

FACTORS CONTRIBUTING TO TAX EVASION: THE CASE OF SMALL AND MEDIUM ENTERPRISES IN ADDIS ABABA CITY ADMINISTRATION

Biruk Tesfaye* **Dr. Padakanti Laxmikantham****

**Author, Addis Ababa, Ethiopia.*

***Corresponding Author, Addis Ababa University, Addis Ababa, Ethiopia.*

Abstract

Since tax evasion is a serious issue in developing nations like Ethiopia, the study's goal is to determine the elements that influence tax evasion in Addis Ababa's Small and Medium Enterprises. In addition to using purposive and stratified sample procedures, the research used both descriptive and explanatory research designs. Questionnaires and interviews were used to collect the primary data for the study, and it was then analyzed using descriptive and inferential statistics. The study's findings demonstrated that tax evasion is positively and significantly impacted by the negative attitudes of taxpayers regarding taxes, and the cost of tax compliance. Yet, tax audit, tax knowledge, the effectiveness of the tax authority, tax fairness, and tax fines and enforcements each have a negative and significant impact on tax evasion. The most negative and substantial impact on tax evasion is caused by tax audit from the eight predictor factors. The study then made the suggestion that in order to reduce the expense of tax compliance, the tax authority should make sure the tax system is clear and straightforward.

Key Words: *Factors Contributing to Tax Evasion, Small and Medium Enterprises, Tax Audit, Negative Taxpayers' Attitude towards Tax.*

1. Introduction

Taxation is critical for both advanced and developing nations' economic growth. In underdeveloped countries, tax evasion is a major challenge for tax revenue collection (Abebe, 2019). Tax evasion is a serious phenomenon since it affects any country that relies on taxes for revenue (Al-Rahamneh & Bidin, 2022). The taxpayers' ability to pay tax is crucial towards achieving a successful and long-term inflow of tax revenue. According to statistics, SMEs represent 90.1% of the companies from all businesses in Ethiopia, roughly 23% of the Gross Domestic Product (GDP) and 41% of total jobs (Adane, 2020). SMEs play a critical role in the economic development of a country, serving as its financial backbone. SMEs make significant contributions not only in terms of numbers, but also in the provision of jobs (Kassa, 2021). Their contribution to income and well-being drives opportunities and business improvement, individual ability and self-confidence, political stability and social change, distributary and democratic objectives, and also reduces poverty and unemployment (Manaye et al., 2020).

Addis Ababa City administration has more than 418,133 registered taxpayers that are classified in three categories based on their annual sales turnover. About 73,294 are categorized under the 'largest taxpayers group' or category A while close to 45,875 taxpayers fall under category B or medium taxpayers. The remaining 298,964 taxpayers are under category C (AARB, 2023). This indicated that the majority of the SMEs taxpayers fall under category C taxpayers and because of the huge number of SMEs and huge number of taxpayers the researcher conducted this study in Addis Ababa.

Due to the lack of streamlined access to and clarification of tax laws and procedures, lack of knowledge of tax laws and regulations, and insufficient filing and reporting systems, small and medium business owners in Ethiopia are unable to comply with tax laws and regulations in a practical manner (Derar, 2016; Kassa, 2021). In order to determine what causes tax evasion in SMEs in Addis Ababa city, both from the perspective of tax payers and Ministry of Revenue auditors, was the goal of this study.

1.2 Objectives

The study is aimed at achieving the following objectives:

- a. To examine how the components of the economic deterrence theory—namely, tax fines and enforcements, tax audits, the effectiveness of the tax authority, and the cost of tax compliance—affect tax evasion from the viewpoints of taxpayers and tax collectors in SMEs in Addis Ababa.
- b. To investigate, from the viewpoints of taxpayers and tax collectors in SMEs in Addis Ababa, how the psychological theory facts—namely, tax fairness, tax knowledge, and negative taxpayers' attitudes toward tax—contribute to tax evasion.
- c. To evaluate the efforts made by the tax authorities to encourage SMEs to lessen tax evasion and abide by the tax laws.

The researchers have formulated the following hypotheses from the literature reviews:

H_{a1}: Tax fairness has a negative and significant influence on tax evasion.

H_{a2}: Tax knowledge has a negative and significant influence on tax evasion.

H_{a3}: Tax audit negatively and significantly influences tax evasion.

H_{a4}: Tax penalties and enforcement negatively and significantly influences tax evasion.

H_{a5}: Tax authority's efficiency negatively and significantly influences the taxpayers' attitude towards tax evasion.

H_{a6}: Negative attitude of tax payers towards tax has a positive and significant effect on tax evasion.

H_{a7}: Tax compliance cost has a positive and significant influence on tax evasion.

1.3 Significance of the Study

This study is anticipated to be significant in a number of ways, starting with the researchers' ability to gain the skills necessary for research. Second the result of the above formulated hypotheses will help the government (Federal, State and Local level) and their agencies to formulate and implement adequate tax policies with respect to tax revenue administration. Thirdly, by supplying more research on the idea of tax evasion, particularly among small and medium-sized businesses, it will give future academics and researchers more insight.

1.4 Scope of the Study

This study focused on investigating the causes of tax evasion among small and medium-sized businesses in Addis Ababa from December 2022 to June 2023. Conceptually, the study concentrated on the factors that influence taxpayers to engage in tax evasion activities that were found in the literature, including (tax fairness, tax knowledge, tax audit, tax penalties and enforcements, tax authority's efficiency, corruption, negative attitude of tax payers toward tax, and tax compliance cost). Owners and managers of SMEs provided the study's primary data through self-administered questionnaires, and MoR auditors from each Addis Ababa sub-city provided the study's primary data through interviews.

2 .Literature Review

Tax evasion is characterized as a criminal act committed while paying taxes. It occurs when taxpayers purposefully fail to pay their taxes, either by failing to file their returns, reporting their income incorrectly, or paying less than the actual amount owed despite being able to do so (Rashid, 2020). The desire of a taxpayer to participate in tax evasion is influenced by a number of factors. Among the elements, the following were considered in this study: tax fairness, tax knowledge, tax audit, tax penalties and enforcements, tax authority efficiency, corruption, negative taxpayer attitudes toward tax, and tax compliance costs.

Kassa (2021) stipulate that tax fairness, tax knowledge, and moral obligation significantly influence taxpayers' decision to evade taxes, while the remaining moral obligations and subjective norms have no statistically significant impact on this decision. Demle (2019) concluded that the following factors have a statistically significant impact on tax evasion: tax rate, income level, and probability of detection, penalty rate, and complexity of the tax system, perceived role of the government, peer influence on tax evasion, age, gender, and education.

Yohannis and Zerihun (2013) finding's tell us that enhancing the tax authority's operational framework and increasing transparency will gradually increase taxpayer's confidence in the tax system. On the other hand Daniel (2017) conducted research on the variables that affect category 'C' taxpayers' attitudes toward voluntary compliance in Arbaminch. He found that among category "C" taxpayers, lack of awareness was the primary cause of non-voluntary compliance.

According to the findings of Mesele and Tesfahun (2016) in Dessie Town, the problems that taxpayers were facing included tax justice and equity, the organizational capability of the tax authority, the degree of taxpayer awareness, cultural factors, and the availability of social services from the government, with a focus on the Tigray Regional State, Redae and Shailinder (2016) conclusions showed that the government ignored efforts to raise awareness and improve tax payer understanding. In addition Kenno (2020) in Bale Robe town of Oromia Regional State, found out that tax evasion was caused by a lack of tax knowledge, the perception of tax evasion as a cultural norm, the prevalence of tax audits and the degree of detection, the perception of tax evasion as a low-level crime, and problems with tax fairness and equity. According to the study of Rashid (2020), perceptions of fairness, tax knowledge, auditing, and enforcement efforts have a negative impact on taxpayers' attitudes toward tax evasion, whereas corruption, discrimination, and the complexity of the tax code have a positive impact. It has also discovered that men, who are younger, married, educated, self-employed, and have low incomes, are more likely to be affected by tax evasion factors than women, who are older, single, less educated, employed, and have higher incomes. Manaye et al. (2020) found out that the main factors influencing tax evasion were found to be perceived equity, income level, fines and penalties, and gender with regard to tax compliance. By taking into consideration the review of the literatures, the researcher is motivated to investigate the factors that contribute to tax evasion in SMEs within Addis Ababa City administration.

3 .Methodology

The research design for this study is descriptive and explanatory study where the explanatory research design shows the cause and effect link between independent and dependent variables and the descriptive research can be used to describe the event as it is. The research approach conducted was both qualitative and quantitative research approaches because the overall strength of the study would be greater when both qualitative and quantitative research approaches are used (Creswell, 2009). To achieve the objective of the study both primary and secondary sources of data were used. The primary data was collected from the SMEs owners and managers by using questionnaires, and also from auditors of the tax authority or from MoR through questionnaires and interviews. The secondary data was also collected from the reports, websites, and other sources. The target populations of the study were 5129 taxpayers of micro and small enterprises found in Addis Ababa city. To select sample SMEs taxpayers, a sampling technique known as multi-stage were employed and 371 respondents were selected. Also 20 auditors from Ministry of Revenue of each Sub-city were purposefully selected for interview questions.

To analyze the collected data, the researchers have used descriptive statistics analysis, Pearson correlation analysis, and multiple regression analysis to test the proposed hypothesis of the variables by using SPSS Version 23.

4 .Results and Discussion

4.1 Questionnaire Response Rate

The study's target sample size was 371 respondents and 310 of them were completed and returned surveys, yielding an 83.56 percent response rate. Because it acted as a representative sample, this response rate was ideal for drawing conclusions about the study (Mugenda & Mugenda, 2003).

4.2 Reliability and Validity Assessment Results

For all variables taken into consideration, Cronbach's Alpha Statistics for the explanatory factors exceeded the permitted standard of 0.7 (Hair et al., 2010). This may indicate that the study's data was accurate and reliable. Additionally, validity is referred to as an investigation's credibility (Creswell, 2009).It has to do with figuring out whether the tools used to collect the data accurately reflect what they should be counting. The researcher worried about content validity by merely examining the content of data collection tools to ascertain whether they were genuine. The researcher adhered to Cooper and Schindler's (2011) recommendations, which included locating pre-existing scales in the pertinent literature, in order to obtain content validity.

4.3 Background Information of the Respondents

Gender, age, marital status, and level of education are all included in the demographic characteristics of the respondents. The findings indicate that every respondent has the level of literacy necessary to comprehend the questions posed, and as a result, they can all provide accurate information about the tax evasion committed by SMEs. As a result, the tax authority can easily inform the taxpayer about the relevant laws, rules, and regulations. The finding of the background information of the SMEs suggested that the majority of the SMEs included in this study had more than ten years of tax experience. This can make it easier for the tax authorities to explain the causes of and effects of tax evasion on the expansion of the nation's economy.

4.4 Descriptive Analysis of the Study Variables

A. Factors Contributing to Tax Evasion Dimensions

- Tax Fairness

Table 1: Descriptive Statistics of Tax Fairness

Code	Statements on Tax Fairness	Statistics	
		Mean	STD
TF1	There is no existence of corruption practice in the tax system	2.09	0.67
TF2	The tax collection procedures and principles are fair or there is no discriminatory tax assessment	2.14	0.67
TF3	There is no inconsistency in tax burden or the tax assessment is not based on arbitrary decisions	2.06	0.70
TF4	There is no ambiguity of tax regulations that leads to misinterpretation of tax regulations	2.13	0.66
TF3	A large portion of the money collected is spent on projects that does benefit me	2.06	0.68
Aggregate Mean and Standard Deviation		2.10	0.68

Source: Survey Result (2023)

The aggregate mean of 2.10 and the standard deviation of 0.68 indicate that the tax system was unfair, as evidenced by the existence of corrupt tax practices, unfair tax collection practices, principles, and discriminatory tax assessments.

The results of the interview are nearly identical to the results of the earlier study: taxpayers are occasionally required to pay unauthorized tax expenses because they fail to maintain the required records for taxation.

- **Tax Knowledge**

Table: 2 Descriptive Statistics of Tax Knowledge

Code	Statements on Tax Knowledge	Statistics	
		Mean	STD
TK1	I know well which sources of income I must declare	2.09	0.69
TK2	Tax is paid in anticipation of public services	2.05	0.74
TK3	I know about criminal penalties for intentional tax evasion	2.08	0.68
TK4	I am well informed about tax and tax evasion	2.08	0.67
TK5	The tax authorities provided me different training about tax evasion and other tax-related issues	2.12	0.66
Aggregate Mean and Standard Deviation		2.08	0.69

Source: Survey Result (2023)

The aggregate mean and STD value of 2.08 and 0.69 demonstrates that taxpayers lacked knowledge of the tax system. According to the respondents who were interviewed, the tax authority is not adequately supplying SMEs with the necessary awareness or knowledge about taxation.

- **Tax Audit**

Table 3: Descriptive Statistics of Tax Audit

Code	Statements on Tax Audit	Statistics	
		Mea n	STD
TA1	The probability of getting caught by tax audit is high	2.11	0.64
TA2	The SMEs have no chance to evade their taxes or filing taxes less than actual obligation due to tax audit by tax authorities	2.07	0.59
TA3	The audit departments of the government inspect or audit whether the taxpayers are complying with tax laws regularly	2.21	0.57
TA4	The tax authority will find out if SMEs do not file taxes documents	2.13	0.61
Aggregate Mean and Standard Deviation		2.13	0.60

Source: Survey Result (2023)

The aggregate mean = 2.13 and STD = 0.60 shows that there was a low likelihood of being caught by a tax audit. The tax officials who were interviewed added that they have doubts about the ability of the tax administration to look into the accuracy of the reported income because the number of SMEs tax payers does not correlate well with the number of auditors in the tax authority.

- Tax Penalties and Enforcements

Table 4: Descriptive Statistics of Tax Penalties and Enforcements

Code	Statements on Tax Penalties and Enforcements	Statistics	
		Mean	STD
TPE1	Fines and penalties are imposed on the SMEs who evade tax	2.14	0.71
TPE2	Currents penalties are enough to make SMEs obey tax laws	2.11	0.71
TPE3	The anti-corruption commission is capable of taking action against tax evaders	2.13	0.69
TPE4	The tax authority will punish SMEs who do not file taxes	2.13	0.72
TPE5	The tax laws are enforced on those SMEs that are not submitting their income tax return	2.18	0.69
Aggregate Mean and Standard Deviation		2.14	0.70

Source: Survey Result (2023)

The aggregate mean and STD value of 2.14 and 0.70 shows that SMEs who evade taxes are not subject to fines or penalties and these outcomes match the interview results that the tax authority did not penalize those who do not consistently file taxes and submit income tax returns.

- Tax Authority's Efficiency

Table 5: Descriptive Statistics of Tax Authority's Efficiency

Code	Statements on Tax Authority's Efficiency	Statistics	
		Mean	STD
TAE1	The tax authority employees are skilled and professional	2.15	0.60
TAE2	The tax authority employees are knowledgeable and willing to help	2.11	0.63
TAE3	The tax collectors do not harass the taxpayers	2.19	0.67
TAE4	The tax administration has put a sound and efficient tax system in place	2.16	0.67
Aggregate Mean and Standard Deviation		2.15	0.64

Source: Survey Result (2023)

The aggregate mean and STD value of 2.15 and 0.64 demonstrates that the tax authority staff lacked the expertise, know-how, professionalism, and willingness to assist taxpayers. According to the tax officials who were interviewed, Ethiopia's tax administration system is inefficient and ineffective because the revenue authority does not maintain a database of all taxpayers, which gives people a chance to evade taxes. There is also a shortage of skilled workers who are highly motivated to collect taxes, and the procedures for tax assessment and collection are unclear.

- Negative Taxpayers Attitude towards Tax

Table 6: Descriptive Statistics of Taxpayers Attitude toward Tax

Code	Statements of Negative Taxpayers Attitude toward Tax	Statistics	
		Mean	SD
TAT1	The tax system is unequal and unfair	3.96	0.70
TAT2	The tax administration is inefficient to find out SMEs who declare their income inaccurately and thereby punish tax evaders	3.92	0.76
TAT3	Tax evasion is not considered a serious offense	3.90	0.71
TAT4	The overall tax system is too complex to understand	4.05	0.67
TAT5	Tax evasion is ethical because social justice is not established all over the country	3.97	0.69
Aggregate Mean and Standard Deviation		3.96	0.71

Source: Survey Result (2023)

The aggregate mean value of 3.96 and STD of 0.71 shows that taxpayers did not view tax evasion as a serious crime or offense. But the tax officials who were interviewed said that there are only a very small number of devoted taxpayers in the nation, so their responses cannot be considered representative of all taxpayers who might have similar questions.

- **Tax Compliance Costs**

Table 7: Descriptive Statistics of Tax Compliance Costs

Code	Statements on Tax Compliance Costs	Statistics	
		Mean	STD
TCC1	The penalty due to not paying tax is lower than my tax saving	3.87	0.67
TCC2	Cost of stationaries, computer, etc. is high	3.90	0.77
TCC3	Cost of cash register machine and its operation is high	3.85	0.71
TCC4	Cost of software and internet is high	3.89	0.77
TCC5	Cost of hiring staff such as accountant and sales man is high	3.87	0.69
TCC6	Most of the time I hire external services (tax consultant) to file tax returns and I pay additional costs	3.88	0.71
Aggregate Mean and Standard Deviation		3.88	0.72

Source: Survey Data Output (2023)

The aggregate mean value of 3.88 and STD of 0.72 shows that tax payers believed that the costs associated with complying with tax laws were high. In addition, the tax officials who were interviewed said that it is expensive for SMEs to maintain accounting records.

B. Descriptive Statistics Analysis of Tax Evasion Dimensions

Tax evasion dimensions were evaluated using ten measurement items with mean scores ranging from 3.80 to 3.92 and standard deviations between 0.66 and 0.73. This demonstrates that the owners or managers of the selected SMEs of Addis Ababa City Administration were in agreement that the high rates of income tax, low rates of penalties, a low likelihood of detection, the complexity and unfairness of the tax system, the weakness of the audit system, and the inefficiency of the tax authorities were the causes or reasons for taxpayers to engage in tax evasion. Additionally, the owners or managers of the chosen SMEs of Addis Ababa City Administration concurred that the majority of SMEs taxpayers do not report all of their income to the authority, and they perceived tax evasion as ethical behavior because they believed a significant amount of the money collected by the public authorities was wasted. They also responded that tax evasion is not seen as a serious crime among the society of SMEs taxpayers. The results are also supported by the aggregate mean of 3.86 and STD of 0.69.

In addition, the tax officials recommendations includes opening new branches close to the taxpayers, improving internet connections, streamlining tax filing and collection procedures by introducing e-filing and e-payment systems, strengthening bonds and establishing trust with the taxpayers by communicating the tax programs with the taxpayers, creating awareness through regular training and education on tax laws and procedures, ensuring fairness in the tax system and by making accessible of any changes to the tax laws and directives to the taxpayers timely.

4.5 Results of Inferential Statistics

Pearson's Correlation Coefficient and Multiple Regression Analyses were performed in order to achieve the study's goals.

✓ **Pearson's Correlation Coefficient**

The correlation result in Table 9 below demonstrates the significant positive and negative relationship between the independent variables and the dependent variable.

Table 9: Correlation Coefficient Matrix

	TE	TF	TK	TA	TPE	TAE	CR	TAT	TCC
TE	1								
TF	-.758**	1							
TK	-.751**	.747**	1						
TA	-.733**	.577**	.582**	1					
TPE	-.616**	.586**	.523**	.442**	1				
TAE	-.738**	.699**	.603**	.645**	.567**	1			
TAT	.833**	-.657**	-.650**	-.606**	-.590**	-.661**	.565**	1	
TCC	.811**	-.656**	-.627**	-.611**	-.467**	-.625**	.562**	.719**	1

** . Correlation is significant at the 0.01 level (2-tailed).

TE = Tax Evasion, TF = Tax Fairness, TK = Tax Knowledge, TA = Tax Audit, TPE = Tax Penalties & Enforcements, TAE = Tax Authority's Efficiency, TAT = Negative Taxpayers' Attitude towards Tax, and TCC = Tax Compliance Costs

Source: Survey Data Output (2023)

According to the table, the correlation coefficients relationships for tax fines and enforcements and tax authority effectiveness are for example shown below.

- ❖ The 0.758 correlation coefficient between tax fairness and tax evasion suggests that when tax justice or fairness is functioning effectively, it will lessen taxpayers' tax evasion. Tax justice also seems to have a strong and negative relationship with tax evasion.
- ❖ The coefficient of correlation between tax knowledge and tax evasion is -0.751, indicating that there is a negative and strong correlation between tax knowledge and tax evasion. This suggests that SMEs taxpayers will be less likely to engage in tax evasion activities if they have a good understanding of the tax system.
- ❖ There was a -0.733 correlation between tax audit and tax evasion and this suggests that tax evasion will decline as the likelihood of being discovered during a tax audit rises.
- ❖ a -0.616 correlation between tax fines and enforcements and tax evasion suggests that tax evasion will decline as tax collectors increase their tax penalties and enforcement efforts.
- ❖ a -0.738 correlation between tax authority effectiveness and tax evasion implies that as the tax authority's efficiency is increased, the tax evasion of SMEs in Addis Ababa will decrease.
- ❖ The 0.833 correlation between a taxpayer's negative attitude toward taxes and tax evasion demonstrated taxpayers believed that the existence of an unfair, complicated, and unequal tax system, as well as the ineffectiveness of the tax administration, led to an increase in tax evasion.
- ❖ The 0.811 coefficient of correlation between tax compliance expenses and tax evasion suggests that tax evasion will be significantly reduced if the costs of tax compliance were reduced in the process.

Multiple Regression Analysis

In this study, the multiple regression equations' unstandardized and standardized coefficients are provided. Discussions, however, are based on the unstandardized coefficients for each variable being studied.

Table 10: Analysis of the Regression Model Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	26.355	2.413		10.923	.000
	TF	-.163	.077	-.077	-2.119	.035
	TK	-.253	.068	-.124	-3.698	.000
	TA	-.506	.088	-.170	-5.769	.000
	TPE	-.138	.052	-.072	-2.644	.009
	TAE	-.197	.088	-.075	-2.247	.025
	TAT	.495	.067	.261	7.431	.000
	TCC	.378	.054	.235	7.056	.000

a. Dependent Variable: Tax Evasion (TE)
 TF = Tax Fairness, TK =Tax Knowledge, TA =Tax Audit, TPE =Tax Penalties & Enforcements, TAE =Tax Authority's Efficiency, TAT =Negative Taxpayers Attitude toward Tax, TCC = Tax Compliance Costs

Source: Survey Data Output (2023)

The regression model's unstandardized beta coefficients ($\beta_3 = -0.506$, $t = -5.769$, $p < 0.05$) showed that tax audit has the most detrimental and significant impact on tax evasion. Accordingly, tax evasion will decline by 0.506 when tax audit increases by one point. This suggests that in order to decrease tax evasion, tax collectors should focus more on tax audit in SMEs. The unstandardized beta coefficients of negative taxpayers' attitude toward tax with ($\beta_7 = 0.495$, $t = 7.431$, $p < 0.05$), which suggested that negative taxpayers' attitude toward tax has a positive and significant effect on tax evasion, were the next two results. According to this, there will be a 0.495 percent increase in tax evasion for every unit increase in taxpayers' negative attitudes toward paying taxes. Tax compliance costs came in third with the third highest positive and significant value to have an impact on tax evasion ($\beta_8 = 0.378$, $t = 7.056$, $p < 0.05$). This indicates that for every unit increase in the cost of tax compliance, there was a 0.378 unit increase in tax evasion.

The unstandardized beta coefficients value for tax knowledge was the fourth highest negative and significant value to have an impact on tax evasion ($\beta_2 = -0.253$, $t = -3.698$, $p < 0.05$). This suggests that for every unit increase in tax literacy, there was a 0.253 unit drop in tax evasion. The fifth highest negative and significant value to have an impact on tax evasion was found in the unstandardized beta coefficients value for the effectiveness of the tax authority with ($\beta_5 = -0.197$, $t = -2.247$, $p < 0.05$). This suggests that for every unit increase in tax authority efficiency, there is a corresponding decrease in tax evasion of 0.197 units.

The unstandardized beta coefficients value for tax fairness was the sixth highest negative and significant value to have an impact on tax evasion ($\beta_1 = -0.163$, $t = -2.119$, $p < 0.05$). This suggests that for every unit increase in tax equity, there is a 0.163 unit drop in tax evasion. Last but not least, tax penalties and enforcements had the least significant negative impact on tax evasion ($\beta_4 = -0.138$, $t = -2.644$, $p < 0.05$). This showed that a 0.138 unit decrease in tax evasion followed a one unit increase in tax penalties and enforcements.

Summary of the Hypothesis Test Results

Hypothesis	P-value	Expected Relationship	Result	Decision Accept/Reject
H_{a1} : Tax fairness has a negative and significant influence on tax evasion.	0.022	Negative	Negative	Accept
H_{a2} : Tax awareness has a negative and significant influence on tax evasion.	0.000	Negative	Negative	Accept
H_{a3} : Tax audit negatively and significantly influences tax evasion.	0.000	Negative	Negative	Accept
H_{a4} : Tax penalties and enforcement negatively and significantly influences tax evasion.	0.009	Negative	Negative	Accept
H_{a5} : Tax authority's efficiency negatively and significantly influences the taxpayers' attitude towards tax evasion.	0.027	Negative	Negative	Accept
H_{a6} : Negative attitude of tax payers towards tax has a positive and significant effect on tax evasion.	0.000	Positive	Positive	Accept
H_{a7} : Tax compliance costs have a positive and significant influence on tax evasion.	0.000	Positive	Positive	Accept

Survey: Data Output (2023).

The unstandardized beta coefficient with ($\beta_1 = -0.163$, $t = -2.119$, $p < 0.05$) indicated that tax fairness has a negative and significant effect on tax evasion.

The unstandardized beta coefficient with ($\beta_2 = -0.253$, $t = -3.698$, $p < 0.05$) demonstrated that tax knowledge has a detrimental and significant effect on tax evasion.

The unstandardized beta coefficient with ($\beta_3 = -0.506$, $t = -5.769$, $p < 0.05$) indicated that tax audit has a negative and significant effect on tax evasion.

The unstandardized beta coefficient with ($\beta_4 = -0.138$, $t = -2.644$, $p < 0.05$) indicated that tax penalties and enforcement has a negative and significant effect on tax evasion.

The unstandardized beta coefficient with ($\beta_5 = -0.197$, $t = -2.247$, $p < 0.05$) indicated that tax authority efficiency has a negative and significant effect on tax evasion.

The unstandardized beta coefficient with ($\beta_7 = 0.495$, $t = 7.431$, $p < 0.05$) indicated that tax payers' negative attitudes toward taxes have a positive and significant impact on tax evasion.

The unstandardized beta coefficient with ($\beta_8 = 0.378$, $t = 7.056$, $p < 0.05$) indicated that tax compliance costs have a positive and significant effect on tax evasion.

The following conclusions about tax evasion are drawn from the qualitative data obtained through interviewing and the researchers' triangulation. The tax being imposed isn't fair and equitable, say the tax officials who were interviewed, because it occasionally depends on estimates of the average daily revenue. The tax officials who were interviewed stated that maintaining accounting records is expensive for SMEs because it requires them to hire accountants, rent offices, and buy computers, stationery, and software, among other expenses. As a result, the tax compliance costs for SMEs are high. Additionally, there are discrepancies between the number of SMEs paying taxes and the number of auditors working

for the tax authority or ERCA, which reduces the likelihood that an audit will catch the problem. It consequently weakens one's desire to voluntarily comply and raises tax evasion. According to both the quantitative and qualitative findings, tax awareness is a crucial component of improved voluntary compliance and lowers tax evasion. The respondents who were questioned also mentioned that there will be less tax evasion if the rate of fines and penalties is high.

According to the tax officials who were interviewed, the tax authority's inefficiencies allowed SMEs taxpayers to evade taxes by not declaring and underreporting income, overstating business expenses and deductions, underreporting and over reporting trading stock, and deducting personal expenses as business expenses to conceal the precise tax liability. Because they believed that a significant amount of the tax revenue was used inefficiently and allocated to unworthy projects that did not benefit the taxpayers, this demonstrated that the SMEs taxpayers had grown to have a negative attitude toward taxes.

The ERCA tax officials who were interviewed concluded that in order to reduce the tax evasion of SMEs, ERCA should establish new branches close to the taxpayers, improve internet connections, streamline tax filing and collection procedures by implementing e-filing and e-payment systems, improve relationships and build trust with the taxpayers by communicating the tax programs with them, and raise awareness through regular training and education on tax laws.

5. Conclusion And Recommendation

The study reveals that all of the explanatory variables (i.e., tax fairness, tax knowledge, tax audit, tax penalties & enforcements, tax authority's efficiency, negative taxpayers' attitude towards tax and tax compliance costs) have a statistically significant impact on tax evasion. Hence in order to deter tax evasion among SMEs, the authority should strengthen its audit system, timely and necessary tax training about tax rates and tax systems should be given, and in order to monitor informal suppliers who transact without using legal receipts and to include all SMEs businesses in the tax system, ERCA should strengthen the tax enforcement team. In order to produce insightful and inclusive papers by comparing factors contributing to tax evasion of taxpayers in various business sectors, future researchers should concentrate on other taxpayer categories and cover wider geographical areas may want to consider conducting longitudinal studies.

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