



A review

## Factors Affecting Tax Compliance

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### Abstract

The purpose of this paper is to go through previous studies in order to bring into light those factors affecting tax compliance so as to help interested individuals and institutions get necessary information to create a model which shows important factors that influence decisions about tax compliance in their area of interest. In order to do this the researcher employed the review of literature as the method of this study. Tax compliance has been studied in economics by analysing the individual decision of a representative person between paying taxes and evading taxes. In the research of tax compliance many empirical studies have been done that emphasized the impact of a wide variety of potential determinants of voluntary compliance with individual income/profit tax filing and reporting obligations. The review of literature identified that the most important determinants identified are: economic factors as the level of income, audit probabilities, tax audit, tax rate, tax benefits, penalties, fines, complexity of tax system. and other non-economic factors as attitudes toward taxes, personal, social and national norms, perceived fairness, tax morale, perception of government accountability, tax information and perception of public service.

**Key Words:** *Tax, Tax compliance, Economic Factors, Non Economic factors.*

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### Introduction

Many factors are known to affect tax compliance. Those factors which influence tax compliance behaviour are differing from one country to another and also from one individual to another (Kirchler, 2007). Different scholars present different factors affecting tax compliance: "taxpayers perceptions of the tax system and Revenue Authority" (Ambrecht, 1998); peer attitude or subjective norms; taxpayers' understanding of the tax system or tax laws (Silvani, 1992); motivation as rewards (Feld, Frey and Targler, 2006) and punishment such as penalties (Allingham and Sandmo, 1972); cost of compliance (Slemrod, 1992);

enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioural control (Furnharn, 1983); ethics or morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004).

According to Kirchler (2007), tax compliance considered as a major research area in economic psychology. Tax compliance has been seen from various viewpoints shedding light on different aspects of taxpayers' behaviour. Attitudes were measured, prevailing social norms and lay theories explored, which

people have in mind in fulfilling their annual tax declarations. The perception of taxpayers that they are receiving some benefits from a public goods funded by the tax they pay increases tax compliance. Surprisingly, punishments appear to have insignificant effect on tax compliance behaviour (Alm *et al.*, 1992). In fact, some of the standard instruments such as greater penalties may be largely ineffective in increasing tax compliance.

The policies which were oriented towards punishment were used to explain the behaviour of tax compliance in the past many years (Alm, *et al.*, 1992). Surprisingly, the theoretical approach failed to completely explain the behaviour of tax compliance. Non-economic factors, which had been neglected by economists, have been introduced to explain the tax compliance by using the economic framework (Smith and Stalans, 1991). Non economic factors such as the willingness to pay for public provision, public education, and tax morale were considered (Hyun, 2005). These show that government must use a range of approaches in its efforts to promote tax compliance as suggested by Alm *et al.* (1992).

This study provided an overview of the economic and non-economic factors affecting tax compliance. The researcher attempted to examine individual or corporate tax compliance. The factors were brought into accessibility for interested individuals and organization with the help of reviewing the existing literatures in detail as there is a belief that previous studies were not exhaustive (Nicoleta, 2011). Based on the factors reviewed the researcher proposed variables that should be included in the current model for predicting tax compliance in Ethiopia and elsewhere too. The factors are shown in the Figure 1. After pooling of information from different previous detail reviewed researches as one can see from the next section onwards, it was possible to crystallize the factors that have the most influence on tax compliance to suggest for interested institutions both private and public ones to have appropriate model for tax compliance.

### **Tax Compliance**

According to James and Alley (2002) tax compliance refers to the willingness of individuals to act in accordance with in both the 'spirit' and the 'letter' of the tax law and administration without the application of enforcement activity". Roth *et al.* (1989) defined tax compliance as "filing all required tax returns at the proper time and that returns accurately report tax liability in accordance with the tax law applicable at the time the return is filed".

According to Richardson (2005), the findings from a cross cultural study between Hong Kong and Australia indicated that Australian taxpayers were generally more compliant than the Hong Kong taxpayers. Bobek *et al.* (2003), on the other hand, used a hypothetical tax scenario in their experimental study to investigate the taxpayers' noncompliance behaviour in the US, Australia and Singapore. Results indicated that Singaporean taxpayers had the lowest noncompliance rate at almost 26 percent, while Australian taxpayers had the highest at 45 percent. The findings further suggested that complete compliance was highest in Singapore (54 percent) and lowest in Australia (30 percent). The US was in the middle in terms of both the compliance and noncompliance rates.

### **Economic Factors of Tax Compliance**

A number of economic factors have been considered important for explaining tax compliance:

#### **Type of Employment**

Self-employed taxpayers have more opportunities for tax evasion and these opportunities might further increase with the number of different income sources. Hence, in tax compliance decisions the level of income might interact with its source. A different aspect of the income source, if income was earned by hard work or an effortless job - has been studied in experiments by (Kirchler *et al.*, 2007). According to Kirchler *et al.*, (2007), taxpayers are less compliant when they reported income earned by low effort than when they reported

hard-earned income. It seems that taxpayers are reluctant to lose their hard-earned money by “gambling” with tax authorities. The issue is important for designing proper audit strategies and for tax ethics, since a negative relation of income and compliance would put into question the intended or pretended distributional effects, respectively of progressive income taxation (Lang *et al.*, 1997).

### **Tax Rate**

Economic models of rational compliance decisions provide either mixed predictions of the effect of the marginal tax rate on compliance, or predict that increased tax rates would increase compliance (Allingham and Sandmo, 1972). On the contrary, most empirical research finds that higher tax rates decrease compliance or provides mixed results. For instance, Pommerehne and Weck-Hannemann, (1996) demonstrate that evasion increases with increasing marginal tax rates.

A theoretical model for tax compliance shows that the tax rate has an ambiguous effect on the level of tax compliance, depending upon taxpayer's attitude toward risk. Furthermore, there have been contradictory empirical evidences on the effect of tax rate on the level of tax compliance. For instance, laboratory experiments with different rates of taxes usually found that an increase in tax rates leads to higher evasions of tax (Alm *et al.*, 1992). Surprisingly however, Alm, *et al.* (1995) the opposite was found in a Spanish sample. Moreover, Baldry (1987) did not find a significant effect on any experiment.

The other empirical studies on the impact of tax rates support the assumption that high tax burdens have negative impact on compliance (Andreoni *et al.*, 1998). In field studies, a similar critique as in the discussion on income effects can be made, i.e., opportunities for tax evasion or avoidance and source of income are likely to interact with tax rate (Kirchler *et al.*, 2007). Knowledge about effects could help authorities in promoting changes in tax policy such as tax

rate increases without undermining taxpayers' compliance (Kirchler *et al.*, 2007).

Regarding the source of income, Boylan and Sprinkle (2001) report that participants in their experiment reacted to a tax rate increase with lower compliance if they were endowed with income by the experimenters, but reacted with higher compliance to a tax rate increase if they had to earn their income by performing in a one-hour multiplication exercise. Thus it is so difficult to discuss the impact of tax rates on the level of tax compliance for achieving a comparative analysis (Hyun, 2005).

The impact of the tax rate would depend on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers, as an attempt at taking from the taxpayers what is rightly theirs. When trust is high, the same level of tax rate would be interpreted as contribution to the community, which in turn again profits each individual. In the first case, the tax rate would be interpreted as the wielding of power by some tax offices and in the second case, as a joint agreement within the community (Kirchler *et al.*, 2008).

### **Tax Audit**

Tax audit level can be obtained using two elements: the number of taxpayers selected for audit and how much intensive the audit is. The number of taxpayers is easily measured by the number of audited taxpayers divided by the total number of taxpayers. However, the effort to know how intensive the audit is tend to be difficult to measure due to no published information about the process of tax audit. Hence the level of tax audit is used practical comparison purposes (Hyun, 2005). Tax audit generates administrative cost. As a constraint of the fixed administration cost, an increase in the level of tax audit is required to decrease the level of other administrative functions, like taxpayer service, tax collection.

### **Audit Probabilities**

Survey research by Mason and Calvin, (1978) concluded that evaders of taxes feel chances of being caught lower compared to non evaders of taxes. Tax experiments show that tax compliance greatly decreases after an audit (Guala and Mittone, 2005) which is given the name “bomb-crater” effect. Compliance increases after the first periods of “bomb-crater” effect. According to Kirchler, *et al.* (2005) compliance rose after a “bomb-crater” in an experiment faster to its baseline in a high audit rate situation compared to situation of lower audit rate.

Tax audits are costly in practice and researches change their focus towards alternative control mechanisms. For instance, Reinganum and Wilde (1985), and Alm, *et al.* (1993) came up with several alternative audit against random audits schemes (Kirchler *et al.*, 2007). They tested the effectiveness of a cut-off rule (i.e., when the declaration falls below a certain threshold), a retrospective audit scheme (i.e., when the random detection of noncompliance results in examination of previous tax files), and a prospective audit scheme (i.e., when the detection of non-compliance increases future audit probability). Similarly, the findings by Guala and Mittone (Guala and Mittone, 2005; Mittone, 2006) contributed an cost effective audit system in which young and inexperienced taxpayers are particularly audited to help them learn to be tax compliant if their first tax file is checked by authorities (Kirchler *et al.*, 2007).

### **Fines**

The relation of fines and tax compliance shows inconsistent findings (Fischer *et al.*, 1992). Experiments show that fines are slightly higher related to tax compliance than audit probabilities do (Park and Hyun, 2003). Low fines show that the authorities are weak to be the controller of wrongdoers, undermining trust among honest taxpayers. High fines erode the perception of retributive justice and produce tax evaders who may try harder to regain “losses” incurred during fines (Kirchler, 2008).

In an experimental survey study by Kirchler *et al.* (2007), pointed out that fines that are income adjusted had more impact on tax compliance than fines solely adjusted to severity of evasion. An increase in tax avoidance and tax resistance because of an increase of fines indicate how fines should be considered in order to be effective though fines should be high enough to decrease the expected value of tax evasion and to assure its deterrent effect on taxpayers.

### **Penalty**

Penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, and value added tax. Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no bookkeeping of invoices, receipts. Or, the penalty rates are differently applied to the types of taxpayers depending upon their evaded behaviours. If some taxpayers had the intentional evasions, the penalty rate is much higher than that of unintentional evasions (Hyun, 2005). Two kinds of evaded behaviours are most common in analysis of tax compliance. They are timely filing but underreporting, and non-filing. Despite anecdotal evidence that penalties are important, empirical studies on the extent of their impact have not yet found a clear correlation (Kirchler, 2007; Kirchler *et al.*, 2008.) Some studies have showed that penalties have a larger impact on compliance than the probability of being audited (Fisher *et al.*, 1992). Tax compliance also significantly increased with higher penalties but not with audit probability in the study by Friedland, *et al.* (1978). In contrast, other studies have shown that penalties are not related at all to compliance; even though they were able to confirm that the probability of being audited is related to compliance (Webley, *et al.*, 1991). To explain this lack of a clear impact relationship, for instance, penalties that are too low could be perceived as an indicator that the authorities are weak and unable to control non-compliant taxpayers, thereby undermining trust among honest taxpayers and leading to a lack

of encouragement to comply with tax law. Furthermore, penalties that are inappropriate because a taxpayer has made a mistake resulting from vague or overly complex tax laws would weaken the perception of retributive justice and encourage tax evaders to try harder to regain their losses incurred by those penalties (Mohd, 2010).

### **Complexity of Tax System**

Sophistication of tax laws makes tax system a complex one (Richardson and Sawyer, 2001). American Institute of Certified Public Accountants, (1992), pointed out that computational complexity, forms complexity, compliance complexity, rule complexity are forms of tax complexity, procedural complexity (Cox and Eger, 2006) and the low level of readability (Pau *et al.*, 2007; Saw and Sawyer, 2010).

Research conducted in 45 countries by Richardson (2006) found that tax complexity is the most important factor affecting non-compliance which is consistent with the findings of Cox and Eger (2006) who found that procedural tax complexity contributes to an increase in tax non-compliance. A research conducted by McKerchar (2005), Australia on a survey among tax agents noted that tax payers were not happy with the increasing complexity of the tax law that the tax agents desired a much simpler tax law, with less regulatory material and ad hoc change. Similar findings were documented by Kirchler *et al.* (2006) that taxpayers were more likely to comply when the tax law was perceived as less complex.

### **Noneconomic Factors Affecting Tax Compliance**

There are many non-economic factors to affect the level of tax compliance. Many studies have been conducted to include the non-economic factors to explain the behaviour of tax compliance under the framework of economic analysis (Alm *et al.*, 1995). Related to non-economic factors for tax compliance, in this paper consist of: attitudes toward taxes; personal, social and national norms and perceived fairness of tax system, tax morale,

perception of government accountability, tax knowledge and perception of public service.

### **Attitudes toward Taxes**

Attitudes represent the positive and negative evaluations that an individual holds of objects. Positive attitude towards tax evasion render taxpayers non tax compliant. It is usually found out that attitudes towards tax evasion are quite positive (Kirchler *et al.*, 2008). Significant, but weak relationship existed between attitudes and self-reported tax evasion (Trivedi *et al.*, 2004). The study conducted data gathered from fined tax evaders and honest tax payers showed that attitudes explain in part self-reported tax evasion, though it is an insignificant predictor of actual behaviour. Here, one can be confident that in general if tax attitudes become worse, tax evasion will increase (Lewis, 1982).

Kirchler *et al.*, (2008) argue that positive attitudes will contribute to trust in authorities and hence will increase tax compliance. Tax attitudes in general depend on the perceived use of the money collected and whether the authority uses the money for public purposes.

### **Personal, Social and National Norms**

Norms are important determinants of tax compliance. According to Kirchler *et al.*, (2008), norms are behavioural standards on three different levels:

1. The individual level;
2. The social level; and
3. The national level

On the individual level, norms define internalized standards on how to behave. There is considerable overlap between individual norms, values and tax ethics: the more developed the moral reasoning or tax ethics, the more likely is voluntary compliance (Trivedi *et al.*, 2003). Norms are usually defined on the social level as prevalence or acceptance of tax evasion among a reference group (Wenzel, 2005). The behaviour of reference groups, for example friends, acquaintances or vocational group are related to social norms. If taxpayers believe that non-compliance is widespread and

approved behaviour in their reference group, they are likely to be non-compliant as well.

On the level of national norms, norms become cultural standards, often mirrored in the actual law. Several authors suggest that trust in political leadership and administration will lead to voluntary tax compliance when favourable national norms are established (Fjeldstad, 2004). In general, if the norms held by taxpayers favour tax compliance, voluntary tax compliance will result.

### **Perceived Fairness of Tax System**

Another factor that citizens most often communicate is referring to tax system fairness concerns (Taylor, 2003). There are three areas of fairness as in social psychology:

1. Distributive justice, which refers to the exchange of resources, both benefits and cost;
2. Procedural justice, which refers to the process of resource distribution; and
3. Retributive justice, which refers to the perceived appropriateness of sanctions in the case of norm-breaking (Kirchler *et al.*, 2008).

Distributive justices are compared on the basis of individual, the group, and the societal level. If an individual's tax burden is greater than other individuals with similar background, tax compliance is lower. Individuals want a fair treatment of their group relative to other (income) groups (Spicer and Lundstedt, 1976). If groups have a perception that their tax burden is bigger than similar group, the group tend to be non compliant (Juan *et al.*, 1994). On the societal level, taxpayers are concerned about the fairness of the outcomes of the whole nation. If the tax system is perceived as unfair, tax non-compliance is likely to increase (Cowell, 1992). With respect to procedural justice, the elements essential for perceived fairness are neutrality of the procedure, trustworthiness of the tax authorities and polite, dignified, and respectful treatment (Tyler and Lind, 1992). Perceived procedural justice on the individual level are important for building up

trust (Job *et al.*, 2007). From the retributive justice point of view, unreasonable audits and unfair penalties lead to negative attitudes toward the tax office and taxes in general (Wenzel and Thielmann, 2006). Therefore, the perception that unfavourable retributive justice exist leads to increased loss of trust. This would increase tax non-compliance.

### **Tax Morale**

"The attitude of a group or the entire population of taxpayers is the question of accomplishment or ignorance of their tax duties" is the definition for Tax Morale. It is anchored to citizens' Tax attitude and in their perception to be citizens, is their inner acceptance of their Tax duty/liability and acknowledgement of sovereignty of the state" (Schmoelders, 1960). A significant impact on payment of taxes as well as on avoidance thereof is one of the influencing factors of tax compliance. Tax morale is defined as the collective attitudes of a group or population to comply with tax law (Schmölders, 1960). Some authors further stated individuals are not solely motivated by maximization of their own wellbeing but also by their feeling of responsibility towards the society (Orviska and Hudson, 2002) as it is found that the Tax morale is linked to the motivational concept of civic duty.

Literature is meant under tax morale is the motivation of a person to pay taxes real characteristic of the person, which is like an individual willingness or a moral obligation or a belief and views in a social contribution as a result of paying the taxes. Tax morale is also interpreted as an understanding of the principles/values of a person has on the liability to pay taxes recommendation was also made by Kornhauser (2007) to the IRS (Inland Revenue Service) that they endorse a tax morale approach to compliance that recognized the varying attitudes and behaviours of taxpayers. Therefore, the attitude of a person towards paying taxes is his/her individual perceptive and norms and in it self-motivation can be expressed by the term "tax morale".

Studies show that trust is negatively related to tax evasion, i.e., low trust in tax authorities are correlated with high levels of tax evasion (Richardson, 2008). Under the form of audits and fines on tax evasion are found in many studies and a significant power is effective on persuasion. Therefore, term on tax evasion refers to intentional act of breaking the law in order to reduce taxes. It involves acts of omission (e.g., failing to report certain revenues) or commission (e.g., false reporting of personal expenses as business expenses) and is liable to prosecution penalty and fines (Kirchler, 2007).

Some studies have revealed that 'tax morale' has higher legitimacy for political institutions that has led to higher tax morale values consequently has become an important variable to investigate. (Torgler and Schneider 2007). Therefore, compliance is highest in the countries characterized by high control of corruption and low size of bureaucracy (Picur and Riahi-Belkaoui 2006). This was further evidenced in a study of 30 developed and developing countries (although primarily non-African) that tax morale. Tax morale and compliance is higher in countries characterized by high control of corruption and low size of bureaucracy (Picur and Riahi-Belkaoui, 2006). This was further evidenced in a study of 30 developed and developing countries (although primarily non-African) (Feld and Frey (2007) show the importance of the relationship between taxpayers and tax authorities, emphasizing that mutual respect increases the tax compliance level. Investigations support the idea that trust of the authorities positively influences the tax compliance. Various studies report that trust in the government and in governmental institutions positively influences tax morale (Torgler, 2005).

Some entrepreneurs justified their negative attitude for paying taxes above all because of the high tax rate (Kirchler, 2007). Upon the first valuation of tax morale as the expression of tax compliance, subjective tax burden was used as an indicator in the research conducted at the University of Cologne and it was found out that

the level of willingness to pay taxes of entrepreneurs is lower than that of employees. (Torgler 2007) In the next similar research, the tax system was used as an indicator, where the differences of the tax systems of the European states and the level of tax morale among the taxpayers of each state were compared. An aggressive burden on tax policy has a negative influence on tax morale and the opposite policy helps to raise the tax morale. Researches also showed that the way the government treats a taxpayer has a consequence on the willingness of the taxpayer to pay taxes.

Investigated the differences in compliance between South Korea and Japan and found out that tax culture is one fundamental determinant of these differences, with Japan having a higher level of tax culture and thus a higher level of compliance. Hyun (2005) studied the link between tax morale and tax evasion analyzing data from 30 countries and showed that tax evasion is negatively related to economic freedom and high moral norms. Roth, *et al.*, (1989) argued that different cultural contexts which influence one's perception of events may drive one's attitude towards tax evasion.

According to the robust findings of Richardson (2006) derived from a 45-country analysis, non-economic factors have the strongest influence on tax evasion, i.e., lower levels of complexity and higher levels of fairness and tax morale lead to a decreased level of tax evasion across countries. Torgler and Schneider (2009) showed that in many countries tax morale and the high quality of societal institutions contribute to the reduction of the shadow economy. Alm and Torgler (2006) found a significant positive correlation between tax morale and trust (in the legal system and in the parliament), as well as a considerable negative correlation between tax morale and the size of shadow economy. Cummings *et al.* (2009) concluded that cross-cultural differences in tax compliance are due to perceptions of tax administration and taxpayers' assessment of government quality.

### **Perception of Government Accountability**

This is one of the psychological factors that influenced to the compliance behaviour. Political stability of the ruling party of government in a country may play a significant role in determining tax evasion behaviour. For example, if an individual favour the current ruling government party, he might choose to be compliant because he believes that the government is trusted, efficient and equitable. Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion, are very limited. Meanwhile, Roberts *et al.* (1994) also suggest that attitude to one's own tax evasion (tax ethics), and attitude to other people's tax evasion are important. It is also found that if taxpayers perceive that the government is expending on something considered unnecessary or unbeneficial to the development of the country, here-again, the taxpayers tend to avoid and attempt to evade.

Taxpayer's perceptions are potentially important in determining their compliance behaviour. In summary, the government should prudently spend taxpayers' money because the way in which the government spends the money produces different levels of compliance. Many studies have shown that higher-educated people understand better the meaning of tax liabilities and the aim of governmental policies and, as a consequence, they comply more (Song and Yarbrough, 1978). From the three aforementioned political determinants of tax compliance, in the following we will draw attention on tax law complexity. People's understanding of tax law is an important factor which shapes their disposition to comply. Results came much to the surprise of the researcher as respondents revealed a low level of knowledge and understanding of fiscal policy (Kirchler, 2007). Ironically, tax law is difficult to understand and gives birth to uncertainty not only for ordinary citizens but also for tax authorities.

Hasseldine and Hite (2003) examined whether attitudes toward the federal income tax system and the tax rebate vary by political party affiliation in the United States. Kim (2008) in his study on tax evasion in 50 countries each year illustrated these points and concluded that tax evasion is influenced by price control (positive direction), public service (positive), collected corporate tax (positive), GDP per capita (positive), tax system (positive) and the composition of government spending (positive). Hasseldine and Hite (2003) concluded that firstly, political party affiliation has a significant impact on taxpayers' behaviour; secondly, identified the tax provision is to a specific party, the more favourably it will be received by members of that party relative to taxpayers with other political party affiliations; thirdly, the policy changes (the 2001 tax rebate) in this particular case tended to be viewed positively by taxpayers (i.e. creating an increase in taxpayers trust and in voluntary compliance), and those who did perceive it positively also tended to perceive the current system as more fair.

Lewis (1982) argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation will occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged. Suggests that attitudes should be examined for the degree to which they are a product of myth and misperception.

### **Tax Knowledge**

Tax knowledge is an essential element in a voluntary compliance tax system. More recent studies undertaken in Malaysia (Loo, 2006; Loo *et al.*, 2008; 2009) also suggested tax knowledge to be the most influential factor to determine taxpayers' compliance behaviour under the self-assessment system. This is empirically established by several other studies for example, (Kirchler *et al.*, 2006), which documented that possessing tax knowledge would lead to higher compliance rates. On similar note, the absence of tax knowledge may lead to noncompliance behaviour among taxpayers, either intentionally or unintentionally.



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Small business taxpayers are not even aware of their tax knowledge shortfall and this may lead to unintentional non-compliance behaviour. Such evidence was also documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo, *et al.*, 2008).

### Perception of Public Services

According to Committee on Fiscal Affairs and Development Assistance Committee Task Force on Tax and Development (2013) different literatures identify that trust in government and satisfaction with democracy and with public services, health and education in particular, as influencing tax morale. Further, the committee found out that building fiscal legitimacy lies in the support of the public for the government and this in turn can help achieve greater results in terms of fiscal revenue more than compliance alone. In taxation, satisfaction towards service quality provided is also one of the criteria that will influence the taxpayers' level of compliance. In a cross country study by Richardson (2006) (which involve 45 countries all over the world), he finds that satisfaction towards the fairness of the tax law have a significant negative relationship with tax evasion. It shows that taxpayers will less involve in tax evasion if they believed that the tax system is fair.

If taxpayers generally perceive that the services they receive as representing value for money, it should go a long way in enhancing voluntary tax compliance and, as a concomitant result, also increase tax revenues. This applies to all levels of government, but especially to local government – where government is closest to taxpayers (Riël, 2011).

### Perception of Corruption

Data from the three regional surveys, but especially from Africa point to a possible relationship between willingness to pay tax and the perception of corruption. There is some evidence to suggest that tax evasion is associated with perceptions of corruption in

public institutions, particularly amongst tax officials. Higher levels of tax morale are reported when corruption is (perceived to be) under control (Committee on Fiscal Affairs and Development Assistance Committee Task Force on Tax and Development 2013).

If citizens associate local government councillors with corrupt practices then they discredit them as responsive leaders. Strong negative relationship between perceived corruption and dissatisfaction with the performance of political leaders and institutions is consistent across African countries and across time (as measured in previous rounds of Afrobarometer surveys). Indeed, popular concerns about official corruption are sufficiently strong and corrosive to partially offset even if they do not completely counteract or eliminate positive performance evaluations. It is worth noting; however, that perceptions of official corruption based on rumour or presumption may not be well founded (Michael 2010).

### Factors of Tax Compliance in Ethiopia

The study conducted on the determinants of tax compliance behaviour in Ethiopia particularly in Bahir Dar city administration by Tilahun (2014) revealed that perception on government spending; perception on equity and fairness of the tax system; penalties; personal financial constraint; changes on current government policies; and referral group (friends, relatives etc.) are factors that significantly affect tax compliance behaviour. However, gender and probability of being audited have no significant impact on tax compliance behaviour. Finally, the findings show that older people will comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favourable.

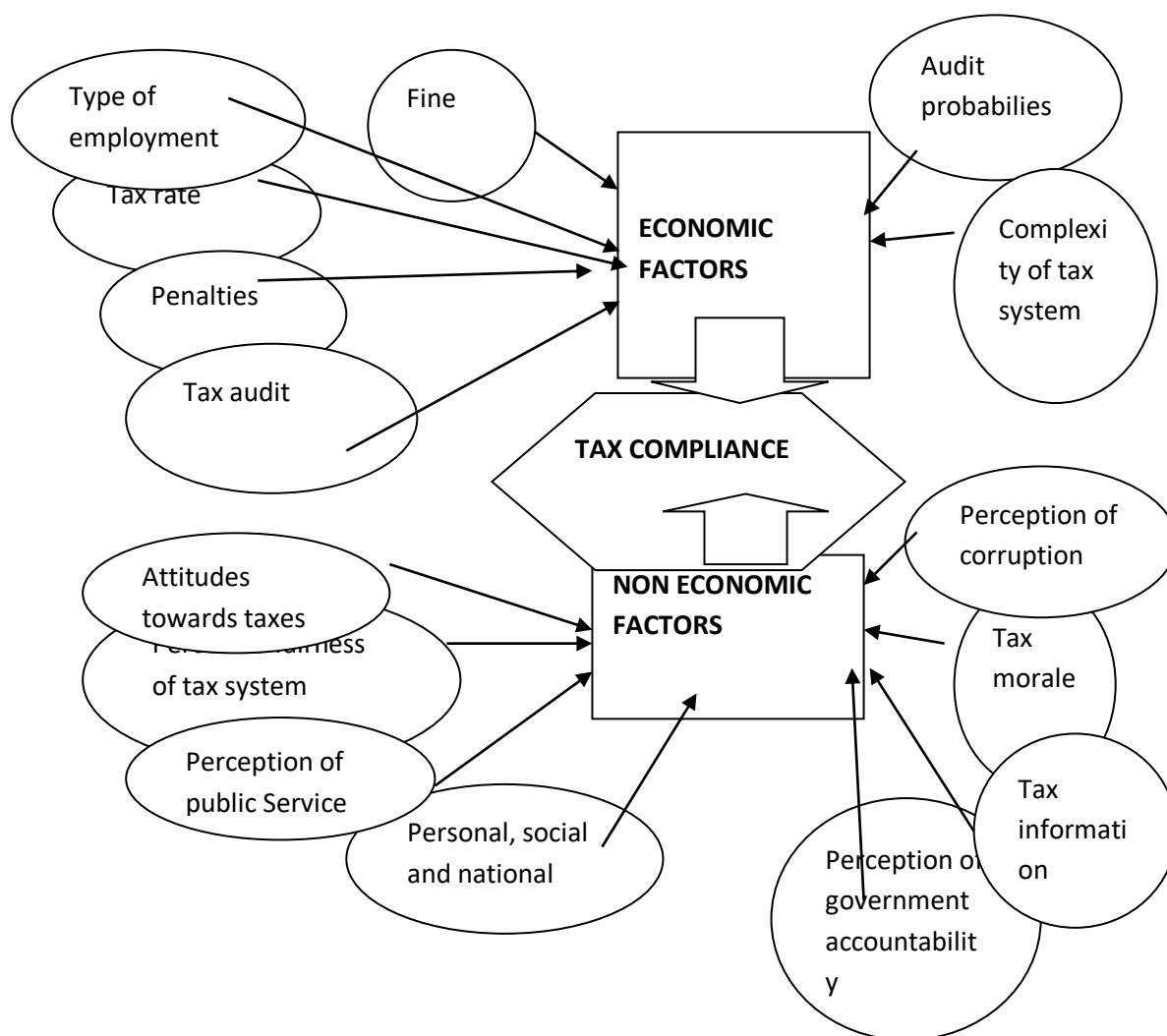
A Study Conducted on The “Assessment of Taxpayers’ Voluntary Compliance With Taxation: A Case of Mekelle City, Tigray, Ethiopia by Desta (2010) concluded that Fairness Or equity, organizational strength of the tax authority, awareness, cultural factors,

social factors and attitude towards the government are determinant factors that are affecting tax payers' voluntary compliance. Among the established variables, fairness or equity followed by organizational strength of the tax authority, tax rate, tax information, simple and transparent tax collection procedures and tax education are found to be the most important determinant factors influencing tax payers' voluntary compliance with tax law in the study area.

Delessa Daba (2014) has the view that Ethiopia has been reforming its tax system for more than 20 years. Comprehensive tax reforms started in 2002/03 as an integral part of economic reforms. The main objective of the tax reforms was to mobilize tax revenues with special focus on increasing the share of direct tax contribution to total tax revenues to ensure fiscal sustainability and to reduce dependency on foreign trade tax which is volatile due to free trade agreements and regional integration from long term perspective (Delessa Daba, 2014). According to Federal Democratic Republic of Ethiopia Ministry of Finance and Economic Development (2010) the period that covered from 1992- 2013 expected from tax system flexibility in generating tax revenues with the ratio of each categories of tax to GDP and to

total tax revenues reveals that there were no significant difference found in terms of revenues performance though a little improvement is observed during the current government in terms of tax revenues mobilization which is still only 11.5%.

Delessa Daba (2014) claims that one of the more significant findings to emerge from his study is most striking when seen against the government comprehensive tax reforms effort to increase tax is low performance. The government has been trying through comprehensive tax reforms which were strictly monitored by high political profile leaders to mobilize tax revenue and to change tax revenue structure from indirect tax in general and foreign trade tax in particular to direct tax to reduce the possibility of revenue loss due to continues tariff reduction in response to international multilateral organizations pressure for more economic openness. As can be seen here, comprehensive tax reforms and strict monitoring by political leader were not able to secure the required amount of tax. The very important factor that was not considered may be voluntary tax compliance from the taxpayers' angle by considering the behavioural aspects of taxation.



**Figure1:** Model showing factors affecting tax compliance (Researcher's own from reviewed literatures, 2019)

### Conclusions

This study provides an overview of the economical and non economical factors for tax compliance that will support for researchers to examine individual tax compliance. The findings of many studies suggest that taxpayers' attitudes towards the tax system and the way taxpayers feel treated by a tax authority are important in explaining taxpayer non-compliance. Related to the tax system itself, there is specific evidence to suggest that perceptions of unfair tax burdens can affect taxpayers' views about paying tax and can go on to affect their compliance decisions. In this sense, tax noncompliance is a serious challenge facing tax administration and hindering tax revenue performance. A number

of factors may be responsible for low compliance in income tax administration in any revenue institutions in any countries. The developments of tax decision-making approaches have focused on economic and behavioural factors affecting compliance.

From the economic factors perspective, tax fairness which is crucial seems to involve at least two different dimensions (Jackson and Milliron, 1986): the first relates to the benefits one receives for the tax given; the second dimension involves the perceived equity of the taxpayer's burden in reference to that of other individuals. This second dimension relates to taxpayers' perceptions of the vertical equity of the tax system. If a taxpayer were to feel that

they pay more than their fair share of tax when comparing themselves to wealthy taxpayers, they are more likely to see paying tax as a burden than a taxpayer not concerned about these issues.

Moreover, this study examined the influence of psychological factors on tax compliance decisions. To recognize 'variables of tax compliances' analysed by various researchers, which includes factors of psychological to be of value for decisions to make on tax compliance is emphasised in this review. However, taxpayers' attitude has been identified as crucial one factor that play important role in influencing tax compliance behaviour. Many economic studies have revealed that tax compliance is based on individual decisions on paying and evading tax. The researches have further substantiated that the 'impact' of large number of potential determinants of voluntary tax compliance are their individual income/profit, social norms, equity and fairness, perception of government, and accountability towards tax compliance attitude.

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The review of literature on the study subject here suggests that there are various elements under both economic and non economic factors affecting tax compliance. Therefore, scholars in the area of tax compliance have greater opportunities to include these factors all in their model and try to identify the most important factor in the context in which they conduct the research.

The researcher brought into light that several factors affecting tax compliance were identified by previous researchers as of two types. They are economic and non economic ones. The detail review on the subject matter revealed that non economic factors are more important if not the only factor and needs to be considered for research, policy makers as well as for practitioners in the areas of taxation.

## Conflict of Interest

The author didn't declare any conflict of interest regarding to this review.

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