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AZ ADÓELKERÜLÉSSEL KAPCSOLATOS ATTITŰDÖK AZ A ÉS B KATEGÓRIÁBA TARTOZÓ ÜZLETI JÖVEDELEMADÓ-FIZETŐK KÖRÉBEN ETIÓPIÁBAN

TAX EVASION ATTITUDES AMONG CATEGORY A AND B BUSINESS INCOME TAXPAYERS IN ETHIOPIA

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Kulcsszavak: *adó, adóelkerülés, megfelelés, A és B kategóriájú adófizetők, Etiópia*

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ABSTRACT

This study investigates the activities of tax evasion attitude in Ethiopia using a mixed-methods approach. The target populations are category A and B taxpayers and tax officials of revenue offices. Data is collected through surveys and structured interviews with taxpayers, focusing on variables such as reported income, tax compliance rates, and demographic factors. Statistical techniques, regression analysis, and in-depth interviews with key stakeholders are employed for nuanced insights. Thematic analysis is employed for qualitative data analysis, with ethical considerations prioritized. Data was collected from 566 taxpayers and selected officials, using a mixed research approach with both descriptive and explanatory research design. The dependent variable is tax evasion attitude, measured by questionnaires that show taxpayers' compliance indirectly. The study found that variables such as the complexity of the tax system, tax rate, weak tax administration, compliant peers, and the role of tax advisors have a positive relationship with tax evasion attitudes. Government legitimacy had a weak and negative correlation with tax evasion attitude, while peer influence, corruption, Tax rate and tax system had a weak and positive correlation with tax evasion attitude. The study recommends that revenue authority should train taxpayers to prepare and present their tax returns, encourage large taxpayers to establish their own accounting information systems and collaborate with certified accountants.

ABSZTRAKT

A tanulmány az adóelkerülő magatartást vizsgálja Etiópiában. Az elemzésbe bevont célcsoportok az általunk kialakított A és B kategóriába tartozó adófizetők, valamint az adóhivatalok adóügyi tisztviselői. Az adatgyűjtés az adófizetők körében elvégzett felmérések és strukturált interjúk segítségével történt, olyan változókra összpontosítva, mint a bejelentett jövedelem, az adómegfelelési arányok és demográfiai tényezők. A korrekt és megalapozott eredmények

érdekében statisztikai számításokat, azon belül regresszióelemzést alkalmaztunk, valamint a kulcsfontosságú érdekelt felekkel mélyinterjúk készítésére került sor. A kvalitatív adatelemzéshez tematikus elemzést alkalmaztunk, az etikai szempontok előtérbe helyezésével. Az adatok 566 adófizetőtől és kiválasztott tisztviselőtől származnak. A regresszióelemzésben a függő változó az adóelkerüléssel kapcsolatos attitűd, amelyet az adófizetőknek a törvényeknek-elvárásoknak való viszonyára vonatkozó kérdőívekkel, közvetett kérdésekkel mértünk. A tanulmány megállapította, hogy az olyan változók, mint az adórendszer összetettsége, az adókulcs, a gyenge adóigazgatás, a megfelelésre törekvő ismerősök-rokonok és az adótanácsadók szerepe pozitív kapcsolatban állnak az adóelkerülő attitűddel. A kormányzat legitimitása gyenge és negatív korrelációt mutatott az adóelkerülő attitűddel, míg az ismerősök befolyása, a korrupció, az adókulcs és az adórendszer gyenge és pozitív korrelációt mutatott az adóelkerülő attitűddel. A tanulmány azt javasolja, hogy az adóhatóság képezze ki az adófizetőket adóbevallásaik elkészítésére és benyújtására, ösztönözze a nagy adófizetőket saját számviteli információs rendszerük létrehozására, és működjenek együtt hitelesített könyvelőkkel.

INTRODUCTION

Tax evasion is a serious global problem in which people purposely hide their income to avoid paying taxes. For governments, this poses several issues in terms of securing the confidence of the public and funding essential services. (Palil, et al., 2016). There is a need to investigate potential ties between tax fraud and taxpayers, which might aid in the development of appropriate regulatory frameworks.

Previous research has frequently focused on either the positive or negative effects of tax evasion (McGee, et al., 2022). While taxpayers' engagements effect on government revenue has been documented by (OECD, 2017) policymakers, they lack the evidence-based insights necessary regarding how these entities participate

in influencing mechanisms involving compliance with reality, related to economic engagement within such environments, leading to at times underpaid return-to-locals initiatives, concerning procuring items they require, making policies complicated (Antwi, et al., 2015).

Forensic accounting is a successful method for limiting tax evasion practices by some industrial companies around the world, and the optimal use of electronic systems in tax work is one of the most intrinsic strategic options adopted by countries to develop tax work through electronic taxation systems (Batrancea et al., 2022). Empirical evidence shows that many institutional, systematic, and behavioural factors contribute to tax evasion in different nations; no exception will be made for Ethiopia. In recent years, developing countries' tax losses from aggressive tax planning and avoidance by multinational companies have been sizable. Profit-shifting by multinational corporations through transfer mispricing results in the erosion of the tax base and consequently lower tax revenues; recent estimates suggest that losses could be between USD 100 and 240 billion annually in global corporate income tax revenue (Khalil, et al., 2022).

Like other developing countries, Ethiopia faces hurdles in raising revenue to the required level to scale up development endeavours. Ethiopia has experienced an unswerving surplus of expenditure over revenue for a sufficiently long period The tax growth rate was high in the last period of the imperial regime of Ethiopia and reduced with the Dergue regime of Ethiopia. Surprisingly, the tax growth rate increased by 10%, becoming 18.5% in EPRDF, showing increasing tax revenue (EPDRF, 2016). However, there is still a deficit in government spending. Tax increment is not even with the growth of GDP of the nation due to the tax buoyancy, which is the law for most nations. As a result, the expenditure side of the government is going to continue to be constrained. Tax evasion and fiscal corruption have been a general and persistent problem throughout history (McGee, et al., 2022). In general, tax evasion increases the amount of resources accumulated by entrepreneurs but also reduces the amount of public services

supplied by the government, thus leading to negative consequences for economic growth. For the development of a country, the government needs to create infrastructure and invest in various sectors. Tax revenue is the main source for this purpose, but due to tax evasion and avoidance, the government's revenue generation is not sufficient. As a result, tax evasion is inherent in all tax systems, and tax compliance is a growing international concern for tax authorities and public policymakers.

In Ethiopia, Income Tax Proc. No. 286/94 was among the first laws to introduce the concept of tax evasion with its contemporary development. Section 9, Art 96 of the proclamation comes with the definition of the term, which states that "A taxpayer who evades the declaration or payment of tax commits an offence and, in addition to the penalty for the understatement of income referred to in Article 86, may be prosecuted and, on conviction, be subject to imprisonment for a term of not less than five (5) years (EPDRF, 2016). The study of category A taxpayers shows that tax rate, income level, probability of detection, penalty rate, complexity of tax system, perceived role of government, peer influence on tax evasion, age, gender, and education factors are statistically significant. Category B taxpayers have a higher compliance cost burden than category A taxpayers, and category C taxpayers have no more awareness about tax and tax evasion than in categories A and B. The current research aims to fill the gap left by previous researchers by investigating the most powerful determinants of tax evasion in the Ethiopian context, particularly in the Oromia regional state.

THEORETICAL APPROACH

Business income tax refers to the taxes levelled on the income made by a business entity because of the performance of its trading activities (Khalil, et al., 2022). It encompasses computing tax by subtracting different allowable expenses from the gross sales revenue and then impressing the appropriate tax charges. It is thus possible for businesses to lower the amount of taxes they are required to pay

through allowances while taxes that may be available by carrying on with certain activities are also worth considering evasion (McGee, et al., 2022). The records and accounts should be maintained properly and filing of tax returns periodically is an element of compliance. International operations present challenges such as taxes, where different countries claim the right to tax the same income earned by a company.

The Ethiopian Income Tax Proclamation No. 286/2002 of Ethiopia, amended in 2016, sorts out taxpayers into three groups namely: A, B and C, who are classified based on their annual turnover and type of business activities. Businesses in category "A" are generally big businesses with an annual income of more than ETB[1] 1,000,000 (Ethiopian Birr) (EPDRF, 2016). They must maintain proper accounting books and financial statements as per the accounting standards. Category "B" includes medium-sized enterprises falling within the range of ETB 500,000 to ETB 1,000,000 in terms of annual turnover which they should keep simple books that clearly show how much they earn and spend. Lastly, category C consists of small businesses/people whose net income is less than ETB 500,000 per annum; instead of keeping determinant accounts, these taxpayers are placed under a presumptive tax system where taxation is carried out based on a single assessment (Mesele, 2019). This enables the Ethiopian revenue authority to manage and collect taxes more efficiently hence each taxpayer being taxed accordingly depending on the size/operation scale of their businesses.

The EPDRF (1994) was among the first laws to introduce the concept of tax evasion and its contemporary development. Section 9, Art. 96 of the proclamation defines the term, stating that a taxpayer who evades the declaration or payment of tax commits an offence and may be prosecuted and, on conviction, be subject to imprisonment for a term of not less than five years (EPDRF, 2016).

[1] https://nbe.gov.et/exchange/banks-exchange-rates/ 1 US Dollar exchanged to 57.3 Ethiopian currency Birr (ETB)

The intention to evade tax, conceal income, or fail to file a tax declaration or pay tax by the due date shall be punishable with a fine of ETB 100,000 (one hundred thousand) to 200,000 (two hundred thousand) and rigorous imprisonment for a term of three to five years. A withholding agent who withholds tax from payment but fails to pay the withheld tax to the authority by the due date to evade tax shall be punishable by rigorous imprisonment for a term of three to five years.

Taxation is a crucial instrument for national development and growth in many societies worldwide. However, the rate of tax revenues to finance public services and programmes often falls short of necessary spending due to a lack of full tax compliance (Rashid, 2020). This results in government budgets rarely being balanced, leading to an increasing gap between revenue and spending. Tax evasion has evolved with the introduction of taxation itself, and it occurs when individuals or organisations deliberately fail to abide by their tax responsibility (Palil, et al., 2016). Tax evasion can be defined as the activity of a poorly behaved and premeditated violation of the law to escape tax payments inflicted by the tax authority. It is also associated with informality, where tax evasion is often associated with the informal economy. The exact meaning of tax evasion has been defined in various ways, including the intentional misrepresentation of material facts performed by taxpayers to avoid paying taxes. Tax evasion refers to all illegal activities or practices adopted by taxpayers to escape taxation (Ogungbade, et al., 2021). It is a deliberate violation of laws, evident in situations where tax liability is fraudulently reduced, or false claims are filled out on the revenue tax form. Tax evasion is not limited to a few countries but is a universal phenomenon, practiced in both developed and developing nations. Addressing tax evasion is essential to overcoming illegal financial cash flows and closing channels of corruption and wrongdoing.

Tax evasion is as universal as taxation and is influenced by economic and tax structures, perceptions of fiscal equity, enforcement strategies, tax-collection procedures, attitudes towards risk, and tax morality. The role of the tax authority

in minimising the tax gap and increasing voluntary compliance is very important. As an agent of collection, the perception of taxpayers towards the government is important (McGee et al., 2023). There is a debate in the literature as to how the effective operation of the tax system by the tax authorities influences taxpayers' compliance behaviour.

Tax evasion directly affects the fundamental objectives of tax policy regarding the efficiency and equity of the tax and benefit systems. It can have a negative impact on economic performance as it is usually correlated with low civic behaviour and makes it harder to deliver public services such as health or education (McGee et al., 2023). On the efficiency side, tax evasion generates a shift of the tax burden onto non-evaders, which might distort consumption and labour supply decisions. On the equity side, tax evasion undermines the social contract between the state and taxpayers (horizontal equity) and weakens the redistributive nature of the tax and benefit system (vertical equity) (Batrancea, et al., 2022).

Determinants of Tax Evasion

Gender and Tax Evasion: Gender was taken as dummy variable which coded as 1 for female and 0 otherwise. The finding of (Antwi, et al., 2015) revealed that female is less compliant than male in the Tamale metropolis, Ghana because they are mainly involved in the shadow economy and doing ground business. As per McGee and coauthors (2023) females have significantly higher tax morale than males.

Age and Tax Evasion: Age was taken as an ordinal variable which coded into three ranges as of 18-29, 30-45 and above 45 (Antwi, et al., 2015). The authors confirmed that more young entrepreneurs within the ages of 18 to 45 are more non-compliant than entrepreneurs who aged above 45. As per coffers (2018) also chronological age was the most important determinants of tax evasion. Argued by McGee and coauthors (2023) mentioned in different way as there is U-shaped relation between age and the prevalence of payroll and income tax evasion;

relatively young and old people are more likely to evade than are middle-aged persons.

Education and Tax Evasion: As per (Antwi, et al., 2015) entrepreneurs with higher level of education have lower levels of tax non-compliance whereas entrepreneurs with lower education have higher tax non-compliance rates. While the situation is shared equally among the uneducated, it could be concluded that education has positive impacts on tax non-compliance such that, when people are highly educated, they do not want to be confronted by the law as they know what it means to have been visited by the law (Yalama & Gumus, 2013).

Marital Status and Evasion: As per (Antwi, et al., 2015) slightly more married entrepreneurs are tax-compliant than their unmarried counterparts. Also, married entrepreneurs are less non-compliant than unmarried entrepreneurs, whereas, opposed by (Slemrod, 1985) since married taxpayers are more evaders than unmarried.

Business Operation Types and Evasion: According to (Artavanis, et al., 2014) investigation of tax evasion across industries revealed that primary tax-evading occupations were doctors, engineers, private tutors, accountants, financial service agents, and lawyers. On the other hand, the least evader sectors were farming, personal service, manufacturing, retail, and construction. Cyan and coauthors (Cyan, et al., 2016) revealed that groups with lower labour force participation rates have more positive attitudes towards tax compliance in Pakistan. Ranked by Euros tax-evaded, the largest offending industries are medicine, engineering, education, accounting and financial services, and law.

The Political Legitimacy and Tax Evasion: The studies of Mesele (2019) and Amara & Khlif (2018) find that political connections are positively associated with tax evasion and this relationship is more prevailing in a high corrupt environment.

Corruption and Tax Evasion: As per Mesele (2019) perception of corruption and satisfaction with the tax administration were found to have a statistically

significant impact on compliance attitude. However, as per some other findings (Terzić, 2017) corruption rate has no significant effect on tax evasion.

Peer Influence and Tax Evasion: According to Ahmad (2014), the perception of others' compliance was found to have a significant impact on compliance attitude.

Tax System Complexity and Tax Evasion: A complex tax system would only lead companies employing tax advisers to slip through and lead enterprises to steadfast competition and focus on their business (Poschmann, et al., 2019). The higher the levels of tax complexity, the lower its compliance or the higher its noncompliance among taxpayers (Gambo, et al., 2014). The tax system has significant effect with tax evasion attitudes of taxpayers (Terzić, 2017). Gambo and coauthors (Gambo, et al., 2014) make clear the effect of complexity as they claim that a statistically significant negative relationship exists between tax complexity and tax compliance in African context.

Tax Rate and Tax Evasion: Other research (Terzić, 2017) shows a significant relationship between the tax rate and fine with tax evasion. The highest association between tax rate evasion is also supported by other researchers (Yalama & Gumus, 2013; Mesele, 2019). The absolute effects of income and tax rate changes are larger for income-based measures of evasion, whereas the relative effects are larger for the tax-based measure of evasion. In conclusion, the evasion is inelastic with the true change in income level and income tax rate (Alkhatib, et al., 2018).

Detection and Tax evasion: One major problem inhibiting effective tax administration in emerging economies is a deliberate refusal to pay tax. Alkhatib and coauthors (2018) clearly stated the impact of detection as negative on tax evasion attitude.

Penalty and Tax Evasion: The threat of punishment has encouraged taxpayers to be more inclined towards the tax avoidance attitude (Alkhatib, et al., 2018), which found penalty rates to have no systematic impact on the excess burden of tax evasion.

Authorized Accountant and Tax Evasion: The report of Terzić (2017) laid out some interesting points regarding the positive roles on tax evasion and considering the non-tax related risks of reputational harm from being associated with such advice. To analyse the Nexus of tax evasion, the following hypotheses are formulated.

HP1: There is positive significant relationship between taxpayer's demographic factors and tax evasion.

HP2: There is positive significant relationship between taxpayer's non-compliance opportunity factors and tax evasion.

HP3: There is positive significant relationship between documentation and tax evasion.

HP4: There is positive significant relationship between tax admin and system factors and tax evasion.

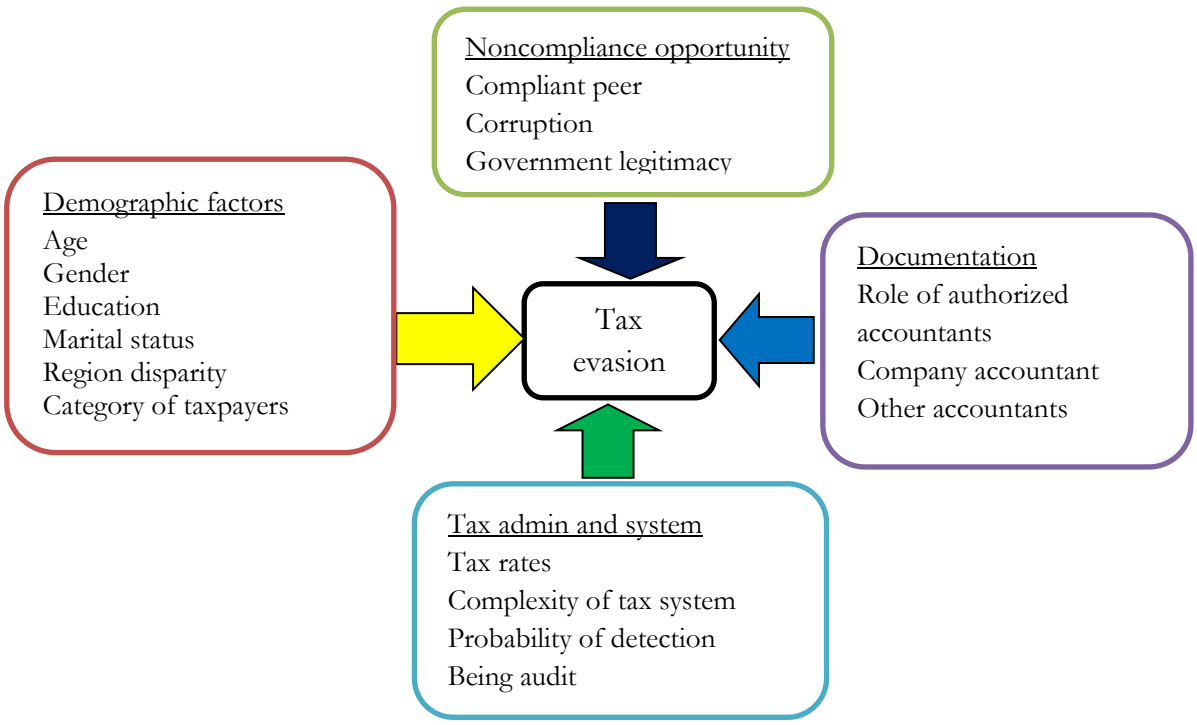

Figure 1. **Conceptual framework**
Source: *Own research*

METHODOLOGY

This study used a mixed methods approach to investigate tax evasion attitude. A cross-sectional research design was used, utilized simple random sampling. Data was collected through surveys and structured interviews with taxpayers, focusing on variables such as reported income, tax compliance rates, and demographic factors. Statistical techniques, regression analysis, was applied for hypothesis testing. In-depth interviews with key stakeholders, including taxpayers, tax authorities, and policymakers, was conducted to capture nuanced insights into the tax evasion. Thematic analysis was employed for qualitative data analysis. Ethical considerations were prioritized, and the study was validated via pre-testing and pilot studies.

The target populations are category 'A' and 'B' income taxpayers and tax officials of revenue offices from Ethiopia. The sample size is calculated based on data from the regional revenue authority, with an alpha degree of 95% precision levels. Then, randomly select sample from regions was determined by formula of Yamane (1967) below.

This is: $n=\frac{N}{1+(e)^2*N}$ (1)

Where, n = sample size from each region, N= total target population in all selected regions and e = error margin. See the following tables for further explanation.

For category 'A'

The target population of category "A" taxpayers; 751 in Amhara and 892 in Oromia. $n=\frac{N}{1+(0.05)^2*N}$; Where, N= study population for category A, n = sample size and e = error margin.

Therefore, $\frac{1643}{1+1643*(0.05)^2}$ = 322. Hence, total of 322 taxpayers were selected from both regions. The full description of randomly select sample from two regions for category A taxpayers is provided as follows.

Table 1. Sample size of the analysed taxpayers in Category A

Selected regions	No of taxpayers	Formula	Sample size
Amhara	751	(751/1643)*322	147
Oromia	892	(892/1643)*322	175
Total	1643	(1643/1643)*322	322

Source: *Own research*

For category 'B'

The researcher recalled that the target population of category "A" taxpayers; 296 in Amhara and 567 in Oromia. With the alpha degree of 95% precision level. $n=\frac{N}{1+(0.05)^2*N}$ as $273=\frac{863}{1+863*(0.05)^2}$ then, to randomly select sample from two regions, the previous formula provides as follows.

Where N= study population for category B, n = sample size and e = error margin.

Table 2. Sample size of the analysed taxpayers in Category B

Selected regions	Total No. of Category B taxpayers	Used formula to select from each region	Sample size
Amhara	296	(296/863)*273	94
Oromia	567	(567/863)*273	179
Total	863	(863/863)*273	273

Source: *Own research*

Tax officials: the researchers selected bureau representatives and tax officers from each Region's revenue bureau for category A and B separately. Tax officers for taxpayers compliant also were the part of the respondents.

Different sampling techniques used for those different parties involved as respondents of the research. The following tables summarize the issue.

Table 3. Sample size summary

No	Target population	Sampling technique	Sample size
1	Category A taxpayers	Simple random sampling	322
2	Category B taxpayers	Simple random sampling	273
4	Tax officials and experts	Purposive sampling	A few

Source: *Own research*

The researchers used both primary and secondary sources of data. This research collected data from primary sources using a self-administered questionnaire using a five-point Likert scale where 1= strongly disagree, 2 = disagree, 3 = neutral, 4 = agree and 5 = strongly agree. The highest score was assigned to the response with the highest intensity. The study used judgment to classify the range of scores obtained on the scale. Variables with a mean score above 3.25 are considered agree/strongly agree, while scores between 2.75 and 3.25 are neutral, and scores below 2.75 are strongly disagree/disagree. The researcher used a structured questionnaire and interview to collect primary data.

Many data analysis approaches were used, depending on the study's goal and the type of data that was gathered. Using both descriptive and inferential statistics, the researchers processed the data from the structured questionnaires using STATA version 15 software.

To investigate the factors that influence tax evasion attitudes in a particular area in Oromia, Ethiopia, this study used a logistic regression model. The results of the logistic regression model analysis indicate that adjusting an independent variable may both predict the likelihood of tax evasion and change the chance that a particular responder would have an attitude towards it. According to Gujarati (2014), the logistic model's functional form is as follows:

$$Pi = E(Y = 1/Xi) = \frac{1}{1+ e^{-(\beta_{0+}\, \beta iXi)}} \ldots (1)$$

For ease of exposition, we write (5) as

$$Pi = \frac{1}{1+e^{-Zi}} \ldots\ldots\ldots\ldots\ldots\ldots . (2)$$

The probability that a given positive attitude of respondents for tax evasion expressed by (2) while the probability of negative attitude is: -

$$1 - Pi = \frac{1}{1+e^{Zi}} \ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Therefore, we can write:

$$\frac{Pi}{1-Pi} = \frac{1+e^{Zi}}{1+e^{-Zi}} \ldots\ldots\ldots\ldots\ldots (4)$$

Now, (Pi/1-Pi) is simply the odds ratio in favour of positive tax attitude. The ratio of the probability that positive attitude of respondents for tax evasion to the probability of that it will not have positive attitude. Finally, taking the natural log of equation we obtain:

$$Li = ln\left[\frac{Pi}{1-Pi}\right] = \beta o + \beta 1X1 + \beta 2X2 + \cdots + \beta nXn + Ui \quad (5)$$

Where Pi = is a probability of positive attitude towards tax evasion ranges from 0 to 1

Zi = is a function of n explanatory variables (X) which is also expressed as: -

$$Zi = \beta o + \beta 1X1 + \beta 2X2 + \cdots + \beta nXn + Ui \ldots (6)$$

βo is an intercept.

β1, β2……βn are slopes of the equation in the model

Li = is log of the odds ratio, which is linear in Xi

Xi = is vector of relevant taxpayers' characteristics

Ui = is the disturbance term of the logit model

Table 4. Lists of Variables and Their Measurement

Symbol	Variable description		Measurement
ATT	Attitude of taxpayers toward tax evasion	Dependent	Nominal
Leg	Impact of Government Legitimacy on tax evasion Attitude		Scale
Behave	Impact of Tax officers' corrupt behaviour on Evasion Attitude		Scale
Rat	Effect of tax rate on evasion attitude		Scale
System	Impact of tax system on evasion attitude		Ordinal
Detect	Impact of detection possibility on evasion attitude		Ordinal
Pac	The role of public accountant on evasion		Ordinal
Audit	Whether the organization has been audited by the revenue authority before		Dichotomous
Documentation	Who prepares tax returns of the organization for tax filing		Dichotomous
Penalty	effect of the penalty on evasion attitude		Scale

Source*: Own research, 2024*

RESULTS AND DISCUSSION

Demographic Background of Respondents

In the table below we have presented a summary of our respondents' characteristics (95% of distributed questionnaires were responded).

Table 5. General Background of Respondents

	Unit of Measurement	Frequency	Valid Percentage
Region in which the taxpayer is registered	Oromia	311	54.947
	Amhara	255	45.053
	Total	566	100
Category of Taxpayers	Category A	229	40.46
	Category B	337	59.54
	Total	**566**	**100**
Gender of Respondents	Male	420	74.204
	Female	146	25.795
	Total	**566**	**100**
Age of respondents	18-29 years 0ld	181	31.98
	30-45 years old	294	51.94
	Above 45 years old	91	16.08
	Total	**566**	**100**
Marital status of respondents	Single	190	33.6
	Married	351	62.014
	Divorced	14	0.0247
	Widowed	11	0.01943
	Total	**566**	**100**
Education of level of respondents	No formal Education	38	0.067
	Primary Education completed	142	25.088
	Secondary Education completed	185	32.6855
	Diploma	112	19.79
	Degree and above	89	15.72
	Total	**566**	**100**
Respondent's responsibility in the organization	Owner	298	41.52
	Manager	113	19.965
	Owner Manager	98	17.314
	Accountant	57	10.07
	Total	**566**	**100**
Area of Business Operation	Agro processing	10	0.0177
	Wholesale	85	15.017
	Service	206	36.395
	Retail	192	33.92
	Construction	40	0.0706
	Manufacturing	33	0.0583
	Other	0	0
	Total	**566**	**100.**

Source: *Survey, 2024 and own computation*

Inferential Analysis

The logit model's parameter estimates represent neither the true magnitude of change nor the probability; rather, they merely indicate the direction in which the explanatory variables have an impact on the dependent variable.

Table 6. Logistic model for attitude, goodness-of-fit test (Table collapsed on quintiles of estimated probabilities)

number of observations =	447
number of groups =	10
Hosmer-Lemeshow chi2(8) =	9.24
Prob> chi2 =	0.3222

Source: *Own research, 2024*

The logit model's parameter estimates merely indicate the direction in which the explanatory factors have an impact on the dependent variable; they do not, however, indicate the actual magnitude of the change or its probability (Gujarati, 2014). Nonetheless, when a unit change in an independent variable happens, the model's chances indicate by what factor the dependent variable changes. The following is an explanation of the logistic regression model's outcome and odds ratio.

Table 7. The estimates of binary logistic model and the effects of explanatory variables on the tax evasion attitude on selected variables

Att	Coef.	Odds ratio	Std. Err.	Z	P>z
Region	1.049937	2.857471	.4934559	2.13	0.033**
Category	.522943	1.686985	.2588309	2.02	0.043**
Gender	.000621	1.000621	.3138249	0.00	0.998
Age					
30-45	.4527355	1.572608	.3247074	1.39	0.163
>45	.6314502	1.880336	.5229219	1.21	0.227
Marital status					
Married	-.2075627	.8125623	.3126206	-0.66	0.507
Divorced	-.4755391	.6215499	.8965446	-0.53	0.596
Widowed	-.2695383	.7637321	1.177236	-0.23	0.819
Education					
• Primary Educ.	1.166203	3.209781	.5978299	1.95	0.051*

• Secondary Educ.	.5067972	1.659966	.5299123	0.96	0.339
• Diploma	.5193851	1.680994	.5528596	0.94	0.347
• Degree and above	-.0191619	.9810205	.6007682	-0.03	0.975
Legitimacy	-.2369618	.7890214	.2185829	-1.08	0.278
Peer	.829082	2.291215	.2473903	3.35	0.001***
corruption	-.103602	.9015841	.1783778	-0.58	0.561
Rate	.5427445	1.720723	.198009	2.74	0.006***
System	.8500041	2.339657	.2938653	2.89	0.004***
Detection	.3032006	1.354186	.2356117	1.29	0.198
Audit	.1913592	1.210894	.2906279	0.66	0.510
Documentation					0.518
Company accountant	-.763988	.4658051	1.180741	-0.65	0.195
Others	.6489435	1.913518	.5005745	1.30	0.233
Pact	.0142993	1.014402	.0119785	1.19	0.000***
_cons	-9.914903	.0000494		-6.54	0.000
	Logistic regression Number of obs = 442 Wald chi2(25) = 95.30 Prob> chi2 = 0.0000 Log pseudolikelihood = -210.51761 Pseudo R^2 = 0.2664				

Source: *Own research*

Computed using personal survey data, (2024). The location has a substantial impact on the attitude toward tax evasion, as predicted; the asterisks *** and ** denote 1% and 5% significance level, respectively. Based on the chi^2 result, the Amhara region is used as the reference group in this study. Amhara taxpayers have a more positive attitude toward tax evasion than Oromia taxpayers do. The model's output also reveals notable regional variations in the attitudes of taxpayers toward tax evasion. At the 5% level of significance, this variable is significant. According to the results of the chances ratio, Amhara has 2.857471 more odds of having a tax evasion attitude than Oromia. This suggests that Amhara taxpayers have a favourable attitude toward tax evasion.

Taxpayer category: The model's outcome showed that the attitudes of taxpayers in categories A and B about tax evasion varied significantly from one another. The odds ratio of 1.686985 means that relative to Category B taxpayers, the views of Category A taxpayers about tax evasion rise by a factor of 1.686985 while all other

factors remain constant. At the five percent significance level, this variable is noteworthy. We searched for empirical reviews to discuss therein, but we were unable to locate any conclusive results (Poschmann, et al., 2019). This paper's ground-breaking contribution to scholars and policymakers is the substantial impact of categories on tax evasion.

As per the interview analysis, officials confirmed that in both categories there is tax evasion. Evasion is more in category A, especially when they are highly involved in evasion by wrongly exploiting their VAT withholding agency responsibility. Category A taxpayers evade tax more due to some reasons, such as the large capital they formulated, they are more experienced in making evasions and they are frequently requesting tax refunds.

In particular, the category A taxpayer is authorised to collect a VAT of 15%, and the tax evasion will be worse if they do not issue a receipt and collect indirect taxes. On the other hand, category B taxpayers are required to collect 2% TOT, but it will aggravate the evasion if they fail to do so. In general, high levels of evasion can be caused by category A taxpayers. Many findings, including the quality of the document, indicate a high level of tax evasion in Category A. For instance, in Amhara, of the 22 million audit findings in 2022, the majority are Category A taxpayers.

Education: the level of education has a significant positive effect on the attitude towards tax evasion. The positive result reveals a higher level of education has a higher level of tax evasion attitude than a lower level of education. The result of the model shows respondents who have completed primary education have a higher tax evasion attitude than those who are illiterate. The results revealed that the odds of being in favour of tax evasion increased by a factor of 3.209781 units for those who completed primary education as compared to respondents who had no formal education. This surprising result is in opposition to the findings of (Antwi, et al., 2015) and (Ogungbade, et al., 2021), but supported by the fact that with the increase in knowledge about tax evasion, people who received a good

education thought that the odds of tax evasion being caught were small, increasing tax non-compliance.

Peer: The study reveals a significant positive relationship between peer influence and tax evasion attitude at a 1% level of significance. The behaviour of one tax evader affects other taxpayers, motivating them not to pay taxes and leading to more tax evasion. If taxpayers' friends and relatives are not detected or penalised for not paying their tax liability, other taxpayers will follow their system of non-compliance. The odds ratio suggests that the odds ratio in favour of tax evasion attitude increases by 2.291215 units for each unit increase in peer influence on tax evasion.

Peer pressure has its own effect on evasion, as traders know each other and may try to lower their income tax by knowing their neighbours. This high influence of peer pressure on evasion is evident in the cases of businesses in different categories. For example, a business in category A becomes non-compliant when it sees a business in category B, which should be in category A. This may be due to family or affiliated officials in the tax administration office or other reasons. There are two perspectives on peer pressure: the best taxpayers can have a positive impact, while illegal taxpayers have a negative impact on others. Peer pressure encourages tax evasion, and officials from Amhara confirm that peer pressure absolutely encourages tax evasion (Alleyne & Harris, 2017).

Tax ambassadors play a role in influencing tax evasion. Influential people who shape society are considered less evaders, but revenue authorities may not exploit them to the extent possible and have contentious communication with them. Officials from Amhara have two types of ambassadors: influential people who shape society and taxpayers recognised and awarded by the office at the regional level. However, not all taxpayers are free from evasion.

Tax rate: The study found a positive relationship between tax evasion and tax rate, with a statistically significant 1% level of significance. This indicates that increases in tax rates increase the attitude towards tax evasion by a factor of 1.720723. This

finding is consistent with previous studies (Terzić, 2017); (Ahmad, 2014); (Ogungbade, et al., 2021; Sikayu, et al., 2022). They found that, on average, a 1% increase in tax rate results in a 3% increase in evasion. The evasion elasticity is larger at high tax levels, indicating that a tax rate perceived as heavy, unfair, and inequitable has a significant contribution to an enhanced positive attitude towards tax evasion. However, the significance of a tax rate reduction for evasion attitude adjustment is limited. Officials from the Oromia and Amhara regions stated that Ethiopia's tax rate is not too high, as other countries have higher tax rates. The magnitude of the tax rate is not the main motive to evade tax, but rather for wealth accumulation. Even if the tax rate is decreased to 1%, evasion will not be banned. Reducing tax rates cannot guarantee reducing evasion, as a fair tax rate can have a positive effect. Officials from Amhara also argued that greediness leads businesses to evade, with most evasion occurring through indirect taxation and manipulation of income. Therefore, it is not a matter of increasing or decreasing tax rates.

Tax system complexity: Tax system complexity has a significant positive effect on tax evasion attitude at a 1% level of significance. The odds ratio in favour of tax evasion increases by a factor of 2.339657 as tax system complexity increases by one unit. The more complex the tax system, the less compliance or noncompliance there is among taxpayers. Studies by Terzić (2017) and Sikayu (2022) have shown that complexity has a negative impact on tax evasion, but not the direction of the effect. The World Bank Easy of Doing Business Report for 2020 shows Ethiopia ranks 132 out of 190 jurisdictions in paying taxes. The time spent on tax compliance is 300 hours per year, higher than the sub-Saharan average of 280.6 hours (World Bank , 2020). Top-ranking countries are attributed to their establishment of electronic tax filing systems compared to their counterparts. The tax system is complex for both officials and taxpayers, making it difficult to understand or train taxpayers and tax advisors. Frequent changes in tax regulations are essential to mitigating tax evasion, as steady rules can be

adopted by taxpayers and exposed to evasion. Simple tax systems have a high positive effect on tax evasion, as most people do financial reporting by experience. The consistency of tax laws is generally consistent, but the frequency of change is not very fast. There is also a gap in proclamations when the economy and politics change. Officials should prepare drafts of proclamations to present to stakeholders before approval and put them into action to increase compliance and reduce evasion. In general, a simple and clear tax system is needed to reduce tax evasion at the office level of (Gambo, et al., 2014). Modernization could involve allowing taxpayers to submit reports from home and make tax payments without physical contact or by coming to the office using technology.

Public account: there is a positive and significant relationship between tax evasion attitude and the role of an authorised accountant. Those taxpayers who have a positive attitude towards evasion also agreed with the instrumental role played by authorised accountants in facilitating evasion which is in line with some previous research (Coffers, 2018). The view of public accountants about tax evasion is sometimes ethical. If all other things are held constant, the odds ratio of 1.014402 for public accountants implies that the odds ratio in favour of tax evasion attitudes increases by a factor of 1.014402 as the ethical view of public accountants towards tax evasion increases by one unit.

CONCLUSION

This study focuses on exploring the intricate tax evasion attitude. The study delves into specific aspects such as tax evasion within taxpayers, the connection between tax evasion and the demographic characteristics of taxpayers, the role of documentation in tax evasion practices, non-compliance activities, and the impact of tax administration and systems on these dynamics. This comprehensive approach aims to provide a nuanced understanding of how various factors within taxpayers' activities contribute to or are influenced by tax evasion in the Ethiopian context.

The data was collected from 566 taxpayers and from selected officials who either agreed or disagreed with the attitudes towards evasion. The data was collected through close-ended questions from taxpayers who belonged to categories A and B and semi-structured interviews with tax officials. The sampling techniques used to select regions were strata sampling and purposive sampling for selecting tax officials. A mixed research approach was used with both descriptive and explanatory research designs. The binary logistic regression model was adopted, and the results were generated using SPSS version 20 and the STATA software application.

Research output shows that most taxpayers are male, educated, and young, and more than half are from category A income taxpayers. Evasion among regions was different due to the differences in government legitimacy, audit coverage, and perceptions towards corrupt tax officials. There is also a significant association between being audited and the detection possibility perception of income taxpayers, which urges increasing audit frequency by revenue authorities.

The results of the study indicate that tax evasion attitude and government legitimacy have a weak and negative correlation ($r = -0.015$), a moderate and significant positive correlation ($r = 0.367$), a weak and positive correlation ($r = 0.055$), a moderate and positive correlation ($r = 0.297$) and a positive correlation ($r = 0.300$) for tax rate and tax system, respectively, audit ($r = 0.067$), detection ($r = 0.163$), SRM ($r = 0.166$), and the role of public accountant ($r = 0.273$) have a weak and positive correlation with tax evasion attitude; gender ($r = 0.067$), age ($r = 0.131$), marriage states ($r = -0.033$), and education ($r = -0.121$) have a weak and negative correlation with tax evasion attitude. The association is negative for government legitimacy, gender, and married status, but there is no significant correlation for audit, corruption, tax evasion, gender, and marital status and positive for audit and corruption.

A total of 13 explanatory variables were considered in the model. Out of these, eight of the variables were found to be significant at the 1% and 10% significant

levels, while the remaining six variables were not significant in explaining the variations in the dependent variable. The category of taxpayers, age of the respondents, educational level, government legitimacy, peer influence, tax rate, tax system, and SRM included in the model were found to be statistically significant. However, the remaining six explanatory variables, namely, gender, marital status, corruption, probability of detection, audit, and the role of the public accountant, had no significant effect on the probability of tax evasion.

The other determinant variables from the interview discussion are area of business operation, responsibility of the respondent in the business, penalty, and tax administration capacity. Officials also list out other factors that contribute to evasion, such as the societal appetite for early wealth, illicit trading, the interaction between traders, officials, and political leaders, a lack of engagement with stakeholders, minor assessments, weak cohesive taxation, weak smuggling control (another door opener), an awareness gap, and a low sense of patriotism.

RECOMMENDATION

The tax bureau should work hard to exploit such a positive compliance tendency to enhance their revenue collection. They should also work hard to enhance the compliance attitude of taxpayers and thoroughly investigate the causes for this positive attitude.

The current practice by most business organizations is to simply produce and accumulate source documents for transactions throughout the year and then give them to accountants. Financial statements are then prepared, stamped, and sent to the revenue authority. Such a practice is prone to evasion. Therefore, the revenue authority should train taxpayers to prepare and present their tax returns on their own, especially for those small businesses. They should also urge large taxpayers to establish their own accounting information system and should establish a support and follow-up system for those that establish an accounting system in their organization. The revenue authority should work in collaboration

with professional associations to increase the legitimacy and professional courtesy of professional accountants and enforce directives issued to regulate their activity and legalize their operation.

The results imply that there is a significant positive association between the tax rate and evasion attitude. We mainly measure whether taxpayers perceive the rate imposed on their operation as high, and we found a positive association, meaning that whenever a taxpayer feels they are charged with a higher rate, they are prone to evasion. The tax education given by the revenue authority should go into the details of tax rates and how the tax liability is computed. Such an advocacy package will facilitate smooth communication among taxpayers and officers.

As it is found that peer pressure to evasion is a determinant factor for evasion attitude, the revenue authority should strive to improve the equity of taxpayers' treatment. The revenue authority should also continue to give recognition to compliant taxpayers, but due care should be given while selecting candidates for awards, as a slight mistake may negatively affect the intended motive.

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