



ISSN: 0975-833X

RESEARCH ARTICLE

COMPLIANCE COST OF INDIVIDUAL INCOME TAX PAYERS IN ADDIS ABABA

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ARTICLE INFO

Article History:

Received 22nd October, 2014
Received in revised form
09th November, 2014
Accepted 15th December, 2014
Published online 23rd January, 2015

Key words:

Compliance Cost,
Income Tax,
Addis Ababa

ABSTRACT

The paper examines the tax compliance costs of the individual taxpayers in Addis Ababa. One research question and one hypothesis were investigated in this study: (RQ) compliance costs of the individual income tax system borne directly by the taxpayers themselves, including both the time spent and pecuniary expenditures and (H) The compliance costs of individual income tax are relatively low - in terms of their costs per individual: especially costs of time and monetary costs. The survey was conducted to a total of 170 individual income tax payers and questionnaires were distributed to those individual taxpayers in the administrative city of Addis Ababa in Ethiopia. A total of 103 useable responses were received and used for the final data analysis. The findings from the survey provide pertinent and useful insights about the compliance costs of Addis Ababa individual taxpayers. The results of the study indicate that the highest time spend was on learning tax rules. The average values per tax payers were 168.83 ETB and the average times spent by tax payers for filing their tax return were 5.17hrs. In all, the study found that the compliance costs of individual taxpayers in Addis Ababa were relatively low in term of the total monetary value.

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INTRODUCTION

Taxes impose many costs and these costs are the amount of money a person gives to the tax collector. Considering the Slemrod (2005) terms of the resource cost, taxation consists of compliance cost and enforcement cost. Compliance costs are the cost that is borne by individuals as a result of paying their income taxes. This includes record keeping, learning about specific laws and forms, preparation and remittal time, and any monetary costs such as seeking assistance from a certified public accountant, tax lawyer, or tax preparer or buying computer programs or books. It is a measure of the opportunity cost of complying with the tax code. However, Enforcement costs are the costs associated with the administrative operation of the Internal Revenue Service. While all the components of compliance cost are important, the main purpose of the research was to get an insight into the scope and structure, as well as specific characteristics of personal income tax compliance costs regarding level of income on individual taxpayer compliance burden (i.e. the time and monetary costs incurred by individual taxpayers). Here psychological cost of the individual tax payers is excluded because of difficulty to measure. Remember Individual income tax payers in this research concerns in some exceptional cases, the income tax proclamation 286/2002, in Ethiopia requires the employees to pay their tax by themselves.

For instance an employee working for more than one employer or an employee of an international organization having diplomatic immunity or working in embassies, missions and other consular establishments of a foreign government has the duty to declare and pay tax by her or himself within 30 days of the end of each calendar. So this research embarked only for those individuals which are working with the above organizations. The 2010 ease of doing business index put Ethiopia as compared to the world, 47th in the ease of paying taxes and, when compared to other Sub-Saharan African countries, Ethiopia is ranked 8th in the ease of paying taxes (World Bank, 2010). There have been various reforms, regulations that aim to make things easier for the tax payer.

The Ethiopian Revenues and Customs Authority are responsible for overseeing the various changes and reforms and collecting taxes and customs duties among other things. However, lack of profit comes from inadequate enforcement and auditing. According to AEO¹ 2010, the tax administration in Ethiopia lacks the institutional capacity to handle modern operational and enforcement practices to deliver efficient and quality service. Weak enforcement is a cause for concern since personal income tax compliance tends to be lower. In order to comply with the tax rule these tax payers were bares a number of costs, which is called compliance cost. Consequently, they appear to be continuously finding a loophole to depart from.

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Taxation compliance costs are also the subject of growing interest and policy revamp in most developed countries for both academics and governments. However, in developing countries especially in Ethiopia, research on compliance costs was limited and not well established; mostly because it requires complicated investigation involving the collection of large amounts of data not available from published sources; lack of interests by academicians; lack of cooperation with tax authorities; but also because the problem had been simply neglected (Das-Gupta and Chattopadhyay, 2002). All the above discussed problems in the fiscal tax system of the Ethiopian along with the gap in the literature (to be established in chapter 2) with respect to compliance costs of those individual income tax payers particularly in Addis Ababa call for extensive research.

RESEARCH METHODOLOGY

The intent of this research was to estimate compliance cost of individual income tax payers in Addis Ababa. Mixed method (Both qualitative and quantitative approach) was used. In order to investigate the compliance cost of individual income tax payer's the responses obtained from the above mentioned data gathering instruments was tabulated, interpreted and analyzed by SPSS statistical package, using descriptive statistics. The frequency and cross tabulation of responses of the compliance cost of the individual income tax payer evaluation scores are presented. A one way ANOVA was used to assess the relationship between the compliance cost and the classification variables.

Research question and hypotheses

The researcher wants to develop research questions as:

Research Question: How much compliance costs of the individual income tax system borne directly by the taxpayers themselves, including both the time spent and pecuniary expenditures?

The researchers also develop hypotheses to test these costs. The main hypothesis was;

Hypotheses 1: The compliance costs of personal income tax are relatively low - in terms of their costs per individual: especially costs of time and monetary costs.

Sample design

In the case of sample design, as the literature on survey method reveals, how well a sample represents a population depends on the sample frame, the sample size and the specific procedures of selecting potential respondents (Wollela Abehodie, 2008). The sample size will depend on the type of research and what the researcher want to do with results. Choosing an appropriate sample size is crucial to having a study that will provide statistically significant results. Research needs to be cost effective, so it is best to use as small a sample as possible to reduce time and cost. However, if using a sample size that is too small, the results will not be statistically valid.

In quantitative research, statistical methods can be used to choose the size of sample required for a given level of accuracy and the ability to make generalizations. In the year 2009/10, 25,287 individuals are employed in foreign embassies and international organizations in Addis Ababa city administration (CSA, 2010) and all these individuals are registered in ERCA to pay employment income tax. From this study population, the researcher was list 170 (0.67228% of the total population, which is above most similar surveys: for example, klun, 2004 = 0.022%, Diaz and Delgado, 1995 = 0.026%, Pope, 1995 = 0.008%), registered individual income tax payers, which are employees of only International organizations and embassy's in ten sub city of Addis Ababa as sample frame. considering the concentration of embassy's and international organizations of each sub city, this sample frame again congregated among five districts of Addis Ababa sub city (Bole, Nifas silk lafto, kirkos, yeka and Gulele) by purposive sampling method and from each sub city individual income tax payers was randomly selected as sample by using simple random method of sample selection.

The survey instruments

Survey questionnaire, adopted from Slemrod and Sorum (1984) and Das-Gupta and Chattopadhyay (2002), was used as the main data-gathering instrument for this study. They were designed to collect both qualitative and quantitative data on compliance costs towards individual income tax payers in Addis Ababa. The taxpayer survey instrument was prepared in English languages because participants are professionals. The questionnaire was divided into two main sections: a profile and the survey proper. The profile contains socio-demographic characteristics of the respondents such as age, gender, marital status and occupation.

The survey proper explored the perceptions of on personality questionnaire, particularly on cost of filing individual income tax returns. The questionnaire proper section also contains questions that identify the estimated costs that the individual income tax payers was incurred in connection with the time they spent and some related monetary costs they exposed. The questions were also structure some Likert format. In this survey type, six choices are provided for some question or statement. The choices represent the degree of agreement each respondent has on the given question. The likert-scale survey was enabled the respondents to answer the survey easily. In addition, this research instrument allowed the research to carry out the quantitative approach effectively with the use of statistics for data interpretation. In order to test the validity of the questionnaire used for the study, the researcher tested the questionnaire to seventeen (10% of the sample) respondents. These respondents as well as their answers were not part of the actual study process and were only used for testing purposes. After the questions have been answered, the researcher asked the respondents for any suggestions or any necessary corrections to ensure further improvement and validity of the instrument. The researcher revised the survey questionnaire based on the suggestion of the respondents.

The researcher then excluded irrelevant questions and changed vague or difficult terminologies into simpler ones in order to ensure comprehension.

Documentary analysis

Documentary analysis covers a wide variety of sources, including official statistics, photographs, texts and visual data. Bloyce (2004), has argued that “when engaged in socio-historical analysis documentary analysis can be a useful research tools (Documents such as newspapers, books, magazines and government minutes can be read and preserved so that they are available for analysis by the social researcher (Bryman, 2004). Documentary analysis has its own strengths and weaknesses. The literature on documentary study identifies strengths including convenience, low cost and replication. Weaknesses include the lack of representativeness (documents are not necessarily representative of their kind and thus do not allow generalizations), personal bias (documents may be biased since they represent the view of their authors) and reliability (the reliability of some documents is questionable).

The extent of their relevance depends, however, on the adequacy of the document chosen for the phenomena being investigated. With reference to the research topic under scrutiny here, the relevant secondary data have been collected from various periodical reports of the financial reports of the tax authority; manuals of the tax authority and using the internet will try to find more information about the tax authority, and tax proclamation analysis will be deemed the most appropriate. Question/ hypothesis is addressed by the appropriate item in the survey (semi-structured questionnaire) and documentary study. In conclusion, based on the overarching research problem stated in the preceding chapter, one primary research question and one primary hypothesis have been developed. With respect to methodology, the principles of qualitative, quantitative and mixed methods research approaches have been shown. Based on the underlying principles of research methods and the research problem mixed methods approach has been chosen as appropriate to this research because this method can draw from the strengths and minimize the weaknesses of the quantitative and qualitative research approaches. More specifically, to address the various research questions, survey design and documentary analysis were shown to be the appropriate methods of inquiry for this research. The next chapter presents the results of each of these methods of inquiry.

RESULTS AND DISCUSSION

General Profiles of Respondents

As indicated in Table 2, the frequencies related to the characteristics of the sample taxpayers. Higher percentages (68.9%) of respondents were male while 31.1% were female of the total 103 respondents. The individuals participated in the survey were at their taxable working age as 95.1% with age between 18 and 45 years old. The age ranging from 18 to 30 represent the prime working age of working individuals where 49.5% of respondents fall within this categories.

Whereas 46 - 55 years of age group represent the upper management or business owner with a higher degree of income stability with 4.9% of respondents falls within this bracket. Therefore, it makes this study looking into the main contributor towards the tax authority's revenues. In relation to the researchers analysis with the respondents age, level of income shows the same pattern. Almost 29.1% earn between 5, 000 and 10,000 ETB while 27.2% earn 1, 000 to 5,000ETB. However the educational attainment was generally average among respondent with just 29.1% some college/technical school, 54.4% possessing a graduate degree and 16.5% with master, PhD and other professional certificates.

Table 1a. Tax payers survey respondents by Age

Age	18-30	31-45	46-55	>55	Total
Frequency	51	47	5	0	103
Percent	49.5	45.6	4.9	0	100.0

Source: tax payers survey

Table 1b. Tax payers survey respondents by Sex

Sex	Male	Female	Total
Frequency	71	32	103
Percent	68.9	31.1	100.0

Source: tax payers survey

Table 1c. Tax payers survey respondents by monthly income

Monthly income (ETB)	A	B	C	D	E	F	G	Total
Frequency	0	28	28	30	5	6	6	103
Percent	0	27.2	27.2	29.1	4.9	5.8	5.8	100.0

Note: Legend: A=< 1,000; B=1,001-2,000; C=2,001-5,000; D=5,001-10,000;E=10,001-15,000; F=15,001-20,000; G=>20,000 in ETB.

Table 1d. Tax payers survey respondents by level of education

Education level	A	B	C	D	Total
Frequency	0	30	56	17	103
Percent		29.1	54.4	16.5	100.0

Note: Legend: A= Higher secondary; B= some college/technical school; C=Degree; D= Postgraduate/PhD, professional Qualification.

Judging by the responses to the researchers question about attitudes to tax filing, this may not be significant. Of those surveyed, only 10.7% said they "very much" enjoyed preparing and filing their income tax returns and 50.5% said they enjoyed the process; 17.5% replied that they neither enjoyed nor disliked it. On the other hand, 21.3% of those surveyed said they disliked the process and 0% said they disliked it "very much". The researchers have also address that most of the respondents either use help from somebody without payment or do the assessment themselves.

Table 2. did you receive help from somebody without payment?

Respondents Answer	Frequency	Percent
Yes	72	69.9
No	31	30.1
Total	103	100.0

Source: tax payers survey

In relation to the result 31 respondents were no help at all and 72 were get helps from their relatives. The reason might be due to the fact that only 69.9% of the respondents were getting assistances from their friends, families and even in the tax department. Some of the respondent did their own tax filing. The study is also raveled that most of the respondents either pay for assistant or not, 89 respondents were get assistance from different individuals but no payment at all and 14 respondents were keep silence. A large percentage of taxpayers still prepared their own tax returns.

Table 3. Did you pay for assistance?

Respondents Answer	Frequency	Percent
No	89	86.4
Missing item	14	13.6
Total	103	100.0

Source: tax payers survey

Monetary costs

Compliance costs were evaluated for personal income taxpayers only; the costs of self-employed taxpayers, of employers (who are responsible for advance payments of tax) and for planning tax liabilities were excluded, as were psychological costs. These limitations were considered when the data are analyzed.

The evaluated compliance costs include the cost of time spent filing a tax declaration properly (learning tax rule, record keeping, looking tax Table, actual preparation of their statements and tax advisors), consultancy costs and other expenses (forms, postage, copying, Phone call etc.), and each of which is indicated in Table 4. Evaluating time spent on filing tax declarations depends on how "time spent is determined.

Different studies in different time and different countries calculated the value of time in relation to spare time, work time or overtime at work. Almost all studies have used the values stated by taxpayers in questionnaires but with different modifications: Pope (1995) used stated values but the extreme high and low values were removed; Allers (1994b) made two evaluations, one with stated values and the other using GDP to value an hour. Wollela Abehodie (2008) considers the estimation of tax compliance costs tends to be very sensitive to the method of valuation of time adopted. Market salary or wage rates could be used as a valuation basis for employees time or as a check on the value of time provided by survey respondents. In Ethiopia, nevertheless, market salary or wage rates appear to be unavailable thereby impeding the possibility of checking the reasonableness of valuations provided by respondents. Accordingly, times spent by taxpayers in this study, were evaluated with the values that the taxpayers stated in questionnaires. Since the tax payers survey question raises a question like "Do you pay someone for assistance with your 2009/10 income tax return?" All of them were said no. Even though the tax payers did not pay for professional tax assistance, they still have had some expenses in preparing their tax returns such as, buying self-help tax guides, making phone calls, traveling, or postage costs (See Appendix 2).

Times spent by taxpayers for the purpose of learning tax rules; keeping record; looking tax tables; time spent for actual preparation and assistant for the tax advisors were evaluated here with the values that the taxpayers stated in questionnaires as stated previously. The total hours the tax payers spent for the above five conditions were 532.25; and the total expenses that the tax payers were incurred was 17,390 ETB (Total monetary costs such as buying self-help tax guides, making phone calls, traveling or postage costs)(see Appendix 2 and 4).

The average value per tax payer on tax compliance was 168.83 ETB. On average, taxpayers spent 1.39 hrs for learning tax rules; 0.72 hrs for keeping record; 0.88 hrs for looking tax tables; 0.90 hrs for actual preparation and 1.72 hrs assistant from tax advisors. Thus, in total, 5.17 hours were spent, on average. Learning tax rule for income tax purposes is the highest time spends of 143.5 hours in the first class of each variable, means that different class of income level, different category of age groups and in the different level of education, have dedicate more time in the year of assessment 2009/10 next to tax advisors. The explanation to the result might be because with based on the findings of a study called "Business Process Reengineering" radical change -that alters the fundamental nature of the Ethiopian Tax and Customs Administration system has recently taken place. The change has involved the introduction of new tax and customs laws and regulations in the federal taxation system, taxpayers become aware that they need to know what the new reengineering process have an impact on the tax laws. The least time spend is on activities associated with keeping records.

Taxpayers become not aware that they need to keep record in order for them to claim all the deductions available. In all, the total time spend are 532.25 and the mean time spend for individual taxpayer is 5.17 hours. The full result is shown in Table 5. Nearly 1/4^h of the time spent on filing was devoted to learning tax rules and actual preparation of the return accounting for about 1/7^h of total time. Table 5 indicated that the details relationship between compliance cost and income. One feature of this table is the large amount of time spent by the lowest income group. One conceivable explanation for this finding is that these individual tax payers had a commitment of large amount of time itself contributed to a low value for taxable income, since they were a low income group relative to the other class, so they devote more time to save the income tax liability.

The overall distribution of own time spent with respect to income is no pattern. This relationship is more unusual when the value of time is considered, because the total time valuation per hour was highest for the lowest income class, and lowest for the top income class. Note that the value of time for the lowest income class is almost similar to the value of time in the 5,000 to 10,000 ETB range and greater than the value in the 10, 000 to >20,000 ETB income groups. The allocation of time spent among the various categories is relatively constant among income groups, learning tax rules and tax advisors are relatively more important for 1,000 to 10,000 ETB income groups.

Table 4. Income, Age and Level of education with total expenditures

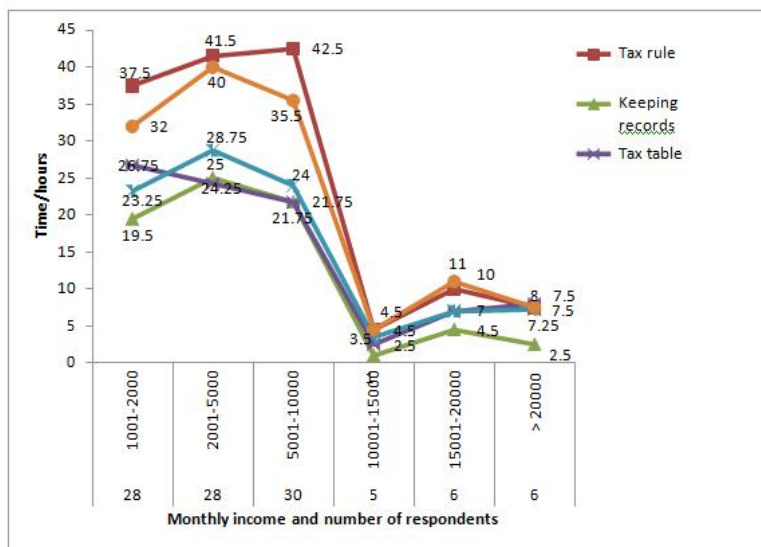
Number of respondents	28	28	30	5	6	6
Income (ETB)	1001-2000	2001-5000	5001-10000	10001-15000	15001-20000	> 20000
Monetary cost (ETB)	3,510	5,560	2,080	740	3,000	3,000
Number of respondents	51	47	5	-	-	-
Age	18-30	31-45	46-55	-	-	-
Monetary cost (ETB)	10,770	6,120	500	-	-	-
Number of respondents	30	56	17	-	-	-
Level of education	Some college	Degree	Post graduate/PhD	-	-	-
Monetary cost (ETB)	7,040	3,610	7,010	-	-	-

Source: tax payers survey

Table 5. Tax payers survey respondent cross tabulation of monetary cost and time by income of the individuals

Number of respondents	28	28	30	5	6	6	
Income (ETB)	1001-2000	2001-5000	5001-10000	10001-15000	15001-20000	> 20000	
Own time							Total
Tax rule	37.5	41.5	42.5	4.5	10	7.5	143.5
Keeping records	19.5	25	21.75	1	4.5	2.5	74.5
Tax table	26.75	24.25	21.75	2.5	7	8	90.25
Preparation	23.25	28.75	24	3.5	7	7.25	93
Tax advisors	32	40	35.5	4.5	11	7.5	131
Total	139	159.5	145.5	16	39.5	32.75	
Monetary Expenditure	3,510	5,560	2,080	740	3,000	3,000	

Source: tax payers survey



Source: tax payers survey

Figure 1. indicates the corresponding value of time and income

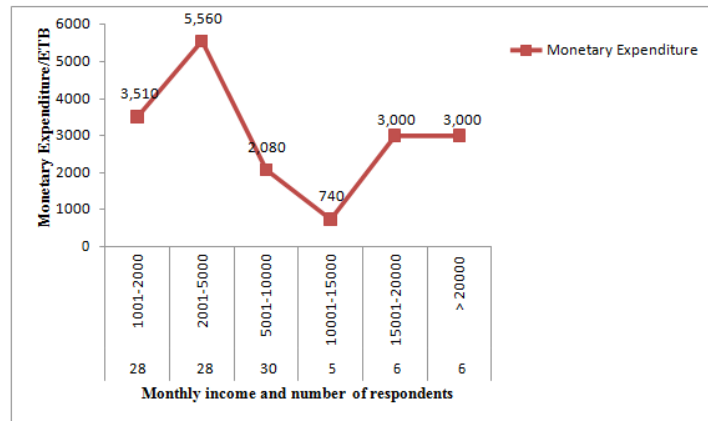
The fraction of individuals who looks tax Tables generally decrease with income, starting from about 56.5% for the lowest two classes (for the first two class), about 26.9% for the middle income groups (for the next two class), up to 16.6% for those households earning more than 15,000 ETB of income (for the last two class). Except for the lowest middle two classes, the average amount spent by those who do use assistance rises as well.

The total monetary cost of compliance has a U-shaped relationship with income. For households with over 20,000 ETB incomes, the average monetary cost were 3,000 ETB. Measured as a percentage of income, the cost for the highest group is (32.45%) which is significantly higher than for any of the other groups. Table 6 was explained data on the relationship between compliance cost and educational attainment.

Table 6 Tax payers survey respondent cross tabulation of monetary cost and time by level of education of the individuals

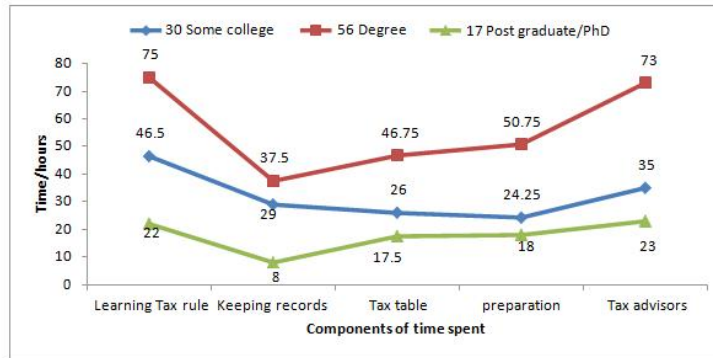
Number of respondents	30	56	17	
Level of education	Some college	Degree	Post graduate/PhD	Total
Learning tax rule	46.5	75	22	143.5
Keeping records	29	37.5	8	74.5
Tax table	26	46.75	17.5	90.25
Preparation	24.25	50.75	18	93
Tax advisors	35	73	23	131
Total	160.75	283	88.5	
Monetary expenditure	7,040	3,610	6,740	17,390

Source: survey result



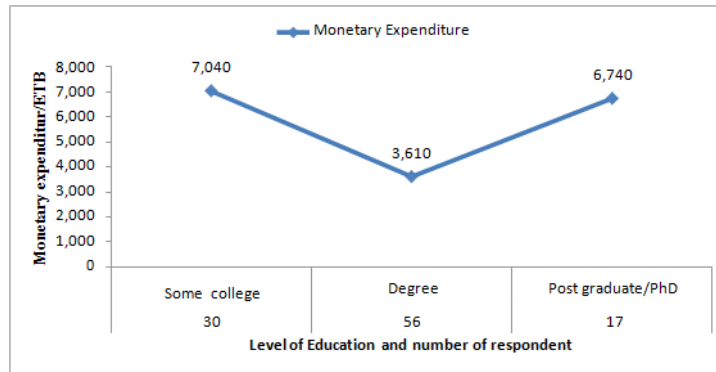
Source: tax payers survey

Figure 2. monetary cost and income



Source: tax payers survey

Figure 3. components of time and educational attainments

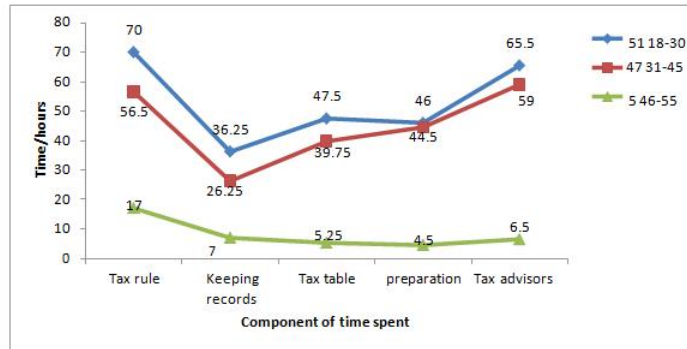


Source: tax payers survey

Figure 4. Monetary expenditure and educational attainment

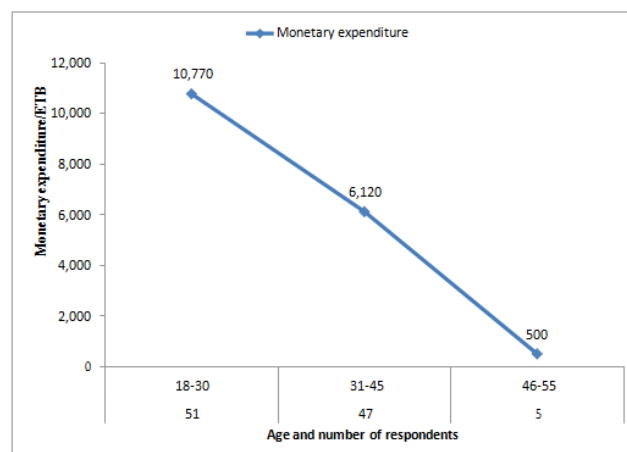
This Table indicates the less educated taxpayer tends to spend more time on his tax affairs and is more likely to need professional tax advice. In the middle educational attainment group, over 55.7% of individuals need for assistance, compared to less than 30% for college graduates and less than 20% for those with a post graduate level education. However, Measured as a percentage of level of education, the cost for the middle group is significantly lower (20.76%) than for any of the other two groups (some college 40.48% and post graduate and PhD 38.76%).

others and also because no payment for the tax advisors at all rather they are voluntarily assist them. So they can straightforwardly minimize their costs. The total monetary costs of compliance generally decrease with Middle class educational attainment, due to the increasing number of hours spent for all the variables and almost equal to the first and the last educational attainments.



Source: tax payers survey

Figure 5. Components of time spent and Age of tax payers



Source: tax payers survey

Figure 6. monetary cost and Age of tax payers

Table 7. Tax payers survey respondent cross tabulation of monetary cost and time by Age of the individuals

Number of respondents	51	47	5	
Age	18-30	31-45	46-55	Total
Tax rule	70	56.5	17	143.5
Keeping records	36.25	26.25	7	74.5
Tax table Preparation	47.5	39.75	5.25	90.25
Tax advisors	46	44.5	4.5	93
Tax advisors (Total)	65.5	59	6.5	131
Total	266	226	37.25	
Monetary expenditure	10,770	6,120	500	

Source: tax payers survey

Here we can understand the cost of middle class educational attainments (degree), were incurred less cost than the other two classes because the time they devote in learning tax rules and needs to help the tax advisors were more relative to

Table 7 indicates the relationship between compliance cost and the age of the person in the household most familiar with the tax return.

Total time spent on compliance first falls then rise with age, but the reverse is true for compliance cost. This is also true for its major component, record-keeping, learning tax rule; looking tax table. In contrast, the fraction of households that needs professional tax assistance is higher for the older groups (46-55), 1.3 hrs ($6.5/5=1.3$) than for the two younger groups (18-30 and 31-45), 1.28 hrs ($65.5/51=1.28$) and 1.16 hrs ($59/47=1.26$) respectively. Whether this represents an unwillingness to hassle with tax matters on the part of older taxpayers or more complicated tax returns is impossible to say without further analysis.

There is a positive statically significant relationship between income of the individual income tax payers and learning tax rules, looking, tax tables, keeping records and actual preparation of their statements (Pearson correlation, $p<0.01$), but a negative statistical significant at 5% confidence relationship with helping from tax assistances (Pearson correlation, $p=0.024$). Some correlations between attitude variables are also shown in the correlation matrix in Appendix 5. In general, the income and level of education was found to have a strong influence on compliance time, but age was not correlated with compliance time except in record keeping.

Table 8. The correlation matrix of variables

	Age	Level of education	Income	Learning tax rule	Keeping records	Looking tax tables	Preparation	Tax advisors
Age	1	.454** (.000)	.394** (.000)	.019 (.846)	-.344** (.001)	-.173 (.081)	-.033 (.740)	-.183 (.065)
Level of education		1	.807** (.000)	.139 (.162)	.052 (.608)	.319** (.001)	.616** (.000)	-.279** (.004)
Income			1	.313** (.001)	.241* (.017)	.488** (.000)	.776** (.000)	-.223* (.024)

Note: The numbers presented are the Pearson correlation and a two-tailed significance test** (in parentheses). Source: correlation matrix table

In any event, the ratio of expenditure son professional tax assistance to hours of own time spent rises monotonically from 1.28 hrs for the youngest group to 1.3 hrs for the oldest group. The total monetary cost of compliance also strictly falls as age increases. The average compliance cost of each individual tax payers were sustain ETB 211.18 from the table 3, ($10,770/51=211.18$), ETB 130.21 ($6,120/47=130.21$), and ETB 100 ($500/5=100$) from each age group respectively. The correlations between compliance costs and income, level of Education and Age were also assessed and are explained in Table 8. There is a negative statistically significant relationship between the way of filling in the tax return in record keeping and age (Pearson correlation, $p=0.001$). But there is no a significant relationship to other variables,(learning tax rules; looking tax tables; preparation and helping from tax assistances).

Here in record keeping the tax payers are not devote much time to keep their records because their attitudes and know how are increase and they also have increase their commitment to pay their tax liability as age increases. There is no such significant relationship between level of education and learning tax rules (Pearson correlation, $p=0.162$) as well as no statistically significant relationship with keeping records. There is also a positive statistically significant relationship concerning the level of education (Pearson correlation, $p<0.01$) with looking a tax tables and actual preparation but a negative statistically significant relationship with helping from tax advisors. As the education level rises, the percentage of individual income tax payers who fill in on their own rises too (and, vice versa, the percentage of the taxpayers using external help falls). This is in accordance with the results of similar researches (Diaz and Delgado, 1995). As also understand from the above table, there is also a relationship between income and compliance time.

Taxpayers who stated that they find tax compliance complicated had higher compliance costs, as did taxpayers who monitor their inflow of income and distribute income to reduce their tax liability. To sum up, results in respect of compliance costs of individual income tax payers depicted the following findings. The average values per tax payers were 168.83 ETB and the average times spent by tax payers for filing their tax return were 5.17hrs.

Despite the fact that international comparisons of compliance costs could not be made because of several obstacles like different methodologies, different response rate, evaluation of time, assessment of tax and tax rates, the study also make comparisons with other similar prior studies such as the study conducted by Diaz and Delgado, 1995 = 6.8hrs, Pope, 1995 = 7.8hrs, Slemrod and Sorum, 1984 = 21.7hrs, and Blumenthal and Slemrod, 1992 = 27.4hrs, time spent by tax payers for personal income tax on average in Addis Ababa are relatively low. The main reason for this is the low consultancy costs. Almost all of the surveyed tax payers were no payment for tax advisors. If they sought help, they turned to friends and family and did not pay for it.

Compliance costs for the 2009/10 fiscal year were found to be 4,269,329.4 million ETB. As a share of total tax revenues and GDP2 these costs were in the range of approximately 0.98 % and 0.11% respectively. The largest component of compliance time (143.5 hours) is the time spent for learning tax rules, which is on average 27% and the least component of compliance time (14%) is the time spent for keeping records.

Documentary analysis

As stated in chapter 3, apart from the survey, this study employed documentary study.

Documents including the income tax legislation or proclamation and other official documents (both published and unpublished) held by the tax authorities and other government institutions were examined. Besides, the documentary analysis aimed at obtaining estimates of percentage of costs incurred and time spent by each individual income tax payers. Some clue of the estimates of percentage of costs incurred and times spent in connection with income tax administration by the individual income tax payers were obtained from all the selected tax offices which were specified in chapter 3 above in Addis Ababa.

The numbers of Individuals who are required to pay their income tax liability within the specified date were decrease from year to year. The reason behind to this is that their fear of such kinds of costs. Since they are voluntarily registered without enforcing by any government body, at the beginning they registered more but unfortunately after a certain period of time they dispose themselves too. As chapter one stated, weak enforcement is a cause for concern since personal income tax compliance tends to be lower. And also these individuals are required to pay income tax. They are ordered to do so by income tax proclamations, regulation and directives. According to the law, individuals who obtain income from their employment are required to pay tax. In line with internationally recognized best practice, employees income tax liabilities are calculated and paid directly by their employer.

As a result the government relies on employers to compute and withhold the tax to be paid by employees. But in this study these individuals were forced to pay their income tax liability by themselves. The employers were not responsible to calculate and paid to the tax authority. They were not act as an agent; rather they pay the gross amount. These individuals were voluntary disclose their income and goes to the nearer tax office and therefore, they exposed compliance cost easily. Therefore, the authority should designed a strong tax audit policy and strategy to deliver the aspiration of helping customers to pay the right tax at the right time and with the minimal administrative and compliance cost to both ERCA and customers alike.

Conclusion

Compliance costs of taxation are also known as a hidden cost of taxation or the excess burden of taxation. The awareness or initiatives to reduce the cost must come from the taxpayers themselves. However, in Addis Ababa little is known on taxation compliance costs and no research has been conducted on individual tax compliance costs. Data was obtained from taxpayer surveys and documents held by tax authorities and other institutions were employed to address this research question and hypotheses. On average, respondents to this survey spent 5.17 hours of their own time on tax filing, which had a resource cost of 168.8 ETB. Thus, the average total cost amounted to 168.8 ETB per individual income tax payers. Considering the total estimated of 25,287 taxpayers in Addis Ababa in 2009/10, it yields aggregate estimates of 130,733.79 hours and a total compliance cost of 4,269,329.4 ETB. This cost is approximately 0.98 % of total tax revenues and 0.11% of

total GDP of the country as a whole for the year of assessment. The results also provide evidence that unlike the practice in most developed countries, the majority of taxpayers in Addis Ababa do not used tax advisors.

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