Assessment of Tax Payers' Perception towards tax fairness 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 fairness. 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, five hypotheses are developed and tested using one sample t-test. The study reveals that, the Gondar town tax payers perceive the Ethiopian tax system as fair in terms of personal, horizontal, vertical and exchange fairness and as unfair in terms of administrative fairness. Finally the study concludes that, the Ethiopian tax system is reasonably fair in terms of personal exchange, horizontal and vertical fairness and unfair in terms of administrative fairness in the mind of the tax payers. Based on the findings obtained and 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.

Keyword: Perception • Tax fairness

Background of the Study

All the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax. 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, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return [1].

A perception of fairness and trust are important tools for a tax administration. The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and emphasize the perceived fairness of the approach taken. Norms and the motivation to pay taxes are influenced by fairness both in how a person is treated by the administration individually and perceptions of fairness of the tax system in general (whether other people are also paying their fair share). If a tax administration can demonstrate its commitment in these areas, there will be a compliance benefit.

Notwithstanding this view, however, it is useful to consider the concept of tax fairness as it relates to each of the goals of taxation. According to Duff, [2] a government spending on publicly-provided goods and services, for example, traditional tax equity principles of benefits received and ability to pay provide useful criteria to assess the fairness of any particular tax or set of taxes designed to collect revenues for this purpose, despite considerable disagreement about the meaning of a taxpayers' "ability to pay". Just as important is horizontal equity - the principle that people who are equally able to pay and who benefit equally should be taxed equally.

According to Christensen [3] tax fairness is difficult to define because of four

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problems. The first one is its multidimensionality, the second problem is that it can be defined at the individual level or for society at large, thirdly a lack of fairness may be perceived justification or a cause of noncompliance and the last one is that, tax fairness is intertwined with complexity.

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. Where a tax is designed to affect the distribution of economic resources, principles of tax fairness dissolve into broader considerations of distributive justice which determine the manner in which economic resources are fairly distributed and the respective roles of taxes and transfer payments to achieve this distributive goal [2].

It is clear that, most tax systems are in fact fair but the way that this tax system perceived by taxpayers is the most important issue. Therefore, how tax payers perceive the existing tax system is the main problem of this study. This is because tax payers' perception determines the level of their compliance and cooperation. Moreover, it determines peoples' loyalty to their government.

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 fairness with a particular emphasis of non-incorporated category "A" business profit taxpayers on Gondar town.

Statement of the Problem

Taxes are important source of revenue to government in both developing and developed countries. As in all other countries, one of the purposes of taxation in Ethiopia is the raising of as much revenue as possible to meet the ever-expanding public expenditure for the supply of public goods and services which otherwise would not be available to the general public by the market [4].

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, 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. This can be possible if and only if there is a good tax system. It is clear that, in order to be good, the tax should be fair. To be a fair tax, taxpayers should have the ability to pay, and the tax itself should be characterized by its horizontal and vertical equitability. This means that when any tax system is unfair, that system as a whole will be considered by tax payers as bad tax system.

Moreover, as stated by Peters [5] citizens do, on the whole, like the benefits they receive from government and tend to be much more willing to pay taxes when reminded of the benefits received as a consequence of doing so. Taxpayers may believe that they haven't received enough services from the government, when they compare the amounts of income tax that they pay with those services. In other words, the taxpayers may believe that the value of the services they receive from the government is lower than the value of business profit taxes that they pay to the government. If the taxpayers are negative about taxation, this can influence their compliance with the tax system and Government might lose not only revenue but also electorate.

Thus, the researcher attempts to assess the tax payers' perception towards the existing tax system in terms of tax fairness 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 personal fairness?

2. How do the tax payers perceive horizontal fairness?

3. How do these tax payers perceive vertical fairness?

4. How do these tax payers perceive exchange fairness?

5. How do these tax payers perceive administrative fairness?

Objectives of the Study

General objective

The general objective of this study is to assess the tax payers' perception towards tax fairness in Ethiopia in the case of non-incorporated category "A" business profit tax payers in Gondar town.

Specific Objectives

Specific objectives of this study include the following;

1. To assess the tax payers perception towards personal fairness

2. To assess the tax payers perception towards horizontal fairness

3. To assess the tax payers perception towards vertical fairness

4. To assess the tax payers perception towards exchange fairness

5. To assess the tax payers perception towards administrative fairness

Scope of the Study

In this study the researcher attempts to assess the taxpayers' perception towards tax fairness 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).

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.

Research Hypothesis

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

Ho$_1$; The Gondar town business profit taxpayers do not perceive the Ethiopian tax system as personally fair system.

H$_{O2}$; The Gondar town business profit taxpayers do not perceive the Ethiopian tax system as fair in terms of exchange fairness.

H$_{O3}$; The Gondar town business profit taxpayers do not perceive the Ethiopian tax system as horizontally fair.

H$_{O4}$; The Gondar town business profit taxpayers do not perceive the Ethiopian tax system as vertically fair.

Ho$_5$; The Gondar town business profit taxpayers do not perceive the Ethiopian tax system as fair in terms of administrative fairness.

Review of Related Literature

Theoretical literatures

Tax system

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. As stated by Strauss, 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. Tax fairness is one of the variables that have attracted researchers to discover the extent the variable in fostering noncompliant behavior. Wenzel [6] describes that: 'Taxation involves numerous considerations of justice and fairness, that includes perceived fairness of outcomes (e.g., tax burdens and tax funded benefits), fairness of the procedures and treatment (e.g. rights and respectful treatments), and fairness of sanctions (e.g., punishments and amnesties).

Understanding taxpayer perception is crucial for policy makers to develop strategies to overcome problems of noncompliance among individual taxpayers' and prevent evasion. 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 [6]. 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.

It is completely clear that in order to be good, the tax should be fair. This means that when any tax system is unfair, that system as a whole will be considered by tax payers as bad tax system, and taxpayers' compliance to that system will be unreasonable. To be a fair tax, taxpayers should have the ability to pay, and the tax itself should be characterized by its horizontal and vertical equitable [7].

Tax can be described as horizontally equitable, if it is designed so that persons with the same ability to pay owe the same amount of tax, whereas the tax is described as vertically equitable if persons with a greater ability to pay owe more tax than persons with a lesser ability to pay. While horizontal equity is concerned with a rational and impartial measurement of the tax base, vertical equity is concerned with a fair rate structure by which to calculate the tax.

Traditional approaches of tax system

Theories of public finance generally explain public provision of these goods and services on the grounds that they satisfy social wants that cannot be supplied efficiently by the private sector and so-called merit wants that are considered so essential to human welfare and flourishing that they should also be provided through the public sector at least up to a basic minimum. While the former include so-called "pure" public goods and services like public security and national defense, the latter include quasi-private goods and services like public education, public pensions, and health insurance. Assuming that public provision of these goods and services may be justified on some account, the key question for a concept of tax fairness is how the revenues that are needed to finance these expenditures should be obtained. For this purpose, traditional approaches to tax policy have generally supplied two answers, suggesting that the costs of publicly-provided goods and services should be allocated either according to the benefits that individuals and enterprises derive from government or according to some comprehensive measure of their taxable capacity or ability to pay.

While the benefit approach reflects a conception of tax fairness as transactional equivalence according to which one should pay only for the goods and services that one receives in exchange, the ability-to-pay approach reflects a conception of tax fairness as equality of sacrifice according to which the burden of financing public expenditures should (as John Stuart Mill reasoned) apply so that whatever "sacrifices" the government requires of taxpayers "should be made to bear as nearly as possible with the same pressure upon all.

Benefit Approach

As an initial matter, one might think that the benefit principle might be an attractive way to allocate the cost of government expenditures in a liberal society, since it requires individuals and enterprises to pay only for those publicly-provided goods and services that they themselves enjoy, without having to pay for goods and services that governments provide to others. For this reason, some have argued that only benefit taxation accords with the values of individual autonomy and citizen sovereignty that underlie contractual conceptions of the state. Where benefit taxes are dedicated or earmarked to public expenditures on the goods and services in respect of which they are raised, moreover, this method of taxation also has the notable advantage of simultaneously determining both the level and structure of government spending and the manner in which it is financed.

In practice, however, the benefit approach suffers from three deficiencies as a general principle of tax fairness. First, as many advocates of benefit taxation themselves acknowledge, the application of this principle presumes a just distribution of economic resources, the achievement of which is apt to demand the collection of other taxes for distributive purposes. Second, where the publicly-provided good or service satisfies a merit want that is essential to human welfare and flourishing (like education and health care), benefit taxation may impede access to the good or service, contradicting the very rationale for public provision in the first place.

Finally, it is impossible to apply the benefit principle to pure public goods and

services (like public security and national defense) the benefits from which are generally shared, without resorting to arbitrary presumptions regarding the manner in which these benefits are distributed. For these reasons, several tax scholars have sharply criticized the benefit principle as a general concept of tax fairness, and advocates themselves generally acknowledge its limitations.

Despite these limitations, however, the benefit principle can be a fair and legitimate way to finance various kinds of publicly-provided goods and services, provided that it is feasible to identify and measure specific private benefits that the good or service confers, that access to a merit good or service is not impeded by the collection of a benefit-related charge or tax, and that distributive concerns are adequately addressed through other measures. Although concerns about access and distribution mean that these goods and services are often subsidized from general government revenues, the substantial private benefits associated with these goods and services suggest that it is fair and reasonable to finance at least some portion of these expenditures from taxes and user fees premised on the benefit principle.

Indeed, considerations of economic efficiency, government accountability and tax fairness suggest that modern welfare states might make greater use of benefit-related taxes to finance public expenditures in several areas such as higher education, roads and highways, and municipal services such as water and sewage and the collection and disposal of solid waste.

Ability-to-Pay Approach

As an alternative to the benefit principle of tax fairness, it is often argued that fair taxes should be apportioned according to a comprehensive measure of each individual's taxable capacity or ability to pay. Although this ability-to-pay principle is sometimes rationalized as a surrogate for taxation according to benefits received [2]. The most prominent conceptions of this approach ignore any connection to public expenditures altogether, treating the collection of taxes and it also colorfully characterized as "a common disaster – as though the money once collected were thrown into the sea".

The rationale for this approach to tax fairness is best expressed by John Stuart Mill, who was as fierce an opponent of the benefit principle of taxation as he was an advocate of the ability-to-pay approach. Rejecting the notion that taxes should be apportioned according to some measure of the protection that individuals obtain from the state, Mill argued that the purposes of government extend beyond the protection of persons and property to include all purposes "ends of the social union" and that government was "so preeminently a concern of all" that it was pointless to determine who are "most interested in it" More importantly, he continued, since a government should "make no distinction of persons or classes in the strengths of their claims upon it," it followed that "whatever sacrifice it requires from them should be made to bear as nearly as possible with the same pressure upon all. As with the benefit principle, however, this principle of tax fairness presumes a just distribution of economic resources, which may require the collection of other taxes.

Despite its theoretical appeal in this context, however, the concept of ability to pay is notoriously imprecise. While Mill and subsequent writers have generally conceived of ability (and sacrifice) in terms of subjective utility or welfare, it is not obvious whether the measure of welfare for this purpose should be assessed at a particular point of time or over a period of time, nor the appropriate time period (e.g., annual or lifetime) should the latter approach be preferred. Nor is it clear that the concept of equal sacrifice should be understood in terms of subjective utility or welfare, as opposed to a more objective measure of each taxpayer's economic capacity. In any event, since it is impossible to measure subjective utility directly, the concept of ability to pay must be defined in some objective manner if it is to serve as a practical basis for distributing tax burdens. In practice, however, the meaning of ability to pay has been defined in different ways, reflecting different interpretations as to the appropriate tax base and structure of tax rates that best implement this principle of tax fairness. In traditional approaches to tax policy, the definition of a fair tax base is described as a matter of" horizontal equity" while the specification of tax rates is characterized as a question of "vertical equity".

Beginning with the subject of horizontal equity, it is often assumed that a person's annual income represents the best measure of their ability to pay. On

this basis, a considerable body of literature exists on how best to define income as a comprehensive measure of each taxpayer's ability to pay. In contrast to this approach, another tradition in tax scholarship regards annual consumption or expenditure as a fairer measure of each individual's taxable capacity on the basis that a consumption tax base does not differentiate among taxpayers according to the period of time when income is earned and consumed [2].

Indeed, Mill himself regarded annual consumption as a better measure of ability to pay than annual income on the grounds that a laborer who must save for contingencies and old age does not have the same ability to pay as a property-owner with the same annual income who can maintain the same level of consumption over time without having to save for these purposes. For this reason, others have suggested that wealth should also be taken into account in assessing a person's ability to pay.

Tax Fairness

To be considered as a fair tax system, taxpayers should have the ability to pay their tax burden. Ability to pay means that underline the literature of taxes, the economic resources of a taxpayer should be under his/her control. When a tax system is designed so that individuals with the same ability to pay owe the same amount of tax, it can be described as horizontally equitable, while when it is designed so that individuals with greater ability to pay owe more tax than individuals with lower ability to pay, it is considered vertically equitable. Torgler mentioned that tax fairness is a very important factor influencing taxpayers' compliance behavior because it is related to tax burdens. For any 'good' tax system tax fairness is crucial. Policy makers in the US believe that public perceptions can directly affect tax compliance behavior [8].

Bordignon introduced fairness as an additional motivation to tax evasion or noncompliance. When there is lack of equity in an exchange relationship it creates a sense of distress, with this anger it leads to a reaction which can restore equity, which is tax evasion or tax noncompliance. Fairness is difficult to define because of the four inherent problems: (1) it is multidimensional, (2) it can be defined at the individual level or for society at large, (3) fairness is intertwined with complexity and (4) a lack of fairness may be perceived justification or a cause of noncompliance.

Referring back to the equity theory which emphasis on horizontal and vertical equity; it is insufficient to bring out the concept of fairness. One of the most important aspects that taxpayers' argue is the fair terms of trade between their public consumption and the government's provision of public goods. If the goods and amount they receive is greater than their payment then compliance will increase which means that individuals pay taxes to get benefits even though they know that chances of detention is slim [9].

Areas of fairness from the taxpayers' point of view

According to Wenzel [6] there are three areas of fairness from the taxpayers' point of view (social psychology): 1) distributive justice (viewed as the exchange of resources i.e. benefit and cost); 2) procedural justice (viewed as the process of resource distribution) and 3) retributive justice (viewed as the appropriateness of sanctions when norm-breaking occurs).

Distributive justice

Distribution in tax fairness refers to what individuals deserve and what they receive. Taxation involves various types of distributive justice whereas most studies only select very few and give them overall ratings. Basically there are three rules that affect a person's deserved outcome: contributions rules, needs rule and equality rule. Employed inequity which increased tax evasion and advantageous inequity reduced tax evasion. A tax system is a redistribution system, therefore, distributive framework is the best to analyze tax policy and measure the 'fairness' of the system. Porcano [9] argued justice is a multidimensional concept thus, it is appropriate to use distributive theory which uses several justice rules in determining one' deservingness; Another thing is, that it is no longer one's personal or group treatment but the distribution of tax burdens across as a whole e.g., the fairness of progressive tax rate.

Procedural Justice and Legitimacy

With regard to procedural justice, the main elements for perceived fairness are neutrality of procedures used, trustworthiness of the tax authorities, and the polite, dignified, and respectful treatment of taxpayers as individuals or groups. Taxpayers expect that tax authorities will provide sufficient information about the tax law and regulations so that they can complete their tax return as accurately as possible. It is argued therefore that increased information about tax law and regulations can increase fairness perception and compliance.

Galligan [10] mentioned the pivotal role of legitimacy on tax compliance behavior. Procedural justice will lead to legitimacy. Legitimacy in tax compliance behavior is defined as a belief/ trust by taxpayer on the tax authority. This belief that they are fairly treated will want to obey the laws. Every year significant middles income taxpayers' use aggressive tax planning to either legally or illegally conceal their actual income. These illegal taxes planning behavior cannot be settled just by using force or threatening strategies, because in the long run the legitimacy of tax authorities will be undermined. People are less inclined to accept an unfavorable outcome and are likely to challenge the situation when they believe that the procedures are unfair. Therefore the authority has to play a fair role that will increase the perception of legitimacy and can create cooperation and get the public to obey tax laws. Taxpayer has good view about the legitimacy the more they will be tax complaint [11].

Moral legitimacy refers to norms that emphasis on motions of consequences, procedures, structures and personality; cognitive legitimacy which emphasis on making decisions and predicting how, why and where these rules and practices are situated on this field of legitimacy. Public's voluntary compliance can be ensured when the tax system is equitable. The concept of legitimacy is found to be the key driver in their decision making process that leads to tax compliance. Then, one needs to think legitimacy as a belief, and evaluation between pragmatic legitimacy and moral legitimacy. Pragmatic legitimacy refers to norms which are self interested calculations which bring in motions and exchange and values [10].

Retributive justice

Retributive justice, unreasonable and intrusive audits and unfair penalties lead to stressful and dissatisfied taxpayer. Unfavorable retributive justice perceptions could lead to non compliant behavior and consequently increase tax evasion and inflate the tax gap.

Equity Theory/Justice Theory

Traditionally equity theory indicates two types of equity within a tax system: (1) horizontal equity and (2) vertical equity. Horizontal equity refers to providing equal treatment to all in the same group whereas vertical equity refers to giving a suitable differentiation among unequal persons in that group. That means those who are rich, should be treated as able to pay higher than lower groups of income earners [10].

The implementation of the tax systems are based on either progressive tax structure or flat tax rate structure. But most of the individual taxes are progressive tax structures. However, the progressive tax rate which is vertical in terms of providing equity does not meet the expected equity. Therefore taxpayers adjust their perceived inequalities through tax evasion. However, before looking at the link or association between tax fairness and tax compliance knowing the attitudes of taxpayers' is quite important. The taxpayer behaves to comply or not to comply based on the attitudes he has framed against the tax system.

Dimensions of Tax Fairness

It has been admitted by many researchers [10] that tax fairness is a multidimensional concept which was also stated as the reason why it produces inconsistent results. The following are the most important dimensions of tax fairness that are general fairness/distribution, exchange with the government, self interest and Preferred Tax Rate/ Structure

Dimension 1- General Fairness and Distribution of the Tax burden

The role of the taxpayer cannot be looked as an individual's outcome because the taxpayer is looking at justice to decide is the tax system fair to all. The point

to reach is that if the taxpayer perceives the tax system not fair, illegitimate then difficult to achieve compliance or in other words evasion increases [6]. Fairness refers to one's tax burden whereby one person's tax burden compared with similar another person or people (horizontal equity) or else it is tax burden of a group compared with that of another group or others (vertical equity). If the tax burden is not distributed evenly due to the different categories of people then fairness is questionable. It is to be noted that disadvantageous inequity increase evasion and advantageous in equity decreases evasion. Furthermore, the distribution of tax burden among all in the society is at large, referred as macro justice that measures whether taxes are paid evenly by all society groups as stated by Brickman.

Dimension 2 – Exchange with the Government

As stated by Roberts that taxation is actually similar to trading with the government. Therefore in return for the tax payment what quality and kind of public services do they get? To understand the relationship between taxpayer and the government research is focused on the perceived tax fairness and the compliant behavior. The degree of satisfaction the public has with the government will enhance tax compliant behavior. Positive actions by the state are expected to bring about positive attitudes and commitment of taxpayers' to the tax system and ultimately tax compliance. However, to say that there is causal relationship between inequity and tax evasion (noncompliance) is not possible because of the uncertainty whether the reason is because of inequity or simply a means of excusing one to illegal behavior. There was no significant evidence to say that fairness affects their decision in complying.

However if taxpayers consider equity is important then it will affect their decision so it is important to explain to them the return that they get from the government for their tax payments, according to Kim. Income declaration increases when individual perceive some form of benefit provided by the government through the tax money that the individual paid.

Dimension 3 - Preferred Tax Rate/ Structure

Hite [12] discussed about the preferred tax rate saying that increase in rate will increase compliance. The results by Kinsey were different that is progressive tax rate was judge unfair and chances of future cases of tax cheating. Factors such as progressive versus proportional tax rates are significant variables to compliance behavior. This implies that there is difference in tax rate.

Dimension 4 - Self Interest/ personal fairness

Eisenstein noted that judging from the ideology of equity, fairness is an individualistic concept whereby the individual is the key determinant asking or arguing for equity. McGowan [8] mentioned many studies have found that self interest (defined as direct personal benefit) significantly affects taxpayers' attitudes. Tax shelters have direct relationship with fairness attitudes. Hite describes that, people with higher income believe progressive tax rate are more fair (vertical equity) or in other words favor a lower tax rate.

Review of Empirical Studies

Perception towards tax fairness

In their research titled as: "Income Tax Fairness and the Taxpayers' Compliance in Jordan." Khasawneh carried out a survey included 275 respondents and investigate that, in general the taxpayers perceive the Jordanian income tax system as fair. In other words, the general image that available to most of taxpayers concerning the income tax system is positive, because they perceive the income tax system as fair. Individually, taxpayers perceive the Jordanian income tax system as fair. In other words, when they examine how taxpayers' views to the fairness of their income and income tax burden under the Jordanian income tax system, they find that tax payers considers that income tax system in Jordan as fair. Taxpayers in Jordan believe that they receive enough services from the government, when they compare the amounts of income tax that they pay with those services. In other words, income taxpayers in Jordan believe that the value of the services they receive from the Jordanian government is higher than the value of income taxes that they pay to the government. Taxpayers in Jordan perceive the dimension of

special provisions that related to the income tax as fair. Income taxpayer looks to most aspects of income tax law as fair.

Using survey instrument with a sample size of 200, Wubshet [13] investigate that, Addis Ababa Business profit taxpayers viewed the current business profit tax system as reasonably fair in terms of horizontal fairness, but not on vertical fairness, personal fairness, administrative fairness, exchange fairness, and general fairness. In addition this, Wubshet examine that there is no difference in level of fairness perceptions among Addis Ababa City business profit taxpayers towards the current income tax systems.

Using survey data collected from 1960-1980 and information on tax rates and estimates of tax evasion for that period, Etzioni finds that tax evasion increased during this time, as did the percentage of Americans considering taxes unfair, even as tax rates remained stable. Moreover, those Americans presumably having the lowest incentives to cheat were most likely to consider taxes unfair. This information leads the author to conclude that a growing sense that taxes are unfair is more likely than increasing tax rates and ones level of income to lead to tax evasion.

The study by Manuel [14] indicated that, although the majority of respondents did not feel it is unfair to pay tax, all of the respondents were of the opinion that waste and corruption in government is high. In addition, the majority of the respondents felt that taxes are used by government for meaningless purposes and that the government does not provide enough information about how they utilize taxpayers' money.

A study titled as "Progressive Taxation, Fairness, and Compliance" and carried out by Hite [12] examined the preferences for income tax progressively, other tax fairness issues, and tax compliance. This study revealed that mean public preferences for fair tax burdens are close to actual effective tax rates. The study sample was about 600 households and classified into three groups: (1) those who believe that tax rates should be higher for upper income persons (steep progressives), (2) those who prefer mildly progressive tax rates (mild progressives), and (3) those who believe tax rates should be flat (flatters).

Moreover, the study surveyed the tax fairness attitudes of the income tax, exchange equity with the federal government, government spending, tax complexity, and tax compliance. One important conclusion to this study is that there is a relatively high consensus among respondents that the income tax is unfair, especially with regard to the ability of wealthy taxpayers to exploit loopholes to avoid paying their fair share, and that respondents regard their own tax burdens as unfair.

Richardson [15] carried out a comparison study of the tax fairness perceptions and taxpayers' compliance between Australia and Hong Kong in his study titled as "An exploratory cross-cultural study of tax fairness perceptions and tax compliance behavior in Australia and Hong-Kong". As a result of his study, Richardson found that there are different facets of tax fairness perceptions have distinct impacts across jurisdictions. Through his study, Richardson made a support for the view that there seems to be no universal relationships or patterns that necessarily exist between the different facets of tax fairness perceptions and tax compliance behavior cross-culturally.

A study titles as "An Analysis of Tax Reform Based on Taxpayers' Perceptions of Fairness and Self-Interest" and carried out by Hite [16] examined the relationship between tax fairness and taxpayers' evasion. This study found that tax fairness was significantly associated with perceptions of an improved tax system, and that tax fairness and tax evasion were related. One other important study was carried out by Mazur and titled as "IRS's Comprehensive Approach to Compliance Measurement". This study mentioned that The National Research Program (NRP) represents the commitment that the IRS has made to improve the efficiency and fairness of the tax administration process. Moreover, the study also mentioned that with measures of strategic compliance, the IRS will be able to make more informed strategic decisions about workload allocation, resource planning and taxpayer communication and support.

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Richardson [15] carried out a comparison study of the tax fairness perceptions and taxpayers' compliance between Australia and Hong Kong in his study titled as "An exploratory cross-cultural study of tax fairness perceptions and tax compliance behavior in Australia and Hong-Kong". As a result of his study, Richardson found that there are different facets of tax fairness perceptions have distinct impacts across jurisdictions. Through his study, Richardson made a support for the view that there seems to be no universal relationships or patterns that necessarily exist between the different facets of tax fairness perceptions and tax compliance behavior cross-culturally.

Research gap

Understanding taxpayer perception is crucial for policy makers to develop strategies to overcome problems of noncompliance among individual taxpayers'. The role of the taxpayer cannot be looked as an individual's outcome because the taxpayer is looking at justice to decide is the tax system fair to all. The point to reach is that if the taxpayer perceives the tax system not fair, illegitimate then difficult to achieve compliance or in other words evasion increases. In order to be good, the tax should be fair. This means that when any tax system is unfair, that system as a whole will be considered by tax payers as bad tax system, and taxpayers' compliance to that system will be unreasonable. To be a fair tax, taxpayers should have the ability to pay, and the tax itself should be characterized by its horizontal and vertical equitable. Tax complexity is arisen wherever taxpayer reported any difficulty in completing his or her own tax return for the year.

A review of past studies on tax payers' perception towards tax fairness indicates mixed but interesting findings. For instance, Khasawneh investigate that; in general the taxpayers perceive the Jordanian tax system as fair. With this regard, a study carried out by Hite [12] examined that, there is a relatively high consensus among respondents that the tax system is unfair. On the other hand, the finding of Wubshet [13] indicates that, taxpayers viewed the current business profit tax system as reasonably fair in terms of horizontal fairness, but not on vertical fairness, personal fairness, administrative fairness, exchange fairness, and general fairness. Relatively, the finding of Wubshet is good however; this result is representing the perception of taxpayers in Addis Ababa only. So that, in this study the researcher intends to investigate the tax payers' perception towards fairness in Gondar town.

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. For the study purpose, the conceptual frame work of the study is summarized as follow:

Research Method

Research design

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 modifying the questionnaire, it was self administered to 285 taxpayers in Gondar town. The numbers 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.

The reliability of the Five-point Likert scale (scaled from strongly agree to strongly disagree) of tax fairness scale is assessed using Cronbach's Alpha and the result is which is above the minimum acceptable level. Since the

Table 1. Reliability test results of the study variables.

Variables	Cronbach's Alpha
Perception of personal fairness	0.634
Perception of vertical fairness	0.742
Perception of horizontal fairness	0.690
Perception of exchange fairness	0.722
Perception of administrative fairness	0.698

Cronbach alpha coefficients are above 0.6, the scales used to measure the study variables are consistent and therefore the instrument is reliable (Mubiru, 2009).

Sampling method

Survey population

Sampling is the process of selecting some element from the entire 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 is includes population 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 285is found to be feasible from the 993 category 'A' business profit taxpayers found in Gondar. In order to determine the sample size Yamane's (1967) 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. 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 Table 2.

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 Discussion

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. 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, seven hypotheses are developed and tested using one sample t-test. This is followed by a discussion of the results of the research.

Respondent's profile /background information

The above table 3 shows the frequencies and percentage related to the

Table 2. Numerical points to each option.

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

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.	Forms of business ownership	Sole proprietorship	146	54.5%
		Partnership	86	32.1%
		Private limited companies	36	13.4%
		Total	**268**	**100%**
4.	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%**
5.	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%**
6.	Respondents' position	Owners	89	33.2%
		Managers	54	20.1%
		Employees	122	45.5%
		Other	3	1.1%
		Total	**268**	**100%**
7.	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%**

respondents' profile. It indicates that, individuals participated in the survey are at their taxable working age between 18 and 60 years old. The above table also shows the forms of business ownership, accordingly the highest percentages of the respondents are sole proprietors. The outcomes of the business profit taxpayers' survey in respect of the business duration also revealed that the highest percentages of respondents are in operation for the past 5 to 10 years. In the case of educational qualification of respondents, the survey showed most of the respondents have diploma. In respect of knowing the position of the respondent in the sector, the result revealed that about 89(33.2%) of the respondents are owners that is the highest percentile. 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.

Descriptive and Inferential statistics of Tax payers' perception towards tax fairness

In this section, the descriptive and inferential statistics of tax payers' perception towards tax fairness is presented. In this study the collected data are analyzed using descriptive and inferential statistics analysis techniques. The 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. 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.

Table 4 revealed the tax payers' perception towards personal fairness. The respondents are asked whether they perceive that, the Ethiopian tax system don't require them to pay more than their fair tax or not. The mean score of this result is 2.89, which is below the standard. Thus, most of tax payers' perceive that, the Ethiopian tax system require them to pay more than their fair tax. The respondents are also asked whether their tax burden is fair when they compare it with other tax payers or not. The mean score of this result is 3.27, which is above the standard. Therefore, the majority of tax payers' found that,

their tax burden is fair when they compare it with other tax payers. In general the overall mean score of tax payers' perception towards personal fairness is 3.08; this implies that, the tax payers' perceive the tax system as a personally fair system.

Table 5 shows the tax payers' perception towards exchange fairness. In this section the tax payers are asked whether they believe that, they get their fair value in terms of benefit received from the government or not. The mean score for the result is 3.93 which are above the standard. As a result, the highest percentage of the tax payers believed that they get their fair value in terms of benefit received from the government.

With regard to benefit received from the government in exchange for the business profit tax payment, the mean score for this result is 3.61 which are above the standard. This implies that, the majority of tax payers found that the benefit received from the government in exchange for the business profit tax payment is reasonable. In general, the overall mean score of taxpayers' perception towards exchange fairness is 3.77. This implies that, the Gondar town tax payers' perceive the Ethiopian tax system as fair in terms of exchange fairness.

Table 6 shows the tax payers perception towards horizontal fairness. In this section the respondents are asked whether they believe that, it is fair for individuals with similar amounts of profit to pay a similar amount of business profit tax or not. The mean score for this result is 4.36 which are above standard. This implies that, the highest percentage of tax payers believed that it is fair for individuals with similar amount of profit to pay a similar amount of business profit tax.

The respondents are also asked whether they believe that, it is fair for them to pay a similar share of business profit tax compared with other similar sectors earning an equivalent amount of profit or not. The mean score for this result is 4.5 which are above the standard. This implies that, it is fair for them to pay a similar share of business profit tax compared with other similar sectors earning an equivalent amount of profit. Generally, the average mean score of taxpayers' perception towards horizontal fairness is 4.43. By analyzing the

Table 4. Descriptive statistics of perception towards personal fairness.

No.	Items	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Personal fairness	No	%	No	%	No	%	No	%	No	%		
1	The Ethiopian tax system does not require me to pay more than my fair tax.	28	10.49%	109	40.82%	22	8.23%	83	31.09%	25	9.36%	2.89	1.22
2	Comparing my business tax burden with others, I do not pay more than my fair tax.	19	7.1%	76	28.4%	8	3.0%	141	52.6%	24	9.0%	3.27	1.17
	Total		8.79%		34.61%		5.61%		41.84%		9.18%	3.08	1.75

Table 5. Descriptive statistics of exchange fairness.

Test value=3				
t–value	Sig.(one tailed)	95% level of significance		
--	---	Mean difference	Min.	Max.
44.3	0	4.55597	4.3536	4.7584

Table 6. Descriptive statistics of horizontal fairness.

No.	Measures	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Horizontal fairness	No	%	No	%	No	%	No	%	No	%		
1	It is fair for individuals with similar amounts of profit to pay a similar amount of business profit tax.	9	3.4%	13	4.9%	1	0.4%	93	34.7%	152	56.7%	4.36	0.96
2	I believe that, it is fair for me to pay a similar share of business profit tax compared with other similar sectors earning an equivalent amount of profit.	1	0.4%	8	3.0%	3	1.1%	100	37.3%	156	58.2%	4.5	0.70
	Total		1.9%		3.95%		0.75%		36%		57.45%	4.43	0.65

overall mean score it can be summarized that, the tax payers' perceive the tax system as a horizontally fair system.

Table 7 indicates the taxpayers' perception towards vertical fairness. In order to investigate the tax payers' perception towards vertical fairness, respondents are asked whether they believe that, it is fair that high income earners are subject to tax at progressively higher tax rates than low income earners or not. The mean score of this result is 4.2 which are above the standard. Thus, the majority of the tax payers believed that, it is fair if high income earners are subject to tax at progressively higher tax rates than low income earners.

Respondents are asked whether they believe that, it is fair if low income earners are taxed at a lower rate than middle income earners or not. The mean score of this result is 3.79 which are above the standard. Consequently, majority of the tax payers believed that, it is fair if low income earners are taxed at a lower rate than middle income earners. In general, the average mean score of tax payers' perception towards vertical fairness is 3.99. This shows that, the majority of the tax payers perceive the tax system as Fair in terms of vertical fairness.

Table 8 shows the tax payers' perception towards administrative fairness. The mean score of this result is 4.07 which are above the standard. As a result the majority of tax payers' perceive that, the government utilizes a reasonable amount of tax revenue to achieve social goals.

In respect of knowing tax payers' perception towards the tax administration, the mean score of this result is 2.12 which are below the standard. Hence, the majority of tax payers' perceive that, the administration of the tax system by taxing authority isn't consistence across years and tax payers.

With regard to the tax payers' perception about the government expenditure, the average mean score of tax payers' perception towards administrative fairness is 2.79 which are below the standard. Thus, the majority of tax payers' perceive that, the tax system lacks administrative fairness.

Inferential statistics of perception towards personal fairness

In this study, each hypothesis is tested using t-value at 0.95 confidence level, which is 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.

Hypothesis 1; The first hypothesis stated that "The Gondar town business profit taxpayers don't perceived that, the Ethiopian tax system is personally fair." There are two items in the questionnaire which was used to test how the taxpayers perceive personal fairness of the Ethiopian tax system. This hypothesis can be mathematically expressed as follows:

Ho_1: $\mu < 3$ vs. Ha_1: $\mu \geq 3$ where; μ is the quantitative moderate value of taxpayers' responses.

As appears in computed t-value of the tax payers' perception towards personal fairness is found to be 25.37 that are greater than the tabulated value. Hence, the null hypothesis Ho_1: $\mu < 3$ is rejected, while the alternative Ha_1: $\mu \geq 3$ is accepted. In more simplified words, the analysis reveals that, the Gondar town tax payers perceive the Ethiopian tax system as personally fair.

Therefore, by considering the descriptive and inferential statistics of tax payers' perception towards personal fairness, it can be summarized that the Gondar town tax payers perceive the existing tax system as personally fair.

Inferential statistics of exchange fairness

Hypothesis 2; The second hypothesis stated that "The Gondar town business profit taxpayers perceived that, the Ethiopian tax system lacks exchange fairness." There are two items in the questionnaire which was used to test how the taxpayers perceive exchange fairness of the Ethiopian tax system. This hypothesis can be mathematically expressed as follows:

Ho_2: $\mu < 3$ vs. Ha_2: $\mu \geq 3$ where; μ is the quantitative moderate value of taxpayers' responses. As it can be seen on the computed t-value of tax payers' perception towards exchange fairness is found to be 44.30that is greater than the tabulated value (1.96). The computed levels of significance is zero that is lower than the predetermined one which equals 0.05 (1 – 0.95). Thus, the null hypothesis Ho_2: $\mu < 3$ is rejected, while the alternative Ha_2: $\mu \geq 3$ is accepted. That means the Gondar town taxpayers perceive the Ethiopian tax system as fair in terms of exchange fairness. The survey result in this study shows that, the Gondar town taxpayers perceive the existing tax system as fair in terms of exchange fairness that is, taxpayers get their fair value in terms of benefit received from the government and the benefit received from the government in exchange for the business profit tax payment is fair.

Table 7. Descriptive statistics of vertical fairness.

No.	Measures	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Vertical fairness	No	%	No	%	No	%	No	%	No	%		
1	It is fair that high income earners are subject to tax at progressively higher tax rates than low income earners.	5	1.88%	6	2.24%	1	0.38%	161	60.29%	95	35.59%	4.2	0.74
2	It is fair that low income earners are taxed at a lower rate than middle income earners.	24	9.0%	22	8.2%	1	0.4%	159	59.3%	62	23.1%	3.79	1.15
	Total		5.44%		5.22%		0.39%		59.7%		29.3%	3.99	1.99

Table 8. Descriptive statistics of perception towards Administrative fairness.

No.	Measures	Strongly Disagree		Disagree		Neutral		Agree		Strongly agree		Mean	SD
	Administrative fairness	No	%	No	%	No	%	No	%	No	%	No	%
1	I believe that, the government utilizes a reasonable amount of tax revenue to achieve social goals.	9	3.4%	17	6.3%	7	2.6%	146	54.5%	62	23.1%	4.07	0.95
2	The administration of the tax system by taxing authority is consistence across years and tax payers.	68	25.47%	132	49.44%	36	13.49%	27	10.11%	4	1.49%	2.12	0.95
3	I think the government spends too much tax revenue on unnecessary welfare assistance.	76	28.46%	124	46.44%	12	44.95%	49	18.35%	5	1.87%	2.18	1.09
	Total		19.11%		34.06%		6.84%		27.65%		8.82%	2.79	1.67

Based on the descriptive and inferential statistics related to tax payers' perception towards exchange fairness, it can be summarized that the Gondar town tax payers perceive the existing tax system as fair in terms of exchange fairness.

Inferential statistics of horizontal fairness

Hypothesis 3; The third hypothesis stated that "The Gondar town business profit taxpayers don't perceive that, the Ethiopian tax system as horizontally fair system." The two items in the questionnaire was used to test how the taxpayers perceive horizontal fairness of the Ethiopian tax system. This hypothesis can be mathematically expressed as follows:

Ho_3: $\mu < 3$ vs. Ha_3: $\mu \geq 3$ where; μ is the quantitative moderate value of taxpayers' responses.

As it is shown on computed t-value of tax payers' perception towards horizontal fairness is 63.469 that are greater than the tabulated value which equals to 1.96. The levels of significance are found to be is zero. Comparing this level of significance with the predetermined one which equals 0.05 (1 – 0.95), the level of significance is found to be lower than the predetermined one. Thus, the null hypothesis Ho_3: $\mu < 3$ is rejected, while the alternative Ha_3: $\mu \geq 3$ is accepted. This implies that, the Gondar town taxpayers perceive the existing tax system as horizontally fair.

Inferential statistics of vertical fairness

Hypothesis 4; The fourth hypothesis stated that "The Gondar town business profit taxpayers don't perceived that, the Ethiopian tax system as vertically fair system." There are two items in the questionnaire which was used to test how the taxpayers perceive vertical fairness of the Ethiopian tax system. This hypothesis can be mathematically expressed as follows:

Ho_4: $\mu < 3$ vs. Ha_4: $\mu \geq 3$ where; μ is the quantitative moderate value of taxpayers' responses.

As appears in Table 8, the computed t-value of tax payer's perception towards vertical fairness is 55.117 that is greater than the tabulated value which equals 1.96 and the levels of significance are zero. Comparing this level of significance with the predetermined one which equals 0.05 (1 – 0.95), the level of significance is found to be lower than the predetermined one. Thus, the null hypothesis Ho5: $\mu < 3$ is rejected, while the alternative Ha5: $\mu \geq 3$ is accepted. This implies that, the Gondar town taxpayers perceive the Ethiopian tax system as vertically fair.

Inferential statistics of administrative fairness

Hypothesis 5; The fifth hypothesis stated that "The Gondar town business profit taxpayers perceived that, the Ethiopian tax system lacks administrative fairness." There are three items in the questionnaire which was used to test how the taxpayers perceive administrative fairness of the Ethiopian tax system.

This hypothesis can be mathematically expressed as follows:

Ho_5: $\mu < 3$ vs. Ha_5: $\mu \geq 3$ where; μ is the quantitative moderate value of taxpayers' responses.

Tables reveal that, the computed t-value of tax payers' perception towards administrative fairness is 1.098, which is lower than the tabulated value which equals 1.96. The level of Significance for the tax payers' perception towards administrative fairness is 0.280. Comparing this level of significance with the predetermined one which equals 0.05 (1 – 0.95), the level of significance is found to be higher than the predetermined one Thus, the null hypothesis Ho_5: $\mu < 3$ is accepted, while the alternative Ha_5: $\mu \geq 3$ is rejected. This implies, the Gondar town taxpayers perceive that, the Ethiopian tax system lacks administrative fairness.

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;

Personally, the Gondar town taxpayers perceive the Ethiopian tax system as reasonably fair. In other words, the tax payers' perceive that, the Ethiopian tax system don't require them to pay more than their fair tax and their tax burden is fair when they compare it with other tax payers and also it is fulfilling their self interest.

The Gondar town taxpayers' believe that, the Ethiopian tax system is fair in terms of exchange fairness. In other word, these taxpayers believe that they receive enough services from the government, when they compare the amounts of business profit tax that they pay with those services.

Horizontally, the Gondar town taxpayers' perceive the existing tax system as reasonably fair. That means the tax payers perceive that, individuals with similar amount of profit must have to pay a similar amount of business profit tax.

Vertically, the tax payers' perceive that the Ethiopian tax system is fair that is, it is fair that high income earners are subject to tax at progressively higher tax rates than low income earners and it is fair if low income earners are taxed at a lower rate than middle income earners.

With regard to administrative fairness, the taxpayers perceived that the existing tax system lacks fairness. In other word, the tax payers believe that the government doesn't utilizes a reasonable amount of tax revenue to achieve social goals and the administration of the tax system by taxing authority isn't consistence across years and tax payers.

Researchable areas for future researchers

In this area of study, further research could be carried out to determine the results for other populations of taxpayers. Since this study is conducted on category "A" tax payers only, other researchers may extend the findings of this research by testing the findings on the remaining categories and then make a comparative study to find out if there is any significant difference in perception between these groups of taxpayers.

There should be a large-scale survey to assess the perception of taxpayers covering many determinants of tax fairness, tax complexity and tax efficiency. For instance, this study was focus on tax payers' perception towards economical efficiency of tax system but perception towards socio-cultural efficiency of tax system is also the other researchable area which requires the attention of future researchers.

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