement and 4(1.5%) of respondents are Neutral. The rest 138(51.5%) respondents Agree while, 111(41.4%) respondents Strongly Agree that, the Ethiopian business profit tax rules are bulky and hard for tax payers like them to navigate. The mean score of this result is 4.28 which are above the standard. As a result, the highest percentage of the tax payers perceives that, the Ethiopian tax rules are bulky and hard for tax payers like them to navigate. Generally, the average mean score of tax payers' perception towards tax complexity is 2.65 which are below the standard. This implies that, the majority of tax payers' perceive the tax system as a complex system.

Inferential statistics of tax complexity

Hypothesis 1: The first hypothesis stated that "The Gondar town business profit taxpayers don't perceived that, the Ethiopian tax system is complex system." There are four items in the questionnaire which was used to test how the taxpayers perceive the complexity of Ethiopian tax system. This hypothesis can be mathematically expressed as follows: $H_0: \mu < 3$ vs. $H_1: \mu \geq 3$ where;

Table 5. Inferential statistics related to hypothesis-1.

t-value	Sig.(one tailed)	Test value=3		
		95% level of significance		
		Mean difference	Min.	Max.
116.975	.000	11.54104	11.3468	11.7353

Source: Business profit taxpayers' survey and own computations

μ is the quantitative moderate value of tax payers' response.

As it can be seen on (Table 5), computed t-value of tax payers' perception towards tax complexity is 116.975 that are greater than the tabulated value which equals 1.96. The levels of significance are zero, which are lower than the predetermined one. Hence, the null hypothesis $H_0: \mu < 3$ is rejected, while the alternative $H_1: \mu \geq 3$ is accepted. This implies that, Gondar town tax payers perceive the Ethiopian tax system as complex system.

Tax complexity in this study refers excessive detail in the tax rules and numerous computations required. According to Ulph taxpayers may not fully perceive/understand the logic behind the various steps through which they have to go through to complete tax report. Regarding to tax payers' perception towards complexity, the study conducted by Wubshet indicates that tax payers perceive the tax system as complex and too complicated.

In respect of knowing the Gondar town business profit taxpayers' perception towards tax complexity the survey result revealed that, the tax system is complex from taxpayers' point of view that is, the rules related to business profit tax aren't clear understandable and the tax system is tedious in procedural complications and it is too complicated. The tax rules are also bulky and hard for tax payers to navigate.

Therefore, based on the descriptive and inferential statistics related to tax complexity, it can be summarized that, the Gondar town tax payers perceive the existing tax system as complex.

Tax payers' perception towards tax efficiency

Descriptive statistics of perception towards tax efficiency

Table 6 shows the tax payers perception towards tax efficiency. In which six items which used to measure tax efficiency are included. The respondents are asked whether they believe that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia Accordingly, out of 268 respondents about 106(39.71%) Strongly Disagree and 107(40.07%) Disagree with that statement and 4(1.14%) of respondents are Neutral. The rest 18(6.74%) respondents Agree while, 23(8.61%) respondents Strongly Agree that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia. The mean score of this result is 2.07 which are below the standard. As a result, the highest percentage of the respondents perceives that, the current Ethiopian tax system isn't attractive for

Table 6. Descriptive statistics of tax efficiency.

Measures	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	No	%	No	%	No	%	No	%	No	%		
Tax efficiency												
14. I believe that, the Ethiopian tax system encourages tax payers for more investments.	110	41.20%	107	40.08%	2	0.74%	18	6.74%	30	11.24%	2.06	1.3
15. I see that, the current Ethiopian tax system is attractive for foreign investors to invest more amounts of money in Ethiopia.	106	39.71%	107	40.08%	4	1.14%	18	6.74%	23	8.61%	2.07	1.25
16. I think that, the government of Ethiopia increases the tax rates under the conditions of inflation.	24	9.0%	75	28.09%	78	29.22%	48	17.98%	30	11.24%	2.94	1.15
17. I see that, the current Ethiopian tax system encourages tax payers for more production through different tax exempts.	102	38.20%	108	40.45%	10	3.76%	23	8.62%	23	8.62%	2.08	1.24
18. I believe that, few people in Ethiopia own luxury automobiles because they have to pay higher tax rates for the ownership of these automobiles.	27	10.1%	74	27.6%	14	5.2%	92	34.3%	61	22.8%	3.31	1.36
19. I find that, tax rates under the Ethiopian tax system are decreased when is a reduction in price levels.	27	10.1%	56	20.9%	37	13.8%	102	38.0%	46	17.2%	3.24	1.30
Total		24.7%		32.86%		9.01%		18.73%		13.28%	2.61	0.26

Source: Business profit taxpayers' survey and own computations

foreign investors to invest more amounts of money in Ethiopia.

The respondents are also asked whether they think that, the government of Ethiopia increases the tax rates under the conditions of inflation. The outcomes of the business profit taxpayers' survey also revealed that, about 24(9.0%) Strongly Disagree and 75(28.09%) Disagree with that statement and 78(29.22%) of respondents are Neutral. The rest 48(17.98%) respondents found to be Agree while, 30(11.24%) respondents Strongly Agree that, the government of Ethiopia increases the tax rates under the conditions of inflation. The mean score of this result is 2.94 which below the standard. Hence, the highest percentage of the respondents perceives that, the government of Ethiopia doesn't increases the tax rates under the conditions of inflation.

In respect of knowing the tax payers' perception towards encouragement made by the current Ethiopian tax system for more production, the survey outcome indicates, about 102(38.2%) of the respondents Strongly Disagree and 108(40.45%) Disagree with that statement and 10(3.76%) of respondents are Neutral. The rest 23(8.62%) respondents Agree while, 23(8.62%) respondents Strongly Agree that, the current Ethiopian tax system encourages tax payers for more production through different tax exempts. The mean score of this result is 2.08 which are below the standard. Consequently, the majority of the respondents perceive that, the current Ethiopian tax system doesn't encourage tax payers for more production through different tax exempts.

The outcomes of the taxpayers' survey in respect of their perception about the effect of tax rate on the ownership of luxury assets revealed that, about 27(10.1%) respondents found to be Strongly Disagree and 74(27.6%) Disagree with the method of distributing tax burden among tax payers and 14(5.2%) tax payers are Neutral. The rest 92 (34.3%) respondents Agree while, 61(22.8%) respondents Strongly Agree that, the method of distributing tax burden among tax payers in Ethiopia is fair. The mean score of this result is 3.31 which is above the standard. This implies that, majority of the tax payers' believed that few people in Ethiopia own luxury automobiles because they have to pay higher tax rates for the ownership of these automobiles.

The respondents are also asked whether they think that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels. The outcomes of the business profit taxpayers' survey also revealed that, about 27(10.1%) Strongly Disagree and 56(20.9%) Disagree with that statement and 37(13.8%) of respondents were Neutral. The rest 102(38.0%) respondents Agree while, 46(17.2%) respondents Strongly Agree that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels. The mean score of this result, it is 3.24 which are above the

standard. Thus, the highest percentage of the respondents perceives that, tax rates under the Ethiopian tax system are increased when there is a reduction in price levels. Generally, the average mean score of tax payers' perception towards tax efficiency is 2.61. This implies that, the majority of tax payers' perceive the tax system as economically Inefficient.

Inferential statistics of tax efficiency

Hypothesis 2: The second hypothesis stated that "The Gondar town business profit taxpayers don't perceived that, the Ethiopian tax system has influence on their economical pattern of behavior." There are six items in the questionnaire which was used to test how the taxpayers perceive efficiency of the Ethiopian tax system. This hypothesis can be mathematically expressed as follows:

$H_{02}: \mu < 3$ vs. $H_{a2}: \mu \geq 3$ where; μ is the quantitative moderate value of taxpayers' responses.

As table 7 reveals, the computed t-value of taxpayers' perception towards tax efficiency is 0.680, which is lower than the tabulated value (1.96). The level of significance is found to be 1.408 which is greater than the predetermined one 0.05(1-0.95). Hence, the null hypothesis $H_{02}: \mu < 3$ is accepted, while the alternative $H_{a2}: \mu \geq 3$ is rejected. This implies that, the Gondar town taxpayers don't perceive that Ethiopian tax system has influence on their economical pattern of behavior.

With regard to tax systems efficiency there are two different perspectives under the context of taxation. According to John, (2004) the first one describes a tax system as efficient when it does not interfere with or influence taxpayers' economic behavior. The second perspective considers a tax system as efficient when individuals or institutions react to this system by deliberately changing their economic behavior.

By considering the existing time constraint, this study is confined to assess the tax payers' perception towards economic efficiency of the tax system only. In this study, a tax system is considered as economically efficient, when

Table 7. Inferential statistics related to hypothesis-2.

t-value	Sig. (one tailed)	Test value=3		
		95% level of significance		
		Mean difference	Min.	Max.
0.680	1.408	1.1385	.2504	.0397

Source: Business profit taxpayers' survey and own computations

the taxpayers react to this system by deliberately changing their economic behavior which is the Keynesians' perspective.

Regarding to tax efficiency, a study conducted by Ibrahim investigates taxpayers' perception to the Jordanian tax system efficiency according to the perspective of Keynes using survey instrument. The finding of this study shows that, taxpayers perceive the Jordanian tax system as economically efficient. That means, the current applied tax system in Jordan influence some of their economical patterns of behavior.

On the contrary, in respect of knowing the tax payers' perception towards economic efficiency of the existing tax system, the survey outcome of this study revealed that the existing tax system is economically inefficient from the taxpayers' point of view because, the current Ethiopian tax system isn't attractive for foreign investors to invest their money in Ethiopia and it doesn't encourage tax payers for more production through different means such as tax exemption. However, the taxpayers perceive that, the government of Ethiopia increases the tax rates under the conditions of inflation and also the ownership of luxuries automobiles require higher tax rates. In general, by considering the descriptive and inferential statistics of tax payers' perception towards tax efficiency, it can be summarized that the Gondar town taxpayers perceive the existing tax system as economically inefficient.

Conclusions

Based on the results in the previous section, and on the process of testing the hypothesis of this research, the following conclusions can be drawn;

In relation to tax complexity, the Gondar town taxpayers perceive that, the existing tax system is too complicated and complex. In more simplified word, the rules related to tax aren't clear and understandable and the tax system is tedious in procedural complications.

The Gondar town taxpayers also perceive that, the tax system is economically inefficient because, the current Ethiopian tax system isn't attractive for foreign investors to invest their money in Ethiopia and it doesn't encourage tax payers for more production through different means such as tax exempt.

In general it can be conclude that, the Gondar town tax payers perceive the existing tax system as complex and economically inefficient. But, it doesn't mean that the Ethiopian tax system is complex and economically inefficient at all, rather it is to mean that the existing tax system is complex and inefficient in mind of tax payers.

Recommendation

Based on the conclusion drawn, the following recommendations are forwarded to be utilized by the tax authority in particular and government in general.

One of the most important points while dealing with the issue of perception is the development of persuasive communications between the tax authorities and taxpayers. The most effective tool for making people more positive is to empower them with knowledge and changing their perception through sustainable awareness creation programs. Because, there is no better tool for government to positively influence the taxpayers than to provide them with knowledge. Any resistance or inability by government to communicate this most important area of social life, will lead to possible speculation and resistance. Awareness creation should go beyond simply giving tax education to taxpayers it should extended to having consultative sessions. There should be more preventative education for the public and increased awareness of tax responsibilities in schools.

In the context of reaching to the society, the tax authority can use the public Medias as a means to educate taxpayers and change their perceptions about the system and their overall perceptions of taxation. And also, the tax authority shall try to making the tax law and procedures simple, understandable, and transparent to the tax payers. Because, it is worthless to be actually efficient and simple unless, the tax system is efficient and simple in the minds of

taxpayers. All of these may promote a view for tax system efficient and simple at the same time to inculcate in citizens a sense of responsibility toward taxes.

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How to cite this article: Edilawit Gebregiorgies . "Tax Payers' Perception towards tax complexity and tax efficiency in Ethiopia; the Case of Non-Incorporated Category "A" Business Profit Tax Payers in Gondar Town." *J Account Mark* 10 (2021): 326.