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FINANCIAL ECONOMICS | REVIEW ARTICLE

Tax compliance behavior of taxpayers in Ethiopia: A review paper

Esmail Abdu^{1*} and Mohammad Adem²

Abstract: This review paper attempted to assess the tax compliance behavior of taxpayers in Ethiopia. The objectives were specifically to identify determinants and challenges of tax compliance behavior of taxpayers in Ethiopia. Taxes are the most important sources of the government that make it possible to finance infrastructure, investment, and the provision of services for citizens. Tax compliance involves being aware and complying with tax laws and regulations set by the government and tax authorities. Tax non-compliance is an unwillingness in obeying tax laws and regulations. Tax non-compliance has been a challenge to the government and tax authorities in collecting as much tax as required for the nation. Failure to comply with tax prevents adequate revenue collection of the state. The major challenges of tax compliance in Ethiopia are the complexity of the tax system, inefficiency of tax authorities, lack of tax knowledge and awareness, negative perception of taxpayers, a negative act of tax assessors, absence of tax training, lack of transparency of tax system, arbitrary estimation of taxes, personal financial constraints, political instability and lack of timely tax audit.

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PUBLIC INTEREST STATEMENT

This review paper attempted to assess the tax compliance behavior of taxpayers in Ethiopia. Taxes are the main source of revenue for the government and the government is required to collect the full amount of taxes in return for providing various services to the community. However, this is confirmed by the level of tax compliance behavior of taxpayers. Tax compliance means complying with and observing tax laws and requirements set by government and tax authorities and providing adequate and timely payments. When taxpayers are denied to provide adequate and timely tax payments, government suffers from a lack of funds and fails to provide the services needed by the community. Hence, it is reasonably important to assess the tax compliance behavior of taxpayers so as to find out the root causes for the problem in relating to tax compliance. This review paper may contribute to reducing non-compliance level by providing important recommendations for the government, tax authorities, and taxpayers that is essential to rectify the problems by identifying major determinants and challenges.

Subjects: Economics; Finance; Business, Management and Accounting

Keywords: Ethiopia; tax; tax compliance; tax non-compliance; taxpayers

1. Introduction

1.1. Background and justification

The economic development of any country depends upon the revenues generated by the availability of alternative infrastructure and social services in their country. To ensure that these services are properly delivered, governments should have sufficient revenues to fund them. One of the most important ways in which the government raises funds to finance its operations is through taxes (Ndekwa, 2014).

Taxes are mandatory levies that must be paid by individuals who are subject to them, regardless of whether the government directly compensates them with goods or services in exchange.

To fulfil the expectations of the people and function as a government, it needs financial resources (James and Nobes, 2000). Taxes are the primary source of revenue for the government and can be used to fund all of its economic stabilization initiatives. In Ethiopia, taxes imposed by the government (direct and indirect) are one of the most important and important sources of public funding for the advancement of its economic process. However, despite the imposition of taxes, they have not yet produced the anticipated results due to a number of factors, the primary one being that taxpayers do not pay their fair share of taxes (Tesfaye, 2015). Taxes are fundamental to the existence of governments through generating tax revenues that help to finance the bulk of services that government provides education, welfare, public safety, infrastructure, and other basic public services. Improved tax compliance enhances disposable income to support public services without increasing the current tax burden of compliant taxpayers (Bird & Casanegra de Jantscher, 1992).

Tax revenue is a significant source of funding for governments in developed, emerging, and poor nations worldwide. However, the amount of tax money a government will get for its spending plan depends on the desire of the taxpayers to abide by the country's tax regulations (Fjeldstad et al., 2012). Even though tax revenue is a powerful instrument in the hands of the government for transferring purchasing power from individuals to the government to finance public expenditure, most citizens become unwilling to pay their tax obligation in the correct amount, time, and place due to the presence of negative attitudes. They then take a number of measures to reduce their tax obligations (Amina & Saniya, 2015).

Tax compliance is the free and complete fulfillment of all legal tax responsibilities (Atawodi & Ojeka, 2012). Tax compliance is a crucial source of public revenue which is a small portion of personal wealth that is demanded from citizens by the state with the goal of covering the costs necessary to fulfil governmental duties (Yohannes & Sisay, 2009). According to Fjeldstad et al. (2012), the government becomes more legitimate in its acts the more accountable it is with taxpayer money.

Tax non-compliance occurs when taxpayers fail to fulfill their tax duties, whether they do so knowingly or unknowingly (Loo, 2006; Mohani, 2001). Kirchler (2007) defines non-compliance as the failure to file a tax return, underreporting of taxable income, overstating of tax deductions and exemptions, and failure to pay tax liabilities in a timely manner. Due to a lack of a thorough understanding of the elements that determine tax compliance, Ethiopia's performance in collecting tax income has been subpar (Wollela & Fjeldstad, 2012).

For many developing countries, tax non-compliance has posed a significant barrier to tax income. One of the main reasons for non-compliance, according to Waris (2013), is a lack of confidence between the public and the government. People in developing nations believe that their

government is corrupt. Consequently, they do not think that their money will be invested in nation-building in good faith (Waris & Abdul, 2014). Considering that emerging nations are susceptible to tax evasion.

Even though tax compliance is a widespread issue and persistent issue in many developing nations, it is extremely low in Ethiopia and has a significant impact on the efficiency of tax administration and revenue generation. One of the emerging nations with minimal tax income collection is Ethiopia. Previous studies suggested that additional research would result in a favorable tax compliance level. It's crucial to grasp who complies with tax laws and regulations as well as who didn't in order to comprehend how a tax system affects people. To improve domestic revenue mobilization and national economic development, it is crucial to assess taxpayers' compliance attitudes and take corrective action.

The topic of tax compliance attitude has not received much attention in Ethiopia. According to Batrancea et al. (2019), compliance can be promoted by carefully examining extensive studies on people's behavioral facets. As a result, tax compliance has been a significant area of research in numerous emerging nations. This review study aims to evaluate taxpayers' tax compliance behavior in Ethiopia and serves as a cue for additional investigation. This analysis shows that Ethiopian tax compliance is at a very low level. This review article especially attempts to evaluate the drivers and problems of tax compliance behavior of taxpayers in Ethiopia in order to raise tax compliance levels.

2. Literature

In this section, theoretical and empirical literature in relation to tax compliance are discussed and the literature is obtained from published and unpublished materials like articles, books, and other materials. The data is presented in narrative form.

2.1. Concepts and definitions applied to tax and tax compliance

Taxes are vital sources of public revenue that are a little of personal wealth extracted from people by the state with the aim of meeting the expenditure essential to complete the functions of government (Yohannes & Sisay, 2009). Tax is the main part of government revenue that may be used to finance all the government expenditures necessary to stabilize the economy. According to 1993), taxes have three primary goals: raising money for the government, regulating the economy and economic activity, and controlling income and employment. According to 2007), taxes play a role in allocation, distribution, and stabilization.

A tax is a compulsory levy, and those who are taxed have to pay the sums irrespective of any direct corresponding return of services or goods by the government. A government needs financial resources to act as a government and play a role that is expected of it by the public (Simon James and Christopher Nobes, 2000). According to Lymer and Oats (2009), tax is defined as a compulsory levy imposed by a government or other tax-raising body on income, expenditure, or capital assets for which the taxpayer receives nothing specific in return. Nightingale (2001) defines tax as the mandatory payment that taxpayers make to the government.

The term "tax compliance" has been interpreted differently by different authors. For instance, Chan et al. (2000) defined tax compliance as the act of a person filing their tax returns, accurately disclosing all taxable income, and paying all payable taxes within the allotted time without needing to await follow-up actions from the authorities. Similarly, Franzoni (2000) stated that compliance with tax laws involves true reporting of the tax base, correct computation of the tax liabilities, timely filling of tax returns, and timely payment of the amount due as tax. Tax compliance, according to James and Alley (2002), is the readiness of people to behave in a way that complies with both the letter and the spirit of the tax legislation and administration without the use of enforcement activity. According to Atawodi and Ojeka (2012) tax compliance refers to fulfilling all tax obligations as specified by law freely and completely. 2014) define tax compliance

as the accurate reporting of income and claiming of expenses in accordance with stipulated tax laws. Thus, the failure of corporations to accurately report or pay tax is considered corporate tax non-compliance.

Compliance with the tax laws typically means true reporting of tax basis, correct computation of the tax liability, timely filing of returns, and timely payment of the amount due. Tax compliance can be described as the degree to which a taxpayer complies with tax rules and regulations. On the contrary, tax noncompliance is an individual's failure to comply with their tax obligation. It can be not reporting the tax basis, not timely filing and payment, or incorrect calculation of liability (Kebede, 2018).

According to research conducted in Pakistan and Turkey, voluntary tax compliance can be attained by fostering a relationship of mutual trust and by the tax authorities using their authority in a legal manner. The findings also indicate that subjective norms, perceived behavioral control, attitude toward taxes, and moral obligation are important factors in determining voluntary tax compliance behavior (Shaukat & Younus, 2020). When people think that the money, they pay in taxes to the government will be invested for the good of the community, they are more likely to pay higher taxes; yet, if they lose faith in the government or believe it to be corrupt or unjust, they are less likely to do so (Silva Freitas et al., 2016).

Higher compliance translates into more money being made, which can then be set aside for country development and societal welfare (Norzilah et al., 2016). The ability and disposition of taxpayers to adhere to tax regulations, declare the correct income annually and pay the appropriate amount of taxes on time results in tax compliance, which is produced by various tax authorities (Palil, 2010). Therefore, the extent of taxpayer compliance with tax laws and regulations determines whether domestic government revenue increases or decreases. Therefore, it is important to take into account and approach the inability of enterprises or individuals to accurately record or pay tax responsibilities with prudence. If not, it results in tax evasion and lowers national revenue.

Non-compliance can be described as the failure to meet tax obligations whether such failure is intentional or unintentional (Kirchler et al., 2008). Non-compliance opportunities can affect taxpayers' compliance directly through income level, income source, and occupation. Almost all the theoretical model indicates that as income rises, tax evasions should increase over most ranges (Andreoni et al., 1998).

The complexity of tax law which affects a lot of individuals has been linked to non-compliance (Government Accountability Office GAO, 2011). Non-compliance can be described as a breach of tax obligations, both intentional and unintentional (Kirchler et al., 2008). Non-compliance opportunities can affect taxpayers' compliance directly through income level, income source, and occupation. Almost all the theoretical models indicate that as income rises, tax evasions should increase over most ranges (Andreoni et al., 1998).

Many countries have lost huge amounts of money because of tax evasion, largely due to tax non-compliance. Numerous authors have identified and proposed their own remedies to this issue. For instance, the (2010a) stated that a tax system that is equitable to all firms will enhance tax compliance levels and emphasized that excellent governance is the only way to foster confidence between taxpayers and the government. The propensity for tax evasion is influenced by how fair the tax system is regarded to be (Richardson, 2008). The universal desire to "do the right thing" is a crucial component of tax compliance. Taxpayers try to abide by the law because they think it is the proper thing to do, not out of concern about possible punishment if they do not (Wenzel, 2005). According to (2005)), taxpayers are less inclined to avoid taxes the more kindly the tax authorities treat them, which increases the motivation to "do the right thing."

One of the guiding principles in the design of the taxation system is equity or fairness, which can be understood through three different perspectives: horizontal equity (people in similar income or wealth brackets should pay the same amount of taxes), vertical equity (taxes paid rise in proportion to the size of the tax base), and exchange equity (Richardson, 2006). According to Murphy (2004), a tax administration can use perceptions of justice and trust as effective tactics to combat tax evasion. Taxpayers' lack of confidence in the tax administration's ability to fairly collect taxes will promote non-compliance. 2007) also highlighted the fact that if taxpayers believe the system is fair, they are more likely to comply since there is a mutual trust between taxpayers and the government.

According to the present authors, taxes are mandatory fees that the government imposes on people and organizations without any expectation of payment in return. Since taxes are the primary source of income used to pay for government spending on infrastructure, investments, social security, and Medicare for both enterprises and the general public, among other services, as a result, it is clear that the government must exert more effort to raise domestic money in order to meet community requirements.

However, in Ethiopia, tax compliance behavior is seen as a concern because it reduces public finances and strains the tax system as a result of numerous actions. Taxpayers can lower their tax obligations in a number of ways. For instance, by concealing their actual income, inflating their expenses, bribing officials with money, concealing their possessions, and through family relationships. Therefore, tax authorities should improve taxpayers' tax compliance levels in order to forge close ties with them.

Tax compliance refers to a taxpayer's activity in accordance with tax rules and requirements through the accurate and prompt payment of tax liabilities assessed by the government without enforcement. The observance of tax regulations and standards by taxpayers is therefore crucial to the growth and encouragement of a nation. Consequently, high taxpayer compliance is essential to the collection of tax revenue because low taxpayer compliance will result in poor tax collection.

2.2. Determinants of tax compliance in Ethiopia

Different factors affect tax compliance behavior in different ways. Numerous research on tax compliance in Ethiopia has been conducted. For instance, Mohammed and Sebhat (2019) examined Ethiopia's tax compliance and its drivers. The findings demonstrated that factors such as demographics (taxpayers' age, sex, and level of education), tax knowledge and awareness, tax rewards and incentives, tax audit, perceptions of government spending, fairness of the tax system, tax rate, simplicity of the tax system, tax penalties and enforcements, organizational strength of the tax authority, and attitudes of taxpaying citizens toward taxation were the primary determinants of taxpayers' tax compliance.

2014) investigated the determinants of tax compliance behavior in Ethiopia: the case of taxpayers in the town of Bahir Dar. According to the findings, factors that significantly influence tax compliance behavior include perceptions of government spending, perceptions of equity and fairness of the tax system, penalties, personal financial constraints, changes in current government policies, and referral groups (friends, relatives, etc.). However, gender and the likelihood of being audited have no material impact on tax compliance behavior. Finally, the results indicate that older individuals will comply less if the tax system lacks equality and fairness and if any changes to the government's fuel, electricity, and water pricing policies are unfavorable. The taxpayer's religion is proven to have a substantial impact on tax compliance attitude in Ethiopia, according to 2016), among other factors. The differences in tax compliance attitudes in Ethiopia are explained by the educational background and taxpayers' level of understanding. However, the attitude about paying taxes was unaffected by the taxpayer's age, tax category, or gender.

According to a study by (2015) on business profit taxpayers of Addis Ababa city administration, business profit taxpayers' tax compliance behavior has been greatly and significantly influenced by tax knowledge, a sense of fairness, peer pressure, income level of taxpayers, detection and punishment, and tax knowledge. Although firms' tax compliance behavior is not much impacted by their faith in government spending.

Orkaido (2018) conducted research on the factors influencing tax compliance attitudes in Ethiopia's Gedeo Zone. According to the findings, eight of the ten explanatory variables included in the model—including gender, age, lack of tax knowledge, the ease of the tax system, perceptions of fairness and equity, awareness of penalties, likelihood of being audited, and perceptions of tax rate—were found to be significant predictors of tax compliance attitudes with regard to taxation in the zone. While tax authority effectiveness and educational level have little bearing on a person's attitude toward tax compliance.

Mebratu's (2018) findings showed that 89.8 percent of taxpayers did not comply with the law's existing tax structure, while the remaining 10.2 percent did. Knowledge of taxes, the likelihood that noncompliance will be discovered, and the complexity of the tax system were found to have a substantial impact on tax compliance behavior in Addis Ababa business taxpayers. Unexpectedly, tax knowledge has a profoundly negative impact on a taxpayer's compliance behavior. The study's conclusion is that understanding tax law does not always result in compliance; rather, it can occasionally result in non-compliance due to the nature and interests of the taxpayer payer in regard to making use of knowledge.

(2018) examined how Ethiopia's Category "A" taxpayers' compliance with the tax code was impacted by several circumstances. The findings showed that most taxpayers were not in compliance. The findings also showed that key influences on tax compliance include education level, tax audit, government expenditure, referent group influence, personal financial constraints, awareness of infractions and penalty rates, and tax knowledge. Age, gender, income level, equity and fairness, and government policy were discovered to be unimportant. Therefore, in order to increase tax compliance behavior, the government must improve public services.

Lemma (2019) claims that the tax rate, future tax expenses, tax education/knowledge, and gross sales are all elements that have a positive and significant impact on Ethiopia's tax non-compliance behavior. Non-compliance with the law did not, however, have a substantial impact on people's attitudes toward paying taxes, filing income tax returns, or providing good governance. Therefore, it is advised to educate policymakers on the factors that contribute to taxpayers' noncompliance with the tax code and aid in the development of better tax policies.

According to a study by (2015), people's tax behavior is influenced by their tax knowledge. As a result, policymakers, tax authorities, and the government should conduct further studies to determine to what extent taxpayers' tax knowledge influences non-compliant behavior. Yilma (2020) asserts that factors such as tax system fairness, complexity, the likelihood of detection, income level, penalty rate, peer pressure, tax knowledge, gender, and age have an impact on tax compliance behavior. Therefore, the establishment of a fair and simple tax system supported by tax education and awareness in society would contribute to improving taxpayer compliance behavior (Table 1).

2.3. Challenges of tax compliance in Ethiopia

Any government demands complete tax mobilization compliance, if at all possible. The amount of tax intended to be collected from active taxpayers and the amount actually collected, however, differs significantly. Tax compliance is a significant burden and difficulty for the government and tax authorities, and although it is required by law, it is not an easy process to convince taxpayers to comply. Tax evasion limits the ability to raise the projected amount of income, which results in a budget deficit for the nation.

Table 1. Summaries of empirical reviews

Authors	Dependent variable	Independent variables	Models
Mohammed and Sebat (2019)	Tax compliance	Age, sex, education level, tax knowledge and awareness, tax rewards and incentives, tax audit, perception of government spending, fairness of the tax system, tax rate, simplicity of the tax system, tax penalties and enforcements, organizational strength of the tax authority and attitude of taxpayers.	Ordered logistic regression
Aemiro (2014)	Tax compliance behavior	Perception of government spending, perception of equity and fairness of the tax system, penalties, personal financial constraints, changes in current government policies and referral groups (friends, relatives, etc.), gender, and probability of being audited.	ANOVA and T-test
Aemiro (2016)	Tax compliance attitude	Religion, educational background, religion, knowledge, gender, tax category, age, income, and offenses and penalties.	Ordered logistic regression
Tsegaw (2015)	Tax compliance	Tax knowledge, the feeling of fairness, the influence of peer groups, income level of taxpayers and detection & punishments, and confidence in government spending.	Regression analysis
Orkaido (2018)	Tax compliance attitude	Gender, age, lack of tax knowledge, simplicity of tax system, perception of fairness and equity, awareness of penalty, probability of being audited, perception of a tax rate, education level, and tax authority efficiency.	Binary logistic regression model
Mebratu (2018)	Tax compliance behavior	Knowledge of taxation, probability of detection for non-compliance, and complexity of the tax system.	Binary logit model

(Continued)

Table 1. (Continued)

Authors	Dependent variable	Independent variables	Models
Wudeneh (2018)	Compliance	Education level, tax audit, government spending, the influence of referent groups, personal financial constraint, awareness of offenses and penalty rate, and tax knowledge, age, gender, income level, equity and fairness, and government policy.	Ordered probit model
Lemma (2019)	Tax non-compliance	Rate of tax, future tax costs, tax education/tax knowledge, gross of sales, individual tax morale, report of income tax, and public quality governance.	Ordered logit model
Yilma (2020)	Tax compliance	Fairness of tax system, complexity of tax system, probability of detection, income level, penalty rate, peer influence, tax knowledge, gender and age.	Regression analysis

Source: Compiled by Authors

Tax non-compliance is a significant issue for income tax administration in Ethiopia, as it is in several other developing nations, impeding the performance of tax collection (Alemayehu, 2010). Derar (2016) claims that the Ethiopian Revenues and Customs Authority (ERCA) has a problem with not regularly and consistently providing taxpayers with tax education and training and that changes made to various directives and rules pertaining to taxes are not made available to taxpayers. These are thought of as Ethiopia's tax compliance challenges. Additionally, the ERCA is ineffective in dealing with taxpayers, including issuing tax clearance, reimbursing overpaid taxes, resolving tax-related difficulties promptly and accurately, and providing ongoing tax education and training. Due to workloads, there is a lack of staff motivation to serve the taxpayers, which is a concern; the main causes are a high turnover rate for experienced staff members and system failure. As a result, the taxpayers were unable to receive prompt and high-quality services, and their various problems were only partially and inconsistently addressed.

Negative behaviour's (such as tax assessor corruption and fraud) and immoral tax authority behavior promote disobedience. Additionally, the current tax system has numerous flaws (i.e., arbitrary tax estimation), failed to account for the degree of inflation at the time and the ability to make money, and as a result, businesses' willingness to comply with tax laws is being undermined (Geletaw Tsegaw, 2015).

The political climate of a nation and its current government may have a substantial impact on tax evasion patterns. For instance, if a person supports the ruling party, he may decide to comply because he thinks the government is reliable, effective, and fair. A voter from the opposition party, on the other hand, can be more disobedient because he believes that the government is not on his side (Ndekwa, 2014).

Haile et al. (2018) claim that business owners were not audited on time. This is because the office does not have sufficient resources to deal with every taxpayer. Additionally, taxpayers did

not create financial reports to support the tax audit process. Being unaudited has the effect of preventing the government from detecting fraud and errors in the preparation of financial reports, failing to address ongoing complaints that are difficult to resolve in the absence of such reliable information, and possibly preventing the government from collecting the anticipated tax revenue because taxpayers conceal their true income and expenditures.

According to Kassa (2010), it has been shown that attitudes and views of people are one of the causes of non-compliance. Also, bad tax education practices and a lack of consultation meetings between taxpayers and the authority are to blame for the root of all problems in the entire tax system, which is ignorance. Additionally, there is no culture of communication and consultation between the two parties, which contributed to the divide. Furthermore, the tax system lacks transparency because taxpayers cannot objectively understand how tax assessments and computations are done.

3. Discussion of the reviewed studies

The evidence in the literature suggests that tax compliance has been challenging for many countries, especially growing ones like Ethiopia, which has a big impact on the amount of money collected. Due to this, it is necessary to examine taxpayers' tax compliance levels.

Among studies completed in Ethiopia, this one highlighted the key variables that influence taxpayers' tax compliance behavior and the key obstacles to tax compliance in the nation. However, universal themes have been included in the background and literature part to provide a comparative contextual assessment and corroborate the study's conclusions. Additionally, works from 1993 to 2021 that are empirical and conceptual are included in this study. Because this review study provides evidence that tax evasion and noncompliance harm a nation's capacity to collect taxes.

Knowledge and awareness of taxation, perceptions of justice and equity, means of penalties and incentives, income level, and the complexity of the tax system are commonly mentioned among the key determinants extrapolated from the examined literature. The main obstacles to tax compliance in Ethiopia also include a lack of tax education and training, the ineffectiveness of tax authorities, the complexity of the tax system, and a lack of transparency.

Despite the fact that this study includes universal issues in addition to those covered by earlier Ethiopian studies. However, it might be challenging to conduct research on universal themes, this is one of this review article's drawbacks.

4. Conclusion

The Ethiopian economy has been sustained and growing, but this requires an efficient mobilization of domestic incomes. That is confirmed in the tax system. For this reason, revenue mobilization becomes a major concern for the Government of Ethiopia. However, the issue of tax non-compliance has posed a serious challenge to the government and tax authorities and the amounts are still collected under forecast in Ethiopia. The main reason for this is the weakness of both parties (tax authorities and taxpayers). If the collector has a robust system and taxpayers are willing may be able to collect as much as required.

The government is collecting more taxes than ever before, but it is also facing many challenges that hinder collection capacity. One of those problems is the failure of taxpayers to comply. Tax non-compliance is a major global challenge, particularly for developing countries. As is the case in developing countries, in Ethiopia it slows down tax revenues. To overcome this issue, taxpayers should always be treated equally and tax authorities should strengthen the tax system and administer the rule in a fair manner, improving voluntary compliance.

The government has lost a huge amount of money because of the non-compliant behavior of taxpayers. Taxpayer compliance is linked to tax revenue, and the higher the compliance, the higher the tax revenue. In Ethiopia, there is a considerable disparity between the amount of tax in the budget and the actual tax collected. This is mainly due to the non-compliance behavior of taxpayers. Furthermore, an effective tax system is not possible without positive tax behavior on the part of taxpayers. The complexity of the tax system, inefficiency of the tax authorities, lack of tax training, negative attitudes of taxpayers toward taxation, lack of knowledge and awareness of taxes, negative actions of tax assessors, lack of transparency of the tax system, arbitrary estimation of taxes, personal financial constraints, political unrest, lack of timely tax audit, and lack of coordination are the main obstacles to effective tax mobilization in Ethiopia.

The various factors that affect tax compliance in Ethiopia also include gender, age, education level, tax knowledge and awareness, tax audit, income level, tax category, government spending, tax rewards and incentives, tax rate, tax authority efficiency, detection and punishment, peer group influence, and fairness of tax system. These elements work together to influence tax compliance levels on an institutional, social, and economic level. As a result, in order to lessen the impact, taxpayers exhibit compliance conduct by paying the taxes due to the government in exchange for the provision of public goods and services.

5. Recommendations

Government, tax authorities, and taxpayers should work together to improve tax compliance levels. As a result, the following suggestions are made to address the issue of tax non-compliance in Ethiopia:

The government should maintain transparency and accountability in tax collection and establish a robust tax audit system regularly. This makes it possible to collect as much as the necessary income to collect. Moreover, one of the difficulties in complying with tax laws is the complexity of the tax system. In order to make the tax system simpler and easier for people to grasp, the government should make the necessary changes.

Tax authorities should instruct taxpayers on how to pay their tax obligations to the tax authority on time and organize ongoing face-to-face awareness creation initiatives to convey the benefits of paying taxes to the country. Thus, encouraging voluntary compliance may result in accelerating revenue. Additionally, tax authorities must create plans to pinpoint and mitigate hazards related to tax noncompliance. A solid management approach is essential for keeping taxpayers inside the law.

Taxpayers must abide by government and tax authority orders about filing and paying taxes. This streamlines the tax collection process and aids in generating the most money feasible in order to fund the required services. Taxpayers should also fulfil their tax duties and liabilities accurately, promptly, and in a timely manner. In order to increase tax compliance, they must also tighten and streamline their coordination with tax administrators.

Direction for future studies

This paper does have some constraints, though. It is challenging for the authors of today to conduct comparisons across additional nations because tax compliance is a broad-reaching and extremely sensitive problem. Additionally, the factors covered are those that influence taxpayers' tax compliance behavior in the Ethiopian setting. Given that the current study's primary focus is on individual countries, people who are interested in the subject can expand it to include additional nations for purposes of comparative reflection, for instance in East Africa. The current study, which is a review paper, can also be transformed into a research paper by future academics so they can do in-depth research.

Even though these limitations, the paper adds to the body of knowledge for various entities in the context of tax compliance. Further, it contributes to the body of literature and acts as a guide for further research.

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Disclosure statement

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