

# Factors Influencing Taxpayers Engaged in Tax Evasion Evidence From Woldia City Administration Micro, Small and Large Enterprise Taxpayers

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## Research

**Keywords:** Tax evasion, tax knowledge, tax fairness, and moral obligation

**Posted Date:** October 15th, 2020

**DOI:** <https://doi.org/10.21203/rs.3.rs-87257/v1>

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**Version of Record:** A version of this preprint was published on February 16th, 2021. See the published version at <https://doi.org/10.1186/s13731-020-00142-4>.

## Factors Influencing Taxpayers Engaged in Tax Evasion

Evidence from Woldia City Administration Micro, Small and Large enterprise Taxpayers

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### Abstract

*The main purpose of this study is to investigate factors that influencing taxpayers to engage in tax evasion. The researcher used descriptive and explanatory research design and has been followed by a quantitative research approach. The data was collected by dispatching self-administered questionnaires. After data collection has been performed, exploratory factor analysis (EFA) was conducted. EFA results showed that the Kaiser-Mayer Olkin result 0.883 and the Bartlett test of 0.00 is suitable for the analysis. The data were analyzed with the Promax rotation method and extracted by the principal component analysis extraction method. All six factors were statistically significant for factor analysis. The explained variance of the first factor was 31.782%, the second factor explained 11.74% of the variance, the third factor explained 8.25% of the variance, the fourth factor explained 6.72% of the variance and the fifth factor explained 5.23% of the variance and the six-factor explained 4.12% of the variance. The extracted factors explained 67.84% of the variation of factors influencing taxpayers engaged in tax evasion. The finding of the study indicates that the relationship between the study variables was positive and statistically significant. The regression analysis also indicates that tax fairness, tax knowledge, and moral obligation significantly influence taxpayers to engage in tax evasion, and the remaining moral obligation and subjective norms were not statistically significant to influence taxpayers to engage in tax evasion.*

**Keywords:** Tax evasion, tax knowledge, tax fairness, and moral obligation

### 1. INTRODUCTION

In different countries around the world business owners, government workers, service providers, and other organizations forced by the government to pay a tax for a long period in human being history, and no one escape from the tax of the country. To support this, there is an interesting statement mentioned by Benjamin Franklin “nothing is certain except death and taxes”. This statement ensured that every citizen should be subjected to the law of tax and they obliged to pay the tax from their income. Countries, all over the world to build large dams, to construct transportation infrastructures, to provide quality social services for the community, collecting a tax from citizens play a significant role for the governments (Saxunova & Szarkov, 2018).

Tax is the benchmark and turning point of the country’s overall development and changing the livelihoods and enhancing per capital income of the individuals. The gross domestic product of the developed countries and average revenue ratio was 35% in the year 2005, whereas in developing countries the share was 15% and in third world countries also not more than 12% (Mughal & Akram, 2012).

In the developing world, countries have no system to collect a sufficient amount of tax from their taxpayers. The expected amount of revenue cannot be enhanced due to different reasons. Among the reasons tax operation of the system may not smooth, tax evasion and lack of awareness creation for the taxpayers are common in the developing world, and citizens are not committed to paying the expected amount of tax for their countries (Temitope et al., 2010).

In today’s world, this remains very much the same as persons now pay taxes to their governments. As the world has evolved, tax compliance has taken a back seat with tax avoidance and tax evasion being at the

forefront of the taxpayer's main objective. Tax avoidance is the use of legal means to reduce one's tax liability while tax evasion is the use of illegal means to reduce that tax liability (Alleyne & Harris, 2017). Tax evasion is a danger to the community, the countries and international organizations have been making an effort to fight undesirable phenomena related to taxation, the tax evasion, or tax fraud (Saxunova & Szarkov, 2018).

Scholars relate the effect of tax evasion on the macro level of the country's economic factors because it brings a devastating loss for the country's GDP. The issue of tax evasion became a controversial issue, debating and a special concern for tax collector authorities (Aumeerun et al., 2016). It is an illegal act and considered unethical practices by different individuals and groups who criticize engaged in tax evasion activities (Alleyne & Harris, 2017).

According to Tatenda et al., (2012) states that in the Zimbabwe tax system there are identical devils tax evasion and tax avoidance that create a problem for the government to collect a tax from taxpayers. Like Zimbabwe, many nations have been faced challenges to cover the annual budget and to construct different infrastructures due to the budget deficit created by tax evasion (Alleyne & Harris, 2017; Turner, 2010).

Scholars especially economists agreed that tax evasion may be considered a technical problem that exists in the tax collection system, whereas psychologists believed that tax evasion is a social problem for the countries (Terzić and Džakul, 2019).

Tax evasion practices are more worsen than in developing countries when we compare against the developed countries. Therefore, governments were negatively affected by tax evasion to improve the life standard of its citizens, and to allocate a budget for public expenditure and it became a disease for the country's economy (Bismark A., 2015; Mohd et al., 2016).

Several factors lead taxpayers to engage in tax evasion. Among the factors, tax knowledge, tax morale, tax system, tax fairness, compliance cost, attitudes toward the behavior, subjective norms, perceived behavioral control and moral obligation are major factors (Rantelangi & Maji, 2018; Alleyne & Harris 2017). Other factors have also a significant effect on taxpayers to engage in tax evasion practice such as capital intensity, leverage, fiscal loss, compensation, profitability, contextual tax awareness, interest rate, inflation, average tax rate, gender, and ethical tax awareness on tax evasion (Pasca et al., 2018; Mohammad et al., 2016; Betty Annan et al., n.d).

According to Woldia city administration revenue office annual report from July 1, 2019, to June 30, 2020, have planned 232,757,512 birr to collect from taxpayers, however, the office was able to collect 198,537,785.25 birr, the remaining 34,219,726.75 birr have not been collected by the office from the taxpayers. The reason behind this there might be some factors that lead to taxpayers not to pay the annual tax. From the previous studies and by diagnosing the tax collection system in Woldia city administration the researcher was motivated to identify factors that need to investigate under this research. From the factors tax knowledge, tax fairness, subjective norms, moral obligation, and attitude towards the behavior have been examined under this study.

To sum up, the researcher motivated to study on tax evasion in Woldia city administration because the prior studies was not addressed the Ethiopian tax collection system special in Woldia city administration.

## **2. Objectives of the Study**

The specific objectives of the study are:

1. To assess to what extent tax knowledge influences taxpayers to engage in tax evasion.
2. To know the tax fairness influence on taxpayers to engage in tax evasion.
3. To evaluate how subjective norms, influence taxpayers to engage in tax evasion.
4. To examine to what extent moral obligation, influence taxpayers to engage in tax evasion.
5. To assess the attitude towards the behavior influence taxpayers to engage in tax evasion.

### **3. REVIEW OF RELATED LITERATURE**

#### **3.1. Tax and Tax Evasion**

Tax is charged by the government to the business organization, governmental organization, and individual without any return forwarded from the authority. Tax can be categorized as direct tax which is collected from the profit of the companies and the incomes of individuals and the other category of tax is an indirect tax collected from consumers' payment (James & Nobes, 1997).

The overall procedure of tax collection is faced different challenges especially tax evasion the most important one. Tax evasion is done intentionally by taxpayers by avoiding and hiding different documents that become evidence for the tax collection authorities. It is simply an illegal act to pay the true amount of the tax (Aumeerun et al., 2016; Storm, 2013).

Tax evasion is a crime that able to distort the overall economic, political, and social system of the country. The economic aspect of tax evasion facilitating the wealth distribution of the citizens. The social aspect also creates different social groups motivated by tax evasion discouraged by these individuals due to unfair competition (Mohammad et al., 2016). Tax evasion is a mal activity that reduces the amount of tax paid by the payers. Perhaps the taxpayers who engaged in evasion activity may be supported by the legislative of the country (Pasca et al., 2018, Kim. 2008; Sandmo, 2004).

#### **3.2. Types of Tax Evasion**

According to Qassim M. (2018) identified two types of tax evasions. The first one is called the legal evasion or tax avoidance which is supported by the legislation of the countries and the right is given for the taxpayer, but it is not constitutional (Zucman, 2014; Gallemore, 2015). The other one is tax fraud happens when taxpayers create false information that helps to cheat a tax and it leads them to exempt to pay the total amount of the tax (Shaxson, 2012).

#### **3.3. Determinants of Tax Evasion**

The illegal activity done by taxpayers has many determinants that lead them to engage in tax evasion. Among the factors that trigger taxpayers who participate in this activity are the economic factors. Under the economic factors business sanctions, business stagnation, and the amount of tax burden is considered as influential factors. On the other hand legal factors, social factors, demographic factors, mental factors, and moral factors are the most important factors (Saxunova & Szarkov, 2018).

#### **3.4. Conceptual Framework and Hypotheses Development**

##### **3.4.1. Moral Obligation of Tax Payers**

Moral obligation is a principle and a duty of taxpayers by paying a reasonable amount of tax for the tax authorities without the enforcement of others. It is an intrinsic motivation of payers paying the tax. When taxpayers have low tax moral they will become negligent to pay their allotted tax (Alm & Torgler, 2006; Torgler & Schneider, 2007; Frey, 1997).

According to Frey and Field (2002) when tax officials are responsible and provide respects in their duties toward taxpayers, tax morale or the honesty of taxpayers will increases. Tax morals may be affected by a demographic factors-like income level, marital status, and religion (Cornelius & Nurhapizah, 2018). Based on the above discussion the following hypothesis developed by the researcher:-

***H<sub>1</sub>: Moral obligation has a negative influence on taxpayers to engage in tax evasion.***

##### **3.4.2. Tax Fairness**

The tax collection procedures, principles, and implementation must be fair. Unethical behavior may happen due to the unfairness of the tax collection process. The fairness of tax may influence payers positively. When the tax rate is reasonable and fair the payer will regret to engage in the tax evasion practices and they will inform their annual income for authorities without avoiding the amount. Considering the ability of paying or acceptable tax rates is helps to maintain the fairness of the taxation system (Cornelius & Nurhapizah, 2018). Based on the description the researcher identified the second hypothesis:-

***H<sub>2</sub>: Tax fairness has a positive influence on taxpayers to engage in tax evasion.***

##### **3.4.3. Tax Knowledge of Tax Payers**

Tax knowledge is vital for taxpayers to know the cause and effect that brought to them engaged in tax evasion. A well-informed taxpayer knows about taxation his/her participation in tax evasion would be

infrequent, the reverse is true for a taxpayer who is not well informed. Tax related information should give more emphasis to enhance the knowledge of taxpayers and experts of the authority (Poudel, 2017). If the authorities cascade different training for taxpayers about tax evasion and other tax-related issues taxpayers become reluctant to engage in tax evasion (Cornelius & Nurhapizah, 2018). Thus, the third hypothesis of the study drawn as follow:-

***H<sub>3</sub>: Tax knowledge has a negative influence on taxpayers engaged in tax evasion.***

#### **3.4.4. Subjective Norms**

The stakeholders, government experts, families, individuals, groups, and peers influence taxpayers whether they engaged in tax evasion or not (Harris et al.,2017). The stakeholders around the taxpayers might be motivators to push taxpayers in the criminal act of tax evasion. Based on the above discussion the fourth hypothesis becomes described as follow:

***H<sub>4</sub>: Subjective norms have a positive influence on taxpayers to engage in tax evasion***

#### **3.4.5. Attitude towards the Behavior**

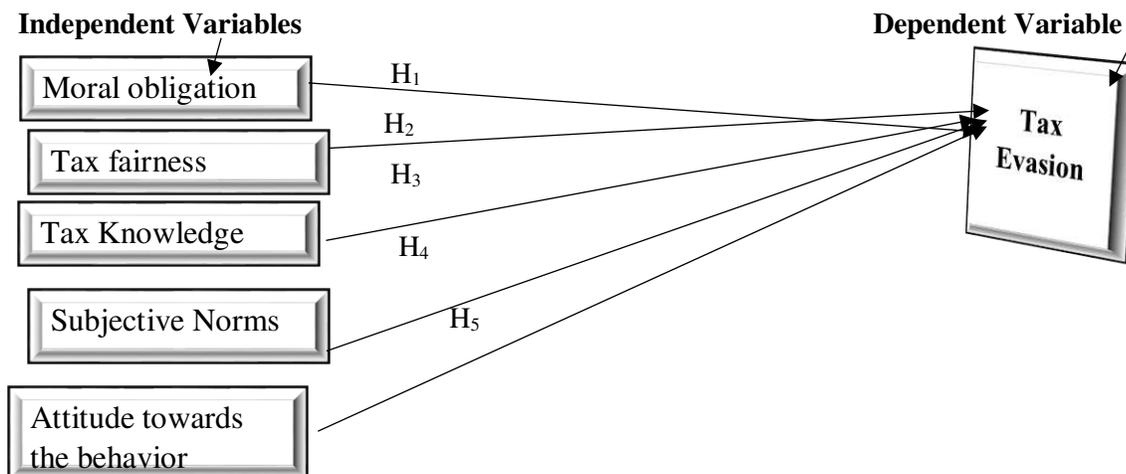
Attitude a means to evaluating the activities whether they are positive or negative of any object. Many studies have been done by different scholars by defining and identifying the relationship between the attitudes of taxpayers with tax evasion (Harris, 2017). If the attitude of taxpayers towards taxation negative they will be reluctant to pay their obligation to the authority, the reverse is true taxpayers who have positive attitudes towards taxation. Hence, the last hypothesis listed as follow;

***H<sub>5</sub>: Tax payers' attitude towards the behavior has a positive influence on taxpayers to engage in tax evasion.***

#### **3.4.6. Conceptual Framework of the Study**

Based on the above discussions the researcher identified the variables and presented the relationship between independent and dependent variables as follow:-

**Figure 2.1. Conceptual Frame of the Study**



Source: Adapted from Harris et al. (2017) and Cornelius & Nurhapizah, (2018)

#### **3.4.7. Regression Model Speciation and Analysis**

The researcher used descriptive statistics analysis, factor analysis, correlation analysis, and multiple regression analysis to know the result of variables by using SPSS Version 22. The model described as follow:

$$Y = B_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where: Y = Tax evasion

X1= Moral Obligation X2 = Tax fairness, X3= Tax knowledge, X4= subjective norms, X5=Attitude towards the behavior  $\beta$  = Beta Coecient. B0 = Constant, e = other factors not included in the study (0.05 random error) and

#### 4. The Current Study

The main objective of the study is to examine factors that influence tax payers engaged in tax evasion in Woldia city administration. After data analysis conducted the findings are summarized and recommendations forwarded for the concerned bodies.

#### 5. Methodologies

##### 5.1. Research Design and Approach

The researcher applied descriptive and explanatory research design to undertake this study. The explanatory research design enables the researcher to show the cause and effect relationship between independent and dependent variables. The quantitative approach has been followed by the researcher to analyze and interpret the quantitative data collected from the respondents.

##### 5.2. Data Type and Sources

The researcher used primary and secondary data. The primary data was collected from the respondents by using questionnaires and the secondary data was collected from the reports, websites, and other sources.

##### 5.3. Population of the Study

The target population of the study was 4979 taxpayers (micro, small and large enterprises). From the total taxpayers 377 are categorized under level “A”, 207 are level under “B” and the remaining 4,395 taxpayers are categorized under level “C”.

##### 5.4. Sample Size and Sampling Techniques

From the target population by using a stratified sampling technique the respondents have been selected. The target population divided by the taxpayers' “level”, after dividing the population by level, the researcher applied a simple random sampling technique to select respondents. To identify the target participants or sample size in this study the researcher used Yamane's (1967) formula. Hence, the formula described as follow;

$$n = \frac{N}{1+N(e)^2}$$

Where, N= Target population, n=sample size, e=error term

$$n = \frac{4979}{1 + 4979(0.05)^2}$$

**n = 370**

Based on the sample size the respondents have participated proportionally as follows from each level. As shown in the table below 3.1 the total population divided as strata based on the level categorized by the authorities.

**Table: 3-1. Sample Size of the Study**

Level	Total Population	Sample Size (Proportional)
A	377	28
B	207	15
C	4395	327
Total	4979	370

Source: Woldia City Revenue Office, (2020)

## 6. Study Materials

### 6.1. Instruments of Data Collection

The data was collected by self-administered standardized questionnaires. The variables of the study, a moral obligation was measured by 4 items, after conducting factor analysis the fourth variable or questionnaire has been removed and after that correlation and regression analysis has been done for 3 items, the value of Cronbach's Alpha was .711, attitude towards the behavior was measured by 4 items with a value of .804 Cronbach's Alpha, the subjective norms variable also measured by 4 items the value was .887 Cronbach's Alpha, and tax evasion was measured by 5 items, the Cronbach's Alpha value was .868. For the above-listed variables the questionnaires were adapted from (Harris et al.2017) and the remaining variables tax fairness was measured by 7 items the Cronbach's alpha value was .905, the items were adapted from Serkan Benk et al. (2012) and the last variable tax knowledge was measured by 5 items, However, after conducting factor analysis the fifth item has been removed due to low value of the variable. After the removal of the fifth item, the Cronbach's alpha value for the remaining items was .800, the items were adapted from Poudel (2017). For all variables, the researcher has used a five-point Likert scale from strongly agree to strongly disagree.

## 7. Results and Discussion

### 7.1. Results

#### 7.1.1. Result of Descriptive Analysis

As indicated in table 4.1 from the total respondents 88.4% are categorized under level "C", 4.1% are leveled under "B", the remaining 7.6% of respondents have been categorized under level "A".

Table: 4.1. Tax Payers Level

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Level "A"	28	7.6	7.6	7.6
	Level "B"	15	4.1	4.1	11.6
	Level "C"	327	88.4	88.4	100.0
	Total	370	100.0	100.0	

Source: Own Survey, (2020)

#### 7.1.2. Factor Analysis of the Study Variables

To undertake exploratory factor analysis the data should fulfill the following assumptions. The first assumption is the variables should be ratio, interval, and ordinal and the second one is within the variables there should be linear associations, the third assumption is a simple size should range from 100 to 500 and the last assumption is the data without outliers. Thus, this study data have been checked by the researcher whether the data meets the assumption or not. Based on this the factor analysis was conducted as follows.

#### 7.1.3. KMO and Bartlett's Test

Conducting KMO and Bartlett's test is a precondition to conduct the factor analysis of the study measuring variables. KMO measure the adequacy of the sample of the study.

The result reported in table 4.2 below the value was 0.883 and enough for the factor analysis. Related with Bartlett Test as shown in table 4.2 the value is 5727.623 ( $p < 0.001$ ), which reveals the adequacy of data using factor analysis

Table 4.2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.883
Bartlett's Test of Sphericity	Approx. Chi-Square	5727.623
	Df	351
	Sig.	.000

Source: Own survey, (2020)

As shown in table 4.3 factors were extracted from study data, there were a linear relationship between variables. According to Kaiser (1960) states that the researchers are better to analyze the eigenvalues greater than 1. From the table below we can understand that 6 variables have more than one eigenvalue. The first factor scored the value 31.782 of the variance, the second value is 11.739 of the variance, the third factor scored 8.246 of the variance, the fourth factor accounts for 6.725 of the variance, the fifth factor also accounts for 5.233 and the last factor scored 4.123 of the variance. All six factors were explained cumulatively by 67.85% of the variance.

**Table 4.3. Total Variance Explained**

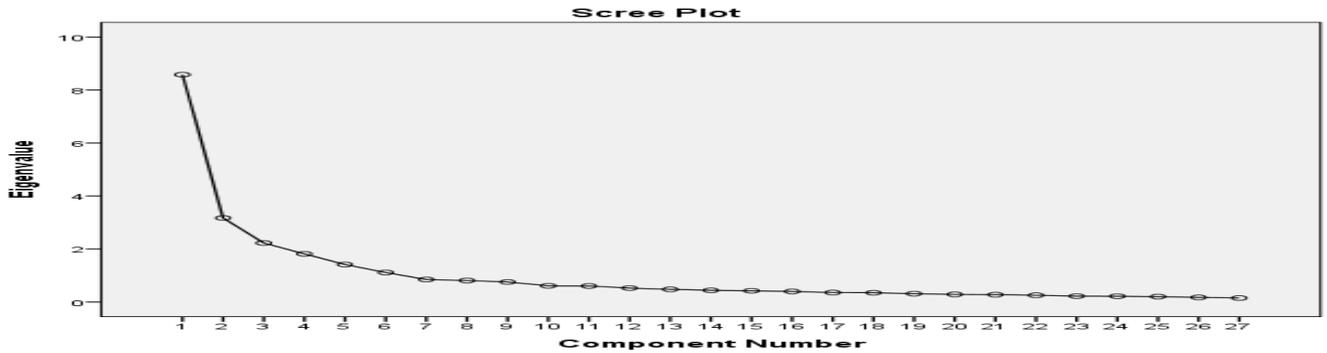
Component	Initial Eigenvalues			Extraction Sums of Squared			Rotation Sums of
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Squared Loadings
1	8.581	31.782	31.782	8.581	31.782	31.782	6.862
2	3.170	11.739	43.521	3.170	11.739	43.521	6.456
3	2.226	8.246	51.766	2.226	8.246	51.766	4.036
4	1.816	6.725	58.492	1.816	6.725	58.492	3.783
5	1.413	5.233	63.724	1.413	5.233	63.724	3.963
6	1.113	4.123	67.847	1.113	4.123	67.847	2.991
7	.847	3.138	70.985				
8	.810	2.999	73.984				
9	.753	2.790	76.774				
10	.611	2.262	79.035				
11	.603	2.235	81.270				
12	.525	1.944	83.214				
13	.476	1.763	84.976				
14	.440	1.628	86.605				
15	.423	1.567	88.172				
16	.397	1.471	89.643				
17	.356	1.317	90.960				
18	.348	1.288	92.247				
19	.314	1.162	93.410				
20	.287	1.064	94.473				
21	.276	1.022	95.495				
22	.253	.937	96.432				
23	.221	.820	97.252				
24	.217	.804	98.057				
25	.203	.751	98.808				
26	.173	.642	99.449				
27	.149	.551	100.000				

Extraction Method: Principal Component Analysis. a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Source: Own Survey, (2020)

As shown on the figure 4.1 the scree plot, starts to curve down slowly at the low eigenvalue which is less than 1. The six factors eigenvalue was greater than one.

Figure: 4.1. Scree Plot



The pattern matrix is shown below in table 4.4 able to show the loading of each variable and the relationship of variables in the study. The highest value among the factors measured the variable considerably. The cutoff point of loading was set (.35) and above. Based on the loading cut of point except, two factors all are significant and analyzed under this study. From the six variables (five independent and one dependent) incorporated under this study. The identified factors shows that how significantly enough to measure the situation. These factors have scored greater than 1 Eigenvalue and able to explain 67.85% of the variance. In general, the detail variables and their factor described as follow:

The first component is tax fairness has 7 factors, the Eigenvalue is 8.58 and able to explain 31.78 the total variance. In this component the highest contributed factor was item TF3 (weight=.925), TF5 (weight=.865), TF1, (weight=.859), TF2 (weight=.778), TF4 (.668), TF6 (weight=.614), and TF7 (weight=.568). The second component was tax evasion and has 5 items, the eigenvalue is 3.17 and explaining 11.73 of the variance. The factors weight of the items, TE4 (factor weight=.860), TE5 (factor weight=.810), TE3 (factor weight=.730), TE2 (factor weight=.650), and the last one is TE1 (factor weight=.606). The third component was subjective norms, it has 4 factors the weight of each factor described as follows. The first factor SNS1 (factor weight=.898), SNS2 (factor weight=.887), SNS4 (factor weight=.846) and SNS3 (factor weight=.820). Moreover, the Eigenvalue of this component is 2.226 and explained 8.246 of the variance of the study. The fourth component is an attitude towards the behavior. This variable has four factors that have 1.816 Eigenvalue and explained 6.725 of the total variance. Among the factors ATB2 (factor weight=.863), ATB1 (factor weight=.792), ATB3 (factor weight=.791) and the last factor is ATB4 (factor weight=.500). The fifth component of the study is tax knowledge, at the very beginning of this variable the researcher was adapted five items. However, one item (TK5) was not significant and removed from this analysis. In this component, the highest value scored by TK3 (factor weight=.866), the second-highest TK2 (factor weight=.801), the third-highest factor weight (weight=.700), and the last factor is TK4 (weight=.690). The Eigenvalue of this component 1.413 and explained 5.233% of the variance. The last component is a moral obligation, like tax knowledge the researcher was adapted for this variable 4 items, though, one item (MO4)

was not significant and removed from the items list. The Eigenvalue of this component was 1.113 and explained 4.123 of the variance. From the items MO1 scored the highest factor weight of .891, the second-highest weight in this component was MO3 with a factor weight of .854, and the third-highest factor weight was scored by MO3 with a value of .508.

Table 4.4. Pattern Matrix

	Component					
	1	2	3	4	5	6
TF3	.925					
TF5	.865					
TF1	.859					
TF2	.778					
TF4	.668					
TF6	.614					
TF7	.568					
TE4		.860				
TE5		.810				
TE3		.730				
TE2		.650				
TE1		.606				
SNS1			.898			
SNS2			.887			
SNS4			.846			
SNS3			.820			
ATB2				.863		
ATB1				.792		
ATB3				.791		
ATB4				.500		
TK3					.866	
TK2					.801	
TK1					.700	
TK4					.690	
MO1						.891
MO3						.854
MO2		.405				.508

Extraction Method: Principal Component Analysis. Rotation Method: Promax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Source: Own Survey, (2020)

#### 7.1.4. Association Analysis of the Study Variables

To analyze the correlation between variables as shown in the below table 4.5 the relation between subjective norms with taxpayers engaged in tax evasion is ( $r=0.240, p<0.05$ ), this indicates that there is a statistically significant relationship between the two variables. The correlation between attitude towards the behavior with TE, MO with TE, TK with TE, and TF with TE the Pearson correlation result is ( $r=0.318, p<0.05, r=0.371, p<0.05, .446$  and  $r=0.691, p<0.05$ ) respectively and statistically significant. It implies that the independent variables have a positive relationship with the dependent variable of the study with a statistically significant level of ( $p<0.05$  and  $n=370$ ).

Table: 4.5. Correlations of Variables

	Variables	TE	SNS	ATB	MO	TK	TF
Pearson Correlation	Tax Evasion (TE)	1.000					
	Subjective Norms (SNS)	.240	1.000				
	Attitude towards the behavior (ATB)	.318	.394	1.000			
	Moral Obligation (MO)	.371	.149	.376	1.000		
	Tax Knowledge (TK)	.466	.096	.193	.303	1.000	
	Tax Fairness (TF)	.691	.236	.340	.230	.398	1.000
Sig. (1-tailed) (TE with other Variables)		.000	.000	.000	.000	.000	.000

Source: Own Survey, (2020)

### 7.1.5. Effect Analysis of the Study Variables

As shown in the below table 4.6 the study independent variables (SNS, ATB, MO, TK, and TF) explained the study dependent variable (TE) by 54.9%. This result indicates that there are other variables explain the dependent variable by 45.1% have not been investigated under this study.

Table: 4.6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.745 <sup>a</sup>	.555	.549	.62660	.587	103.408	5	364	.000

a. Predictors: (Constant), TF, SNS, MO, ATB, TK

Source: Own Survey, (2020)

### 7.1.6. Hypothesis Test

The proposed hypothesis of the study has been tested based on the coefficient of regression and the “P” value of the study variables. The detail described as follow:-

***H<sub>1</sub>: Moral obligation has a negative influence on taxpayers to engage in tax evasion.***

As shown in table 4.7 below, moral obligation influences positively the taxpayers to engage in tax evasion activities with a beta value of .177 and  $p<0.05$ . This implies that the taxpayers are influenced by other stakeholders to engaged in tax evasion and they have low moral value to pay the tax levied by the government. This result is supported by the finding of Cornelius & Nurhapizah, (2018) and Harris & Philmore, (2017). Thus, the hypothesis related to this variable has been rejected because moral obligation influences positively taxpayers to engage in tax evasion.

***H<sub>2</sub>: Tax fairness has a positive influence on taxpayers to engage in tax evasion***

To minimize the participation of taxpayers engaged in tax evasion tax fairness play a significant role. In this study tried to investigate the influence of tax fairness on tax evasion, the regression result indicates in the table 4.7 tax fairness positively influences the taxpayers to engage in tax evasion. This result similar to

the finding of Nurhapizah et al. (2017) and contradict with the finding of Cornelius & Nurhapizah, (2018). Accordingly, the proposed hypothesis has been accepted because the beta value is .563 and the p-value is less than .05.

***H<sub>3</sub>: Tax knowledge has a negative influence on taxpayers to engage in tax evasion***

From the below table 4.7 shows that tax knowledge influences the taxpayers positively to engaged in tax evasion. The beta value is .183 and the value is ( $p=0.00$ ). It is known that when the taxpayers were not well informed about the importance of tax for the country development and the devastating issues of tax evasion the will be forced to engage in tax evasion. This finding contradicts the finding of Cornelius and Nurhapizah (2018) and is supported by the finding of Mohammad et al. (2016). To conclude the proposed hypothesis rejected because tax knowledge positively influenced the taxpayers to engage in tax evasion.

Table: 4.7. Coefficients of Variables

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.623	.174		3.589	.000
SNS	.050	.030	.063	1.656	.099
ATB	-.001	.044	-.001	-.018	.985
MO	.197	.043	.177	4.547	.000
TK	.174	.037	.183	4.661	.000
TF	.468	.033	.563	14.021	.000

a. Dependent Variable: TE

Source: Own Survey, (2020)

***H<sub>4</sub>: Subjective norms have a positive influence on taxpayers engaged in tax evasion***

From the above table 4.7 indicates that subjective norms have not been significantly influenced positively by the taxpayers engaged in tax evasion, which means taxpayers were not influenced by others to participate in tax evasion activities. This result is consistent with the finding of Harris & Philmore, (2017). Thus, the proposed hypothesis is rejected because the variable of subjective norms was not statistically significant with a p-value of .099.

***H<sub>5</sub>: Tax payers' attitude towards the behavior has a positive influence on taxpayers to engage in tax evasion.***

As indicated in the above table 4.7 attitudes toward the behavior were not significantly influencing the taxpayers to participate in tax evasion with the p-value of .985. However, the study conducted by Harris & Philmore, (2017) attitude toward the behavior significantly predictors the intentions of taxpayers to engage in tax evasion. This finding became contradicts with this study result. To conclude, the proposed hypothesis has been rejected because the variable is not statistically significantly influencing the taxpayers to engage in tax evasion activities.

**7.2. Discussion**

According to table 4.7 through the examination of coefficients, moral obligation had a positive effect on tax evasion having a coefficient of .197. This result indicates that a one percent change in moral obligation keeping the other things constant can result to motivate taxpayers to engage in tax evasion by 19.7 percent in the same direction. This finding is consistent with the result of Cornelius & Nurhapizah, (2018) and Harris & Philmore, (2017). Tax knowledge had a positive effect on tax evasion having a coefficient of .174. This indicates that a one percent change in tax knowledge keeping the other things constant can result in a change in taxpayers to engage in tax evasion by 17.4% percent in the same direction. This finding becomes contradicts the finding of

Cornelius and Nurhapizah (2018) and similar to the finding of Mohammad et al. (2016). Tax fairness had a positive effect on tax evasion having a coefficient of .468. This implies that a one percent change in tax fairness keeping the other things constant can result in a change in taxpayers engage in tax evasion by .468 percent in the same direction. This result similar to the finding of Nurhapizah et al. (2017) and contradicts the finding of Cornelius & Nurhapizah, (2018). Thus, the final model of the study would be:-

$$\text{Tax evasion} = .623 + .197\text{MO} + .174\text{TK} + .468\text{TF}$$

To generalize the standardized beta coefficient indicates that tax fairness highly affects taxpayers to engage in tax evasion by 56.3%, tax knowledge affects secondly taxpayers to engage in tax evasion by 18.3% and moral obligation affects taxpayers to engage in tax evasion by 17.7%.

## **8. Conclusion and Recommendations**

### **8.1. Conclusion**

The tax payers were influenced by study variables to engage in tax evasion in the study area. The first variable that affect tax payers was moral obligation and has appositve relationship with tax evasion. Tax knowledge also affected tax payers to participate in tax evasion activities, there was a positive relationship between tax knowledge with tax evasion. The tax fairness issues was on the other hand the most important factor that push tax payers to engage in tax evasion activities with positive relationship. The remaining factors subjective norms and attitude towards the behavior have not been significantly affected the taxpayers to engaged in tax evasion.

### **8.2. Recommendation**

Based on the findings the researcher recommended the following solution for the authority:

- ✓ Cascading different training related to tax will help taxpayers to pay a tax based on their income.
- ✓ Creating a fair tax payment system or charging fair tax for the payers helps to reduce the participation of payers in tax evasion.
- ✓ The moral is a bounding rule for human beings to know the right and wrong activities. The authority is better to recognize the payers to think about the shattering effect of tax evasion for the country development.

## **9. Suggestion for future Study**

This study addresses only one city administration in Amhara region, other researchers is better to undertake as study on one more cities.

### **Abbreviations**

MSEs- Micro and small enterprises

### **Declarations**

**Availability of Meta data:** All data are available on hand

**Competing interests:** No competing interest

**Funding:** The author has not been receive a fund from any organization

**Author's contribution:** The research done by independently.

**Acknowledgement:** I am grateful to all my respondents and Woldia City administration revenue office experts sharing the required information.

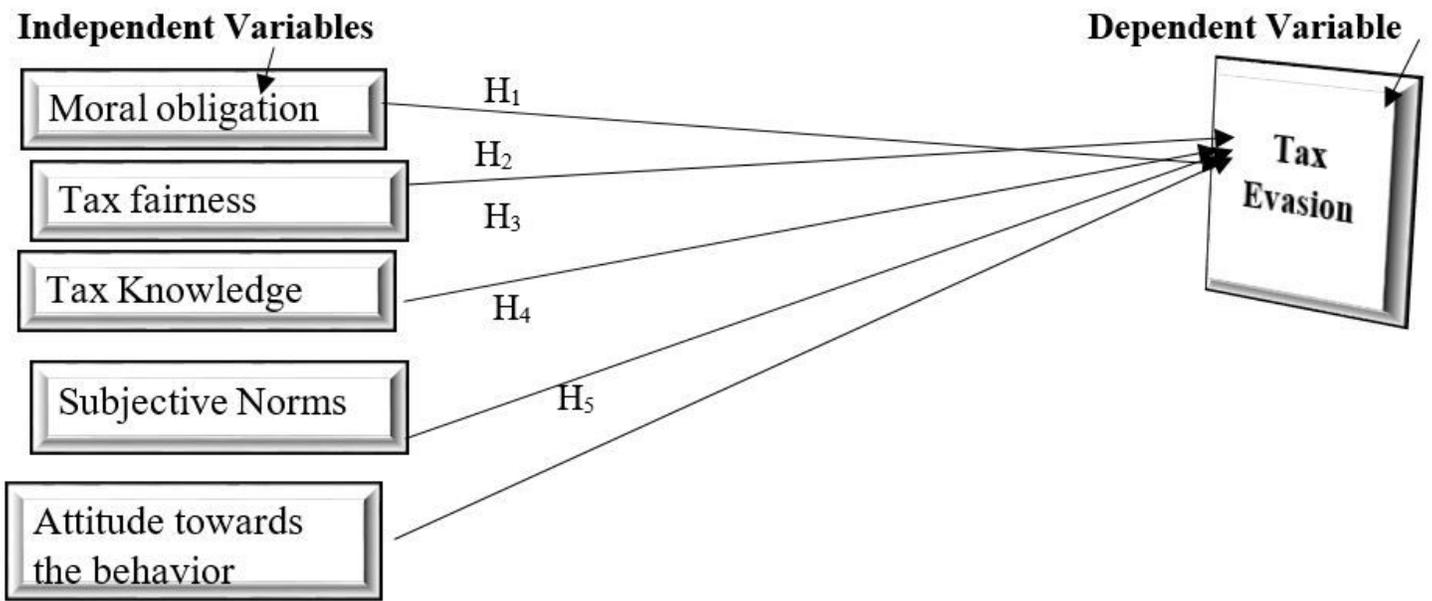
**Affiliation:** Woldia University, Woldia Ethiopia

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# Figures



*Source: Adapted from Harris et al. (2017) and Cornelius & Nurhapizah, (2018)*

**Figure 1**

Conceptual Frame of the Study

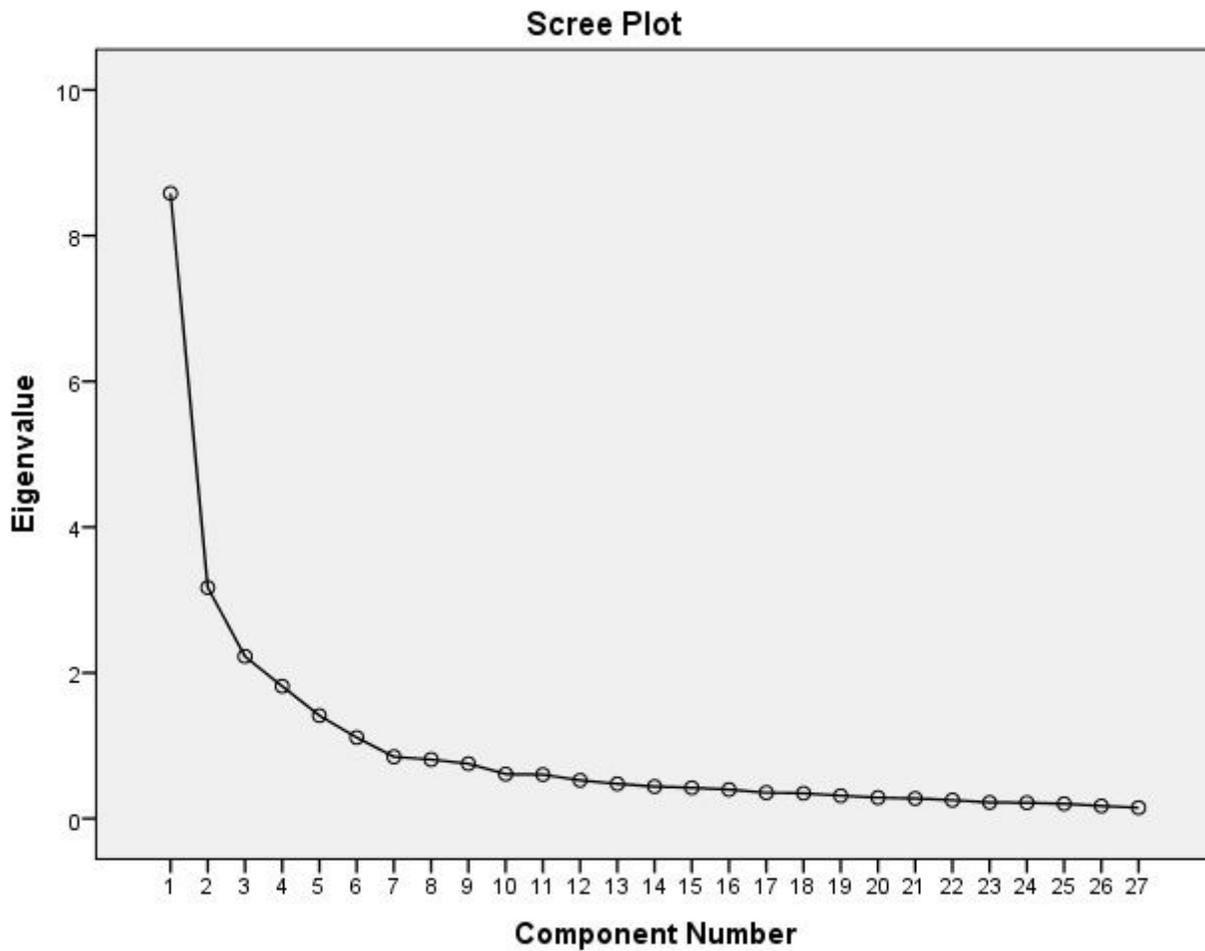


Figure 2

Scree Plot

## Supplementary Files

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