



# A Survey of Business Tax Payers in Bahir Dar Town on the Ethics of Tax Evasion

Obsa Teferi ( Assistant Professor )  
Department of Accounting & Finance, Hawassa University, Ethiopia

Tadele Assefa ( M Sc )  
Senior Lecturer, Department of Accounting & Finance, Ambo University, Ethiopia

## Abstracts

Tax evasion has the effect of deteriorating government revenue that in turn distorts resource allocation with current infrastructure. Tax evasion in most developing countries is so severe problem than developed countries. In fact, no many developing countries have made an effort to measure the effect of ethics on tax evasion and what cause tax payers to evade. Thus, the study is designed to examine the perception of tax payers related to tax evasion in Bahir Dar Town – Ethiopia. The study adopted field survey. The result t shows that the hypothesis that tax evasion is ethical sometimes with average respondents was accepted. However, the hypothesis that female would be more opposed to tax evasion than male for minimum 12 statements out of 20 statements was not accepted. The study also found that the level of tax evasion when government corrupt is significantly higher than when it relates to other views expressed on government discrimination, unjust treatment and high tax rate. The study in general, indicates, from the various arguments that respondents gave to justify tax evasion include , government lenient , government corruption , unfair treatment of citizens, tax affordability and unfavorable tax system. This shows that the responsiveness of government in terms of accountability, transparency, public awareness, human right treatment and optimal tax rate play a significant role in the payment of taxes. The government and other policymakers should find the results of this study useful in discouraging tax evasion and in developing tax policies aimed at minimizing tax evasion

**DOI:** 10.7176/RJFA/11-17-01

**Publication date:**September 30<sup>th</sup> 2020

## 1. INTRODUCTION

For development and growth of a country, the provision of basic infrastructure is quite necessary. This seldom reflects that why the government highly pays a great emphasis for major through which funds can be made available to accomplish its goals. Government uses money (fund) to be able to execute its social obligation for public. These social obligations include but are not restricted to the infrastructures, and public services. According to Murkur (2001), meeting the needs of the society call for huge funds which an individual or society could not contribute alone. It is the responsibility of the government to investigate sources for the fund and enforce citizens provide for the basic social services. One of the medium through which the funds can be generated is taxation. Therefore, citizens are expected to discharge their civic responsibility by paying their taxes as these contribute to the development activities and administration of societies at large.

Taxation is defined by many researchers. For example, taxation as defined by Ogundele (1999) is the “process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society”. It is the contribution from society to government for the citizens need. This notion is also similar to the definition of Soyode and Kajola (2006) who defined tax as a compulsory exaction of money by a public authority for public purposes. Nightingale (1997) also described that tax as a compulsory contribution imposed by the government. These various authors concluded that it is possible for tax payers not to receive anything identifiable for their contribution but that they have the benefit of living in a relatively educated, healthy and safe society. In addition, there is no a direct relationship between the contribution of tax payers and the benefit they expect from the government. The amount paid is not comparable to public goods, means that tax payer does not charge for more use public goods. However, public goods serve equally both citizens those who want or not to pay tax. It is not amazing that, societies do not want to pay tax in nature, because the benefits of the tax paid do not ensue directly to the taxpayer. Thus, taxes are generally paid out of an obligation rather than a necessity to the government.

Tax evasion is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries (Chau and Leung, 2009). It is a common problem throughout the globe and vital issue that speaks always on a public mass media. As some literatures review discuss that tax evasion is highly increasing particularly in least developed jurisdictions. Chiumya`s (2006) findings result reveal that tax evasion in most developing countries is so rampant, and the scenario is much worsened by the fact that not many of these

governments have made an effort to measure the ethical reasons that taxpayers give, the extent of this problem and at the same time analyze its impact. A common problem exists in Ethiopia in that there is no study that addresses tax evasion from ethical ground. A rational measurement of the impact of ethics on tax evasion is overlooked and not taken into consideration by the government.

Sikka & Hampton (2005) and Olatunde (2007) stated that tax evasion is one of the major social problems hindering development activity in developing countries seriously. As shown in the study of (Fagbemi and Uadiale, 2010) tax evasion is placed on fifth stage from the legal offences in Nigeria. Another study from North Carolina by (Song and Yarbrough, 2004) reveals similar results. They compared tax evasion with other eight crimes (four of which were violent crimes and four were property related crimes). The results of their survey show that a tax evasion was ranked on fifth when compared with four violent crimes. This has led a high attention of policy makers and tax administrators on tax evasion. The implementation of effective administration has become a serious doubt because of the difficulty to predict the exact amount that a tax payer should pay, disclosing real income is not customary among tax payers, the authority lacks effective legal background, people awareness, increases cost of collection (efficiency cost), civic responsibility and ethical view, lack of knowledge about purpose of taxation among the society.

However, a little attention has been given on the ethics of tax evasion in Ethiopia. It is an important to know that the behavior of tax payers and to understand the root causes of ethics of tax evasion to take remedial measure by the government to increase the efficiency and productivity of the tax system of the country. Particularly, perception of tax payers has a significant influence on tax evasion. The main objective of this paper is therefore, to examine the ethics of tax payers concerning with tax evasion. This includes not only monetary elements but also perception and moral factors in the taxpayer's decision process.

Field survey is used for this study. It is chosen for it provides a good source of information about tax ethics. Various researchers in this area use this method, example, (Frey L. René) for it includes many socio-economic, demographic and attitudinal variables. The study is limited to business category C tax payers. Primary data was only the source of data which was gathered through administered questionnaires.

The data gathered were analyzed using table and chart with comparison in gender. The results also compared to the prior studies carried out in other developing countries and found similar finding (Fagbemi and Uadiale, 2010). The study identified tax evasion is ethical in some cases. The study did not take a comparison of different age groups, educational level and religious groups.

In general tax evasion is the common problem throughout the world. In particular, as written literature notes, it is more severe in developing countries than developed countries. Developing countries have not made an attempt to examine tax evasion from ethics angle.

Many studies have been done on tax compliance; very few have examined compliance primarily from the perspective of ethics. Cummings and Vazquez (2009) the tax affects tax compliance, Frey, (2003), theory and empirical analysis of tax compliance. Most studies have been focused on the causes of tax evasion, (Chiumya, 2006) noted that the causes of tax evasion are high tax rates that increase tax burdens, inadequate and weak tax law legislations. A few studies have been focused on the ethics of tax evasion particularly in developing countries. Ethics is sometimes discussed but, more often than not, the focus of the discussion is on government corruption and the reasons why the citizenry does not feel any moral duty to pay taxes to such a government. Fagbami and Uadiale, (2010) noted that there is a widespread ethical support for tax evasion. Knowing the ethics of tax payers and their behaviors towards tax evasion is a cornerstone in tax assessment and collection. Tax awareness also plays a great role in which multiple tax payers are residence. Public orientation to citizens about essentiality and what government does with taxation in development activities can encourage people act their civic responsibilities. To deal with these conditions it is an important issue to know about ethics of taxpayers and ethical causes of tax evasion. However, not much research has been carried out about tax evasion from an ethics prospective. A little research has been explained the ethics of tax evasion to some extent in developing countries. McGee (2007) has been studied on business and philosophy students in China on the ethics of tax evasion. Some studies also looked at the ethics of tax evasion from a religious perspective (Judaism – Cohn, 1998; Tamari, 1998; McGee, 1998d; Christianity – Pennock, 1998; Schansberg, 1998).

The present study is aimed at partially filling the gaps found in the literature. The first goal is to determine if participants discourse that tax evasion may be ethically acceptable in some circumstances. Specifically, this study looks to determine the relative strength that Puerto Ricans describes to the different arguments to justify tax evasion identified in the literature. In addition, the study seeks to gather new evidence regarding possible differences by gender, age and educational level. Finally, the present results were contrasted with the results of a larger study of beliefs and values to gain better understanding of the participants' opinions.

The general objective of this paper is to examine the ethics of tax payers towards tax evasion. This study consider existing literature review on tax evasion and ascertain the perception of tax payers towards tax evasion

because it is an important to know the attitude of tax payer towards tax evasion and the role of the government in implementing tax assessment and collection.

The hypotheses were structured based on the view rose in literature review and seek answers to the issues, that is, tax evasion is ethical in some conditions and unethical always. It is designed on the base of theoretical frame work available on taxation. The researcher set out the following three hypotheses.

H1. The average respondent will believe that tax evasion is ethical sometimes.

H2. Scores will be lower (tax evasion will be more acceptable) when the statement refers to government corruption.

H3. Female scores will be higher than male scores (women will be more strongly against tax evasion than males) for at least 12 out of 20 statements.

## 1. LITERATURE REVIEW

The objective of this section is first to review the relevant literature on tax evasion to summarize the current status of research on tax evasion.

Tax evasion is a sever doubt in the tax administration both in advanced and transforming nations. Chau and Leung, (2009) indicated that a tax evasion is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries. It is also explained by Chiumya (2006), tax Evasion is one of the major problems that Tax Administrations face the world over. This is however more pronounced in Developing countries. In the US, it is estimated that the extent of tax gap (the difference between taxes owed and taxed filed) for 2001 were US\$ 353 billion (IRS, 2006). This concern is particularly severe for developing countries given the rapid growth of investment in their economies and their lack of adequate experience in dealing with this problem. In China, the tax evasion by multinationals resulted in revenue loss amounted to US\$ 3.88 billion each year (Asia Times, April 11 2007). In Hong Kong, the Inland Revenue department reported that about US \$ 1.15 billion was collected from 2003 - 07 back tax and penalties (IRD, 2007). It is a common problem in developed and developing nations and a relevant issue evens the future.

Tax evasion has been defined in many empirical studies. Soyode and Kajola (2006) defined tax evasion as a “deliberate and willful practice of not disclosing full taxable income in order to pay less tax”. It is a violation of tax laws whereby the tax due by a taxable person is unpaid after the minimum specified period. Likewise, tax evasion is evident in situations where tax liability is fraudulently reduced or false claims are filled on the revenue tax form. Eboziegbe (2007) noted that “unlawful practice of tax evasion remains a serious threat to revenue generation efforts of government”. According to Nwachukwu (2006) tax evasion is the general term for efforts by individuals, firms and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It also includes, in particular, dishonest tax reporting such as declaring less income, profits or gains than actually earned; or overstating deductions.

Chiumya (2006) defined that tax Evasion is the act of illegally paying less taxes (or not paying at all) than the amount legally required by the tax law. However, in this research tax evasion is defined as unwillingness to pay tax liabilities or reduce taxable income immoral . Tax ethics is the attitudinal and behavioral orientation of tax payers to accurate tax compliance in the sense of completing the tax return in promptly by Vogle (1974)

Most of the literature that exists on tax evasion discusses public finance aspects of the issue. Not much has been written about tax evasion from an ethical perspective. However, some relevant literature was found, mostly in the fields of philosophy and theology. Crowe’s (1944) theology doctoral dissertation is perhaps the most comprehensive analysis of the tax evasion issue from an ethical perspective. Crowe reviewed the theological and philosophical literature that had appeared over the last 500 years, some of which was in Latin. Torgler’s (2003) doctoral thesis also discusses ethical issues to some extent. McGee (1998a) edited a book that incorporates the views of more than 20 authors on the ethics of tax evasion from various religious and secular perspectives.

Some studies have examined various taxes and applied ethical theory to determine whether tax evasion is justified. Such studies include the estate tax (McGee, 1999b), tariffs (McGee, 1999d), the capital-gains tax (McGee, 1999f) and the social security tax (McGee, 1999g). McGee (1999c) also examined the “fair share” argument from an ethical perspective. Leiker (1998) speculated as to what Rousseau’s view might be.

In literature review there is still debate with respect to tax evasion is ethical in some circumstance and unethical always. According to dissertation of Frey and Bruno (2003), three notions were discussed from religious point of view. Over the past five centuries, two main views have emerged on the ethics of tax evasion. One view, which might be called the absolutist view, holds that tax evasion is always, or almost always unethical. At the other extreme is what might be called the anarchist view, that tax evasion is always ethical. The third view takes middle position, that tax evasion might be ethical in some cases and unethical in others. This view has been widely prevalent in the literature review.

### **View one**

The absolutist view is that tax evasion is always, or almost always unethical. Absolutists sometimes quote the Christian Bible to justify their position (Romans 13,1-2; Matthew 22:17, 21). They believe that there is a duty to God to pay taxes, or that God has commanded us to pay taxes. The Book of Romans supports the theory of the Divine Right of Kings, which holds that all political power comes from God. Thus, all kings must be obeyed no matter how tyrannical they might be. Fundamentalist Christians and Jews believe that God wrote the Bible, which means that they apparently subscribe to this theory, although the present authors have seldom found anyone who will admit that this theory is correct. Some of the sources

### **View two**

The anarchist view is that tax evasion is never, or almost never unethical. The anarchist literature does not say much about tax evasion per se. The main thrust of this literature is that individuals do not owe any allegiance to any government at any time because all government is illegitimate. They reject the social contract theory espoused by Locke (1689), Rousseau (1762) and Hobbes (1651) altogether. Perhaps, the best example of this approach is a work by Spooner (1870). Block (1989, 1993) takes this approach when he examined the public finance literature and found no adequate justification for taxation.

Some Christians also believe that one must always obey the laws of the country regardless of how bad they might be. That is the Mormon view (Smith and Kimball, 1998). The Baha'i view (DeMerville, 1998) is quite similar to the Mormon view.

### **View three**

The third and most prevalent view is that tax evasion is ethical in some cases but not in others. This view is also found in Crowe (1944), who reviewed the writings of many Christian scholars of the past 500 years who have argued that there are ethical justifications for tax evasion in certain circumstances. Gronbacher (1998) is a more recent Christian scholar who takes this position. Schansberg (1998) examines Christian Biblical views, which sometimes take the position that there are limits to the ethical obligation to pay taxes although the Bible does not discuss what those limits are (Render unto Caesar the things that are Caesar's and to God the things that are God's.) Pennock (1998), another Christian scholar, addresses the ethics of tax evasion from the perspective of just war theory. McGee (1998c) comments on the various Christian views of tax evasion and on other religious view of tax evasion (McGee, 1999a).

According to some Islamic literature, tax evasion may be ethical in some situations. McGee (1997, 1998b) found this to be the case while reviewing the Islamic business ethics literature, although some Islamic scholars have disagreed with that literature. Murtuza and Ghazanfar (1998) also discuss the ethics of tax evasion from an Islamic perspective.

Determinants of tax evasion were addressed by prior studies. Studies conducted out in a different part of the world noted many factors of tax evasion. Chipeta (2002) identifies three causes of Tax Evasion. Firstly, the rates at which taxpayers are being taxed. He observes that the higher the rate, the higher will be the likelihood for the Taxpayers to evade, as this increases their Tax Burden and hence lowers their disposable income.

Jackson and Milliron (1986) identified 14 key factors in their comprehensive review of the tax compliance literature that have been studied by many researchers. These factors are categorized by Fischer (Fischer et al., 1992) into 4 groups in his expanded model (Fischer Model): (i) demographic (e.g. - age, gender and education), (ii) noncompliance opportunity (e.g. income level, income source and occupation), (iii) attitudes and perceptions (e.g. fairness of the tax) and (iv) tax system/ structure complexity of the tax system.

Although, a little research have been written on attitudes and perception of tax evasion. It is an objective of this paper to analyze the effect of ethics on tax evasion. In some literature review justified that there is a significance relationship between ethics and tax evasion. An ethics of tax payer would influence tax evasion. Tax payers are different, in perception, attitude, and level of education, income, age, culture, ethnic group, language and values. In gist, this classification of tax payers is summarized in the next section.

### **Taxpayers` Typology**

Classification of tax payers is widely discussed in the prior research. For example, Schlicht (1990) argues that emotions play an important part in keeping routines or rules intact. They are stabilized by norms of justice, fairness, and appropriateness. However, if there are different typologies of taxpayers, different rules and factors may affect behavior differently and perhaps cause a movement away from the previous rules. Contrary to the fully rational actor, each type of taxpayer has already made a decision before filling out the tax forms. S/he has decided or internalized which behavioral rules to follow. Thus, each type of taxpayer systematically disregards or considers specific information.

The other researchers had split tax payers' typology into two from ethical perspective: social tax payer, and intrinsic tax payer.

### **1. Social Taxpayer**

“Social Taxpayers” are influenced by social norms, feel guilty when they under-report and escape detection and feel ashamed when they under-report and get caught. Furthermore, they are very sensitive to people's belief, especially of those close to them. They react emotionally and very strongly to perceived changes next to them. They can be seen as conditional cooperators.

If they perceive that others pay taxes they tend to pay them too. On the other hand, a reduction of others' contribution reduces their willingness to contribute. Satisfaction and behavior are linked not only to the objective outcome levels, but also to outcomes received in relation to those which were judged to be fair. Furthermore, a perceived inequity between one's own exchange and the exchanges others get creates a sense of distress. Disadvantage in such a situation causes anger, advantage; feelings of guilt (see Adams 1965 and Homans 1961). Anger reduces the moral costs of evasion. People will engage in behaviors, as tax evasion, intended to restore equity (see, e.g., Webley et al. 1991).

### **2. Intrinsic Taxpayer**

Another type of taxpayer is the “Intrinsic Taxpayer”. The motivation of the “Intrinsic Taxpayers” includes among others, the feeling of obligation, which motivates a person without being forced. “Intrinsic Taxpayers” are sensitive to institutional factors, as e.g., the behavior of governments or tax administrations. Positive actions by the state are intended to increase taxpayers' positive attitudes and commitment to the tax system, tax-payment, and thus compliant behavior. The way people are treated by the authorities affects their evaluations of authorities and their willingness to co-operate. They have a certain intrinsic motivation to pay taxes. However, if the intrinsic motivation is not recognized, intrinsic taxpayers get the feeling that they can as well be opportunistic. When monitoring and penalties for noncompliance increase, individuals notice that extrinsic motivation has increased, which on the other hand crowds out intrinsic motivation to comply with taxes (see, e.g., Frey 1997, 2001). Their willingness to co-operate does not depend on the amount others contribute to the public good. Thus, they are not conditional regarding the others' contribution, but they depend on the institutional conditions under which they must pay their taxes.

An Intrinsic motivation emerges when tax payers get internal motivation to commit their tax liabilities. While an extrinsic motivation comes from external environments, meaning thereby when government effectively spent the tax collected on social service and infrastructures. In other way increase in penalties may result in discourage and leads taxpayers to evade. In the study of (Virmani, 1987) notes that a rise in penalties for tax evasion may easily result in a drop in tax revenue, since the rise in penalties raises the benefit for a tax official and taxpayer to incur the risk of arresting a bargain to evade.

## **2. RESEARCH METHODOLOGY**

In this section the following elements are briefly discussed: Types and sources of data, strategy of inquiry, sample and sampling technique, method of data collection technique, data gathering procedure, method of data analysis and survey findings.

The study has employed primary data. It is collected from sample respondents, to know their attitude and perception towards the ethics of tax evasion, the determinants for their relation and areas of improvement for government.

The target population assumed for this study is business tax payers. The population size confined only dwellers of Bahir Dar town special zone that are classified under Category C tax payers. The sample frame for selecting sample size is Bahir Dar town population. These groups were selected because of the following essential characteristics that lends attention to the perception of ethics of tax evasion: Category C tax payers are:- the largest number of business tax payers, since they are not registered like that of category A and B tax payers, are not required to maintain book of accounts, lesser regulatory requirement, lesser knowledge about the importance of taxation etc. Simple random sampling is used to choose sample size from the sample frame. This sampling method is considered for its grand equal chance for respondents incorporated in the sample size. Random selections of businessmen group (male business owners and female business owners) are taken for the attainment of the last specific objective. The sample size taken for the study was 50. Since, the specific number of category C tax payer is not known.

The method of data collection mainly used is structured questionnaires. This structured questionnaire were originally developed by Crowe's in 1944 when he conducted theology doctoral dissertation which is perhaps the most comprehensive analysis of tax evasion from an ethical perspective. Many researchers in the area modified the statements of argument of this original work. Additionally, we have also modified and added statements which we expected to fill gap from our perspective. The survey instrument for the study included all three views on the

ethics of tax evasion that Crowe (1944) identified in his thesis. Twenty statements covering the 16 arguments that Crowe identified plus 4 more recent arguments were included from our point of study. The questions were modified in English and then translated to a local language (Amharic). The statements generally began with the phrase “Tax evasion is ethical if ...” Participants were asked to select a number from one to five to reflect the extent of their agreement or disagreement with each statement and administered among the sample respondents from each randomly selected business category “C” tax payers in Bahir Dar town.

Data were collected by means of a questionnaire containing 20 items. All items of these were likert-like items based on a scale from “a strongly agree” to “a strongly disagree”.

The researchers employed the following research procedures. First, the researcher’s contacted with the concerned body to get permission to carry out the study, and explain the purpose of the study. This helps the researcher to get full support from the municipality in conducting the research and made it easy to obtain the required information. Second, the researcher briefly explained the purpose of the study for the respondents during distribution of the questionnaire. The respondents assure that their responses are being kept confidential and required only for research purpose. The researcher distribute the instruments in all the seven kebeles that are located geographically dispersed in the town and expected to represent the scope of the research work. The instruments were distributed in face to face situation in order to avoid refusals and clarify points if additional explanations regarding how to respond are required and to control extraneous factors such as copying and writing other opinion by asking others that may affect the validity of the information. The respondents were given one week to fill the questionnaire so that they can give their best opinion in unhurried responses which would affect adversely the result of the study.

The instruments were collected after they have been completed by the respondents. After the instruments were collected, the data were screened for errors and organized to enter on SPSS computer package.

### 3. RESULTS

The study designs 50 taxpayers out of the total category C tax payers - Bahir Dar town. Category C tax payers were selected by considering a high probability of tax evasion due to unable to maintain books of account, difficult to determine tax bases and constrain of clear cut standards that help in tax estimation. Out of the sample size designed, only 46 responses were obtained. Four respondents did not respond.

#### **Respondent’s characteristics**

The survey consists male and female with their level of education and age. A summary of the characteristics of respondents is reported in Table I. The sample characteristics show that 40% of the respondents were male and 52% were female. Half of the respondents (46%) were over 30 years of age. A 30% of the respondents’ age was between 20 and 30 years. The rest 16% of the respondents’ age falls in below 20 years. The Table I also shows that the education level of most of the respondents was lower level (for the study lower level is primary and secondary school), while, a 9 % of the respondents was upper level (diploma, first degree holder and above). However, the paper did compare the respondents in terms of their age and education level from ethical angle towards tax evasion.

**Table 1. SUMMARY OF SAMPLE CHARACTERISTICS**

<u>Gender</u>	Sample Size	Percentage
Male	20	40
Female	26	52
Non response	4	8
Total	50	100
<u>Age</u>		
Below 20 years	8	16
20 to 30 years	15	30
Over 30 years	23	46
Non response	4	8
Total	50	100
<u>Educational Level</u>		
Lower level	37	74
Upper Level	9	18
Non response	4	8
Total	50	100

**Mean score**

Table 2 shows the mean score of each of the 20 statements and Chart 1 depicts the relative score of all statements in graph. The highest score (4.33) indicates that the weakest argument regarding tax evasion on ethical point of view. Conversely, the lowest score (3.26) reflects the strongest argument supporting tax evasion in light of ethical. The average score for the whole 20 arguments is 3.76, on a scale from 1 to 5, showing a relatively high opposition to tax evasion. Responses ranged from (3.41) to (3.93) moderate high strength for the strongest arguments to justify tax evasion. Scores from 4.10 to 4.22 show moderate weak arguments supporting tax evasion.

H1. The average respondent will believe that tax evasion is ethical sometimes.

H1. Accepted

The hypothesis that the average respondents, as determined by the average score of each statement, would take a position that tax evasion was sometimes ethical. Sometimes, for purposes of this study, is defined as having a score of more than 2 but less than 4.5. Having a score of 2 or less is never defined, as well as having a score 4.5 or more almost or always is never defined. Clearly, the researcher expected that a score of each statement is fall in between more than 2 and less than 4.5. On the other path, a score that is not lie in the range would not define (would be rejected). The sample mean scores presented in Table II indicates that mean scores of 20 statements fall in between 2 and 4.5 , which reflect respondents view tax evasion is sometimes ethical. The lowest score shows the strongest supporting tax evasion, whereas the highest score indicates the weakest support of tax evasion on ethical ground. The all statement scores lie between 3.29- statement No.19 and 4.33- statement No. 20.

**Table 2. Total sample mean scores by statement**

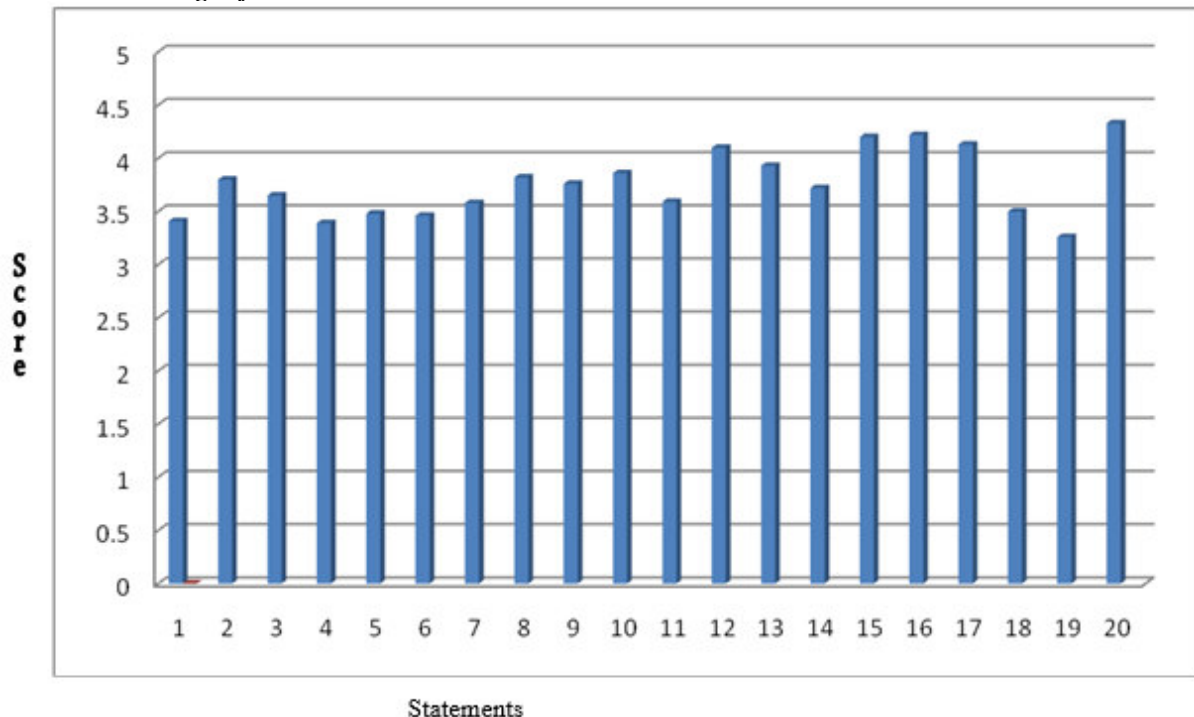
S. No	Statements	Scores	Std. dev.
1	Tax evasion is ethical if a significant portion of the money collected finds its way into the pockets of corrupt politicians or their families and associates	3.41	1.77
2	Tax evasion is ethical if government imprisons people for their political affiliations	3.80	1.54
3	Tax evasion is ethical if the government discriminates against me because of my religious or ethnic affiliations	3.65	1.59
4	Tax evasion is ethical if I cannot afford to pay	3.39	1.55
5	Tax evasion is ethical if tax rates are too high	3.48	1.53
6	Tax evasion is ethical if the tax system is unfair	3.46	1.49
7	Tax evasion is ethical if a large portion of the money collected is wasted	3.58	1.36
8	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust	3.82	1.31
9	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove off	3.76	1.49
10	Tax evasion is ethical if the probability of getting caught is low	3.86	1.54
11	Tax evasion is ethical if most of the money collected is spent on projects that do not benefit me	3.59	1.34
12	Tax evasion is ethical if everyone is doing it	4.10	1.66
13	Tax evasion is ethical if a large portion of the money collected is spent on worthy projects	3.93	1.57
14	Tax evasion is ethical if it means that if I pay less, others will have to pay more	3.72	1.59
15	Tax evasion is ethical if tax rates are not too high	4.20	1.39
16	Tax evasion is ethical if most of the money collected is spent wisely	4.22	1.31
17	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do not benefit me.	4.13	1.40
18	Tax evasion is ethical, if the government does not aware the importance of tax	3.50	1.56
19	Tax evasion is ethical if tax authority is lenient in implementing	3.26	1.43
20	Tax evasion is ethical if I have the opportunity to understate my income, while reporting to tax authorities, because they do not monitor me.	4.33	1.14
<b>Average score</b>		<b>3.76</b>	

**Notes: 1 – strongly agree; 5 – strongly disagree**

As can be seen from the Chart 1 scores for all 20 statements are very closely each other. Statement No. 19 and 4 show the lowest results respectively. Statement No. 20 and 16 with high score indicates that tax evasion is

highly opposed.

**Chart 1. The Range of Scores**



H2. Scores will be lower (tax evasion will be more acceptable) when the statement refers to government corruption.

H2. Accepted

Table III shows ranking of arguments from the strongest (lowest score) to the weakest (highest score) supporting tax evasion. The strongest argument seeking tax evasion is ethical in cases when the government or tax authority is lenient in implementing tax assessment and collection. Lenient means in this study is not strict (lenient rule) while estimating and collecting tax. The respondents think that tax evasion is ethical in conditions that the tax authorities who were given a responsibility to levy and collect tax break tax proclamations and laws. Reducing tax liabilities to peer person and collection of tax in a period not convenience to tax payers basically considered as government is lenient in implementation. The argument has a score of 3.93, which, on a scale of 1 to 5 indicates that it is considered as a moderate strong argument. In the second place, with a score 3.39 is the argument that tax evasion is ethical if the tax imposed tax liability is beyond the ability to pay (i.e. inability to pay argument). The government corrupt argument took third place with a 3.41 score.

The hypothesis that scores would lower with the argument government corruption took third position of the strong argument that tax evasion is ethical. The respondents deemed that tax evasion is ethical, in case the large amount of money collected wind up in the pocket of corrupt government or their families and friends. Since tax is a contribution to government for social service and development activities. It is not paid for to satisfy an individual wants rather to satisfy collective wants. Thus, the hypothesis was accepted

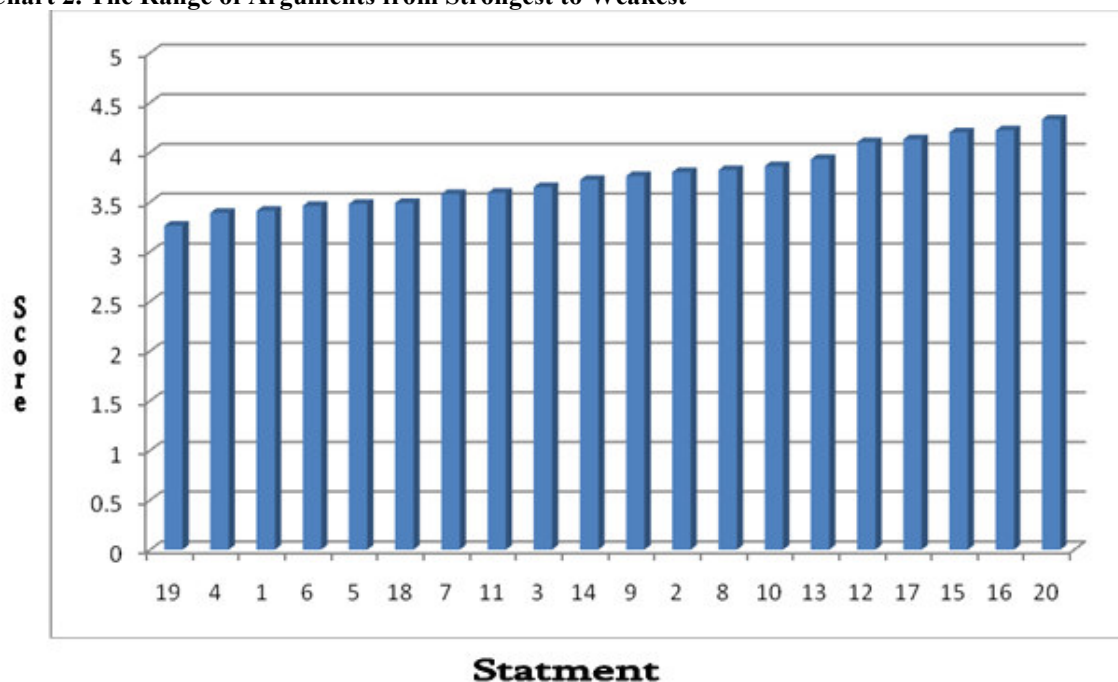
The statement has a score 4.33 indicates tax evasion the respondents highly opposed to tax evasion if less or no monitoring from government. This shows that respondents do not pursue to minimize tax liability by understating income or overstating expense. A score 4.22 is the second that oppose tax evasion when the most of the money collected spend wisely. The statement has a core 4.20 place in the third stage showing that evasion is unethical if the tax rate is too high. Justifiable of tax evasion with respect to, if substantial amount of the money collected spent on worthy project and on project (I morally disappear of arguments) took scores 3.93 and 3.67 respectively which is equal and more than the average score (3.76) indicate a moderate opposing of tax evasion . The argument if a portion of the money collected spent on projects “do not benefit me” depicts a moderate strong argument with a score 3.59 lowers than the average cores.



**Table 3. Statement of ranked from strongest to weakest argument.**

Rank	Sta. No	Statements	Scores
1	19	Tax evasion is ethical if tax authority is lenient in implementing	3.26
2	4	Tax evasion is ethical if I cannot afford to pay	3.39
3	1	Tax evasion is ethical if a significant portion of the money collected finds its way into the pockets of corrupt politicians or their families and associates	3.41
4	6	Tax evasion is ethical if tax system is unfair	3.46
5	5	Tax evasion is ethical if tax rates are too high	3.48
6	18	Tax evasion is ethical if government does not aware the importance of tax	3.49
7	7	Tax evasion is ethical if a large portion of the money collected is wasted	3.58
8	11	Tax evasion is ethical even if most of the money collected is spent on projects that do not benefit me	3.59
9	3	Tax evasion is ethical if the government discriminates against me because of my religious or ethnic affiliations	3.65
10	14	Tax evasion is ethical if it means that if I pay less, others will have to pay more.	3.72
11	9	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of	3.76
12	2	Tax evasion is ethical if government imprisons people for their political affiliations	3.8
13	8	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust	3.82
14	10	Tax evasion is ethical if probability of getting caught is low	3.86
15	13	Tax evasion is ethical if a large portion of the money collected is spent on worthy projects	3.93
16	12	Tax evasion is ethical if everyone is doing it	4.1
17	17	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do not benefit me.	4.13
18	15	Tax evasion is ethical if tax rate is not too high	4.20
19	16	Tax evasion is ethical if most of the money collected is spent wisely	4.22
20	20	Tax evasion is ethical if I have the opportunity to understate my income, while reporting to tax authorities, because they do not monitor me.	4.33

**Chart 2. The Range of Arguments from Strongest to Weakest**



It seems that statement No 11 and 17 slightly inconsistency. They say, basically the same thing, yet their scores and ranking are place separately. Statement No. 11 with a score 3.59 put at 8 distant, while statement No. 17 with a core 4.13 took position at seventeen.

H3. Female scores will be higher than male scores (women will be more strongly against tax evasion than males) for at least 12 out of 20 statements.

H3. Rejected

Table III compares male and female scores for each of 20 statements. It was thought that female score would be significantly higher than male for at least 12 of 20 statements. As can be seen in Table III, female scores were higher than male score in 11 statements and lower in nine statements. Prior research by McGee and Lingle, (2005) found similar result that women were significantly more opposed to tax evasion than were the men. That was not the case. Yet female score exceeds male scores by two statements. However, the hypothesis must be rejected. If the hypothesis were higher score in female for 12 out of 20 it would have been accepted.

In comparison of female scores with male, a lot of prior studies show the consistent results, examples: McGee, (2005a), female scores were always higher than male scores, indicating that the women were also more strongly opposed to tax evasion. The study of Romanian business students (McGee, 2005b) also found the same result. Female were more strongly opposed to tax evasion were the men.

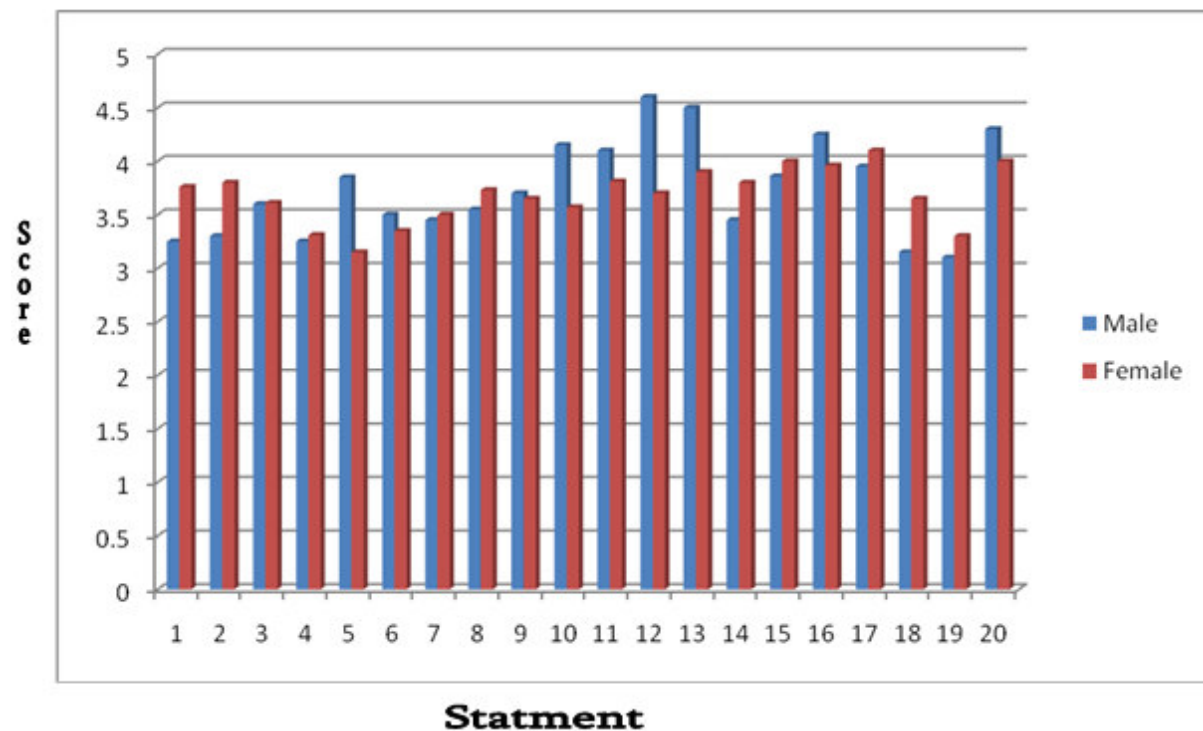
This finding is compared to the work done by McGee and Guo (2007). Noted, female scores were higher than male scores for nine statements, were lower for three statements and were the same for three statements (from 18 statements). However, these results may not hold true always. It is a tentative conclusion, even if the study is repeated in the same population the future. Therefore, these results may not allow us to conclude that women are more ethical than men. To arrive at a conclusion the female scores should significantly higher than the male scores for all 20 statements. One must start with the premise that tax evasion is unethical, which is not the case in this in this paper. One of the major reasons for conducting the present study is to determine when, and under what circumstances, tax evasion is ethical. Thus, the strongest conclusion that can be reached in the present study is that females are more strongly opposed to tax evasion than are men if their scores are higher than male scores.

**Table 4. Comparison of male scores and female scores**

S. No	Statements	Score		Score large by		
		Over all	Male	Female	Male	Female
1	Tax evasion is ethical if a significant portion of the money collected finds its way into the pockets of corrupt politicians or their families and associates	3.41	3.25	3.76		.51
2	Tax evasion is ethical if government imprisons people for their political affiliations	3.80	3.30	3.80		.50
3	Tax evasion is ethical if the government discriminates against me because of my religious or ethnic affiliations	3.65	3.60	3.61		.01
4	Tax evasion is ethical if I cannot afford to pay	3.39	3.25	3.31		.06
5	Tax evasion is ethical if tax rates are too high	3.48	3.85	3.15	.70	
6	Tax evasion is ethical if the tax system is unfair	3.46	3.50	3.35	.15	
7	Tax evasion is ethical if a large portion of the money collected is wasted	3.58	3.45	3.50		.05
8	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust	3.82	3.55	3.73		.18
9	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of	3.76	3.7	3.65	.05	
10	Tax evasion is ethical if the probability of getting caught is low	3.86	4.15	3.57	.58	
11	Tax evasion is ethical even if most of the money collected is spent on projects that do not benefit me	3.59	4.10	3.81	.29	
12	Tax evasion is ethical if everyone is doing it	4.10	4.60	3.70	.90	
13	Tax evasion is ethical if a large portion of the money collected is spent on worthy projects	3.93	4.50	3.90	.60	
14	Tax evasion is ethical if it means that if I pay less, others will have to pay more	3.72	3.45	3.80		.35
15	Tax evasion is ethical if tax rates are not too high	4.2	3.86	4.00		.14

S. No	Statements	Score		Score large by	
		Over all	Male	Female	Male
16	Tax evasion is ethical if most of the money collected is spent wisely	4.22	4.25	3.96	.29
17	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do not benefit me.	4.13	3.95	4.10	.51
18	Tax evasion is ethical, if the government does not aware the importance of tax	3.50	3.15	3.65	.50
19	Tax evasion is ethical if tax authority is lenient in implementing	3.26	3.10	3.30	.20
20	Tax evasion is ethical if I have the opportunity to understate my income, while reporting to tax authorities, because they do not monitor me.	4.33	4.30	4.00	.30

**Chart 3. The Male and Female Scores**



To clearly, interpret the Chart 3, the male score is significantly higher than female scores, for statement No 5, 12 and 13. In particular, for the argument that high tax rate, male with a score 4.60 strongly support tax evasion is unjustified or never ethical, since the male respondents deemed that governments once designed progressive tax rate which considers an equality principle and different income level, as one's income fall into the array, it an obligation to pay. However, we cannot wind up that tax rate has a less significant relationship with tax evasion than other variables. It is beyond the study, that measuring liner relation between tax evasion and factors (variables) of tax evasion. The study was only intended to look at the opinions of tax payers pertaining to a tax evasion from ethical prospective. On the other hand, for the statement No 3, there is a very close score with both male and female which differ for (01). Both male and female moderately support tax evasion with a very relative score when the government discriminates against people in religious and ethnic affiliation.

#### 4. Conclusions

A sample size used the study was randomly selected from the total population of category C tax payers in Bahir Dar town - Ethiopia. Primary data collection was the instruments needed for data collection to achieve the objective. The results gained from the study suggested that there are ethical reasons why tax payers are negligent.

The results stressed that there is a widespread ethical support for tax evasion. The study showed varying degrees of justification for tax evasion as shown by the mean scores.

The average scores varied between 3.26 and 4.33 on a five-point Likert scale, which indicates that the average view falls into the middle 2 and 4.5, that is, tax evasion is ethical sometimes. The strongest arguments justifying tax evasion occur in cases where the government is lenient in implementation of tax assessment and collection as per tax proclamations and laws. The affordability argument took the second place and followed by government corrupt argument. To strictly speaking, the three strongest scores were related to lenient, affordability and corruption. A lenient was one of the four statements considered as current issues for the study with 16 Crown's statements.

Despite the general opposition to tax evasion, this study identified the weakest argument that unjustified tax evasion. The respondents strongly oppose tax evasion from an ethical point of view. They argued that understating income is all most unethical even if there is no governmental body that monitors the reported income.

As expected, some arguments proved to be stronger than others, some of the arguments proved to be fairly strong, as indicated by the scores received. Six of the of the arguments scored between 3.26 and 3.49 , nine of the arguments scored between 3.58 and 3.93 and five of the arguments scored above 4.10 , indicating about 25% the arguments were weak.

The findings correspond with the findings of (Fagbemi and Uadiale, 2010), the ethics of tax evasion in Nigeria, (McGee and Guo, 2007) a survey of law, business and philosophy students in China. Collectively, the results from different countries identified that tax evasion is sometimes ethical.

In gist, this study did not take a comparison of respondents by age, level of education, or religious group. In the case of age, (McGee and Palau) identified that people tend to become more opposed to tax evasion as they get older. This conclusion, however, not examined in this paper. On the other hand, the study did not found significant differences by gender. Female seemed to be somewhat more strongly opposed to tax evasion than were men but there was no significant difference between male and female scores. One must be careful not to conclude that women are more ethical than men. To arrive at that conclusion, one must begin with the premise that tax evasion is unethical, which may or may not be the case.

This study may be replicated in a number of ways. Others region in Ethiopia may be captured. The opinion of theology students and business students in Ethiopia may be an interesting area to explore in other to see the influence of education and religion on tax evasion. The opinions of law students may also be required since they are likely to be a rigorous rule observer owing to their training.

## References

- Adams, C. (1993) *For Good and Evil*. The Impact of Taxes on the Course of Civilization. London: Madison Books.
- Alm, J. and J. Martinez-Vazquez (2001). Societal Institutions and Tax Evasion in Developing and Transitional Countries, Public Finance in Developing and Transition Countries: Conference in Honor of Richard Bird, Atlanta, Georgia, April 4 – April 6, 2001.
- Block, W. (1989), "The justification of taxation in the public finance literature: A critique", *Journal of Public Finance and Public Choice*, Vol. 3, pp. 141-58.
- Crowe, M.T. (1944), *The Moral Obligation of Paying Just Taxes*, The Catholic University of America Studies in Sacred Theology No. 84, Washington, DC.
- Creswell. W. *Research Design Qualitative, Quantitative, and Mixed Methods Approaches 2<sup>ed</sup>*, (2003)
- DeMerville, W. (1998), "The ethics of tax evasion: A Baha'i perspective", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 3, pp. 356-68, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 230-40.
- Eboziegbe, M.O., 2007. "Tax Evasion Hinders Local Governments", *The Saturday Tribune*, October 13.
- Frey, R. L, Frey .B. S. and Burno , "Theory and Empirical Analysis of Tax compliance" der Universität Basel zur Erlangung der Würde eines Doktors der Staatswissenschaften PhD. Dissertation den. 11. Juli 2003
- Glover, S.H., Bumpus, M.A., Sharp, G.F. and Munchus, G.A. (2002), "Gender differences in ethical decision making", *Women in Management Review*, Vol. 17 No. 5, pp. 217-27.
- Gronbacher, G.M.A. (1998), "Taxation: Catholic social thought and classical liberalism", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 1, pp. 91-100, reprinted in McGee, R.W.(Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 158-67.
- Hasseldine, J. (1998). Tax Amnesties: An International Review, *Bulletin for International Fiscal Documentation*. 52: 303-310.
- Jackson. and R. and Milliron V .c.(1986), *Tax Compliance Paper Given at Australian Tax compliance Conference*, Camberry December.
- Leiker, B.H. (1998), "Rousseau and the legitimacy of tax evasion", *Journal of Accounting, Ethics & Public Policy*,

- Vol. 1 No. 1, pp. 45-57, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 89-101.
- Locke, J. (1689), *Two Treatises on Government*, Unwin Hyman, Boston, MA.
- McGee, R.W. (Ed.) (1998a), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ.
- McGee, R.W. (1998b), "The ethics of tax evasion in Islam: a comment", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 2, pp. 162-8, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 214-19.
- McGee, R.W. (1998c), "Christian views on the ethics of tax evasion", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 2, pp. 210-25, available at: <http://ssrn.com/abstract/1461398>
- McGee, R.W. (1999b), "Is it unethical to evade the estate tax?", *Journal of Accounting, Ethics & Public Policy*, Vol. 2 No. 2, pp. 266-85, available at: <http://ssrn.com/abstract/14242536>
- McGee, R.W. (1999c), "An ethical look at paying your 'fair share' of taxes", *Journal of Accounting, Ethics & Public Policy*, Vol. 2 No. 2, pp. 318-28, available at: <http://ssrn.com/abstract/14242549>
- McGee, R.W. (1999d), "Tariffs as a form of taxation: is evasion unethical?", *Journal of Accounting, Ethics & Public Policy*, Vol. 2 No. 2, pp. 376-85, available at: <http://ssrn.com/abstract/14242565>
- McGee, R.W. (1999f), "Is it unethical to evade the capital gains tax?", *Journal of Accounting, Ethics & Public Policy*, Vol. 2 No. 3, pp. 567-81, available at: <http://ssrn.com/abstract/14251491>
- McGee, R.W. (1999g), "Is it unethical to evade the social security tax?", *Journal of Accounting, Ethics & Public Policy*, Vol. 2 No. 3, pp. 585-96, available at: <http://ssrn.com/abstract/14242507>
- McGee (2007), *The Ethics of Tax Evasion : a survey of Episcopal seminarian opinion*. Address School of business working paper, Berry university, Miami shores FL.33161, USA, January, 2007
- Robert W. McGee, Zhiwen Guo (2007), "survey of law, business and philosophy students in China on the ethics of tax evasion" *Society and Business Review*, Vol. 2 No. 3, pp. 299-315
- Robert. W. McGee, Silvia López-Paláu (2010) . "The Ethics of Tax Evasion." *Journal of Applied Business and Economics*.
- Murtuza, A. and Ghazanfar, S.M. (1998), "Taxation as a form of worship: exploring the nature of Zakat", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 2, pp. 134-61, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 190-212.
- Oliva, R.R. (1998), "The schism between tax practitioners' ethical and legal obligations: recommendations for the fusion of law and ethics", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 4, pp. 603-28, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 350-71.
- Pennock, R.T. (1998), "Death and taxes: on the justice of conscientious war tax resistance", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 1, pp. 58-76, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 124-42.
- Rousseau, J.J. (1762), *The Social Contract*, Penguin, London.
- Schansberg, D.E. (1998), "The ethics of tax evasion within Biblical Christianity: are there limits to 'rendering unto Caesar'?", *Journal of Accounting, Ethics & Public Policy*, Vol.1 No. 1, pp. 77-90, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 144-57.
- Smith, S.R. and Kimball, K.C. (1998), "Tax evasion and ethics: a perspective from members of The Church of Jesus Christ of latter-day saints", *Journal of Accounting, Ethics & Public Policy*, Vol. 1 No. 3, pp. 337-48, reprinted in McGee, R.W. (Ed.), *The Ethics of Tax Evasion*, The Dumont Institute for Public Policy Research, Dumont, NJ, pp. 220-9.
- Spooner, L. (1870), *No Treason: The Constitution of No Authority*, originally self-published by Spooner in Boston in 1870, reprinted by Rampart College in 1965, 1966 and 1971, and by Ralph Myles Publisher Inc., Colorado Springs, Colorado in 1973.
- Temitope. O. Fagbemi, Olayinka M. Uadiale, Abdurafiu O. Noah, (2010) "The Ethics of Tax Evasion" *European Journal of Social Sciences – Volume 17, Number 3*, Nigeria. G. Chau and P. Leung (2009), Critical review of Fischer tax compliance model: A Research synthesis, *Journal of accounting and taxation* vol. 1(2), pp 034-040
- Torgler, B. (2003), "Tax Morale: Theory and Empirical Analysis of Tax Compliance", *Dissertation der Universität Basel zur Erlangung der Würde eines Doktors der Staatswissenschaften*.

### Appendix

#### Administered questionnaire

This questionnaire is designed to collect data on perception of tax payer toward tax evasion in BahirDar town. You are kindly requested to response these questions sincerely and honestly. The response you provided will be kept with strict confidence and will not be used for other purpose except for the intended research.

#### Note that

The objectives of this questioner is to know the perception of tax payer toward ethics of tax evasion so there is no right or wrong answer .Therefore, put your choose/opinion /what you fill for each question. In order to do this you are required to give an answer for the following information required

#### Background information

1. Level of education
  - Illiterate-----
  - Primary school--
  - Diploma-----
2. Range of age
  - Bellow 20 years
  - from 21-30
  - from 31-40
  - from 41-50
  - above 50years
3. Marital status
  - Married
  - unmarried
4. Sex
  - Male
  - female

Fill each question in the table bellow based on the following alternative given for you, please put your choose in the table in front of each question.

1. Strong agree
2. Fair strong agree
3. Agree
4. Fair strong disagree
5. Strong disagree.

S. No.	Questioners	Choose
1	Tax evasion is ethical if a significant portion of the money collected finds its way into the pockets of corrupt politicians or their families and associates	
2	Tax evasion is ethical if government imprisons people for their political affiliations	
3	Tax evasion is ethical if the government discriminates against me because of my religious or ethnic affiliations	
4	Tax evasion is ethical if I cannot afford to pay	
5	Tax evasion is ethical if tax rates are too high	
6	Tax evasion is ethical if the tax system is unfair	
7	Tax evasion is ethical if a large portion of the money collected is wasted	
8	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust	
9	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of	
10	Tax evasion is ethical if the probability of getting caught is low	
11	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me	
12	Tax evasion is ethical if everyone is doing it	
13	Tax evasion is ethical if a large portion of the money collected is spent on worthy projects	
14	Tax evasion is ethical if it means that if I pay less, others will have to pay more.	
15	Tax evasion is ethical if tax rates are not too high	
16	Tax evasion is ethical if most of the money collected is spent wisely	
17	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do not benefit me.	
18	Tax evasion is ethical, if the government does not aware the importance of tax.	
19	Tax evasion is ethical if tax authority is lenient in implementing	
20	Tax evasion is ethical if I have the opportunity to understate my income, while reporting to tax authorities, because they do not monitor me.	

**Thank You in advance!!!**