The Effect of Tax Audit on Taxpayer's Behavior: The Case of Medium Taxpayer's Branch Office of Ministry of Revenue

By Eshetu Teka

A DISSERTATION

Presented to the Department of Accounting
Program at Selinus University Business School

Faculty of Business and Media
In fulfilment of the requirements
For the degree of Doctor of Business Administration
In Accounting

Addis Ababa, Ethiopia

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SELINUSE UNIVERSITY BUSINESS SCHOOL

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Definition of terms

Audit: an examination of a tax return or certain items on a tax return to ensure accuracy.

Audit planning: is developing an overall strategy for the audit. The nature, extent, and timing of planning vary with size and complexity of the entity, experience with the entity, and knowledge of the entity's business.

Audit adjustment: is a correction of a financial information misstatement identified by the auditor, whether recorded or not.

Engagement letter: A letter that represents the understanding about the engagement between the client and the audit.

Inventory: Supplies used and goods manufactured in production processes. Inventory is normally categorized into (i) raw materials, (ii) work-in-process, and (iii) finished goods.

Professional scepticism: Approaching an audit with a questioning mind-set.

Human Behaviour:- Humans, like other animal species, have a typical life course that consists of successive phases of growth, each of which is characterized by a distinct set of physical, physiological, and behavioral features.

Taxpayer's Behavior:-Taxpayer behavior, particularly in respect of compliance, has been a subject of a great deal of research emanating from a wide range of disciplines for more than thirty years now.

Binary logistic Regression:-Binary logistic regression is a type of regression analysis that is used to estimate the relationship between a dichotomous dependent variable and dichotomous-, interval-, and ratio-level independent variables.

ABSTRACT

Taxpayer's behaviour has been a serious challenge for the tax administration and performance of tax revenue for many developing nations. The issue of complying with the existing tax audit has predominantly been dealt with in several developing countries. The situation is also the same for Ethiopia. This study has been conducted to evaluate the effect of tax audit on taxpayer's behaviours. The study has applied a mixed methods approach to investigate the effect of tax audit on taxpayer's behaviour. Samples for this study were selected using non probability sampling which is covenant sampling technique for medium taxpayer's branch office. Data collection was made through a semi structured questionnaire. Quantitative techniques were applied using frequencies, percentages, tabular presentations, graphs and other descriptive techniques. For the analysis effect of tax audit on taxpayer's behaviours of the respondents, a binary logistic model was applied. Result of the analysis shows that tax audit procedure, Deterrence, tax laws related to tax and economic effect were found to have a significant effect on tax taxpayer's behaviour. As a conclusion of the study, the tax audit plays a significant role on taxpayer's behaviour. At the end of the study, it was recommended that the ministry of revenue gives more attention to the taxpayers to educate the tax laws and amend the tax laws frequently that match with the current global economy.

Key words: taxpayer's behaviour, Tax audit procedure

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Countries need income sources for the expenditures incurred to deliver and maintain public services. The most important of these income sources are the taxes (Isik, Gelen, & Sonsuzoglu, 2017). Tax is a mandatory charge imposed by the government without any expectation of quid pro quo. In other words, tax is a compulsory payment by the people to the government for which there is no direct return to the taxpayers. Tax imposes a personal obligation on the people to pay the tax if they are liable to pay it. Taxpayers should be taxed according to their ability to pay, and the people in the same financial position should be taxed in the same way (Parameswaren, 2005).

Ethiopia has a federal tax system, with tax powers and revenues divided between the federal government and the regional states. The power to levy and collect different taxes is allocated either 'exclusively to the federal government; exclusively to the regional states; concurrent to both the federal government and the regional states; [or is] undesignated' (FDRE Constitution, 1995 – Proclamation No. 1/1995).

The Federal Government of Ethiopia has initiated so many reforms in the tax administration start from 2002 tax reform which produce change sales tax in to VAT, Income Tax Proclamation Number 286/2002 and regulation number 78/2002, VAT Proclamation Number 285/2002 and regulation 79/2002, Excise tax proclamation number 307/2002 and different tax proclamations including Withholding Tax. Because of the rapid increasing in globalization and technology as well as to give service that much with the current period business environment and global trade culture such as international financial reporting standards (IFRS) the previous tax Proclamations and regulations are amended by the income tax proclamation number 979/2016 and regulation number 410/2016 which is previously enact proclamation number 286/2002 and regulation number 78/2002.These laws provide for the taxation of income in accordance with the following five schedules:

- Schedule A: income from employment;
- Schedule B: income from the rental of buildings;

- Schedule C: income from business activities;
- Schedule D: other income;
- Schedule E: exempt income.

Ethiopia operates a scheduler rather than a comprehensive personal income tax system. This means different sources of personal incomes are taxed separately and subject to their own tax rate schedules, rather than being aggregated together and taxed according to the same tax schedule. A number of withholding taxes also apply, which can be offset against other income tax liabilities. And the newly introduce tax administration proclamation number 983/2016 which incorporates all tax administration issue in different proclamation like VAT, petroleum and gas Proclamations. Taxes have been acknowledged as a major source of public revenue (Beza, 2014). For that reason, states have been trying to implement and establish dynamic tax systems that will not only ensure the public revenues, necessary for the economic state functioning, but will also enhance citizens' trust towards governments in terms of fairness in the distribution of income tax burdens. Building on the above, tax compliance and tax accounting have been radically changing in most countries worldwide (Colon & Swagerman, 2015), while tax audit is currently at a crucial stage, because the overall economic growth and increasing regulation all stand to contribute to the ongoing need for audit services (Karagiorgos, Drogalas, Pazarskis, & Christodoulou, 2006).

One of the organizations that is responsible for the federal and concurrent revenues are the Ministry of Revenues (MOR) which administering the tax and customs issues of the country. MOR has different departments which perform different activities to administer those revenues like Tax Assessment and collection, tax risk management and complains, Tax Audit and other. Because the study focuses mainly on tax audit department first we explain and define tax audit.

Tax audit involves an examination of taxpayers' business records and financial affairs to ensure taxpayers have computed their tax payable in accordance with the current tax laws and regulations (Isa & Pope, 2011). Moreover, in a lecture on 24th November, 2016, to 100 medium sized entrepreneurs, Richard said "tax audit is an examination of a taxpayer's business records and financial affairs to ascertain that the right amount of income should be declared and the right amount of tax should be calculated and paid in accordance with tax laws and regulations/ tax compliance".

Table 1 Audited Taxpayer's

No	Tax period E.C	Audited File	Assessed Amount
1	2012	226	1,300,000,000
2	2013	294	1,900,000,000
3	2014	403	3,500,000,000
	Total	923	

Many countries have adopted the self-assessment system (SAS) in order to simplify the tax assessment system and encourage voluntary compliance. Self-assessment system helps to encourage voluntary compliance, reduce tax evasion and make taxpayers more responsible. Under this system, taxpayers are expected to render tax returns based on their income, determine their tax liabilities and pay within the time stipulated by law. In order to sustain the credibility of this system, it is subject to verification by the relevant tax authorities (Ojonta, 2011). In Ethiopia, SAS was recently introduced in 2005 (Niway & Wondwossen, 2015).During self-assessment tax system (SAS), enforcement activities, in particular tax audit is regarded as the primary strategy taken in ensuring a high level of tax compliance (Singh, 2005).

According to Tadesse & Goitom (2014), like other developing countries, Ethiopia faces vaults in raising revenue to the required level in order to scale up the development endeavors. Ethiopia has experienced a steadfast expenditure surplus over revenue for a long period of time. Therefore effective tax audit program of revenue body performs a number of important roles and can make a significant contribution to improved administration of the tax system.

In addition to raising revenue directly from audit activities by selecting the highest-risk cases, tax audit efficiently detecting non-compliant taxpayers, applying appropriate sanctions, and publicizing results of audit activity (either generally or specifically) taxpayers get the message that any attempt to avoid tax presents a high risk of detection and the penalty for non-compliant taxpayers is substantial.

Tax audits, therefore, provide the tax administration with significant leverage across the community, rather than only impacting on the taxpayer selected for audit and collecting the tax that should have been paid in the first place. Additionally, a tax system that is perceived to be fair and equitable and punishing taxpayers who don't comply builds community confidence and encourages compliance from the broader population.

An improved understanding of taxpayer behavior and attitudes to taxation can help tax administrations to develop stronger and more effective compliance risk treatments, as well as improve customer service programmers. This paper outlines the research and how it may be used to influence taxpayer behavior. Many factors influence taxpayer's behavior, the focus in this paper is on those that can be tested and used by a tax administration in a practical setting. Traditional tools of tax administration (audit for example) are an expensive way to attempt to improve compliance even when targeted at specific tax risks. Influencing behavior may offer an effective but less expensive option. The aim of this research is to find efficient and cost effective approaches to improving taxpayer behavior. Therefore, it is of great importance to identify the effect of tax audit on taxpayer's behavior." This is the issue that motivates the researcher to do so.

1.2 Organizational Background

As a general principle, it is believed that there should be a framework in which each tier of government can levy or generate its own finance without conflict between them. The constitution of Federal Democratic Republic of Ethiopia (EFDRE) 1994, Pursuant to decentralized government structure, the power to levy and collect taxes from income is assigned to both the Federal government and Regional States. The Ministry of Revenue (MoR) is responsible to levy and collect taxes at the Federal level. The Ministry of Revenues has 1 Minister and 2 Deputy Minister which are Tax operation sector and Tax system sector and different Directorates in head office which are Tax Audit Directorate, Tax Declaration Directorate, Taxpayers Education Directorate, Taxpayers registration and service Directorate, Cash register machine and tax data Administration Directorate, Tax Arrears Administration Directorate, internal tax Revenues administration Directorate, Risk and tax compliance strategy Directorate and Service and refund audit Directorate, Human Resource Management Directorate, financing Directorate, Procurement Directorate, Ethics Directorate, Planning &Budgeting Directorate and Internal Audit Directorate.

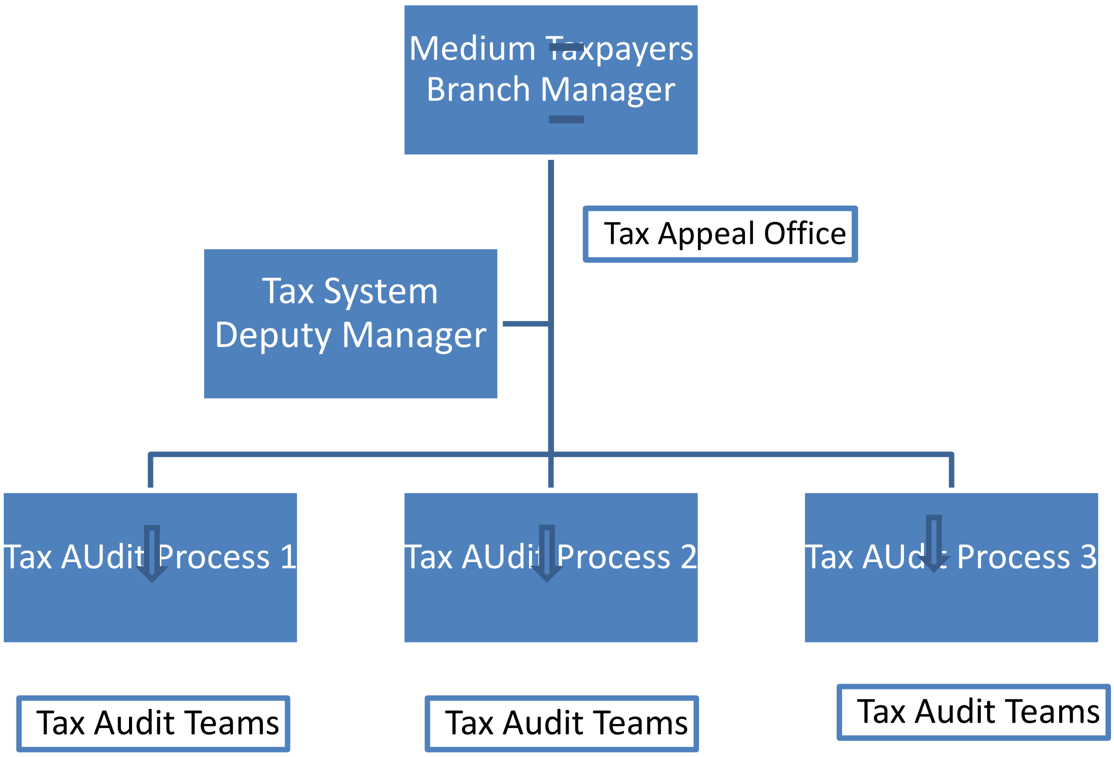
Depending on the annual turnover and compliance level of the taxpayer's the branches of MoR is divided in to Large Taxpayers' branch Office, Medium Taxpayers branch Office and Small Taxpayers Branch Office. The medium Taxpayers branch office have one Branch manager and three different deputy managers which are tax operation deputy sector deputy manager, tax system sector deputy manager and Organizational capacity deputy manager all the above deputy managers have their own different process owners. So, these paper will focuses on the effect of tax audit on taxpayers behavior the tax audit is one of the process in tax system sector deputy manager :-

So, because this study is focuses on medium taxpayers branch office which is behavior of the taxpayers are heterogeneous in a nature and extent as well as the composition of the taxpayers business sector are different like manufacturing, construction, Service, mining and wholesale.

The audit file is selected by the risk and tax compliance strategy Management Directorate by verification of taxpayers declared tax liabilities which always involves a review of taxpayers business related transactions records system, like books of accounts and its supporting documents, information obtained from third party concerning purchases, sales, expenses which are backed with objective evidence and risk criteria and select by risk score in a high risk medium risk and low risk.

The main vehicle used by tax audit section that gives effect to their audit plan is through the application of the collective experience and knowledge of the team leader. An auditor will assess the declarations of the taxpayers for all taxes and will select taxpayers for audit to test compliance with the law. When the analysis of taxpayer's compliance pattern justifies for the audit and investigation of taxpayers' file, the revenue office either applies comprehensive, issue or desk audit to test the reliability of the tax affairs dealt with. The choice and preference of the one to another is dependent on the magnitude of tax risk associated with the case and the number and qualification of the existing audit staff. Finally, the assessment made will be prepared in assessment notification and be delivered to the taxpayer. A taxpayer, who objects to an assessment, may appeal to the tax appeal office up on fulfilling certain requirements.

Figure 1 organizational structure



1.3 Statement of the Problem

A tax audit is one of the most sensitive contacts between the taxpayer and a revenue body, the presence of an auditor in a taxpayer's private dwelling or business premises, coupled with the exploration of private and business issues and the gathering of information from taxpayers' books and records, or just the disruption of the day-to-day workflow, represents a burden on the taxpayer.

The work of a tax administration includes activities that cover both compliance and customer service. The main example such function is mainly conducted by the tax audit that protects interventions, anti-smuggling and other customs functions and anti-avoidance. Many of the functions of tax audit depend to at least some degree on the voluntary compliance of taxpayers. In addition, large elements of the tax system in Ethiopia are based on self-assessment. In this context, there is clearly potential to influence behavior to improve compliance. The central contribution of behavioral research to tax administration is to understand why taxpayers are compliant or not. This can inform the work of tax administrations across a range of their functions. From the above explanation the behavior of taxpayers are mainly affected by tax audit.

Study conducted on the tax audit and taxpayers behavior

Niu (2010) in a study found a positive association between the audit and the voluntary compliance. The finding suggests that the audit productivity may be under estimated in many studies in the literature. It reminds us that when considering the productivity of the audit work. According to the World Bank as presented in Le et al (2011), most of the lower income economies have both low level of tax collection and low tax effort, where the later indicates that amount of generated tax revenue are far below the potential level.

Biber (2010) argued that, in recent times the role of tax audit in tax administration must go beyond the normal verification of taxpayers reported tax obligation and seeking to detect if there exist any discrepancies between existing documents and taxpayers' declarations. Micci-Barreca and Ramachandran (2004) revealed that, there are two possible means increasing tax revenue as a result of tax auditing: directly through the evaluation of additional taxes and indirectly by inducing compliance of taxpayers with rules and regulations.

From the policy paper that is conducted in 2012 by Keith Walsh the work of a tax administration includes activities that cover both compliance and customer service. For example, Revenue's range of functions includes: assessment, collection, debt management, audit and other interventions, anti-smuggling and other customs functions and anti-avoidance. Many of the functions of tax administration depend to at least some degree on the voluntary compliance of taxpayers. In addition, large elements of the tax system in Ireland are based on self-assessment. In this context, there is clearly potential to influence behavior to improve compliance. The central contribution of behavioral research to tax administration is to understand why taxpayers are compliant or not. This can inform the work of tax administrations across a range of their functions. Several factors that contribute to the level of compliance in a taxpayer population have been identified.

The standard model of tax compliance, derived from Becker (1968) and Allingham and Sandmo (1972), assumes that a rational taxpayer assesses the costs and benefits of evading taxes. If the expected benefits (less income "lost" to tax) outweigh the costs (the chances of a non-compliant taxpayer being caught and the sanctions incurred) then the taxpayer will evade tax. The taxpayer makes a rational choice having considered the options.

Gap in Research's

As indicated from the above researches tax audit have important role in tax administration by different mechanism like increasing tax revenue, increasing taxpayer's compliance level and collecting additional tax and so on. Using behavioral research to inform tax administration is a less developed but growing area in the literature. The work of a tax administration includes activities that cover both compliance and customer service. Many of the functions of tax administration depend to at least some degree on the voluntary compliance of taxpayers. In addition, large elements of the tax system in Ethiopia are based on self-assessment. In this context, there is clearly potential to influence behavior to improve compliance. The central contribution of behavioral research to tax administration is to understand why taxpayers are compliant or not. This can inform the work of tax administrations across a range of their functions. So, most of the research was done separately by tax audit and compliance level, tax audit and effectiveness and tax audit and revenue collection as well as the researcher also depending on tax auditor's response rather than taxpayers and also there is no research was done before on the effect of tax audit on taxpayer's behavior in Ethiopia that's why this research was conducted.

What makes the research difference?

Because the Ministry of Revenues tax policy is self-assessment system SAS tax audit is a system to check the taxpayer's compliance level and deterrent effect on other taxpayers as well as the effect also has positive or negative impact on taxpayers that leads to bankruptcy and closing of a business as a result of audit finding assumes that taxpayers have adequate knowledge and skills to fulfill their tax legal obligations and generating additional revenues. For my point of view the core point in conducting research on the effect of tax audit on taxpayer's behavior are taxpayers themselves because they are the one who benefit or harmed form the audit Assessment. So, that in these research the researcher want to know that whether the tax audit have positive or negative effect on taxpayers behavior.

Thus, this study is focuses on the effect of tax audit on taxpayer's behavior in Ethiopia by taking Ministry of Revenues Medium Taxpayers Branch office to overcome the above problems, challenges and to give some additional points for the research gap.

1.4 Research Objectives

This study has one main objective and four specific objectives those categories factors for taxpayer's behavior and tax audit.

1.4.1 Main Objective

The main objective of this study is to examine the effect of tax Audit on taxpayer's behavior in Ethiopian Ministry of Revenues Medium Taxpayer Branch Office.

1.4.2 Specific Objectives

Specifically, the study will evaluate whether taxpayers behavior is affected by:-

A. Tax audit procedure Effect
B. Deterrence effect(after audit correction)
C. Tax Audit laws Effect (proclamation, regulation and directives)
D. Economic Effect (Revenues reduction, closing of operation,)

1.5 Research Hypotheses

In order to achieve the broad objective of the study, the researcher developed hypotheses that supported by different theories which are discussed in chapter two of these studies are weather tax audit affect positively or negatively taxpayer's behaviors that are tax audit procedure effect, deterrence effect, tax audit laws effect and Economic effect.

1.6 Significance of the Study

The study provide feedback to taxpayers, tax authority and other stakeholder regarding tax audit and provide concrete feedback about the effect of tax audit on taxpayers behavior in Ethiopian Ministry of Revenues in Medium Taxpayers Branch Office.

The study will provide information to different users about the effect of tax audit on taxpayer's behavior whether it have positive or negative. Finally, for those who are interested to make further study on the related issue may be used as indication.

1.7 Scope of the Study

The study analyses the effect of tax audit on taxpayer's behavior Ethiopian Ministry of Revenue Medium Taxpayer Branch Office. This study will focus on Private Limited Company (PLC) by default category A taxpayer which is stated in the proclamation number 286/2002 and in the new tax administration proclamation number 983/2016 and the study also focuses on Ethiopian Ministry of Revenues Medium Taxpayers Branch Office Audited taxpayers of this branch.

1.8 Description of the Study Area

The city of Addis Ababa is the capital and largest city in the country of Ethiopia. Located in the center of Ethiopia, Addis Ababa (also known as Finfinne) currently has a population of 4.8 million people in the urban area and 2.7 million people in its city area. Addis Ababa is a chartered city and also serves as the capital of the Oromia Region, the homeland of the Oromo people. The city is a few miles west of the East African Rift, which splits the country in two. Considered the political capital of Africa, Addis Ababa is where the African Union is headquartered and where the Organization of African Unity was once based. It is also the location for the United Nations Economic Commission of Africa. This has given the city political and diplomatic significance in the continent.

Addis Ababa has a surprisingly diverse economy for a city that struggles with poverty. Official government statistics show that some 119,000 people work in trade and commerce, 113,000 works in manufacturing and industry, 80,000 are homemakers, 71,000 are in civil administration, and 50,000 in transport and communication.

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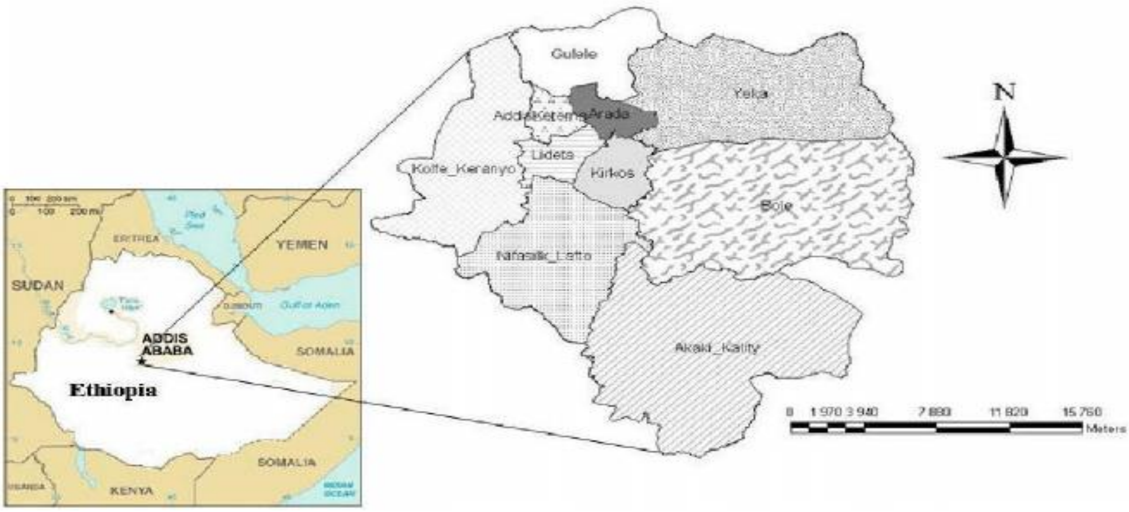
Figure 2 Map of Addis Ababa City



Addis Ababa has 11 different sub-cities which are Bole, Yeka, Akaki Kalit, Gulele, Nefas Selek Lafeto, Kolefe Keraniyo, Ledeta, Kirkos, Addis Ketema, Arada Sub-cities and Lemi Kura. The Ethiopian Ministry of Revenues is organized the Medium Taxpayers of Private Limited Company (PLC), Share company and NGO in Addis Ababa. Thus Ethiopian Ministry of Revenues Medium Taxpayers Branch Office is located in kirkos Sub-City Woreda 01 around Kazanchis Menehariya.

1.9 Limitations of the Study

Some limitations this study are Information gathered for this study came mostly from the taxpayers' of Ministry of revenue Medium Taxpayers branch office, because of this there may not be proper the question properly for this study.

Additionally, some Taxpayers were unwilling to provide correct information about the study since most believed that the result may has impact on their business confidential and therefore were not very willing to provide all or the relevant information needed for the study.

1.10 Organization of the Paper

The study is categorized into six main chapters as follows. Chapter one focuses on the Introduction, background of the study, problem statement, objectives, scope, significance of the study, as well as limitations. Chapter two is devoted to the review of existing literature theoretical and Empirical study. It provides information about the tax audit and taxpayers behavior. The third chapter discusses research methodology including population, sampling techniques, methods of data collection and analysis, Model specification and the research instruments employed. Chapter four is made up of detailed analysis of descriptive data collected and presentation of information. Chapter fives is made up of detailed analysis of inferential data collected and presentation and analysis of information with the aid of statistical models. The six chapter covers the conclusion and recommendations.

CHAPTER TWO

2. LETRETURE REVIEW

2.1.Introduction

The chapter explains the meaning and classification of tax audit and taxpayer's behaviors theoretical review and empirical review from various authors on the effect of tax audit on taxpayer's behavior. It also gives contribution of various research studies as carried out by various authors and then concludes on the general view of the various authors.

2.1.1. What is Auditing

Awe (2008) defines auditing as an independent examination of the books and accounts of an organization by a duly appointed person to enable that person give an opinion as to whether the accounts give a true and fair view and comply with relevant statutory guidelines. The American Accounting Association (2011) in its Statement of Basic Auditing Concepts in Hayes, Schilder, Daseen&Wallage (2009) described auditing as: a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between these assertions and established criteria and communicating the results to interested users.

The American Accounting Association (AAA) has provided a broader definition of audit which refers to: a systematic process of objectively obtaining and evaluating evidence regarding assertions about economic actions and events to ascertain the degree of correspondence between those assertions and established criteria and communicating the results to interested users.

2.1.2. Meaning of Tax Audit

Different authors defines tax audit in different views for example Adesina O.O. (2005) Tax audit just like financial audit involves the gathering of information and processing it for determining the level of compliance of an organization with tax laws of the territory. For a successful audit, it is necessary that the auditor organizes his work in such a way that the assignment is accomplished completely and efficiently.

A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD 2006a).

From study made by Mesfin Gebeyehu (2008) a tax audit is one of the most sensitive contacts between the taxpayer and a revenue body. The presence of an auditor in a taxpayer's private dwelling or business premises, coupled with the exploration of private and business issues and the gathering of information from taxpayers' books and records, or just the disruption of day-to-day workflow, represents a burden on the taxpayer and may be seen by some as an unwarranted intrusion into their affairs. Notwithstanding this, tax audits remain the only effective method for ascertaining additional facts or verifying provided information.

In Ministry of revenues the tax audit department and the auditor has their own effect on taxpayers behavior this implies that the auditor ethics and responsibilities are highly sensitive in change the magnitude of revenue growth by changing taxpayers behavior. Because the auditor may conducted the audit on the taxes payers business premises this may open the door for corruption, miss use of confidential information of the company and other issues.

Thus, tax audit comprises the following According to AAA, 1973, p. 14:

i. Accounts and other evidences are required to comply with the "tax basis of accounting", i.e. as per requirement of tax laws;
ii. Preparation of tax return, statement of computational working for items in the return and statements containing particulars of allowances and disallowance for deduction;
iii. Giving audit report portraying the attest function whether the tax return and statements have been fairly prepared as per the regulatory requirement of tax laws.

2.1.3. Types of Tax Audit

Tax audits can vary in their scope and the level of intensity to which they are performed. The nature of audits conducted should reflect the risks to be addressed and desired audit coverage of the taxpayer population. Based on the place of conducting audit tax audit can be categories as: desk audit and field audit (Adesina. O, 2005)

Desk (or Office) Audit

This is one which the whole activity of the audit takes place within the confines of the office of the tax officials.

In this situation the tax official may simply request the taxpayers to provide some additional documents to his office to enable him clear some issues in the returns submitted.

In this type of audit, no official notice is given to the taxpayer of the impending desk audit exercise. He only gets to know when letters are written to him requesting for certain documents or explanations. The essence is to ensure some level of compliance with tax laws, rules and regulations as well as performing the administrative checks on returns submitted.

Field Audit

By the nature and scope of their work, regular assessing officers can only carry out limited desk audit through examination of accounts and returns. It is in a bid to check this handicap as well as to improve on tax compliance that tax authorities carry out field audit exercise on taxpayers by physically conducting the exercise in the office of the taxpayer. The taxpayers are however formally notified of the arrival of the auditor prior to the commencement of the audit and the requirements of the auditors in terms of documents to be audited will also be requested for in advance. Field audit involves physical verification of documentary evidence and materials at the premises of a taxpayer so as to confirm the facts and figures of the tax returns filed by corporate taxpayers.

From the study conducted by Getaneh Mihret (2011) Types of Tax audits:- as Ebrill et al. (2001),, Harrison and Krelove (2005), OECD (2006a) and Biber (2010) noted, tax audit program in a function based administration includes desk audit or verification, field audit, registration check, advisory audit, record keeping audit, refund audit, issue-oriented audit, comprehensive or full audit and fraud investigation. The following briefly reviews these tax audit types.

Desk Audit or Verification: This type of audit usually carried out annually and primarily based on: (1) a review of income tax and VAT returns, or basic ratios comparing with previous periods or other taxpayers in similar industries, and (2) the crosschecking of information included in the taxpayer files. It involves basic checks conducted at the tax office when the auditor is confident that all necessary information can be ascertained through in-office examination. Information technology (IT) systems should provide strong support for these verifications.

Field Audit: It is a detailed examination of taxpayers‟ books and records to determine whether the correct amounts were reported on the tax returns. The auditor may also obtain information from other sources such as banks, creditors and suppliers, to confirm items on returns. A field audit usually includes one or more of the following taxes: income, franchise, sales and use, withholding, and excise taxes. The audit is conducted at taxpayers‟ place of business, home, or at the office of their accountant, attorney, or other person who may represent them. The auditor tries to select the place that is most appropriate under the circumstances and most convenient for them.

Registration Check: This takes the form of unannounced visits to taxpayer's premises for new enterprises (mainly small and medium sized) to detect businesses operating outside the tax system. As Ebrill et al. (2001) stated, during this visit, the tax officer ensures that the taxpayer: (1) has a basic understanding of their obligations; (2) keeps appropriate records (book keeping review should be mandatory in case of voluntary compliance when the turnover of the taxpayer is below the registration threshold); and (3) issues proper invoices when required by law. This type of visit is a quick check on businesses to establish that they are correctly registered. It should not take more than half a day.

Advisory Audits: It involves the auditor's visit to newly established businesses. They advise them regarding tax types, filing of returns, payment of amounts due, record keeping to be maintained, refund claims, risk of audit and sanctions of noncompliance. These visits are very appropriate when introducing new tax laws.

Record Keeping Audit: It is unannounced visits to the taxpayers" business premises to check whether the appropriate records are kept and VAT invoices are issued.

Refund Audit: A pre-refund audit should be undertaken to verify the taxpayer's entitlement to a refund prior to processing a first refund claim particularly for new registrants. It is also carried out where the refund claim varies significantly from established patterns and trends. Audits of further claims should be carried out selectively. Refund audit should focus only on the period covered by the claim.

Issue-Oriented Audit: It should be directed at verifying items for which errors have been detected in the returns (atypical ratios, gross revenues, comparison of gross sales to imports). It should focus on a single tax type and covers no more than one or two reporting periods. Single-issue audits are confined to one item of potential noncompliance that may be apparent from examination of a taxpayer's return. Given their narrow scope, single-issue audits typically take less time to conduct and can be used to review large numbers of taxpayers involved in similar schemes to conceal noncompliance.

Comprehensive or Full Audit: All cases where serious underreporting or evasion has been detected under any of other audits should be forwarded to a unit responsible for undertaking comprehensive audits of all tax liabilities. It typically entails a comprehensive examination of all information relevant to the calculation of a taxpayer’s tax liability for a given period. This audit may cover all tax obligations over a number of tax periods, or extended to several years up to the limit provided for in the law. The objective is to determine the correct tax liability for a tax return as a whole. As this audit is usually time consuming and costly to undertake, it should only be applied to those taxpayers if there is an indication of under reporting that may impact across taxes. It requires considerable resources and reduces the rate coverage of taxpayers that could otherwise be achieved by a more varied mix of audit types.

Fraud Investigation: It is criminal investigation that arises where the most serious cases of noncompliance that have criminal implication- fraud, evasion, and criminal activity- are detected. Such investigation requires special skill including meeting evidentiary requirements, seizure of evidences or records, testimony from key witnesses and preparing briefs for courts. Hence, it should be undertaken in accordance with criminal procedure laws. As OECD (2004a) stated, tax authorities should maintain a dedicated organizational unit responsible for the handling of serious cases of tax fraud or evasion.

2.1.4. **Human behavior**,

Humans, like other animal species, have a typical life course that consists of successive phases of growth, each of which is characterized by a distinct set of physical, physiological, and behavioral features. These phases are prenatal life, infancy, childhood, adolescence, and adulthood (including old age). Human development, or developmental psychology, is a field of study that attempts to describe and explain the changes in human cognitive, emotional, and behavioral capabilities and functioning over the entire life span, from the fetus to old age.

Most scientific research on human development has concentrated on the period from birth through early adolescence, owing to both the rapidity and magnitude of the psychological changes observed during those phases and to the fact that they culminate in the optimum mental functioning of early adulthood. A primary motivation of many investigators in the field has been to determine how the culminating mental abilities of adulthood were reached during the preceding phases. This essay will concentrate, therefore, on human development during the first 12 years of life.

2.1.5. Organizational Behavior

The study of Organizational Behavior (OB) is very interesting and challenging too. It is related to individuals, group of people working together in teams. The study becomes more challenging when situational factors interact. The study of organizational behavior relates to the expected behavior of an individual in the organization.

No two individuals are likely to behave in the same manner in a particular work situation. It is the predictability of a manager about the expected behavior of an individual. There are no absolutes in human behavior. It is the human factor that is contributory to the productivity hence the study of human behavior is important. Great importance therefore must be attached to the study.

Researchers, management practitioners, psychologists, and social scientists must understand the very credentials of an individual, his background, social framework, educational update, impact of social groups and other situational factors on behavior.

Managers under whom an individual is working should be able to explain, predict, evaluate and modify human behavior that will largely depend upon knowledge, skill and experience of the manager in handling large group of people in diverse situations. Preemptive actions need to be taken for human behavior forecasting.

The value system, emotional intelligence, organizational culture, job design and the work environment are important causal agents in determining human behavior. Cause and effect relationship plays an important role in how an individual is likely to behave in a particular situation and its impact on productivity.

An appropriate organizational culture can modify individual behavior. Recent trends exist in laying greater stress on organizational development and imbibing a favorable organizational culture in each individual. It also involves fostering a team spirit and motivation so that the organizational objectives are achieved.

These factors affect OB in the following manner:

Factor # 1. Individual:

People are valuable resources of every organization. Individual is the most important component of OB. In fact, the study of OB revolves around individual, intrapersonal forces, study of interpersonal forces and study of an individual in an organizational setting.

Every individual differs from other, everyone behaves differently; however, those who behave same may be placed in one category and study can be made for each category so as to describe, understand, predict and control their behavior. The factors which affect the individual also affect OB. For example, personality, attitude, learning, perception, values, ethics, norms, motivation, culture, thought process, family background, etc.

Factor # 2. Group:

An organization is a group of two or more persons, who collectively work for attainment of set objectives on a continuous basis. An individual behaves differently when he is in group, instead of that when he is alone. Even the behavior is different when he is in different groups e.g., when supervisor is accompanied with subordinates and when he is in company of other supervisors.

Under the study of OB, efforts are made to study conduct of people, when they are in a group. Therefore, group factors such as communication, group processes, group decision making, comparative values, cross cultural attitudes, etc., affect OB.

Factor # 3. Organizational Structure/Design:

Organizational structure or design depends on division of work, departmentalization, hierarchy and coordination. These factors vary in different organizations. Moreover, power relationships, extent of decentralization, reporting methods and work procedures also differ in organizations.

These factors affect the individual and the OB. It becomes easier to get desired behavior from employees when organizational design happens to be effective. If employees like the organizational structure, they are motivated and work happily in the organization and vice-versa.

Factor # 4. Technology:

The most important thing to achieve organizational goals is performance of assigned jobs by the employees. If the employees perform their jobs in time, then only organizational goals can be achieved. The work is performed with the help of technology i.e. with technique and equipment.

If the technology and equipment matches the choice of employees, they will be satisfied and tasks will be performed efficiently on time and vice versa. Thus, technology and equipment affect the employees' behavior as well as OB.

Factor # 5. Business Environment:

The surroundings of a business in which it operates is called business environment. Business environment is composed of external and internal factors. External environment can also be classified as micro environment (which are controllable by firm and vary from industry to industry) and macro environment (which affects the whole economy).

Various environmental factors which affect organization includes social, technological, political, economic and customers, suppliers, competitors, etc. behavior of employees is affected by these factors. Therefore, in OB, the effect of these factors on behavior of people is also studied.

2.1.6. Taxpayer's Behaviors

Taxpayer behavior, particularly in respect of compliance, has been a subject of a great deal of research emanating from a wide range of disciplines for more than thirty years now. However, in spite of the breadth and mass of literature that has emerged, the fundamental problem, of being able to understand why taxpayers behave in the way that they do, remains largely unsolved.

1Instead, what has come to light is a growing acceptance of the view that people are complex creatures who behave in ways that are difficult to understand and predict.

At the same time, the need for tax administrations to understand compliance behavior remains as important as ever, with noncompliance being a global phenomenon that can threaten the integrity of any and every tax system. Administrations must develop and implement strategies to improve taxpayer compliance. However, the effectiveness of such strategies is hampered by the lack of progress in understanding the behavior to be addressed.

Clearly, this is an area of enormous challenge for both researchers and administrations. The purpose of this paper is to present and analyses the findings of a behavioral study of Australian personal income taxpayers3 in order to identify positive strategies for improving compliance.

The study is narrow in its focus in that it addresses only one type of taxpayer and its applicability to other types of taxpayers, even in the Australian context, is unknown. However, given that personal taxpayers in Australia comprise approximately 85 per cent of total income taxpayers and are the source of over 70 per cent of net tax payable, 4 they are a significant body. It is also believed that the findings of this study have relevance to other regimes that will no doubt recognize the similarities that may exist and evaluate the suggested strategies accordingly.

The objectives of most tax administrations, including Revenue, are to ensure compliance with tax laws and to improve taxpayers' customer service satisfaction. Tax administrations have a wide range of compliance and customer service programmers that aim to change behavior among taxpayers. In recent years there has been an increasing focus on better under -standing the underlying factors that influence taxpayer behavior. Research is being undertaken in Ireland, in tax administrations in other countries and at EU and OECD levels, to improve knowledge of taxpayers and their behavior. This research ties in with behavioral economics, an expanding sub-discipline within economics that seeks to better explain how and why decisions are made.

An improved understanding of taxpayer behavior and attitudes to taxation can help tax administrations to develop stronger and more effective compliance risk treatments, as well as improve customer service programmers.

This paper outlines the research and how it may be used to influence taxpayer behavior. Many factors influence behavior, the focus in this paper is on those that can be tested and used by a tax administration in a practical setting. Traditional tools of tax administration (audit for example) are an expensive way to attempt to improve compliance even when targeted at specific tax risks. Influencing behavior may offer an effective but less expensive option. The aim of this research is to find efficient and cost effective approaches to improving taxpayer behavior.

Factor that influenced taxpayer's behavior

There is already a considerable literature on the subject of taxation and behavioral economics – see for example, Congdon et al. (2011, 2009) for useful summaries. However, for the most part, this literature is focused on the implications of behavioral or psychology research for tax policy or tax design. As noted in the Introduction, in Ireland and many other countries there is separation between tax policy and tax administration. Using behavioral research to inform tax administration is a less developed but growing area in the literature. The work of a tax administration includes activities that cover both compliance and customer service. For example, Revenue's range of functions includes: assessment, collection, debt management, audit and other interventions, anti-smuggling and other customs functions and anti-avoidance. Many of the functions of tax administration depend to at least some degree on the voluntary compliance of taxpayers. In addition, large elements of the tax system in Ireland are based on self-assessment. In this context, there is clearly potential to influence behavior to improve compliance.3 The central contribution of behavioral research to tax administration is to understand why taxpayers are compliant or not. This can inform the work of tax administrations across a range of their functions. Several factors that contribute to the level of compliance in a taxpayer population have been identified.

The sections below present an overview of these factors and Section III examines the relevant findings for Ireland. The factors are grouped under headings adapted from research by the OECD Forum on Tax Administration (OECD, 2010): deterrence; norms (personal and social); fairness and trust; complexity; and the role of government and broader economic and social factors.

A. Deterrence Effects

The standard model of tax compliance, derived from Becker (1968) and Allingham and Sandmo (1972), assumes that a rational taxpayer assesses the costs and benefits of evading taxes. If the expected benefits (less income "lost" to tax) outweigh the costs (the chances of a non-compliant taxpayer being caught and the sanctions incurred) then the taxpayer will evade tax. The taxpayer makes a rational choice having considered the options. Deterrence is a vital tool (audit, other interventions and sanctions) for any tax administration. A targeted approach to deterrence is likely to be more effective.5 Increasing the perceived likelihood of getting caught raises the cost of evasion. The tax administration has other options to reduce opportunities for evasion as well as increasing the likelihood of audit or imposing harsh sanctions. Examples of this in Ireland are Revenue's extensive use of third party data or withholding tax systems (such as pay as you earn (PAYE) income tax). Increasing the level of deterrence is often an expensive process for the tax administration and it is not guaranteed to improve compliance. Deterrence (the risk of detection and the punishments incurred) should positively influence taxpayer compliance (Slemrod, 2007). However, the empirical evidence is somewhat mixed. OECD (2010) discusses several studies that examine the role of deterrence. Some findings are as expected (increases in the probability of detection improve compliance) but the effects are quite weak. One reason is that auditing compliant taxpayers is found to sometimes undermine their willingness to comply. In some cases taxpayer behavior is found to worsen after an audit (either to get back "losses" or in the belief that they will not be targeted again). The standard model alone is not enough to explain the level of compliance in society (Braithwaite, 2009; Phillips, 2011). The evidence suggests that, given the probability of being caught evading taxes and the size of the punishment if caught, the level of tax evasion should be higher than it is in many countries (i.e., that taxpayers should evade taxes more than they actually do). One explanation is the tendency of people to overestimate the probability of being audited and the sanctions that might follow if evasion is uncovered (Reeson and Dunstall, 2009). However, others factors beyond deterrence also influence taxpayers and these are discussed below.

B. the Impact of Norms on behavior

A key factor in tax compliance is a widespread desire to “do the right thing”. Taxpayers seek to comply because they believe it is the right thing to do, not because of fear of punishment if they do not comply (Wenzel, 2005). The desire of a taxpayer to comply is strongly linked to behavioral norms, both the personal norms (and/or beliefs) of the individual taxpayer and the social norms that prevail in society at large. Personal norms are the result of a combination of factors inherent to the individual. These guide a taxpayer’s posture to the tax administration but are difficult to influence (OECD, 2010; Kirchler, 2007). Tax administrations can try to send messages that stress the importance of compliance to educate taxpayers and build up positive personal norms. Engagement by tax administrations with young people (early working age or younger) can influence their personal norms and this benefits tax compliance in the long term. There is evidence from diverse areas (not just tax related) that people seek to conform to social norms and that the behavior of others strongly influences an individual’s choices (OECD, 2010). This influence is important though in many cases people do not consciously realize it. This effect can be heightened when the relationship to the social grouping is stronger or closer. Peers or neighbors may exert greater influence than those more distant to the individual (BIT, 2012).Social norms influence taxpayer behavior. If there is a perception that tax evasion is limited and the majority of the people are compliant, this makes people less willing to evade taxes themselves. If people believe that non- compliance is more prevalent than it is in practice, correcting misperceptions regarding the scale of evasion is also a positive way to reinforce compliance. Wenzel (2001a, 2001b) demonstrates this in the Australian case (see Table 3).

C. Fairness and Trust in Tax Administration

Whether an outcome is perceived to be fair will influence behavior. Experiments have shown that people prefer an option in which they receive no reward to an option in which they are rewarded but is perceived as unfair – they are rejecting an outcome that would make them better off (Braithwaite, 2009; Delaney and Harmon, 2009). Often trust and legitimacy are linked to fairness, as the perceived fairness of an outcome will be contingent upon them. OECD (2010) discusses three types of fairness in taxation: distributive fairness (the perception that government acts as a wise spender of tax revenues); procedural fairness (the perception that the tax administration adheres to procedures that are fair in dealing with taxpayers); and retributive fairness (the perception that the tax administration is fair in applying punishments when the rules are broken). The latter two are more relevant to (and can be influenced by) tax administrations. Distributive fairness depends on policymakers. If taxpayers do not trust the tax administration to collect tax fairly, this will increase non-compliance (Murphy, 2004).

A perception of fairness and trust are important tools for a tax administration in attempting to reduce evasion. The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and emphasize the fairness of the approach taken. Norms and the motivation to pay taxes are influenced by fairness – both in how a person is treated by the administration individually and perceptions of fairness of the taxation system in general (whether other people are also paying their fair share). If a tax administration can demonstrate its commitment in these areas, compliance should benefit (Alm et al., 2010; Reeson and Dunstall, 2009).

A "service and client" approach by the tax administration is more likely to encourage trust than a "cops and robbers" approach based on sanctions (Kirchler, 2007; Torgler, 2011). The more respectfully taxpayers are treated by the tax administration, the less likely they are to evade and this contributes to the desire to "do the right thing" (NEF, 2005). Revenue's customer charter and the presumption that taxpayers are honest reflect this type of approach.

D. Complexity of the Tax System

A key assumption in decision making is that people are capable of assessing a range of complex choices, and by correctly evaluating all of the available information, select the option with the best outcome for them. In reality it is rare to find situations in which people are fully informed of all their choices and always select the best option (Thaler and Sunstein, 2008). Faced with a range of choices, picking the correct option depends on calculating probabilities of events or risks occurring. In practice people tend to revert to rules of thumb (heuristics). While these rules of thumb may work in many cases, which explains why people fall back on them, they will be subject to biases by the person and this can lead to poor choices (Delaney and Harmon, 2009).9 For many people, tax is a complex subject and this complexity has been shown to contribute to non-compliance (GAO, 2011). OECD (2010) argues that tax administrations have tended to overlook the "lazy non-compliers" – taxpayers who would have complied if the opportunity for compliance had been easier. A range of concepts that influence decision making have emerged from behavioral research and several that closely relate to taxation are summarized in Table 1. The Table discusses some tax applications and should also highlight the potential for overlap between complexity and the other factors influencing behavior discussed in this paper (a point also addressed in Section 2.6).

If the administration reduces complexity, this should lead to improve - ments in taxpayer behavior (Alm et al., 2010).10 Ways to make it easier to comply include the use of plain language in communications and simplifying forms and tax laws where possible. Assistance directed at lowering unintentional non-compliance (genuine taxpayer error) should reduce evasion and perhaps boost the legitimacy and perceived fairness of the tax administration. Significant shares of taxpayers in Ireland and many other countries use the services of tax agents and advisors. The use of advisors often reflects the complexity of the tax system and simplification may reduce this burden on taxpayers. However, agents also offer a channel to lower uncertainty via engagement with the tax administration. Interactions between Revenue and tax agents and representative bodies can improve communication and influence compliance. Cooperation can help to achieve buy-in and support for changes in the tax system.

E. Broader Economic and Social Factors

There are many more factors that influence the level of compliance in a population beyond those outlined above. These are grouped together here, as they are mostly beyond the control of the tax administration. Some involve tax policy or public spending, while others relate to the broader economy. As noted in the Introduction, the focus of this paper is on methods that provide practical tools for tax audit to influence behavior.

Taxpayers link the tax they pay to the ability of the State to fund expenditure on public goods and services (Barone and Mocetti, 2009). If there is a perception that the government spends tax revenues wisely, this should encourage tax compliance. If taxes are associated with spending that the taxpayer values (for example, schools or hospital beds), then the taxpayer is likely to be less reluctant to comply. Economic conditions are important to compliance. For example, businesses with liquidity problems may be more likely to consider evading taxes. Although the research is limited, at a more macroeconomic level, factors that promote growth also encourage tax compliance (OECD, 2010). Likewise, economic downturns are often associated with increased evasion. Higher tax rates are linked with evasion if they incentivize taxpayers to move into the shadow economy.

There is also a body of the literature that looks at the characteristics (economic, demographic and social) of compliant and non-complaint taxpayers. Loss aversion People are more reluctant to give something up once it is in their possession than they are happy to gain the same thing: a loss of €100 is felt much more sharply than a gain of €100. This is linked to risk aversion: people will be averse to taking risks for gains but may take risks to avoid losses. In a tax context, this suggests countering evasion could be more effective when shifting an evader's focus from potential savings to the risk of losses. Inertia Default options are strong drivers of behavior. People often follow a path of least resistance and this results in selecting default options and failing to alter behavior or choices even when better opportunities are available.

Taxpayers will seek choices with easily identifiable outcomes and behavior can quickly become established over time whether compliant or non- compliant. Salience People tend to overestimate the likelihood of something that has been recently experienced or is easily imagined. Chetty et al. (2009) show that displaying tax inclusive prices has significant effects on demand (sales taxes are often omitted from display prices in the US). It is the change in salience of the tax that impacts on the consumption decision. Highlighting norms regarding taxpayer behavior will be more effective the closer the individuals associate the norm to themselves. Discounting People tend to underestimate the relevance of future effects but this discounting is not consistent. Given the choice of between 5 hours' work today or 6 hours work next week, people tend to choose the latter. However, in a choice between 5 hours' work in a month's time or 6 hours work in a month and a day's time, people will often select the former. A taxpayer considering the risks of evasion may behave differently depending on perceived timing of sanctions risked. Framing Decisions are influenced by how choices are presented. A medical treatment that is framed as having a 10 per cent chance of death may seem less appealing than one with a 90 per cent survival rate. Framing is important when used in conjunction with other behavioral insights. For example, suggesting that an action would conform to social norms is often used in advertising "two-thirds of people agreed that product X was better than product Y". To encourage people to claim back tax entitlements on health expenses "do it and save €X" may be less persuasive than "don't do it and lose €X". Anchoring People tend to lock on to something that is known as an anchor for their expectations and make adjustments from that point. Thaler and Sunstein (2008) give the example of asking someone to guess the population of a city and providing them with the population of a similar city to help. Anchoring is useful provided the anchor is close to the truth. In another example, advertising a course for Australian government employees, when enrolment was free applications were low but when a fee was included enrolment increased. The initial price (zero) provided an anchor suggesting the course has no value. In a tax context, providing accurate and honest information on levels of evasion may improve compliance if misperceptions of higher than actual levels of evasion are establishing negative social norms.

2.2.THEORETICAL FRAMEWORK AND DEVELOPMENT OF HYPOTHESES

2.2.1. Theory of Planned Behavior

As every student of psychology knows, explaining human behavior in all its complexity is a difficult task. It can be approached at many levels, from concern with physiological processes at one extreme to concentration on social institutions at the other. Social and personality psychologists have tended to focus on an intermediate level, the fully functioning individual whose processing of available information mediates the effects of biological and environmental factors on behavior.

Concepts referring to behavioral dispositions, such as social attitude and personality trait, have played an important role in these attempts to predict and explain human behavior (see Ajzen, 1988; Campbell, 1963; Sherman & Fazio, 1983). Various theoretical frameworks have been proposed to deal with the psychological processes involved. This special edition of Organizational Behavior and Human Decision Processes concentrates on cognitive self-regulation as an important aspect of human behavior. A brief examination of past efforts at using measures of behavioral dispositions to predict behavior is followed by presentation of a theoretical model the theory of planned behavior in which cognitive self-regulation plays an important part. Recent research findings concerning various aspects of the theory are discussed, with particular emphasis on unresolved issues.

Perceived behavioral control

The importance of actual behavioral control is self-evident: The resources and opportunities available to a person must to some extent dictate the likelihood of behavioral achievement. Of greater psychological interest than actual control, however, is the perception of behavioral control and is impact on intentions and actions. Perceived behavioral control plays an important part in the theory of planned behavior. In fact, the theory of planned behavior differs from the theory of reasoned action in its addition of perceived behavioral control. Before considering the place of perceived behavioral control in the prediction of intentions and actions, it is instructive to compare this construct to other conceptions of control. Importantly, perceived behavioral control differs greatly from Rotter's (1966) concept of perceived locus of control. Consistent with an emphasis on factors that are directly linked to a particular behavior, perceived behavioral control refers to people's perception of the ease or difficulty of performing the behavior of interest. Whereas locus of control is a generalized expectancy that remains stable across situations and forms of action, perceived behavioral control can, and usually does, vary across situations and actions. Thus, a person may believe that, in general, her outcomes are determined by her own behavior (internal locus of control), yet at the same time she may also believe that her chances of becoming a commercial airplane pilot are very slim (low perceived behavioral control). Another approach to perceived control can be found in Atkinson's (1964) theory of achievement motivation. An important factor in this theory is the expectancy of success, defined as the perceived probability of succeeding at a given task. Clearly, this view is quite similar to perceived behavioral control in that it refers to a specific behavioral context and not to a generalized predisposition. Somewhat paradoxically, the motive to achieve success is defined not as a motive to succeed at a given task but in terms of a general disposition which the individual carries about him from one situation to another (Atkinson, 1964, p. 242). This general achievement motivation was assumed to combine multiplicatively with the situational expectancy of success as well as with another situation specific factor, the incentive value of success.

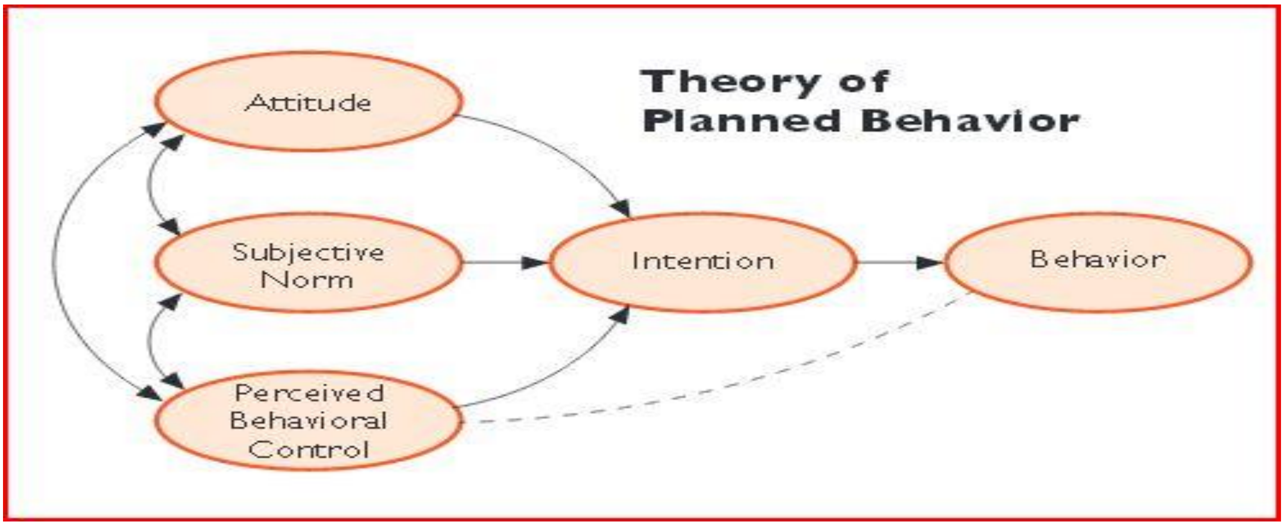
The present view of perceived behavioral control, however, is most compatible with Bandura's (1977, 1982) concept of perceived self-efficacy which is concerned with judgments of how well one can execute courses of action required to deal with prospective situations (Bandura, 1982, p. 122). Much of our knowledge about the role of perceived behavioral control comes from the systematic research program of Bandura and his associates (e.g., Bandura, Adams, & Beyer, 1977; Bandura, Adams, Hardy, & Howells, 1980). These investigations have shown that people's behavior is strongly influenced by their confidence in their ability to perform it (i.e., by perceived behavioral control). Self-efficacy beliefs can influence choice of activities, preparation for an activity, effort expended during performance, as well as thought patterns and emotional reactions (see Bandura, 1982, 1991). The theory of planned behavior places the construct of self-efficacy belief or perceived behavioral control within a more general framework of the relations among beliefs, attitudes, intentions, and behavior.

According to the theory of planned behavior, perceived behavioral control, together with behavioral intention, can be used directly to predict behavioral achievement. At least two rationales can be offered for this hypothesis. First, holding intention constant, the effort expended to bring a course of behavior to a successful conclusion is likely to increase with perceived behavioral control. For instance, even if two individuals have equally strong intentions to learn to ski, and both try to do so, the person who is confident that he can master this activity is more likely to persevere than is the person who doubts his ability. The second reason for expecting a direct link between perceived behavioral control and behavioral achievement is that perceived behavioral control can often be used as a substitute for a measure of actual control. Whether a measure of perceived behavioral control can substitute for a measure of actual control depends, of course, on the accuracy of the perceptions. Perceived behavioral control may not be particularly realistic when a person has relatively little information about the behavior, when requirements or available resources have changed, or when new and unfamiliar elements have entered into the situation. Under those conditions, a measure of perceived behavioral control may add little to accuracy of behavioral prediction.

However, to the extent that perceived control is realistic, it can be used to predict the probability of a successful behavioral attempt (Ajzen, 1985).

From the tax perspective attitude the theory of planned behavior which is subjective norms and perceived behaviors of the taxpayers has affected by a tax audit procedure that applied to the audit.

Figure 3 Theory of Planned behaviour



H1 *Tax audit procedure has no significantly influences on taxpayer behaviour.*

2.2.2. Trans theoretical Model

This is an overview of the Trans theoretical Model of Change, a theoretical model of behavior change, which has been the basis for developing effective interventions to promote health behavior change. The Trans theoretical Model (Prochaska & DiClemente, 1983; Prochaska, DiClemente, & Norcross, 1992; Prochaska & Velicer, 1997) is an integrative model of behavior change. Key constructs from other theories are integrated. The model describes how people modify a problem behavior or acquire a positive behavior. The central organizing construct of the model is the Stages of Change. The model also includes a series of independent variables, the Processes of Change, and a series of outcome measures, including the Decisional Balance and the Temptation scales. The Processes of Change are ten cognitive and behavior activities that facilitate change. This model will be described in greater detail below.

The Trans theoretical Model is a model of intentional change. It is a model that focuses on the decision making of the individual. Other approaches to health promotion have focused primarily on social influences on behavior or on biological influences on behavior. For smoking, an example of social influences would be peer influence models (Flay, 1985) or policy changes (Velicer, Laforge, Levesque, & Fava, 1994). An example of biological influences would be nicotine regulation models (Leventhal & Cleary, 1980; Velicer, Redding, Richmond, Greeley, & Swift, 1992) and replacement therapy (Fiore. Smith, Jorenby, & Baker, 1994). Within the context of the Trans theoretical Model, these are viewed as external influences, impacting through the individual. The model involves emotions, cognitions, and behavior.

This involves a reliance on self-report. For example, in smoking cessation, self-report has been demonstrated to be very accurate (Velicer, Prochaska, Rossi, & Snow 1992). Accurate measurement requires a series of unambiguous items that the individual can respond to accurately with little opportunity for distortion. Measurement issues are very important and one of the critical steps for the application of the model involves the development of short, reliable, and valid measures of the key constructs.

This paper will demonstrate applications of the Trans theoretical Model. The model has previously been applied to a wide variety of problem behaviors. These include smoking cessation, exercise, low fat diet, radon testing, alcohol abuse, weight control, condom use for HIV protection, organizational change, use of sunscreens to prevent skin cancer, drug abuse, medical compliance, mammography screening, and stress management. The latter represents a problem area where research based on the Trans theoretical Model is in the formative stages.

Stages of Change: The Temporal Dimension

The stage construct is the key organizing construct of the model. It is important in part because it represents a temporal dimension. Change implies phenomena occurring over time. However, this aspect was largely ignored by alternative theories of change. Behavior change was often construed as an event, such as quitting smoking, drinking, or over-eating. The Trans theoretical Model construes change as a process involving progress through a series of five stages. Pre-contemplation is the stage in which people are not intending to take action in the foreseeable future, usually measured as the next six months. People may be in this stage because they are uninformed or under-informed about the consequences of their behavior. Or they may have tried to change a number of times and become demoralized about their ability to change. Both groups tend to avoid reading, talking or thinking about their high risk behaviors. They are often characterized in other theories as resistant or unmotivated or as not ready for health promotion programs. The fact is traditional health promotion programs are often not designed for such individuals and are not matched to their needs.

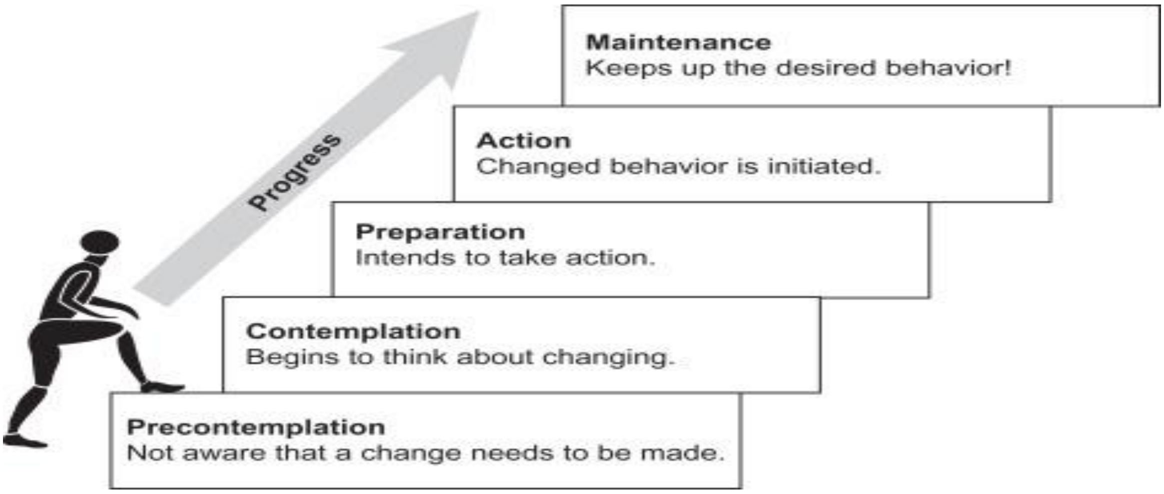
Contemplation is the stage in which people are intending to change in the next six months. They are more aware of the pros of changing but are also acutely aware of the cons. This balance between the costs and benefits of changing can produce profound ambivalence that can keep people stuck in this stage for long periods of time. We often characterize this phenomenon as chronic contemplation or behavioral procrastination. These people are also not ready for traditional action oriented programs. Preparation is the stage in which people are intending to take action in the immediate future, usually measured as the next month. They have typically taken some significant action in the past year. These individuals have a plan of action, such as joining a health education class, consulting a counselor, talking to their physician, buying a self-help book or relying on a self-change approach. These are the people that should be recruited for action- oriented smoking cessation, weight loss, or exercise programs.

Action is the stage in which people have made specific overt modifications in their life-styles within the past six months. Since action is observable, behavior change often has been equated with action. But in the Trans theoretical Model, Action is only one of five stages. Not all modifications of behavior count as action in this model. People must attain a criterion that scientists and professionals agree is sufficient to reduce risks for disease. In smoking, for example, the field used to count reduction in the number of cigarettes as action, or switching to low tar and nicotine cigarettes. Now the consensus is clear--only total abstinence counts. In the diet area, there is some consensus that less than 30% of calories should be consumed from fat. The Action stage is also the stage where vigilance against relapse is critical.

Maintenance is the stage in which people are working to prevent relapse but they do not apply change processes as frequently as do people in action. They are less tempted to relapse and increasingly more confident that they can continue their change.

From the tax perspective taxpayer’s attitude to know about the tax laws are first it is no awareness then the want to correct before the audit and at the time of audit.

Figure 4 Trans theoretical Model



H2 Tax Laws related to tax audit has no significantly influences on taxpayer's behaviour.

1.1.1. The Economic Theory:

An economic theory is a set of concepts and principles that define how various economies work. An economist may use theories for a variety of goals, depending on their specific function. Some theories, for example, seek to explain why certain economic events, such as inflation or supply and demand, occur.

Other economic theories may give a framework of thinking that helps economists to evaluate, understand, and forecast the behavior of financial markets, companies, and governments.

However, economists frequently apply theories to the difficulties or events they see to gain helpful insight, give explanations, and develop viable solutions to problems.

Types of economic theory

1. Market socialism

Market socialism is a theoretical notion (model) of an economic system in which the means of production (capital) are held by the public or collectively, and resource distribution follows market norms (product-, labor -, capital-markets).

When it comes to current socialist economies, the phrase is usually used more loosely to encompass both systems that come close to it in the strictest sense (as in the Yugoslav system after the 1965 reform) and those that replace commands and physical distribution of producer goods with financial controls and incentives as instruments of central planning (regulated market, as in the Hungarian 'new economic mechanism' after the 1968 reform).

2. Classical economics

Classical economics is a broad term that refers to the dominant school of economic theory in the 18th and 19th centuries. The originator of classical economic theory, according to most, is Scottish economist Adam Smith. However, earlier contributions were made by Spanish scholastics and French physiocrats.

David Ricardo, Thomas Malthus, Anne Robert Jacques Turgot, John Stuart Mill, Jean-Baptiste Say, and Eugen Böhm von Bawerk were other important contributors to classical economics.

Most national economies were administered by a top-down, command-and-control, monarchic government policy framework before the emergence of classical economics. Many of the most well-known ancient thinkers, like Smith and Turgot, developed their ideas as alternatives to the protectionist and inflationary policies of mercantilist Europe.

H3 Economic Effect has no significant influences on taxpayer's behaviour.

1.1.2. Deterrence Theory

In broad terms punishment may be expected to affect deterrence in one of two ways. First, by increasing the certainty of punishment, potential offenders may be deterred by the risk of apprehension. For example, if there is an increase in the number of state troopers patrolling highways on a holiday weekend, some drivers may reduce their speed in order to avoid receiving a ticket. Second, the severity of punishment may influence behavior if potential offenders weigh the consequences of their actions and conclude that the risks of punishment are too severe. This is part of the logic behind "three strikes," and "truth in sentencing" policies, to utilize the threat of very severe sentences in order to deter some persons from engaging in criminal behavior.

One problem with deterrence theory is that it assumes that human beings are rational actors who consider the consequences of their behavior before deciding to commit a crime; however, this is often not the case. For example, half of all state prisoners were under the influence of drugs or alcohol at the time of their offense.1 Therefore, it is unlikely that such persons are deterred by either the certainty or severity of punishment because of their temporarily impaired capacity to consider the pros and cons of their actions.

Another means of understanding why deterrence is more limited than often assumed can be seen by considering the dynamics of the criminal justice system. If there was 100% certainty of being apprehended for committing a crime, few people would do so. But since most crimes, including serious ones, do not result in an arrest and conviction, the overall deterrent effect of the certainty of punishment is substantially reduced. Clearly, enhancing the severity of punishment will have little impact on people who do not believe they will be apprehended for their actions.

Economists often come to different conclusions than criminologists on the value of harsher sentences in reducing crime. While criminologists tend to regard various legal threats as the result of a complex and unpredictable process, economists approach the issue along the lines of a rational choice perspective that considers the risk and benefits of engaging in crime; sanctions merely represent the expected price of engaging in criminal behavior. In critiquing this perspective, Michael Tonry, a leading scholar on crime and punishment, contends that "Such research is incapable of taking into account whether and to what extent purported policy changes are implemented, whether and to what extent their adoption or implementation is perceived by would-be offenders, and whether and to what extent offenders are susceptible to influence by perceived changes in legal threats. At the very least, macro-level research on deterrent effects should test the null hypothesis of no effect rather than the price theory assumption that offenders' behavior will change in response to changes in legal threats."2

Another problem in assessing deterrence is that in order for sanctions to deter, potential offenders must be aware of sanction risks and consequences before they commit an offense. In this regard, research illustrates that the general public tends to underestimate the severity of sanctions generally imposed.3, 4 This is not surprising given that members of the public are often unaware of the specifics of sentencing policies. Potential offenders are also unlikely to be aware of modifications to sentencing policies, thus diminishing any deterrent effect. The absence of such data on awareness of punishment risks makes it difficult to draw conclusions regarding the deterrent effects of sanction levels and prospects. Below we explore these outcomes in greater detail.

Types of deterrence

There are two types of deterrence: –

Specific deterrence

This type of deterrence acts on a specific individual. The idea of specific deterrence is that when a perpetrator is severely punished for his misconduct, he will not be tempted to commit similar crimes in the future. For example, if an armed robber is sentenced to 8 years in prison, the specific deterrence makes it less likely that he will commit another armed robbery when he is eventually released. However, research shows that the effectiveness of specific deterrents varies from situation to situation.

General deterrence

General deterrence is designed to deter the public from committing the same crimes as those already convicted of such offences. General deterrence is more focused on teaching lessons to the public and not just individuals accused of a crime. The idea is that if an individual is severely punished, the public will see the severe punishment and be dissuaded from engaging in the same or similar activities. A good example is the death penalty. When a criminal is sentenced to death for a crime, such a sentence prevents the public from committing the same or similar crimes.

The concept of deterrent theory can be simplified by the work of philosophers such as Thomas Hobbes (1588-1678), Cesare Beccaria (1738-1794), and Jeremy Bentham (1748-1832). These social contract thinkers give the basis of modern deterrence in criminology.

In the words of Hobbes, he thought that people generally pursue their own self-interests, such as material interests, social reputation, etc., and make enemies regardless of whether they harm others in the process. This often leads to conflict and resistance as people are determined to pursue their own interests. To elude this, people agree to let go of their egocentricity until everyone is doing the same thing. This is called the "social contract." According to social contract theory, individuals are punished for breaking the law, and a deterrent is a reason for upholding the agreement between the state and the people in the form of a social contract.

Cesare Beccaria believed that when discussing punishment, in order to have a deterrent effect or deterrent value, the proportion of crime and punishment should be equal. He followed Hobbes and other 18th-century enlightenment writers by arguing that laws should be judged on their propensity to afford "the greatest happiness shared by the greatest number." Since people are usually selfish, they will not commit crimes if the cost of committing crimes outweighs the benefits of engaging in undesirable acts. If the sole purpose of punishment is to prevent crime in society, Beccaria argues, "the punishment is unjust when it is more severe than what is necessary to achieve deterrence." Excessive strictness will not reduce crime; in other words, it only increases crime. In Beccaria's view, prompt and definitive punishment is the best way to prevent and control crime; punishment for any other reason is capricious, redundant, and repressive.

Jeremy Bentham, a contemporary of Beccaria, was one of the most prominent intellectuals of the 18th century. Bentham believed that morality is what promotes "the greatest happiness of the greatest number," a common expression of Beccaria. In Bentham's view, the duty of the state is to "promote the happiness of society by punishing and rewarding." Like Beccaria in Italy, Bentham was concerned about arbitrary punishment and barbarism found in the criminal codes of his time in England. He asserts that all punishments are inherently evil unless the punishment is to avoid a greater evil or to control the criminal's behavior. Simply put, the law's purpose is to increase people's happiness and reduce the community's suffering. Penalties that exceed those necessary to deter illegal conduct are unreasonable.

Components of the deterrent theory

Severity

Severity indicates the degree of punishment. To prevent any crime, criminal law must emphasize punishment to encourage citizens to obey the law. The severity of punishments has long been considered a key factor in deterring criminal behavior. As a result, the legislature relies on the use of harsh sanctions to deter crime. However, until the 1960s, few studies examined the deterrent effect of harsh penalties. Preliminary research supports the theory that harsh punishments can deter crime. Multiple studies examining homicide rates have found that the severity of penalties for homicide acts as a deterrent. When the examination expanded beyond homicide, it was a different scenario altogether. The severity of the sentence had a positive impact on crimes such as rape, battery, theft, robbery, and burglary. That is, the severity of the punishment did not deter crime. If anything, it would have the opposite effect. Severe penalties can be used for other valuable purposes in criminal justice policy. They can incapacitate certain people and prevent them from committing crimes for a certain period of time; they can publicly condemn certain actions; or they may provide an opportunity to provide rehabilitative treatment. However, some studies have found that harsh penalties rarely, if ever, have a deterrent effect. In essence, severity includes making a punishment harsh enough that an audience will be fearful of receiving it. If punishment is too brutal, the crowd may "cry foul" and dissent; if it's too lenient, it may not prevent test cheats and pirates from perpetrating their misdeeds.

Certainty

The certainty of punishment is often considered more important than the severity of the punishment. Research shows that certainty is a far greater deterrent than severity. In terms of certainty, subjective certainty is more important than objective certainty. That is, one's belief about whether punishment is likely is more important than the fact that punishment is, or is not, actually likely. This subjective belief may come from the public, but more often, it comes from personal experience or anecdotal information from others in the community.

Perceptions of risk can also be influenced by substance use, the presence of peers, and other situations that affect a person's emotional responses. As with severity, increasing the certainty of punishment appears to lead to diminishing returns. As Becker points out, there is a balance in terms of certainty. Raising the probability of arrests and convictions to 100% would have huge societal costs, including paying for a vast police force and giving up personal privacy and freedom.

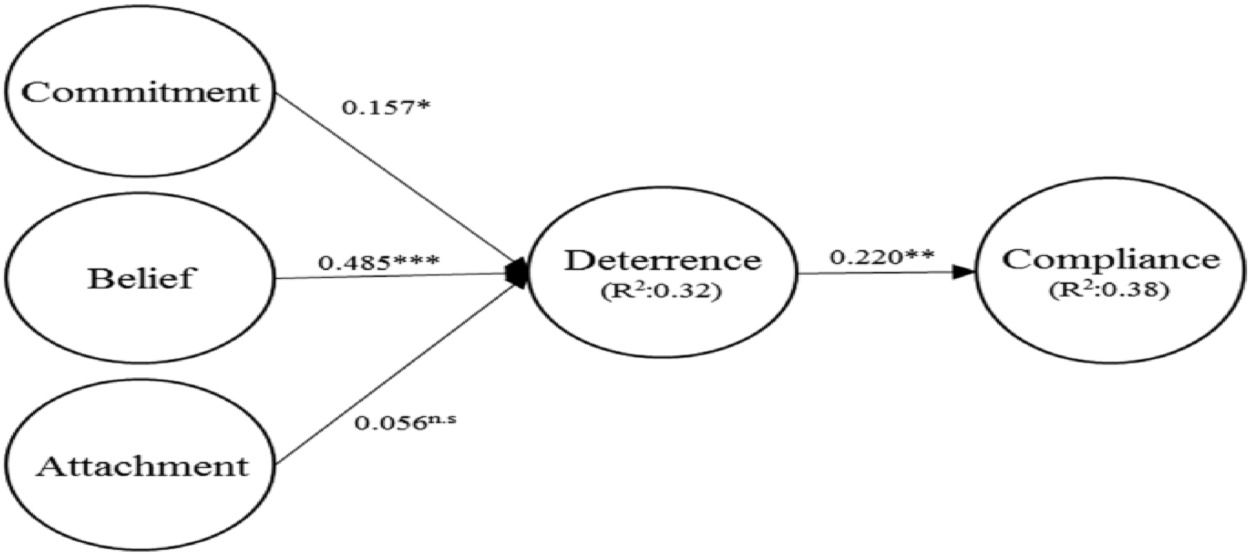
Celerity

The punishment for any crime must be swift to deter the crime. Celerity, the speed at which a person is punished for breaking the law, has received the least attention in the literature. Research suggests that the speed of punishment may not be a deterrent effect. At least one study showed that individuals prefer to get their punishment over as early as possible. If this is correct, delayed punishment may be seen as a worse consequence than immediate punishment.

In conclusion, economic models of deterrents suggest that most crimes are committed by rational people who consider whether the crime is worth the risk of possible punishment. The theory holds that more people will commit crimes without the threat of punishment. Scholars argue that increasing criminal certainty is more effective than increasing penalties for transgressions.

Therefore, deterrent theorists argue that if punishment is severe, certain, and prompt, a rational person will weigh the pros and cons before committing a crime. Due to this, the person will be deterred from committing a crime and violating a law.

Figure 5 Deterrence theory



H4 deterrence effect has no significant influences taxpayers' behaviour.

1.2.Previous Research on Taxpayers Behavior

Deterrence (the risk of detection and the punishments incurred) should positively influence taxpayer compliance (Slemrod, 2007). However, the empirical evidence is somewhat mixed. OECD (2010) discusses several studies that examine the role of deterrence. Some findings are as expected (increases in the probability of detection improve compliance) but the effects are quite weak. One reason is that auditing compliant taxpayers is found to sometimes undermine their willingness to comply. In some cases taxpayer behavior is found to worsen after an audit (either to get back "losses" or in the belief that they will not be targeted again).

A key factor in tax compliance is a widespread desire to "do the right thing". Taxpayers seek to comply because they believe it is the right thing to do, not because of fear of punishment if they do not comply (Wenzel, 2005). The desire of a taxpayer to comply is strongly linked to behavioral norms, both the personal norms (and/or beliefs) of the individual taxpayer and the social norms that prevail in society at large. Personal norms are the result of a combination of factors inherent to the individual. These guide a taxpayer's posture to the tax administration but are difficult to influence (OECD, 2010; Kirchler, 2007).

Whether an outcome is perceived to be fair will influence behavior. Experiments have shown that people prefer an option in which they receive no reward to an option in which they are rewarded but is perceived as unfair – they are rejecting an outcome that would make them better off (Braithwaite, 2009; Delaney and Harmon, 2009). If taxpayers do not trust the tax administration to collect tax fairly, this will increase non-compliance (Murphy, 2004). If a tax administration can demonstrate its commitment in these areas, compliance should benefit (Alm et al., 2010; Reeson and Dunstall, 2009). A "service and client" approach by the tax administration is more likely to encourage trust than a "cops and robbers" approach based on sanctions (Kirchler, 2007; Torgler, 2011). The more respectfully taxpayers are treated by the tax administration, the less likely they are to evade and this contributes to the desire to "do the right thing" (NEF, 2005).

For many people, tax is a complex subject and this complexity has been shown to contribute to non-compliance (GAO, 2011). OECD (2010) argues that tax administrations have tended to overlook the "lazy non-compliers" – taxpayers who would have complied if the opportunity for compliance had been easier. If the administration reduces complexity, this should lead to improvements in taxpayer behavior (Alm et al., 2010).10 Ways to make it easier to comply include the use of plain language in communications and simplifying forms and tax laws where possible.

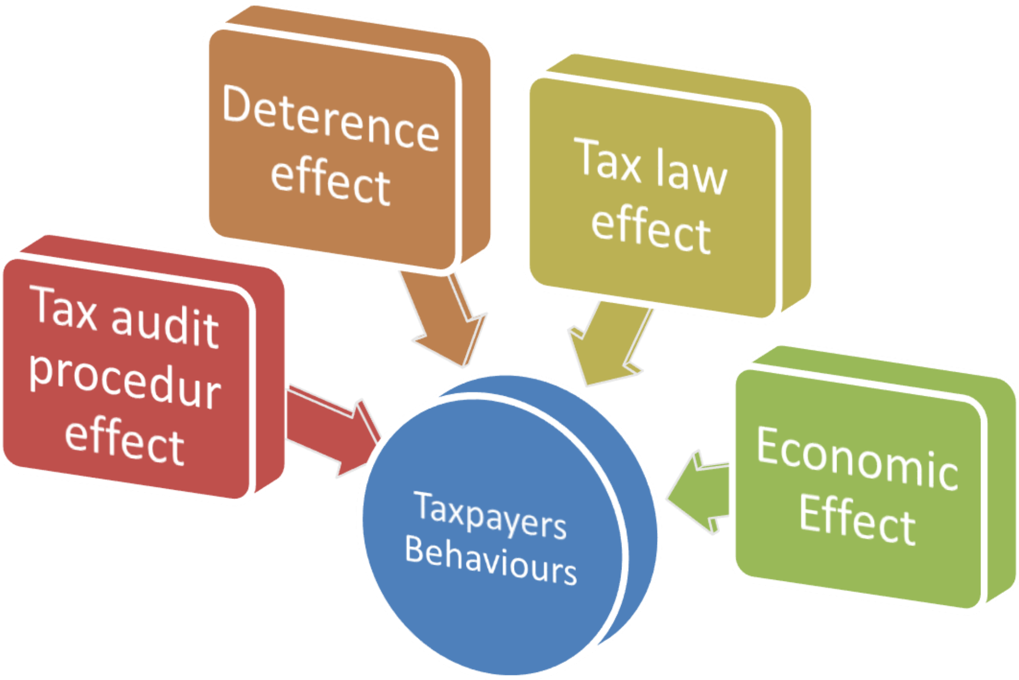
DeBacker et al. (2013) finds that tax payments are lower immediately following an audit, when the taxpayer is assumed to have lower expectations of another audit. As time passes and the probability of another audit increases, tax payments increase.

Thus, similar to Hoopes et al.(2012), Debacker et al. (2013) concludes that firms engage in less tax avoidance behavior when audit selection probability is higher. Finally, Lennox et al. (2015) examines the effect of tax audit examination on Chinese firms. Their results suggest firms report higher GAAP effective tax rates and lower book-tax differences after being audited. Our paper differs from these three studies because we test how taxpayers behave when facing audit certainty, an economically important setting between taxpayers and the tax authority that is fundamentally different from those previously examined.

Psychology-based theories reveal that taxpayers‟ attitude towards taxation may be affected by taxpayer‟s perceptions of the complexity tax system, efficiency of Revenue Authority, reference groups, motivation such as rewards (Torgler, 2006); and punishment such as penalties (Allingham &Sandmo, 1972); the cost of compliance, equity of the tax systems (Trivedi & Shehata, 2005); attitude towards government spending and probability of detection by tax authorities (Murphy, 2004). According to Mohani (2003), tax knowledge is necessary to increase taxpayer's awareness, especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. On the other hand, Eriksen & Fallan (1996) stated that attitude towards tax compliance can be improved through the enhancement of taxation knowledge. Similarly, Palil (2012) states that knowledge about tax laws plays important role in determining taxpayer's attitudes towards taxation. The author further suggested that continuing education programs and effective monitoring mechanisms must be taken into account by tax authorities to ascertain the positive taxpayer's attitude towards taxation have a good and reasonable knowledge or understanding of tax matters. Furthermore, Porcano (1988) suggested that taxpayer education is the necessary to change taxpayer's attitudes towards tax from negative to positive attitudes.

2.11 Conceptual frame work

Figure 6 Conceptual Frame Work



CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Introduction

This research paper discusses on the research approach and techniques adopted for the study with the aim of achieving the research objectives. The process of research usually entails problem identification, making hypothetical statements, collecting relevant data and then analyzing the data using the relevant and appropriate statistical tools. The study discusses about research design and provides details regarding the population, sampling and sampling technique, the research instruments used in collecting data for the study and the data collection and data analysis methods as well as variable definition and model specification.

3.2 Research Design

Now that we know the broadly classified types of research, Quantitative and Qualitative Research can be divided into the following 4 major types of Research Designs:

- Descriptive Research Design
- Correlational Research Design
- Experimental Research Design
- Diagnostic Research Design
- Explanatory Research Design

These 5 types of Research Designs are considered the closest and exact to true experiments and are preferred in terms of accuracy, relevance as well as quality.

3.2.1 Descriptive Research Design

In Descriptive Research Design, the scholar explains/describes the situation or case in depth in their research materials. This type of research design is purely on a theoretical basis where the individual collects data, analyses, prepares and then presents it in an understandable manner. It is the most generalized form of research design. To explore one or more variables, a descriptive design might employ a wide range of research approaches. Unlike in experimental research, the researcher does not control or change any of the variables in a descriptive research design; instead, he or she just observes and measures them.

3.2.2 Experimental Research Design

Experimental research is a type of research design in which the study is carried out utilizing a scientific approach and two sets of variables. The first set serves as a constant against which the variations in the second set are measured. Experimentation is used in quantitative research methodologies, for example. If you lack sufficient evidence to back your conclusions, you must first establish the facts. Experimental research collects data to assist you in making better judgments.

3.2.3 Correlational Research Design

A correlational research design looks into correlations between variables without allowing the researcher to control or manipulate any of them. Correlational studies reveal the magnitude and/or direction of a link between two (or more) variables. Correlational studies or correlational study design might have either a positive, negative or zero. Correlational research design is great for swiftly collecting data from natural settings.

3.2.4 Diagnostic Research Design

Diagnostic research design is a type of research design that tries to investigate the underlying cause of a certain condition or phenomenon. It can assist you in learning more about the elements that contribute to certain difficulties or challenges that your clients may be experiencing.

3.2.5 Explanatory Research Design

Explanatory research is a method established to explore phenomena that have not before been researched or adequately explained. Its primary goal is to notify us about where we may get a modest bit of information. With this strategy, the researcher obtains a broad notion and use research as a tool to direct them more quickly to concerns that may be addressed in the future. Its purpose is to discover the why and what of a subject under investigation. In short, it is a type of research design that is responsible for finding the why of the events through the establishment of cause-effect relationships. The most popular methods of explanatory research are:

- Literature research
- In-depth interview
- Focus groups
- Case studies

So from the research designed explained above this study uses an explanatory research design one. Because the study was conduct in the sense that it was intended to explain the cause-and-effect relationship between effects of tax audit on taxpayer’s behavior an explanatory research design best research design which explain method established to explore phenomena that have not before been researched or adequately explained.

3.3 Research Approaches

There are three research approaches this are: (a) qualitative, (b) quantitative, and (c) mixed methods.

●**Qualitative research**:-is an approach for exploring and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected in the participant's setting, data analysis inductively building from particulars to general themes, and the researcher making interpretations of the meaning of the data. The final written report has a flexible structure. Those who engage in this form of inquiry support a way of looking at research that honors an inductive style, a focus on individual meaning, and the importance of rendering the complexity of a situation.

●**Quantitative research:** is an approach for testing objective theories by examining the relationship among variables. These variables, in turn, can be measured, typically on instruments, so that numbered data can be analyzed using statistical procedures. The final written report has a set structure consisting of introduction, literature and theory, methods, results, and discussion. Like qualitative researchers, those who engage in this form of inquiry have assumptions about testing theories deductively, building in protections against bias, controlling for alternative explanations, and being able to generalize and replicate the findings.

●**Mixed methods research** is an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks. The core assumption of this form of inquiry is that the combination of qualitative and quantitative approaches provides a more complete understanding of a research problem than either approach alone.

From the above explanation of each of the research approaches this study uses an Mixed Method research Approaches one, because this study was conduct to explain the effects of tax audit on taxpayer's behavior so, the data was both qualitative and quantitative data. So, mixed method is an approach to inquiry involving collecting both quantitative and qualitative data, integrating the two forms of data, and using distinct designs that may involve philosophical assumptions and theoretical frameworks.

3.4 Target Population

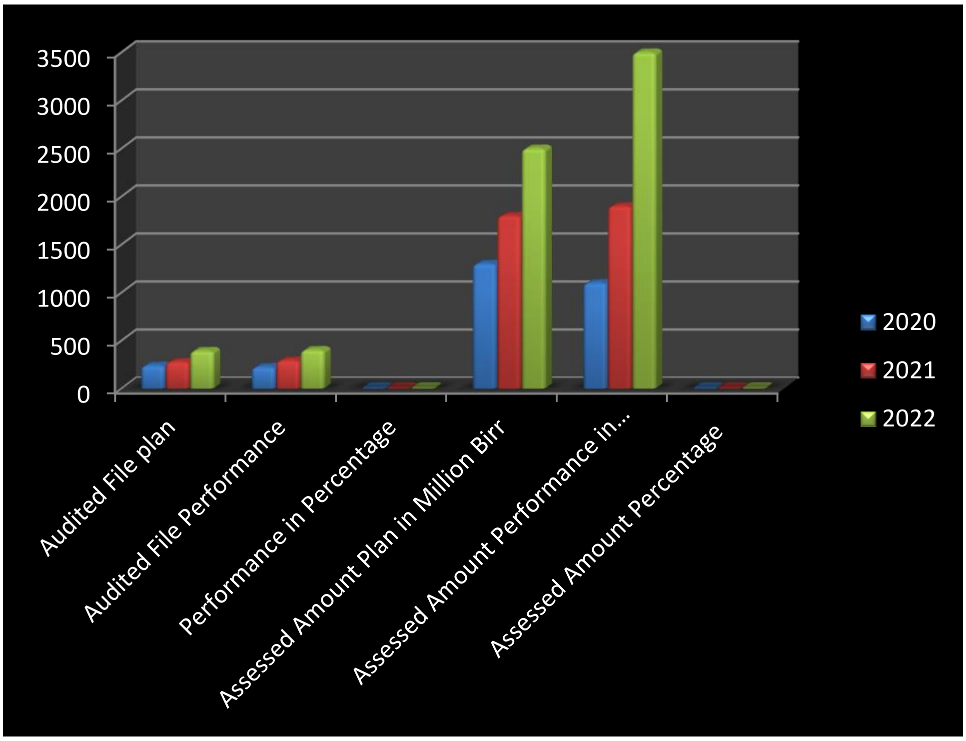
A population refers to any collection of specified group of human beings or of non-human entities such as objects, educational institutions, time units, and geographical areas, prices of wheat or salaries drawn by individuals. Some statisticians call it universe. A population containing a finite number of individuals, members or units is a class.

The population of the study includes taxpayers that are audited in Medium Taxpayer's Branch Office for the last three years. Accordingly, the target groups for the study were 923 taxpayer's in Branch Office. All the 923 taxpayer's that is audited in the last 3 years which are 2019, 2020 and 2021 tax period in the branch office.

Table 2 Number of Audited File per year

S.No	Audit Period	Number of File
1	2019	226
2	2020	294
3	2021	403
	Total	923

Figure 7 Plan and performance per tax period



3.5 Sampling and Sampling Techniques

When you conduct research about a group of people, it's rarely possible to collect data from every person in that group. Instead, you select a sample. The sample is the group of individuals who will actually participate in the research.

To draw valid conclusions from your results, you have to carefully decide how you will select a sample that is representative of the group as a whole. There are two types of sampling methods:

Probability sampling is a sampling method that involves randomly selecting a sample, or a part of the population that you want to research. It is also sometimes called random sampling. To qualify as being random, each research unit (e.g., person, business, or organization in your population) must have an equal chance of being selected. This is usually done through a random selection process, like a drawing.

Types of probability sampling

There are four commonly used types of probability sampling designs:

- Simple random sampling
- Stratified sampling
- Systematic sampling
- Cluster sampling

Non-probability sampling is a sampling method that uses non-random criteria like the availability, geographical proximity, or expert knowledge of the individuals you want to research in order to answer a research question.

Non-probability sampling is used when the population parameters are either unknown or not possible to individually identify. For example, visitors to a website that doesn't require users to create an account could form part of a non-probability sample.

Types of non-probability sampling

There are five common types of non-probability sampling:

- Convenience sampling
- Quota sampling
- Self-selection (volunteer) sampling
- Snowball sampling
- Purposive (judgmental) sampling

From the above explanation of each of the sampling techniques this study uses Non probability sampling which is convenience sampling to select Audited taxpayers of 300 from the total population of 1333 because, the study will focuses on Audited taxpayers the researcher get the audited taxpayer's in aggregate in the tax office and the researcher collects data in tax office so, the appropriate a sampling technique is convenience sampling which are sometimes called "accidental samples," because participants can be selected for the sample simply because they happen to be nearby when the researcher is conducting the Convenience samples are sometimes called "accidental samples," because participants can be selected for the sample simply because they happen to be nearby when the researcher is conducting the data collection.

3.6 Sample Size Determination

Is the act of choosing the number of observations or replicates to include in a statistical sample. The sample size is an important feature of any empirical study in which the goal is to make inferences about a population from a sample. Consequential research requires an understanding of the statistics that drive sample size decisions. A simple equation will help you put the migraine pills away and sample confidently.

$$\text{Necessary Sample Size} = \frac{(\text{Z-score})2 \times \text{StdDev} \times (1\text{-StdDev})}{(\text{margin of error})2}$$

By the above formula and the online sample size determination formula the study uses 923 population, 95% confidence level and 5% marginal Error the then researcher gets 272 samples size.

3.7 Sources of Data and Methods of Data Collection

The source of the data collected from the taxpayers through primary data which is questioner sources.

3.7.1 Primary Data

The main base for the study is primary data only which was collected through field work survey order to get information on the issue of effect of tax audit on taxpayers behavior through questionnaire. The structured questionnaire consists of closed ended questions to collect quantitative data and open ended question to collect qualitative date from the respondents. These statements required respondents to rank them on a in different level of measurement for different variables.

Questioner

Questioners were used to collect primary data form respondents and its advantage is covering a small number of respondents easily and quickly. Questionnaires were distributed to the selected respondents to get primary data on effect of tax audit on taxpayer's behavior. The questionnaires have provided to the taxpayers and have a total of 44 questions; with six parts, the first part question related to taxpayers profile questions Q1-9, the second part question related to tax audit procedure Q10-16, third part question related to deterrence effect Q17-25, fourth part question related to tax laws effect Q26-33, six part question related to economic effect of tax audit Q34-40 and last part question related to for the taxpayers behavior Q41-44.

3.8 Method of Data Analysis

After the data were collected, for the study two type of statistical analysis was used to test the proposed hypotheses. These are descriptive statistics and inferential statistics/Binary logistic analysis to see the effect (relationship) of explanatory or independent variables on the dependent variable. Descriptive statistics, which were measures of central tendency and dispersion in this study, were used to describe the demographic details of the respondents, as well as the perceptions of respondents about individual items for both effect and taxpayers behavior.

The inferential statics is done by binary logistic analysis has the objective of predicting changes in the dependent variable in response to changes in the independent variables. Before binary logistic analysis was performed, reliability and validity tests were tested. For reliability and validity, Cronbach's alpha and correlation analysis were performed by spearman. To assess multicollinearity, two measures tolerance, which is a direct measure, and Variance Inflation Factor (VIF) (Hair et al., 2010; Ho, 2006), were also performed. The data analysis of this study was conducted using support of statistical tools SPSS version 25

3.9 Variable Definitions

This study is focus on to identify effect of tax audit on taxpayers behaviors of Medium Taxpayer's Branch Office through testing the hypotheses regarding to the relationships between taxpayers behavior and effect of tax audit on it. It is apparent that the most significant task is to select the appropriate explanatory variables.

3.9.1 Dependent Variable

The dependent variable of the study is taxpayer's behavior. The work of a tax administration includes activities that cover both compliance and customer service. For example, Revenue's range of functions includes: assessment, collection, debt management, audit and other interventions, anti-smuggling and other customs functions and anti-avoidance. Many of the functions of tax administration depend to at least some degree on the voluntary compliance of taxpayers. In addition, large elements of the tax system in Ethiopia are based on self-assessment. In this context, there is clearly potential to influence behavior to improve compliance. The central contribution of behavioral research to tax administration is to understand why taxpayers are compliant or not. This can inform the work of tax administrations which is tax audit across a range of their functions

3.9.2 Independent Variables

The independent (explanatory) variable are those variable which is directly affect taxpayer's behavior as discuses in literature review part by theory and empirical study of different journals and researches papers. So the study will identify different effect of tax audit on taxpayer's behavior in Ministry of revenues medium taxpayers' branch office.

3.10 Model Specification

Quantitative data are described through binary logistic technique the dependent variable (taxpayer's behaviors), regressed with the independent variables.

When dependent variables are binary rather than continuous, conventional OLS regression techniques are inappropriate.

Binary logistic Regression

Binary logistic regression is a type of regression analysis that is used to estimate the relationship between a dichotomous dependent variable and dichotomous-, interval-, and ratio-level independent variables. Many different variables of interest are dichotomous – e.g., whether or not someone voted in the last election, whether or not someone is a smoker, whether or not one has a child, whether or not one is unemployed, etc. These types of variables are often referred to as discrete or qualitative. Many discrete or qualitative variables can be thought of as events.

Dichotomous or dummy variables are usually coded 1, indicating "success" or "yes," and 0, indicating "failure" or "no." The mean of a dichotomous variable coded 1 and 0 is equal to the proportion of cases coded as 1, which can also be interpreted as a probability. Due to a number of conceptual and statistical problems, however, people no longer use OLS regression to analyze dichotomous dependent variables. There are a number of alternative approaches to modeling dichotomous outcomes including logistic regression, probit analysis, and discriminant function analysis. Logistic regression is by far the most common, so that will be our main focus. Additionally, we will focus on binary logistic regression as opposed to multinomial logistic regression – used for nominal variables with more than 2 categories.

3.11 Definition of variables

3.11.1 Tax audit procedure effect(TAPE)

As we now tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD 2006a). To examine the compliance level of taxpayers we must have clear tax audit procedure that interlink with the international auditing standards.

The ministry of revenue tax audit directorate has a tax audit manual that is a producer how to conduct the tax audit in every branches of the ministry. This manual has three basic stages which are:- Audit planning stage, audit execution stage and audit completion stage this stages has their own guideline what is performed in the audit planning, execution and completion stage.

So the tax audit procedure has an important role in behaving taxpayer's behavior both positively as well as negatively if the audit department cannot implode the procedure properly with the international audit procedure.

Auditors are expected to:

i. Comply with the audit procedures and polices laid down for the various specialized sectors.

ii. Plan audits and tailor tax audit activity in a manner that reflects the economic activity of the given or specialized sector.

iii. Consider and appropriately tax legislation pertaining to the specific industry.

iv. Complete audit working papers for all adjustments or accounts affected during audit activity and that audit seniors review the audit working papers.

v. Adhere to the auditor's ethical code of conduct at all times during audit activity.

vi. Disclose any conflict of interest that is present or expected to occur during audit activity of a particular audit assignment.

Auditors are expected to manage their clients in a manner that will enhance compliance. Auditors are usually the first point of contact for taxpayers especially regarding their tax position and another other adjustment to the tax assessments. Accordingly, auditors are well positioned to engage as relationship managers to advise their audit clients on matters of taxation and their obligations/rights. Relationship management involves:

a. Follow-up on the status of debt collection after audit assessment with debt management team.

b. Providing taxpayer education during the audit. This involves educating taxpayers on the technical aspects of tax law and how these affect their particular businesses.

c. Engaging clients on their rights but importantly, their obligations under the tax laws/ Proclamations. This implies that auditors will be required to send out reminders to their audit clients to file their returns and pay the attendant taxes promptly

3.11.2 Deterrence effect(DE)

The standard model of tax compliance, derived from Becker (1968) and Allingham and Sandmo (1972), assumes that a rational taxpayer assesses the costs and benefits of evading taxes. If the expected benefits (less income "lost" to tax) outweigh the costs (the chances of a non-compliant taxpayer being caught and the sanctions incurred) then the taxpayer will evade tax. The taxpayer makes a rational choice having considered the options. Deterrence is a vital tool (audit, other interventions and sanctions) for any tax administration. A targeted approach to deterrence is likely to be more effective. The tax administration has other options to reduce opportunities for evasion as well as increasing the likelihood of audit or imposing harsher sanctions. Examples of this in Ireland are Revenue's extensive use of third party data or withholding tax systems (such as pay as you earn (PAYE) income tax).6 Increasing the level of deterrence is often an expensive process for the tax administration and it is not guaranteed to improve compliance. Deterrence (the risk of detection and the punishments incurred) should positively influence taxpayer compliance (Slemrod, 2007). However, the empirical evidence is somewhat mixed. OECD (2010) discusses several studies that examine the role of deterrence. Some findings are as expected (increases in the probability of detection improve compliance) but the effects are quite weak. One reason is that auditing compliant taxpayers is found to sometimes undermine their willingness to comply. In some cases taxpayer behaviour is found to worsen after an audit (either to get back "losses" or in the belief that they will not be targeted again).

In broad terms punishment may be expected to affect deterrence in one of two ways. First, by increasing the certainty of punishment, potential offenders may be deterred by the risk of apprehension. For example, if there is an increase in the number of audited file in a tax audit department in a tax period, some taxpayers may increase their taxable income and pay more tax in order to avoid audited by tax audit department. Second, the severity of punishment may influence behavior if potential offenders weigh the consequences of their actions and conclude that the risks of punishment are too severe. This is part of the logic behind “three strikes,” and “truth in sentencing” tax office, to utilize the threat of very severe sentences in order to deter some persons from engaging in tax evasion behavior.

Because the objective of the tax audit is to educate the taxpayers so, the deterrence is an important role in changing the audited taxpayer’s behavior after the audited tax period to correct their mistakes in the next audit and pay more tax than the previous or to close the operation.

3.11.3 Tax Laws related to audit effect (TLE)

Ethiopia operates a scheduler rather than a comprehensive personal income tax system. This means different sources of personal incomes are taxed separately and subject to their own tax rate schedules, rather than being aggregated together and taxed according to the same tax schedule. As well as the country use self-assessment. A number of withholding taxes also apply, which can be offset against other income tax liabilities. And the newly introduce tax administration proclamation number 983/2016 which incorporates all tax administration issue in different proclamation like VAT, petroleum and gas Proclamations and the federal income tax proclamation No.979/2016 and the income tax regulation 410/2017 and also different directives that is enforceable to the taxpayers in the audit procedure like directive No 152/2019 which is amended by directive No 176/2022 on bookkeeping, directive No 64/2020 of COVID 19 pandemic and etc.

Tax audit is an examination of whether a taxpayer has correctly assessed and reported their tax liability and fulfilled their obligations (OECD - Strengthening Tax Audit Capabilities; General principles and Approaches).This examination can only proceed if it is supported by a robust legal framework, otherwise, it would be subject to challenge.

In this regard, Article 28(1) of the Federal Tax Administration Proclamation, 983 of 2016, provides the legal basis for audit activity in Ethiopia and can be said to be the foundation upon which tax audits are premised and conducted. It provides that subject to this Article, the

Ministry may amend a tax assessment (referred to in this Article as the "original assessment") by making such alteration, reductions, or additions, based on such evidence as may be available, to the original assessment of a taxpayer for a tax period to ensure that:

i. in the case of a loss under Schedule 'B' or 'C' of the Federal Income Tax Proclamation, the taxpayer is assessed in respect of the correct amount of the loss for the tax period;

ii. in the case of an excess amount of input tax under the Value Added Tax Proclamation, the taxpayer is assessed in respect of the correct amount of excess input tax for the tax period;

iii. in any other case, the taxpayer is liable for the correct amount of tax payable (including a nil amount) in respect of the tax period. Emphasis added.

It is through tax audit activity, that the object of Article 28(1) of the Federal Tax Administration proclamation in particular amending the "original assessment" can be achieved. Accordingly, tax audit activity seeks to assess taxpayer compliance with the tax laws (Proclamations).

3.11.4 Economic Effect(EE)

There are many more factors that influence the level of compliance in a population beyond those outlined above. These are grouped together here, as they are mostly beyond the control of the tax administration. Some involve tax policy or public spending, while others relate to the broader economy. As noted in the Introduction, the focus of this paper is on methods that provide practical tools for tax administration to influence behaviour. Section 2.3 notes that distributive fairness influences compliance. Taxpayers link the tax they pay to the ability of the State to fund expenditure on public goods and services (Barone and Mocetti, 2009). If there is a perception that the government spends tax revenues wisely, this should encourage tax compliance. If taxes are associated with spending that the taxpayer values (for example, schools or hospital beds), then the taxpayer is likely to be less reluctant to comply. Economic conditions are important to compliance. For example, businesses with liquidity problems may be more likely to consider evading taxes. Although the research is limited, at a more macroeconomic level, factors that promote growth also encourage tax compliance (OECD, 2010). Likewise, economic downturns are often associated with increased evasion. Higher tax rates are linked with evasion if they incentive taxpayers to move into the shadow economy.

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Dependent variable

- Taxpayer's behavior (TB)

Independent variable

- Tax audit procedure (TAP)
- Deterrence Effect (DF)
- Tax Laws Effect (TLE)
- Economic Effect (EE)

Equation

logit(p)=b0+b1x1+b2x2+b3x3+b4x4+€

TB=b0+b1TAPE+b2DE+b3TLE+b4EE+€

3.12 Determining The quality of research instrument

3.12.1 Validity test

Validity is concerned with the meaningfulness of research components. When researchers measure behaviors, they are concerned with whether they are measuring what they intended to measure. These are questions of validity and even though they can never be answered with complete certainty, researchers can develop strong support for the validity of their measures (Bollen, 1989). There are four types of validity that researchers should consider: statistical conclusion validity, internal validity, construct validity, and external validity.

3.12.2 Reliability test

Reliability is a major concern when a psychological test is used to measure some attribute or behavior (Rosenthal and Rosnow, 1991). For instance, to understand the functioning of a test, it is important that the test which is used consistently discriminates individuals at one time or over a course of time. In other words, reliability is the extent to which measurements are repeatable –when different persons perform the measurements, on different occasions, under different conditions, with supposedly alternative instruments which measure the same thing. In sum, reliability is consistency of measurement (Bollen, 1989), or stability of measurement over a variety of conditions in which basically the same results should be obtained (Nunnally, 1978).

Data obtained from behavioral research studies are influenced by random errors of measurement. Measurement errors come either in the form of systematic error or random error.

3.13 Ethical Consideration

The survey tool designed for this study was reviewed by tax auditor and team coordinator in medium taxpayer's branch office to confirm that it would not inflict any harm on the participants. Based on the design of the survey, there was no significant risk to the participants. All participants could choose whether or not to participate, and the introductory email and Linked In posts informed individuals that there are no consequences for non-participation and that this is an entirely voluntary opportunity. Each participant was told that the goal of the survey is to understand how tax audit is affect taxpayers behavior. Respondent anonymity was a primary ethical concern as these results could theoretically have been used for unrelated or unethical commercial tactics.

The data was secure; only the author of this study has access to the randomized list with the corresponding identification code. The customer-specific answers have not been made public, and the results have only been discussed in an aggregate form.

The author of this study is currently an employee within the ministry of revenues and made every effort to interpret the data collected in a manner free from bias. Due to the mixed nature of the study, all data has been reported out to provide readers a holistic understanding of the results.

CHAPTER FOUR

4. PRESENTATION, ANALYSIS AND DISCUSSION OF DISCTIPTIVE DATA

4.1 Introduction

The primary focus of this study is to examine the effect of tax audit on taxpayer's behaviour with regarding to auditing practice of the revenue office and the taxpayers in medium taxpayers branch office'. Questionnaires were prepared and distributed to collect primary data from the respondent's taxpayers. The target population for this study was taxpayers from medium taxpayer's branch office of ministry of revenues. Questionnaires were sent to 300 participants that are taxpayer's which are previously audited by revenue office. The data collection process took about Nine months, because the participant are a taxpayers which is audited before they cannot get easily and the data were collected at the end of each modular training section tax audit process. At the end of the collection process, we had received all 300 respondents whose taxpayers had responded to the questionnaires. This response rate of 100% is typical for a sent survey in general and quite good for more complex data collection as was requested in this study of the 300 individuals that participated in the study.

In this study both descriptive statistic and regression analysis were used to analyse the data. The descriptive statistics utilized in this research used to analyse the demographic data included frequency, percentages and cross tabulation. The data collected from the returned questionnaire were entered into SPSS (Statistical package for social science software) version 26 for analysis. The descriptive analysis where conducted to both the demographic variables that means a personal and company information and descriptive question related to measure effect of tax audit on taxpayers.

4.2 Descriptive statistics result for taxpayers Respondents

4.2.1 Demographic Characteristic of Respondents

This section provides a profile of respondents who involved in the study and data collected on basic characteristics. Accordingly, the following demographic characteristic about the respondents were summarized and described in the following table. These variables include: Position in the company, period of occupation, level of education and field of study.

Table 3 Demographic Variable analysis

		Count	Column N %
Position in the Company	Manager and Owner	58	19.3%
	Manager only	41	13.7%
	Employee Account	201	67.0%
How long have you been	less than a year	27	9.0%
	1 to 3 years	63	21.0%
	3 to 5 years	67	22.3%
	more than 5 years	143	47.7%
Level of Education	less than 12 grade	0	0.0%
	Diploma	15	5.0%
	1st Degree	212	70.7%
	Master and above	73	24.3%
Field of Study	Business and Economics	206	68.7%
	Engineering	26	8.7%
	Other	57	19.0%
	None professional	11	3.7%

As shows in the above table it clear that most respondent 67.7% are an employee and 13.7% of the respondents are Managers and the remaining 19.3 % of the respondents are manager and major shareholder of the company. In the case of tax audit which is comprehensive the audit manual of the ministry of revenues (2018),states that taxpayers should assigned one or more employee which are accountants, Internal auditors and tax consultant which shows how the accounts are recorded and tax laws are properly implemented with regardless of the tax laws and accounting principle. So the majority of the respondent which is employee of the company which is 67.7% of the respondent has more knowledge about tax audit and its effect on the company than others because there day to day activity is going with the tax office as well as the responsible person for tax audit at the time of a comprehensive audit and the remaining 13.7% of the respondent which are Manager and 19.3% of the respondent which are Manager and major shareholder has a significant effect on the company. Means the final effect of tax audit on the company whether it is positive or negative fail in to them directly or indirectly. So having 33% of managers and shareholders respondent in the research gives a detail information about the effect of the tax audit on the company.

Even though positions in the company are fundamental, it should be supported with the appropriate experience in order to be more effective with in a relatively shorter period of time. Based on this fact the respondents who are employed in the company only 9% of them have been less than a year stay in the company, 21% of them have been 1 to 3 years of stay in the company, whereas 22.3% of them have been 3 to 5 years of stay in the company and the remaining47.7 % has greater than or equal to 5 years of worked experience. As International standard on accounting Accountants or Auditors:

a. Shall engage only in those audits for which they have the necessary knowledge, skill and experience, except under guidance and supervision of an audit senior that ensures that work of the auditor is quality assured.
b. Shall perform tax audit services in accordance with the tax laws and tax audit manual and procedures thereof.
c. Shall continually improve their proficiency and the effectiveness and quality of their audits. therefore the most of the respondents which are 70% fulfil the international standards. Hence, taxpayers staff with more experience tends to comply with tax rules and regulation, achieve superior outcomes, and gain outstanding success. Then I concluded that taxpayer's staff experiences may have a good positions and tax experience is a positive effect on audit.

As shown in table.1, it is clearly visible that to the level of education, 0 (%) of the respondent are less than 12 grade, 5(%) of the respondent have diploma, 70.7% of the respondents are bachelor degree holders, whereas 24.3% of them are master's degree or above holders, this figure revealed that the taxpayers' staff educational qualification is seem to be adequate to perform audit tasks. As international standards almost 95% of taxpayers should have a university and college graduated, therefore it concluded that educational qualification is important on individual's attitude for knowing the tax laws and regulation and other international business transactions, the consequence of this is that an organization will be achieved it audit objective. Although, most of the taxpayers staffs are bachelor degree holders, not only this but also taxpayers should have more professionalism to do best audit practices, activities and responsibilities in order to enhance the profitability of the company, effectiveness operation, and success.

As clearly show in the above table, 68.7% of the respondents are having business and Economics field of study, 8.7% are having engineering and the remaining 22.7% has None professionals. Most of them are Business and Economics graduated, to be a taxpayer's accountant or tax consultant or managers a person has deep knowledge of accounting and management theory and principles therefore, the findings indicated that a taxpayer's staff almost may have sufficient knowledge of their field of study. Then I concluded that educational level attainment of respondents is excellent and which may be related to their profession.

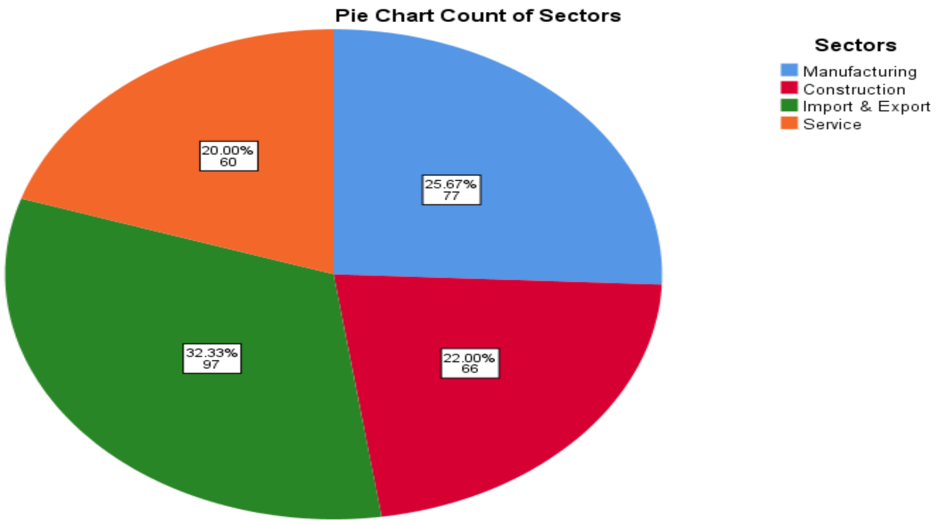
4.1.2 Sectorial analysis of taxpayer

Audits can be organized as a separate project for a targeted or specific group of taxpayers in a given period to verify compliance in the sector. These audit projects may cover an industry, trade, profession or a line of businesses. They will consist of specific checks and are used to address a particular risk or to establish the degree of non-compliance in a particular sector, industry or trade.

Business activity refers to the trade in which the tax payer is engaged, for example, construction. Here it is important to take stock of the associated risks to tax revenue that the particular business activity presents and how appropriate audit evidence for such a business activity may be obtained. Considering the construction sector, risks associated with understating income from contracts is likely to emerge and through validation with third party information from government data bases like IFMIS, such risks may be mitigated.

It would also be important to establish for instance the nature of transactions, i.e. whether the transactions are cross border and between associated enterprises. In this case, transfer pricing issues or matters of treaty law may then be considered. The following pie chart summarizes the taxpayer's composition in sector on tax audit.

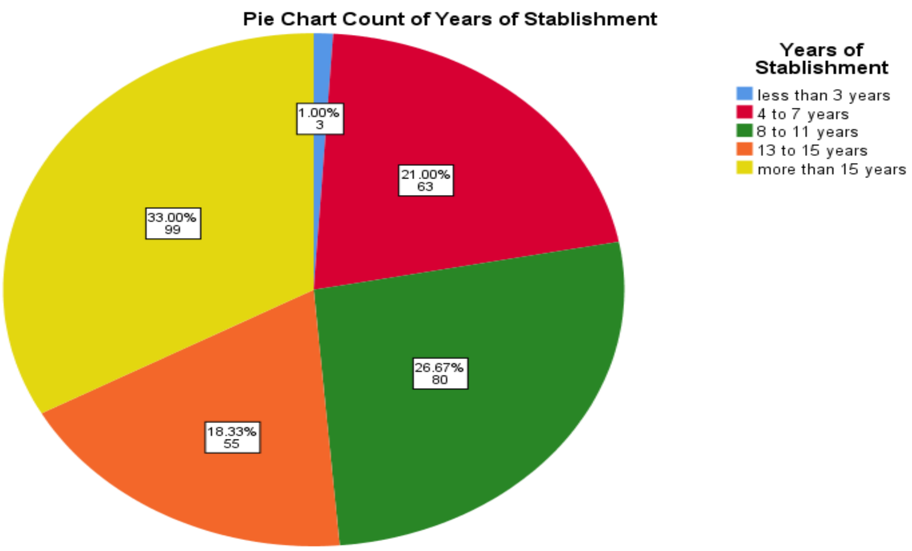
Figure 8 Sectorial analysis



As show from the above pie chart the sectorial analysis indicates that 77 (25.7%) of the company is manufacturing company, 66 (22%) are construction company, 97(32%) are Import and Export and 60(20%) are service company. So the sectors are almost equal chance of auditing these means almost all sectors in the revenue office are involved in the auditing and checked by the authority. We conclude that the research sample includes almost all types of taxpayers in sectorial base.so it gives best conclusion for the all population.

4.1.3 Years of establishment of taxpayers analysis

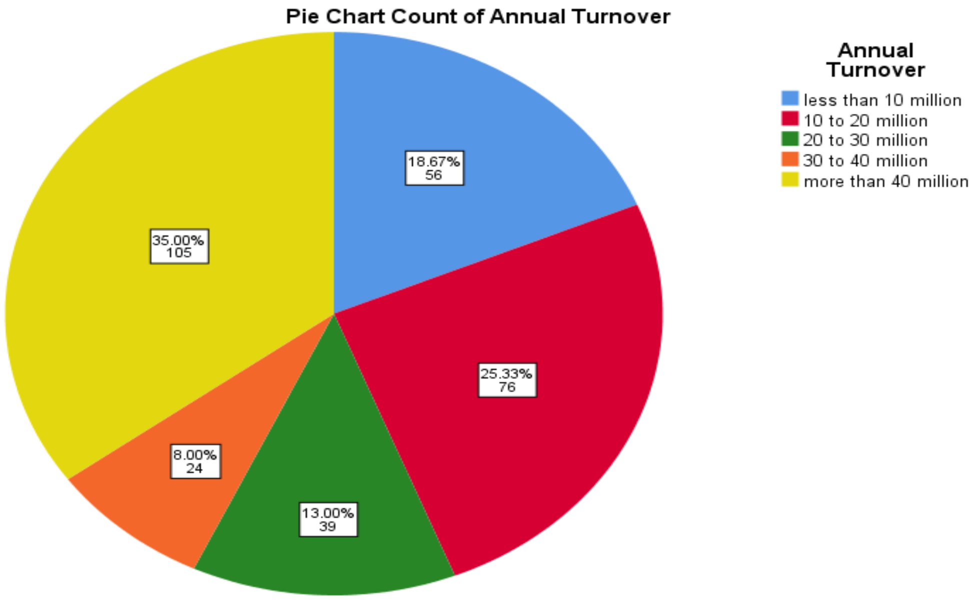
Figure 9 Years of establishment of taxpayer's



The above pie chart indicates the companies stays in the above operation, 3 (1%) of the companies stays less than 3 years , 63 which is 21% of them stays in an operation 4 to 7 years, 80 (26.7%) of the company stays 8 to 11 years in an operation, 55 which is 18.3% of the company stays in an operation 13 to 15 years in the operation, and the majority of them which are 99 (33%) of the company stays more than 15 years in the operation. So most company stays in the business more than 15 years these indicates that the company are having good experience in the operation . we conclude that the having more experience in the operations gives the chance of auditing and experience of correcting the errors before the tax audit is conducted.

4.1.4 Annual turnover analysis of taxpayers

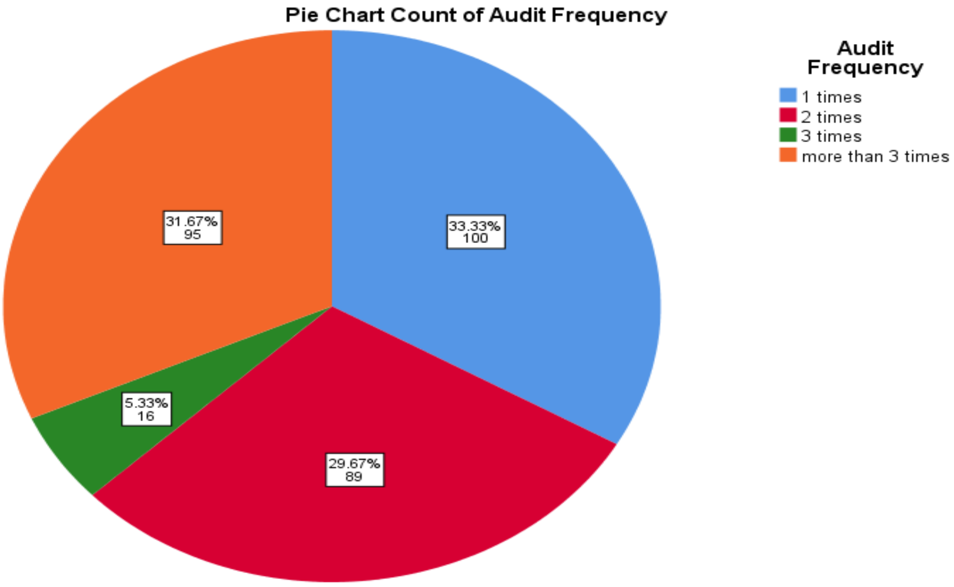
Figure 10 Annual turnovers of taxpayers Analysis



When we discuss the company's in related to annual turnover, the above pie chart indicates that 56 (18.7%) of the company are less than 10 million annual turnover, 76 (25.3%) are between 10 to 20 million, 39(13%) are between 20 to 30 million whereas 24 only 8% of the companies are 30 to 40 million of annual turnover and 105 which is 35.5% of the companies are more than 40 million annual turnover. So the annual turnover are almost equal chance of auditing these means almost all ranges of annual turnover are involved in the auditing and checked by the authority. We conclude that the research sample includes almost all types of taxpayers in annual turnover base.so it gives best conclusion for the all population.

4.1.5 Audit Frequency analysis of taxpayers

Figure 11 Audited Frequencies



The issues that related to frequency of tax audit to the company by tax audit department the above table and pie chart shows, 111 (37%) of the company audited 3 times and more by the tax office, 89 (29.7%) of the company audited 2 times by the tax office and 100 (33.3%) of the company audited 1 times by the tax office. So most company audited 3 times and more by tax office these indicates that the company are having good experience in the auditing. we conclude that the having more experience of audited by tax office gives the chance to taxpayers for correcting the errors before the next audit period and comply with the tax audit procedure and tax laws.

4.2 Adjustment to be made by taxpayers that given by audit findings

The tax audit audits the taxpayer's financial statement and other supporting documents to measure compliance level of the taxpayers as well as to collect additional tax. So, to align with the objective the findings that affect the next tax period must be informed to taxpayers by tax auditor because if the taxpayers have no idea about corrections about Value Added Tax credit forward, None current asset (depreciation, amortization and other) , Withholding tax refund they have(if), Loss carried forward and back ward and Inventory adjustment which has an effect in the next tax period which reduce(impact) from the previous period by audit findings it has a negative effect on the payment of the next period.

4.2.2 About Value addition tax credit forward

Value added tax credit forward is happen when the input value added tax is greater than output value added tax this is how the taxable inputted goods or service in a specific tax period is greater than taxable sales of goods or service at that period the stated by the proclamation number 285/1994. If the tax auditor not gives findings to the taxpayers to adjusted VAT credit adjustment and have a finding on VAT and reduce the VAT credit forward. e.g. Assume the tax auditor have a finding 1,000,000 additional taxable income and the taxpayers declared 160,000 VAT credit forward at the end of the tax period December 31and the tax rate is 15% the credit forward for the next tax period which is January is only 10,000 ((1,000,000 * .15) – 160,000). So if the tax auditor cannot inform this credit forward that reduce from 160,000 to 10,000 and the taxpayers have a payment on January 120,000 they declared that 30,000 (150,000-120,000) VAT credit forward to February but the correct calculation is must be a payment of 110,000 which is (120,000 payment of the period minus 10,000 credit forward from December)..

4.2.3 About Non-Current Asset (Depreciation)

Depreciation represents the estimated reduction in value of fixed assets within a fiscal year. Tangible assets, such as buildings, equipment, vehicles and so on, are purchased in large lump sums. The tax law which is regulation number 410/2016 of the country allows depreciation as straight line or diminishing method.

Table 4 Depreciation method and rate

S.NO	Description	Rate in straight line method	Rate Diminishing Method
1	Building	5%	No rate
2	Intangibles Asset	10%	No rate
3	Computer and related	20%	25%
4	Other asset	15%	20%

If the tax auditor not gives findings to the taxpayers to adjusted the cost of a fixed asset and have a finding on that and reduce the original cost of the asset. e.g. Assume the tax auditor have a finding 2,000,000 reduce the original amount the fixed asset and the taxpayers declared original cost of the asset amount 12, 000, 0000 at the end of the tax period December 31/2012 and the depreciation rate in straight line method is 15% which is 1,800,000 but the depreciation for that period and for the next tax periods is only 1,500,000 ((12,000,000 – 2,000,000) * 15%. So if the tax auditor cannot inform this adjustment of cost that reduce from 12,000,000 to 10,000,000 and the taxpayers declare depreciation of 1,800,000 (12,000,000 *15%) but the correct calculation is must be 1,500,000 which is (12,000,000 – 2,000,000)* 15% on the remaining tax periods.

4.2.4 About withholding tax refund

Withholding tax credit is happen when the taxable business in come of the year times by the rate (30%) is less that the amount withhold by other party on foreign purchase 3% of CIF or on sales to withholding agents which is 2% of the sales or if the company declared loss at as specific tax period that is stated by the proclamation number 286/1994 and 979/2016 and the withholding tax directive number 5/2019. If the tax auditor not gives findings to the taxpayers to adjusted withholding tax credit and have a finding on profit tax and reduce the withholding tax credit refunded. e.g. Assume the tax auditor have a finding on profit tax income or cost amount 3,000,000 which resulted in additional taxable income and the taxpayers declared loss of 1, 000, 0000 and have withholding tax payment of amount 800,000 at the end of the tax period December 31/2012 and the tax rate is 30% the withholding tax credit for the tax period which is 2012 is only 200,000 (loss of 1,000,000-additional finding of 3,000,000)* 30%)- 800,000. So if the tax auditor cannot inform this withholding tax credit that reduce from 800,000 to 200,000 and the taxpayers claim a refund on the next period about the withholding tax refund of 2012 amount 800,000 but the correct amount withholding tax refunded is must be 200,000 which is (800,000 withholding tax minus 600,000 profit tax on additional finding by auditor).

4.2.5 About loss carried forward

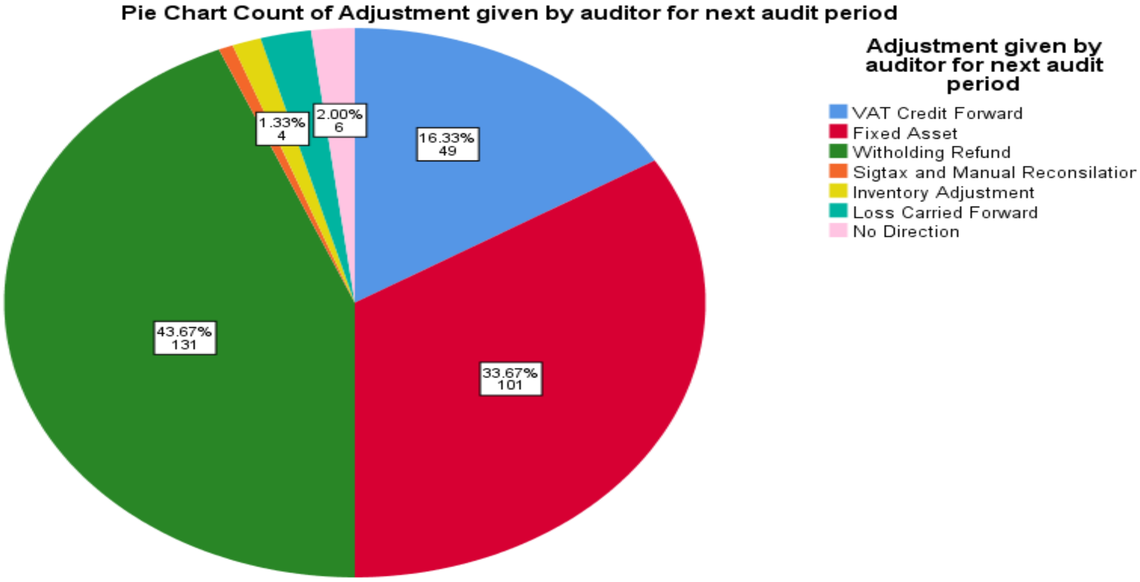
Loss is happen when the business in come of the year is less than the total cost of the year of the company which is stated by the proclamation number 286/1994 and 979/2016 and the regulation number 410/2017 that allows to deduct this loss for the next 5 tax period. If the tax auditor do not tells taxpayers when to claim this loss and have a loss carried forward to the next tax period. E.g. Assume taxpayers declared loss of 2, 000, 0000 in December

31/2012. So if the 1qtax auditor have a finding of 1,000,000 and cannot inform this adjusted loss that reduce loss mount 2,000,000 to 1,000,000 and the taxpayers claim all loss on the next tax period which is 2,000,000 but the correct amount of loss is must be 1,000,000 which is (2,000,000 loss minus 1,000,000 profit tax on additional finding by auditor). So if the tax auditor cannot inform this loss carried forward that reduce from 2,000,000 to 1,000,000 and the taxpayers have a profit on next tax period December 2013 1,500,000 they declared a loss that 500,000 (loss carried forward of 2,000,000 minus profit of 1,500,000) but the correct calculation is must be a payment of 150,000 which is (profit of the period 1,500,000 minus loss carried forward of 1,000,000) * 30% profit tax rate).

4.2.6 About inventory adjustment

Inventory adjustment is made on cost of goods sold and affects taxable business income in cost part which is if the ending inventory is over stated (Binging Inventory + Purchase – Ending Inventory) it increases the net income of this period and reduce the net income of the next period because the ending inventory of this period is beginning inventories of the next period.. If the tax auditor do not tells about the inventory adjusted to taxpayers and have a adjustment on the next tax period. E.g. Assume taxpayers declared ending inventory of 1,500,000 in December 31/2012. So if the tax auditor have a finding of 500,000 ending inventory adjustment that is over stated and cannot inform this adjusted the cost of sold reduce mount 1,500,000 to 1,000,000 and the taxpayers declared all ending inventory in the next tax period which is 1,500,000 but the correct amount of inventory is must be 1,000,000 which is (1,500,000 ending inventory minus 1,000,000 adjusted ending inventory additional finding by auditor). So if the tax auditor cannot inform this loss carried forward that reduce from 1,500,000 to 1,000,000 and the taxpayers declared a cost of goods sold next tax period December 2013 1,800,000 then the correct cost of goods sold is over stated by 500,000.

Figure 12 Adjustment made by taxpayer's



Considering the issues discussed above, it becomes apparent that communication is a key treatment tool for influencing behavior. The results across the taxpayer surveys indicate that which show from above pie chart the adjustment made by taxpayer's about value added tax credit forward are 49 which is 16.3%, about Fixed Asset 101 which id 33.7%, about withholding tax refund 131 which is 43.7% , SIGTAS and manual reconciliation 2 which is 0.7%,about inventory 4 which is 1.3% and about loss carried forward adjustment 7 which is 2.3% this indicates that majority 294 (98%) of the taxpayers are made an adjustment on the above issues in the next tax period because the tax audit gives a findings to adjust in the next period, only 6 which is 2% of the respondent cannot made an adjustment on the above issues because of the tax auditors cannot gives the finding. So, we conclude that if the tax audit department clearly indicates what types of adjustment to be made by the taxpayers for the next tax period the taxpayers adjust each of the finding and comply with the tax audit procedure, tax laws and regulations and the effect of tax audit on taxpayers behavior in a positive manner otherwise the tax audit affect taxpayers behavior negatively. So the above table and pie chart shows that tax audit has appositive effect on taxpayer's behavior. This result in line with finding that obtained by Ashenafi M. (2018), where taxpayer respondents who said that if the auditors gives each of the adjustment to be made in the next tax period which has an effect there is a big opportunity to comply and positive attitude towards tax audit.

4.3 Direction given by tax audit department

The tax audit audits the taxpayer's financial statement and other supporting documents to measure compliance level of the taxpayers as well as to collect additional tax. So, to align with the objective the findings that affect the next tax period must be informed to taxpayers by tax auditor because if the taxpayers have no idea about the next direction about when to appeal and what is the benefit and cost of appeal and Methods of payment on additional tax assessed. The direction that given by that auditor on exit conference to analyses the cost and benefit that has for the taxpayers.

Table 5 Direction given by Tax auditor

		Count	Column N %
Direction given by auditor	How and when to Appeal	13	4.3%
	Cost and Benefit of Appeal	12	4.0%
	About Payment	10	3.3%
	All Direction	255	85.0%
	No Direction	10	3.3%

The respondents were also asked to assert about the direction given by tax auditor in the next step. The results across the taxpayer surveys indicate that which show from above table and pie chart the given by tax auditor to the taxpayer's about how and when to appeal account 13 which is 4.3%, about the cost and benefit of appeal 12 which is 4%, about payment method 10 which is 3.3% and majority of the respondent are all the above directions are given by tax auditor 255 which is 85.0 % the taxpayers benefits from this because the tax audit gives clear direction to the company, 10 (3.3%) of the respondent cannot get any direction from the auditor. We conclude that if the tax audit department clearly indicates the direction or next step and the cost and benefit as well as about payment method to the taxpayers the taxpayers calculate their benefit and decide about payment and the cost of appeal and benefit of appeal and made a decision on each of the issues. Therefore the effect of tax audits on taxpayers behavior in a positive manner otherwise the tax audit affect taxpayers behavior negatively. So the above table and pie chart shows that tax audit has appositive effect on taxpayer's behavior.

4.4 The objective of tax audit

The main goal of a tax audit is to ensure that the details related to the income, expenditure, and tax-deductible expenditure information is filed correctly by the business undergoing an audit. The tax audit program is a toddler tool in improving voluntary compliance and increasing future revenue performance through educating and helping taxpayers to understand their tax obligations.

Auditors are expected to drive compliance through audit activity as follows;

i. Adjustments (assessments inclusive of penalties) made especially if they are not contested, are within the realm of the law and are fair usually impact on the compliance level of the taxpayers. This implies that tax auditors are required at all times to consider the relevant provisions of tax law in regard to any adjustment made to the taxpayer's declaration.

ii. Tax education provided inadvertently during audit. Audit presents an opportunity for auditors to educate their taxpayers on matters of tax law and especially the correct treatment of various accounts. Where this information is supplied to taxpayers who file inappropriate tax returns for lack of the requisite tax knowledge, their compliance levels are likely to improve provided that tact and respect for the audit client is adhered by the auditor.

Table 6 Audit objective Analysis

		Count	Column N %
Audit objective	Educating	55	18.3%
	Penalizing by additional Tax, interest and penalty	110	36.7%
	Both	135	45.0%
	penalizing by tax criminal	0	0.0%

The respondents were also asked to assert about the objective of tax audit as shown from the above table it is clear the audit that focuses on Educating the taxpayers only 55 which is 18.3%, Penalizing by additional tax 110 which is 36.7% and majority of the respondent are says both Educating and penalizing by additional tax 135 which is 45% and 9% which means no taxpayer is penalizing by criminal case in this branch. This shows that the objective of tax audit is more focus by the medium taxpayer's branch office as we understand from the above table by 18.3% educating only 36.7% penalizing additional tax only money payment and both of the above is accounted for 45% so 100% of the taxpayers in this branch goes with the above tax audit objective. . We conclude that if the tax audit department clearly all the procedure and tax audit laws the taxpayer's comply with the tax audit procedure, tax laws and regulations and the effect of tax audit on taxpayers behavior in a positive manner otherwise the tax audit affect taxpayers behavior negatively. So the above table and pie chart shows that tax audit has appositive effect on taxpayer's behavior.

This result in line with the ministry of revenue tax audit policy and manual (2018), The OECD attributes six grounds to taxpayer audits. These are:

a. Promotion of voluntary compliance.

b. Detection of non-compliance at the taxpayer level.

c. Gathering information on the "health" of the tax system (including patterns of taxpayer's compliance behavior).

d. Gathering intelligence information.

e. Educating the taxpayer.

f. Identifying areas of the law that require clarification or amendment

4.5 Cross Tabulation Sector with Annual Turnover, Audit frequency and Year of Establishment

Table 7 Sector and Annual turnover Analysis

Sectors * Annual Turnover Cross tabulation

		Annual Turnover					
		less than 10 million	10 to 20 million	20 to 30 million	30 to 40 million	more than 40 million	Total
Sectors	Manufacturing	8	15	5	8	41	77
	Construction	13	22	9	3	19	66
	Import & Export	27	21	6	10	33	97
	Service	8	18	19	3	12	60
Total		56	76	39	24	105	300

As show from the above table from the total number companies that have annual turn over 40 million 41 companies are manufacturing 19 companies are construction 33 companies are import and export and the rest 12 are service and companies which have an annual turnover between 30 to 40 million 8 of them are manufacturing 3 of them are construction 10 of the are import and export and the rest 3 are service annual and companies which have an annual turnover between 20 to 30 million 5 of them are manufacturing 9 of them are construction 6 of the are import and export and the rest 19 are service and companies which have an annual turnover between 10 to 20 million 15 of them are manufacturing 22 of them are construction 21 of the are import and export and the rest 18 are service and companies which have an annual turnover between less than 10 million 8 of them are manufacturing 13 of them are construction 27 of the are import and export and the rest 8.So most audited companies which have more than 40 million annual turnover are manufacturing and less are service and most audited companies which have annual turnover between 30 to 40 million are Import and export and less are service and most audited companies which have annual turnover between 20 to 30 million are service and less are manufacturing and most audited companies which have annual turnover between 10 to 20 million are construction and less are manufacturing and most company's which are audited by tax audit which have less than 10 million annual turnover are import and export and less are manufacturing and service.

Annual turnover of the company is depends on the sector. As you see from the above analysis the high annual turnover which is more than 40 million companies are manufacturing company. The Ethiopian investment commission regulation270/2016 gives an incentive of business tax holiday in a different regime for manufacturing companies as well as in medium taxpayer's branch office taxpayer's cannot register first and the annual turnover of the company must have more than 3 million. So annual turnover of manufacturing companies are higher than other sector because the population of Ethiopia is high and purchasing power is increasing from period to period. As the annual turnover increases the tax payment will increase and the taxpayers are willing to comply with the tax laws and regulation.

Table 8 Sector and Audited frequency Analysis

Sectors * Audit Frequency Cross tabulation

		Audit Frequency				
		1 times	2 times	3 times	more than 3 times	Total
Sectors	Manufacturing	34	9	7	27	77
	Construction	22	26	0	18	66
	Import & Export	34	44	2	17	97
	Service	10	10	7	33	60
Total		100	89	16	95	300

As show from the above table from the total number companies that are audited more than 3 times 27 companies are manufacturing 18 companies are construction 17 companies are import and export and the rest 33 are service and companies which have only 1 times audit experience are manufacturing 34 construction 22 import and export 34 and the rest 10 are service. So most audited companies which have an experience of more than 3 times are service and less are import and export and most audited companies which have an experience of 3 times only are service and less are construction and most audited companies which have an experience of 2 times are import and export and less are manufacturing and most company's which are 1 times audit experience are import and export and less are service.

Results of previous audits are Importance because the taxpayers have an opportunity to correct their errors which are made previously and comply with the tax audit procedure and tax laws to the next audit period.

Table 9 Sector and Year of establishment Analysis

Sectors * Years of Establishment Cross tabulation

		Years of Establishment					
		less than 3 years	4 to 7 years	8 to 11 years	13 to 15 years	more than 15 years	Total
Sectors	Manufacturing	3	18	17	11	28	77
	Construction	0	14	29	7	16	66
	Import & Export	0	24	23	18	32	97
	Service	0	7	11	19	23	60
Total		3	63	80	55	99	300

As show from the above table from the total number companies that are stays more than 15 years in an operation 28 companies are manufacturing 16 companies are construction 32 companies are import and export and the rest 23 are service and companies which have only stays in an operation less than 3 years are manufacturing 3 construction 0 import and export 0 and the rest 0 are service. So most long experience in the operation are import and export and less are construction and most company's which are short period of stay in an operation are manufacturing and less are the rest companies which are 0

First, they assume that a company must grow and pass through all stages of development or die in the attempt. Second, the models fail to capture the important early stages in a company's origin and growth. Third, these frameworks characterize company size largely in terms of annual sales (although some mention number of employees) and ignore other factors.

To develop a framework relevant to small and growing businesses, we used a combination of experience, a search of the literature, and empirical research. The framework that evolved from this effort delineates the five stages of development shown in Exhibit 2.

As the company years of establishment longer the tax audit frequency is more than one times this means the taxpayer have an opportunity to correct its error in the next tax period and comply with the tax audit procedure and tax laws as well as the company will grow its capacity from period to period and pay more tax.

4.6 Taxpayers Behavior Analyses with Sector, Annual Turnover and Audit frequency

4.6.1 Sector and behavior of taxpayer's behaviors

Table 10 Sector and behaviour of Taxpayer's

Taxpayer's Behaviours * Sectors Cross tabulation

Count

		Sectors				
		Manufacturing	Construction	Import & Export	Service	Total
Taxpayer's Behaviours	Yes	65	58	81	50	254
	No	12	8	16	10	46
Total		77	66	97	60	300

As show from the above table taxpayer's in the industry are asked a question in related to effect of tax audit on their company out of 300 sample taxpayer first 65 of a manufacturing company said yes tax audit has an effect on their company's behaviour and 12 of them said no tax audit does not has an effect on their company's behaviour second 58 of a construction company said yes tax audit has an effect on their company behaviour and 8 of them said no tax audit does not has an effect on their company's behaviour third 81 of a construction company said yes tax audit has an effect on their company behaviour and 16 of them said no tax audit does not has an effect on their company's behaviour and lastly 50 of a construction company said yes tax audit has an effect on their company behaviour and 10 of them said no tax audit does not has an effect on their company's behaviour.

From total 300 sample taxpayers who are audited by tax audit 254 which is 85% of taxpayers said tax audit has a positive effect on their behaviour and only 46 which is 15% of them are said tax audit does not have effect on their behaviour. So, we conclude that tax audit affect almost all types of taxpayers regardless to their sector or industry.

4.6.2 Annual turnover and behavior of taxpayer's behaviors

Table 11 Annual turnover and taxpayer's behaviour

Taxpayer's Behaviours * Annual Turnover Cross tabulation

Count

		Annual Turnover					
		less than 10 million	10 to 20 million	20 to 30 million	30 to 40 million	more than 40 million	Total
Taxpayer's Behaviours	Yes	40	67	32	20	95	254
	No	16	9	7	4	10	46
Total		56	76	39	24	105	300

As show from the above table taxpayer's which has different annual turnover were asked a question in related to effect of tax audit on their company out of 300 sample taxpayer first 40 companies which has an annual turnover of less than 10 million said yes tax audit has an effect on their company's behaviour and 16 of them said no tax audit does not has an effect on their company's behaviour second 67 companies which has an annual turnover of between 10 to 20 million said yes tax audit has an effect on their company's behaviour and 9 of them said no tax audit does not has an effect on their company's behaviour third 32 companies which has an annual turnover of between 20 to 30 million said yes tax audit has an effect on their company's behaviour and 7 of them said no tax audit does not has an effect on their company's behaviour fourthly 20 companies which has an annual turnover of between 30 to 40 million said yes tax audit has an effect on their company's behaviour and 4 of them said no tax audit does not has an effect on their company's behaviour lastly 95 companies which has an annual turnover of has more than 40 million said yes tax audit has an effect on their company's behaviour and 10 of them said no tax audit does not has an effect on their company's behaviour

From total 300 sample taxpayers who are audited by tax audit 254 which is 85% of taxpayers said tax audit has a positive effect on their behaviour and only 46 which is 15% of them are said tax audit does not have effect on their behaviour. So, we conclude that tax audit affect almost all types of taxpayers regardless to their annual turnover. But in related to individual annual turn over the more effected taxpayers are in their annual turnover are taxpayer's which as more than 40 million annual turnovers which accounted 95 out of 300 (32%).

4.6.3 Audited frequency and behavior of taxpayer's behaviors

Table 12 frequency of audit and taxpayers behaviour

Taxpayer's Behaviours * Audit Frequency Cross tabulation

Count

		Audit Frequency				
		1 times	2 times	3 times	more than 3 times	Total
Taxpayer's Behaviours	Yes	80	80	11	83	254
	No	20	9	5	12	46
Total		100	89	16	95	300

As show from the above table taxpayer's which has different experience of audit were asked a question in related to effect of tax audit on their company out of 300 sample taxpayer first 80 companies which has an experience of tax audit frequency 1 times has an effect on their company's behaviour and 20 of them said no tax audit does not has an effect on their company's behaviour second 80 companies which has an experience of tax audit frequency 2 times has an effect on their company's behaviour and 9 of them said no tax audit does not has an effect on their company's behaviour third only 11 companies which has an experience of tax audit frequency 3 times has an effect on their company's behaviour and 5 of them said no tax audit does not has an effect on their company's behaviour lastly 83 companies which has an experience of tax audit frequency more than 3 times has an effect on their company's behaviour and 12 of them said no tax audit does not has an effect on their company's behaviour.

From total 300 sample taxpayers who are audited by tax audit 254 which is 85% of taxpayers said tax audit has a positive effect on their behaviour and only 46 which is 15% of them are said tax audit does not have effect on their behaviour. So, we conclude that tax audit affect almost all types of taxpayers regardless to audited frequency. But in related to individual audited frequency the more effected taxpayers are taxpayer's which has an audit experience of more than 3 times which accounted 83 out of 300 (28%) this shows that as the audit experience increase from time to time the taxpayers comply with the tax audit laws and procedure and the next affected taxpayers on their behaviours which has less experience of tax audit which are 1 times which accounted 80 out of 300 (27%) this shows that as the audit experience is less taxpayers are effected by tax audit in a negative manner because taxpayers knowledge related to tax law are low.

4.7 Some tax audit procedure effect Statements on Taxpayers behavior

4.7.1 Planning Stage Tax audit procedure question

Table 13 planning stage questions

		Count	Column N %
Does the audit department informs you in letter to prepare your documents before or at the time of interview	No	27	9.0%
	Some what	127	42.3%
	Highly	146	48.7%

The first procedure of a tax audit is planning stage which started by sending engagement letter in advance to the taxpayer's to prepare their documents by giving appropriate days which is 10 working days as stated in the directive number 176/2014. The taxpayers asked whether the tax audit department send a letter to them in advance to prepare their documents. So as indicated in the above table majority of the respondent 146 (48.7%) said the tax audit highly informs them in advance, 127(42.3%) said the tax audit somewhat inform in advance and the remaining 27(9%) said the tax audit does not inform them in advance to prepare the document. So we conclude that the tax audit procedure that related to informing taxpayer's in advance have a positive influence on taxpayer's behaviour that means the tax auditor must inform the taxpayer's in advance by the engagement letter.

		Count	Column N %
Do the tax auditor interview has a detailed analysis of the nature of business, get basic information and understanding of internal control	No	62	20.7%
	Some what	61	20.3%
	Highly	177	59.0%

The other procedure regardless to tax audit procedure in the planning stage is interview the taxpayer's to understand the nature of the business and internal control of the taxpayers. This is the main and crucial stage of a tax audit because if the auditor cannot understand the nature of the business the audit process will incurred a problem and harms or benefited a taxpayer and the standard of audit indicate if the internal control of a taxpayers is strong the audit procedure focuses on other issues but if the internal control of the taxpayer's is weak the auditor gives more emphasis. The taxpayers asked whether the tax audit department interview format and questions are a detailed analysis of the nature of business; get basic information and understanding of your internal control. So as indicated in the above table majority of the respondent 177 (59%) said the tax audit interview question highly analyse the nature of business: get basic information and understanding internal control of as, 61(20.3%) said the tax audit interview question is somewhat in understanding the nature of business and internal control of our business and the remaining 62(20.7%) said the tax audit interview questions does not understand the nature of business and internal control of as. So we conclude that the tax audit procedure that stated about the interview question must have a detail analysis of the nature and internal control of the taxpayer's.

4.7.2 Execution Stage Tax Audit Procedure question

Table 14 Execution stage question

		Count	Column N %
Do the tax auditors communicate the findings in form of query to your company before the exit conference	No	39	13.0%
	Some what	58	19.3%
	Highly	203	67.7%
Do tax auditors present the findings in as per tax laws and accounting principle in detail at the exit conference?	No	56	18.7%
	Some what	54	18.0%
	Highly	190	63.3%
Do audit approaches (technique) made by the auditor are in accordance with the GAAS	No	26	8.7%
	Some what	34	11.3%
	Highly	240	80.0%

The other tax audit procedure is an Execution stage which seeks to implement the audit plan in order to obtain sufficient and appropriate audit evidence regarding aspects of tax leakage (risk) identified during planning phase. This is the also main and crucial stage of a tax audit procedure because the auditor gets small evidence in the planning stage of interview and risk identification but the audit evidence is collected and analyses in these stage. So auditor must analyse the audit evidence based on the professionalism and in accordance with the international audit standard and techniques and the income tax laws otherwise if the auditor cannot goes with the above issues with regard to the tax audit procedure the taxpayers behaviour will be affected. The taxpayers asked whether the tax audit department gives a finding in the form of query before the exit conference and that findings are allied with the international standards and the appropriate tax law. As indicated in the above table majority of the respondent 70.3% said the tax audit procedure is highly applied the proper audit standard and it is in accordance with the tax laws, 16.2% said the tax somewhat applied the proper audit standard and it is in accordance with the tax laws, 13.4% said the tax audit does not applied the proper audit standard and it is not in accordance with the tax laws,. So we conclude that the tax audit procedure that stated the exclusion stage the audit procedure or flow must interrelated with the tax laws as well as the international standards.

4.7.3 Completion Stage Tax Audit Procedure question

Table 15 Completion stage question

		Count	Column N %
Does the Tax auditor's give final assessment letter after the exit conference?	No	83	27.7%
	Some what	77	25.7%
	Highly	140	46.7%

The other tax audit procedure is an Audit completion is the final phase of the audit program and is as important as the audit planning and audit execution phase. It is at this stage that the audit is concluded notwithstanding that the taxpayer may appeal the outcome and will require a review of the audit findings and assessments thereof. The tax audit department assessment later is the final stage of the tax audit process. The assessment letter of a tax audit may be payment, Nil or refund or any adjustment like loss reduction, inventory, advance or other adjustment. So if the taxes audit asses the tax return of a taxpayers in a comprehensive audit it must be informed by an assessment letter because the adjustment that is made by tax audit department must informed to the taxpayer's in the form of assessment letter if not the taxpayer's negatively affected by the procedure. The taxpayers asked whether the tax audit department gives a final assessment letter whether it is payable, null or refund and any the above adjustment. As indicated in the above table the respondent 140 (46.7%) said the tax audit department gives an assessment letter whether it is payment, null or refund and any adjustment in any Circumstance (highly), 77 (25.7%) said the tax the assessment letter are given to them somewhat this means some if there is different tax type and audit adjustment and there is a payment on one tax type the tax auditor gives for the tax type that have payment but leave the rest assessed tax type or finding adjustment but not tax payment and 83 (27.7%) said the tax audit does not gives any assessment letter to the taxpayers. This is happen when the taxpayers have no payment but there is refund and null or loss reduced. So we conclude that the tax audit procedure that related to completion stated that the tax audit report must be a detail analysis of a finding.

4.8 Some deterrence effect of tax audit Statements on Taxpayers behavior

Table 16 Deterrence effect questions

		Count	Column N %
Does your company correct any errors before your company is selected by tax authority for audit by external or internal body as a result of any audit?	No	49	16.3%
	Some what	54	18.0%
	Highly	197	65.7%
Does your company pay more tax on the next tax period as a result of prior Audit?	No	63	21.0%
	Some what	107	35.7%
	Highly	130	43.3%
Do the Audit conducted by tax authority is benefit for taxpayer's for the next Audit period?	No	45	15.0%
	Some what	71	23.7%
	Highly	184	61.3%

The other effect of taxpayer's behaviour is deterrence deterrent theorists argue that if punishment is severe, certain, and prompt, a rational person will weigh the pros and cons before committing a crime. Due to this, the person will be deterred from committing a crime and violating a law. Deterrence effect of tax audit is a main part of the compliance for one to comply for the tax audit law from previous audit.The taxpayers asked whether the tax audit department findings gives a direction for the next tax period to adjust and pay more tax in the next tax period because the additional tax assessment made an additional cash for payment of interest and penalty and comply with the tax law. As indicated in the above table the respondent 56.78% said the tax audit department findings highly an education and correct or adjust in the next tax period and comply with the tax law and tax audit procedure, 25.78% said the tax audit findings are educating somewhat for adjusting for the next tax period in t and 17.44% said the tax audit findings does not educate as or the taxpayers do not made an adjustment. So we conclude that the deterrence effect of tax audit on the taxpayer's behaviour has a significant effect.

4.9 Some tax law effect Statements on Taxpayers behavior

Table 17 Tax laws Effect questions

		Count	Column N %
Do the draft tax laws are present to taxpayers and stakeholder for discussion and comment?	No	118	39.3%
	Some what	43	14.3%
	Highly	139	46.3%
Do tax laws related to tax audit are accessible for taxpayers?	No	94	31.3%
	Some what	29	9.7%
	Highly	177	59.0%
Do the tax Audit laws have an interpretation problem?	No	31	10.3%
	Some what	83	27.7%
	Highly	186	62.0%
Do the customs, National bank and other laws are interrelated with the domestic tax audit laws	No	59	19.7%
	Some what	40	13.3%
	Highly	201	67.0%
Do the tax laws related to tax audit amended frequently with the business environment?	No	79	26.3%
	Some what	26	8.7%
	Highly	195	65.0%

The other effect of taxpayer's behaviour is tax law effect which indicates in Article 28(1) of the Federal Tax Administration Proclamation, 983 of 2016, provides the legal basis for audit activity in Ethiopia and can be said to be the foundation upon which tax audits are premised and conducted. It provides that subject to this Article, the Ministry may amend a tax assessment (referred to in this Article as the "original assessment") by making such alteration, reductions, or additions, based on such evidence as may be available, to the original assessment of a taxpayer for a tax period. The taxpayers asked whether the tax laws related to tax audit are simply accessible for them, communicate before applicable, interpretation problem and interrelated to other organization laws as well as frequently amendment with the global issue As indicated in the above table the respondent 56.78% said the tax laws related to tax audit are simply accessible, frequently amended and interrelated to other organization laws as well as communicate to them before its application in a highly manner , 24.56% said the tax laws related to tax audit are simply accessible, frequently amended and interrelated to other organization laws as well as communicate to them before its application somewhat and 42.33% said the tax laws related to tax audit is not simply accessible, is not frequently amended and is not interrelated to other organization laws as well as is not communicate to them before its application. As indicated in the above table the taxpayers explain the draft tax laws are not present to them as well as to stakeholder for discussion or comment and the other issues are the accessibility of the tax laws as well as frequently amendment of tax laws. As indicated in different researches the tax laws accessibility must be simple and the draft laws are communicated before it applicable to the taxpayer's and the laws are amended frequently with the global issues. But the income tax proclamation are amended in Ethiopia after 14 years which is 286/2002 is amended to 979/2016 and the accessibility of tax laws are not simple because the website is working properly after 2019 and any tax laws was not communicate before its application to the taxpayer's before 2019.So we conclude that the tax must be amended frequently and they must be simply accessible to taxpayers as well as the draft tax law must be communicate to taxpayer before apply to the taxpayers.

4.10 Some Economic effect tax audit Statements on Taxpayers behavior

Table 18 Economic effect questions

		Count	Column N %
Because of the assessment of tax audit do your company face liquidity (cash) problem? To pay additional tax assessed by tax audit	No	83	27.7%
	Some what	92	30.7%
	Highly	125	41.7%
Does your Company reduce its labour (workers) because of the additional Tax Assessed Amount?	No	153	51.0%
	Some what	114	38.0%
	Highly	33	11.0%
Because of the assessment of tax audit do your company losses biding, loan from financial institution or other opportunity?	No	119	39.7%
	Some what	140	46.7%
	Highly	41	13.7%
Because of the assessment of tax audit do your company revenues and net income as well as indirect taxes are reduces in the next tax period?	No	104	34.7%
	Some what	166	55.3%
	Highly	30	10.0%

The other effect of taxpayer's behaviour is Economic effect of tax taxpayers link the tax they pay to the ability of the State to fund expenditure on public goods and services (Barone and Mocetti, 2009). If there is a perception that the government spends tax revenues wisely, this should encourage tax compliance or the taxpayer's may be affected by the different problem like liquidity. The taxpayers asked whether the tax audit department Additional tax assessment affect their liquidity and face a problem and majority 125 which is 41.7% of them said additional tax assessment affected them highly and 92 which is 30.7% said the additional tax assessment affect them in somewhat way and 83 which is 27.7% said the additional tax assessed by tax audit has no effect on their liquidity. The taxpayers asked whether the tax audit department Additional tax assessment affect them to reduce their labour force 153 which is 51% of them said additional tax assessment does not force to reduce their work labour and 114 which is 38% said the additional tax assessment affect them in somewhat way to reduce their work labour force and 33 which is 11% only said the additional tax assessed affect them in high manner to reduce their work labour force. So we conclude that the deterrence effect of tax audit on the taxpayer's behaviour has a significant effect.

CHAPTER FIVE

5 INFRENCIAL DATA PRESENTATION, ANALYSIS AND INTERPRETATION

5.1 Introduction

The primary focus of this study is to examine the effect of tax audit on taxpayer's behaviour with regarding to auditing practice of the revenue office and the taxpayers in medium taxpayers branch office'. This response rate of 100% is typical for a sent survey in general and quite good for more complex data collection as was requested in this study of the 300 individuals that participated in the study.

The data collected from the returned questionnaire were entered into SPSS (Statistical package for social science software) version 26 for analysis. Binary Logistic regression where used to analyse and interpret the inferential analysis of the research.

5.1 Application and Model Fitting Information

The model used for this study, binary logistic, was applied for the 300 taxpayers who have responded for the distributed questionnaire. For the analysis of effect of tax audit on taxpayers behavior of respondents (tax payers), the Hosmer Lemeshow test of model fitting was applied as it is the most commonly used one. The test was used to evaluate the status of model fitting where it can best be used to explain the data outputs. The test was run for the 4 independent variables to be included in the model as listed above. Using this method, the model was found to be best fitting with the current data collected for the study.

This was asserted by the Hosmer Lemeshow goodness of fit test and the model summary as shown in the table below

Table 19 Model Summary

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	150.216[a]	.300	.521

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

As a part of the pseudo R squared value the Nagelkerke R squared value shown above indicates the fact that 52% of the variability in the dependent variable which in this case is taxpayers behaviour, is explained by the 4 independent variables listed above. It is the summation of these independent variables entered in the model that helps us to explain the status of effect of tax audit among the taxpaying business community behaviour in the study area. The remaining 48% of the variation in the status of taxpayer's behaviour is due to other factors not included in the model and the error term (unexplained variables).

Table 20 Hosmer and Lemeshow Test

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	4.462	7	.725

The above table 4.1 for Hosmer Lemeshow goodness of fit test indicates the presence of non-significant difference of 0.725 showing that the model is well fitting to the existing data collected for the study. The first table of the model summary shows the predictive capacity of the model as a effect on taxpayer behaviour or do not have behaviour effect based on data generated from the survey In all cases, the difference between the predicted and observed values of tax behaved and non-behaved is very narrow indicating the high predictive capacity of the model. This is illustrated as part of the Hosmer Lemeshow goodness of fit test and is shown as in the table below:

Table 21 Contingency Table of Hosmer and Lemeshow test

Contingency Table for Hosmer and Lemeshow Test

		Taxpayer's Behavor = Yes		Taxpayer's Behavor = No		
		Observed	Expected	Observed	Expected	Total
Step 1	1	30	29.953	0	.047	30
	2	32	31.799	0	.201	32
	3	29	29.492	1	.508	30
	4	30	30.189	1	.811	31
	5	2	1.913	0	.087	2
	6	67	65.200	2	3.800	69
	7	34	31.861	2	4.139	36
	8	17	19.825	11	8.175	28
	9	13	13.768	29	28.232	42

Econometric Model Results on Predictors of Taxpayers Behaviour

For the analysis of effect of tax audit on taxpayer's behaviour, a binary logistic regression model was applied. Taxpayer's behaviour as previously defined is a categorical dependent variable explained either through behaved or non- behaved with the tax audit. Taxpayer's behaviour as a function of these two categories is determined by effect on each of these categories. The analysis, as indicated above, was run using the above listed variables. The following table shows econometric model results on effect of tax audit the two categories of taxpayer's behaviour.

Table 22 Economic Model result interpretation

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1[a]	Tax Audit Procedure	2.196	.424	26.790	1	.000	8.986
	Deterrence Effect	1.319	.353	13.970	1	.000	3.741
	Tax Law	2.158	.382	31.901	1	.000	8.658
	Economic Effect	-1.038	.343	9.144	1	.002	.354
	Constant	-12.114	1.749	47.970	1	.000	.000

a. Variable(s) entered on step 1: Tax Audit Procedure, Deterrence Effect, Tax Law, and Economic Effect.

The fitted model equation

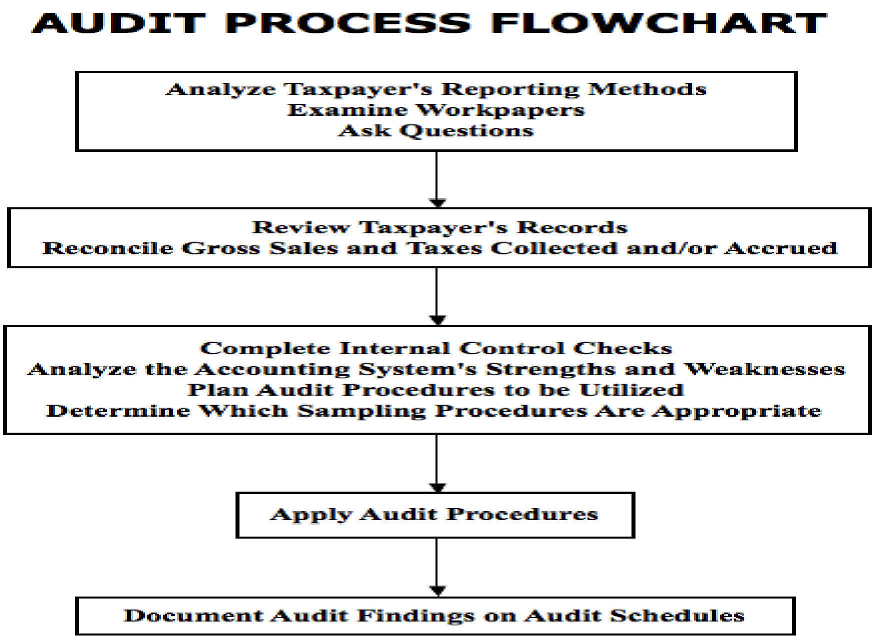
logit(p)=b0+b1x1+b2x2+b3x3+b4x4+€

TB=b0+b1TAPE+b2DE+b3TLE+b4EE+€

TB=-b1(8.986)+b2(3.741)+b3(8.658)+b4(0.354)

As shown in the table above, among the 4 predictors of taxpayer's behaviour, all 4 were found to be significant. Among these, Tax Audit procedure, Deterrence, Tax Law, and Economic were found to be significant in explaining the reasons for taxpayer's behaviour in medium taxpayer's branch office.

Figure 13 Tax audit process flow chart



As show from the above table tax audit procedure was found to be highly significant 0.00 (at 1% level). Thus we reject the null hypothesis which says tax audit procedure has no significant influence on the taxpayer's behaviour and conclude that tax audit procedures are significant and positive effect on taxpayer's behaviour.

The study results displayed in the above table have shown that taxpayer's those properly apply the audit procedure are by 8.98% more likely the change in their behaviour than those who haven't apply the tax audit procedure other variable remaining constant.

The theory of planned behaviour incorporates attitudes as one of the determinants of behaviour and these attitudes represent the positive and negative evaluations that an individual has for an object. This attitude affects intentions and which in turn affect behaviour (Kirchler, 2007). According to Ajzen (1991), in relation to taxation and taxpayer's attitudes, it may be defined as positive or negative views towards tax compliance or compliance and noncompliance in the case of the current study. The outcome of positive views towards taxation is tax compliance and a negative view is tax noncompliance. The reasons why taxpayer's actually pay tax varies but the plausible reasons why the study targets comply with this system has been surveyed with some of these reasons adopted from literature and personal experience.

As the theory of planned behaviour and research related to taxpayers behaviour indicates the behaviour of taxpayer’s has affected positively or negatively by the procedure applied by the tax audit department. So, this research also aligned with the theory of planned behaviour which indicates that tax audit procedure has a positive effect on taxpayer’s behaviour if the tax audit applies the procedure properly.

The research studied by Ashenafi. B, 2018 about the complexity of the tax system has a positive and significant effect in explaining the tax compliance behaviour of respondents in the study area. Meanwhile, complexity of the tax systems was found to lead business tax payers of the study areas not to comply.

As the study of Ashenafi B. 2018 indicates the taxpayer’s behaviours is affected by the tax system. So, this research also aligned with the above research which indicates that one of the tax system that influence taxpayer’s behaviour is tax audit procedure has a positive effect on taxpayer’s behaviour if the tax audit applies the procedure properly.

The Economic and Social Review, Vol. 43, No. 3, Autumn, 2012, pp. 451–475 stated that key assumption in decision making is that people are capable of assessing a range of complex choices, and by correctly evaluating all of the available information, select the option with the best outcome for them. In reality it is rare to find situations in which people are fully informed of all their choices and always select the best option (Thaler and Sunstein, 2008). Faced with a range of choices, picking the correct option depends on calculating probabilities of events or risks occurring. In practice people tend to revert to rules of thumb (heuristics). While these rules of thumb may work in many cases, which explains why people fall back on them, they will be subject to biases by the person and this can lead to poor choices (Delaney and Harmon, 2009). For many people, tax is a complex subject and this complexity has been shown to contribute to non-compliance (GAO, 2011). OECD (2010) argues that tax administrations have tended to overlook the “lazy non-compliers” – taxpayers who would have complied if the opportunity for compliance had been easier.

As the study of the study by Ireland revenue indicates the taxpayer’s behaviours is affected by Complexity of tax system. So, this research also aligned with the above research which indicates that as the tax system is complex the taxpayer’s tends to noncompliance and if the tax system is not complex the taxpayer's tend to comply. So, that tax audit procedure simplifies the complexity of tax system for taxpayer's and the taxpayers tend to comply.

In general the study analysis the question based on the definition of the variable which states tax audit procedures are the way that tax auditor performs its duty on the bases of tax audit manual (planning, execution and completion), tax laws and international standards. So we conclude that this research is aligned with the above research and the theory of planned behaviour which states tax audit procedure has a significant effect on taxpayer's behaviour and the theory argues incorporates attitudes as one of the determinants of behaviour and these attitudes represent the positive and negative evaluations that an individual has for a tax audit.

Deterrence effect of tax audit

As show from the above table deterrence effect was found to be highly significant 0.00 (at 1% level). Thus we reject the null hypothesis which says deterrence has no significant influence on the taxpayer's behaviour and conclude that deterrence are significant and positive effect on taxpayer's behaviour.

The study results displayed in the above table have shown that taxpayers those affected by deterrence effect of tax audit are by 3.74% more likely the change in their behaviour than those who haven't affected by deterrence effect of tax audit.

The economic models of deterrents suggest that most crimes are committed by rational people who consider whether the crime is worth the risk of possible punishment. The theory holds that more people will commit crimes without the threat of punishment. Scholars argue that increasing criminal certainty is more effective than increasing penalties for transgressions.
Therefore, deterrent theorists argue that if punishment is severe, certain, and prompt, a rational person will weigh the pros and cons before committing a crime. Due to this, the person will be deterred from committing a crime and violating a law.
These research also alien with this standard model of tax compliance, derived from Becker (1968) and Allingham and Sandmo (1972), assumes that a rational taxpayer assesses the costs and benefits of evading taxes. If the expected benefits (less income "lost" to tax) outweigh the costs (the chances of a non-compliant taxpayer being caught and the sanctions incurred) then the taxpayer will evade tax. The taxpayer makes a rational choice having considered the options. Deterrence is a vital tool (audit, other interventions and sanctions) for any tax

administration. A targeted approach to deterrence is likely to be more effective. Increasing the perceived likelihood of getting caught raises the cost of evasion and the tax administration has other options to reduce opportunities for evasion as well as increasing the likelihood of audit or imposing harsher sanctions. Examples of this in Ireland are Revenue's extensive use of third party data or withholding tax systems (such as pay as you earn (PAYE) income tax).6 Increasing the level of deterrence is often an expensive process for the tax administration and it is not guaranteed to improve compliance. Deterrence (the risk of detection and the punishments incurred) should positively influence taxpayer compliance (Slemrod, 2007). However, the empirical evidence is somewhat mixed. OECD (2010) discusses several studies that examine the role of deterrence. Some findings are as expected (increases in the probability of detection improve compliance) but the effects are quite weak. One reason is that auditing compliant taxpayers is found to sometimes undermine their willingness to comply. In some cases taxpayer behaviour is found to worsen after an audit (either to get back "losses" or in the belief that they will not be targeted again). The standard model alone is not enough to explain the level of compliance in society (Braithwaite, 2009; Phillips, 2011). The evidence suggests that, given the probability of being caught evading taxes and the size of the punishment if caught, the level of tax evasion should be higher than it is in many countries (i.e., that taxpayers should evade taxes more than they actually do). One explanation is the tendency of people to overestimate the probability of being audited and the sanctions that might follow if evasion is uncovered (Reeson and Dunstall, 2009). However, others factors beyond deterrence also influence taxpayers and these are discussed below.

Deterrence effect of tax audit question uses for this analysis is tends on the bases of the definition of the variable which states tax deterrence effect means the effect of the tax audit to the taxpayers itself to correct in the next tax period or to other taxpayers to use the audit finding of other taxpayer for them and learn from this So we conclude that this research is aligned with the above research which states deterrence have a significant effect on taxpayer's behaviour and the theory of deterrence which argue that if punishment is severe, certain, and prompt, a rational person will weigh the pros and cons before committing a crime. Due to this, the person will be deterred from committing a crime and violating a law with related to tax.

Tax Law related to tax audit.

As show from the above table tax laws was found to be highly significant 0.00 (at 1% level). Thus we conclude that tax laws are significant and positive effect on taxpayer's behaviour. The study results displayed in the above table have shown that those comply with tax laws properly are by 8.658% more likely the change in their behaviour than those who haven't comply with the tax law.

The Trans theoretical Model (Prochaska & DiClemente, 1983; Prochaska, DiClemente, & Norcross, 1992; Prochaska & Velicer, 1997) is an integrative model of behavior change. Key constructs from other theories are integrated. The model describes how people modify a problem behavior or acquire a positive behavior. The central organizing construct of the model is the Stages of Change.

This research alien with the income tax proclamation 979/2016 and tax administration proclamation 983/2016 which indicates, the assessment of taxpayers compliance with the tax laws (Proclamations) during audit activity for a given tax period demands of the auditor superior working knowledge of tax law and its connection (interface) with the accounting framework relevant to the taxpayer if fair & accurate tax assessments are to be issued.

Exercising fairness in the course of duty (audit activity) is a cardinal obligation required of the auditor as envisaged by article 6(2) of the Federal Tax Administration Proclamation. Fair tax assessments reduce the incidences of tax appeals which in turn increase taxpayer confidence in the Ministry reflected in improved compliance. Article (28(1)) envisages evidence based audit activity and requires the use of robust audit procedures to collect appropriate audit evidence. This implies that the use of arbitrary methods to raise tax assessment would be outside the premises of the law (tax) and are subject to litigation. Accordingly, auditors are required at all times to use credible information from trusted sources for example declarations by consumers (inputs), IFMS etc. Taxpayers are equally under obligation to maintain records for purposes of the tax law (Article 17 of the Federal Tax Administration Proclamation), to ensure that the evidence required by the auditors is availed.

Tax laws question uses for this analysis is tends on the bases of the definition of the variable which states tax laws means the proclamation, regulation and directives related to tax audit that apply to taxpayers in the time of audit. So we conclude that this research is aligned with the above proclamations which states tax laws related to tax audit have a significant effect on taxpayer's behaviour.

Economic effect of tax audit

As show from the above table economic effect was found to be highly significant 0.002 (at 1% level). Thus we conclude that economic effects are significant and negative effect on taxpayer's behaviour. The study results displayed in the above table have shown that those economically affected by the tax audit are by 0.354% less likely the change in their behaviour than those who haven't economically affected by tax audit.

Economic theories may give a framework of thinking that helps economists to evaluate, understand, and forecast the behavior of financial markets, companies, and governments.

However, economists frequently apply theories to the difficulties or events they see to gain helpful insight, give explanations, and develop viable solutions to problems. This study also alien with the economic theories which state the behavior of taxpayers affected the decision made by tax auditor by assessing additional tax.

This research also alien with the Economic and Social Review, Vol. 43, No. 3, Autumn, 2012, pp. 451–475. Taxpayers link the tax they pay to the ability of the State to fund expenditure on public goods and services (Barone and Mocetti, 2009). If there is a perception that the government spends tax revenues wisely, this should encourage tax compliance. If taxes are associated with spending that the taxpayer values (for example, schools or hospital beds), then the taxpayer is likely to be less reluctant to comply. Economic conditions are important to compliance. For example, businesses with liquidity problems may be more likely to consider evading taxes. Although the research is limited, at a more macroeconomic level, factors that promote growth also encourage tax compliance (OECD, 2010). Likewise, economic downturns are often associated with increased evasion. Higher tax rates are linked with evasion if they incentivise taxpayers to move into the shadow economy

As indicates on the economic theories this theory helps economists to evaluate, understand, and forecast the behaviour of financial markets, companies, and governments and economic effect question uses for this analysis is tends on the bases of the definition of the variable which states Economic effect means the consequence of additional tax assessment released from the tax audit in the taxpayers that harms them in the liquidity and other types of economic problem. So we conclude that this research is aligned with the above research which states economic have a significant effect on taxpayer's behaviour as well as the economic theories which indicates the model is used to analyse the behaviour of taxpayers.

CHAPTER SIX

6. SUMMARY, CONCLUSION AND RECOMMENDATION

6.1 Summary

The purpose of this study was to examine the effect of tax audit on taxpayers behaviour using statistical analysis; both descriptive and inferential statistics. The research instruments were survey questionnaires developed with non-probability sampling of convenience sampling. A total of 300 copies of questionnaire were distributed to taxpayers of medium taxpayer's branch office. The entire 300 question is returned and used for analysis. By using reliability 47 items were tested and which have a good loading value and reliability scale was treated for analysis. Since each construct was affected by other constructs, regression analysis was conducted by the models, using taxpayer's behaviour as dependent variable and other as predictor, for testing the hypotheses proposed. A tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behaviour and activities. The study applied quantitative approach to describe and evaluate the effect of tax audit on taxpayer's behaviour. In the chapter four and chapter five of this research, the primary data has been analysed and interpreted in relation with the statement of the problem and objectives of the study. Then in this chapter the major weakness/gaps that effect of taxpayer's behaviour are presented.

This research has the following summary of findings

- The respondent comprises both employee of the company as well as the shareholder and manager of the company this means the information that we get is more accurate and reliable.
- In regard to experience majority of the respondents have greater than or equal to 5 years of worked experience and when we come to level of education majority of the respondents are bachelor and master degree holders and their field of study are business and economics.
- The sectorial analysis of the audit all the sectors are equals chance of auditing experience.
- Majority of the taxpayers which included in this audit are an experience of more than 10 years of operation.

- Majority of the taxpayers which included in this research are an annual turnover of more than 20 million.
- Majority of the taxpayers which included in this research are an experience of audit more than 3 times.
- Audit adjustment and a direction given by tax auditor are more important and have a significant effect on taxpayer's behavior.

6.2 Conclusions

The results of the study enable us to conclude that tax audit procedure, deterrence effect, Tax law effect, as well as economic effect are significantly influence taxpayer's behaviour in the organization studied.

The all the predictor variables are dominant factor in predicting taxpayer's behaviour. The results of study demonstrated that tax audit procedures are those states in tax audit manual of the ministry of revenues which consist of planning, execution and completion stages so the tax auditors must apply this procedure in the tax audit process and if the tax audits apply the procedure or not apply this procedure the taxpayer's behaviour will be affected. So this research concludes that tax audit procedure is significantly and positively affects taxpayer's behaviour. Deterrence effect of tax audit will both for the audited taxpayer's for the next tax period for others to learn from other taxpayer's which are audited and comply with tax law. So the research also concludes that deterrence effects is significantly and positively affect taxpayer's behaviour. The tax law related to tax audit is also an effect on taxpayer's behaviour in relation to what types of laws will apply and which tax law cannot be applied to a specific audit process. So this research concludes that tax law is significant and positive effect on taxpayer's behaviour. The economic effect of tax audit is related to the additional tax assessed by tax auditor this means the revenue generated by tax auditor is contributed to tax revenue but it made an effect of liquidity problem on taxpayers. So this research concludes that economic effect is significant and negative effect on taxpayer's behaviour.

Findings of the research indicated that majority of the respondents replied that, if the tax audit procedure, tax laws are properly applied and if the tax auditor educating the taxpayer's in penalizing by additional tax assessment and educating tax payers for the next tax period. It can be concluded that most taxpayers are compliant behaviour as result of that audit effect.

6.3 Recommendations

On the base of the findings/conclusion derived; the following recommendation was made by the researcher. In order to improve taxpayer's behaviour, medium taxpayer's branch office of the ministry of revenues should consider the following points:

6.3.1 Policy recommendation

- As we explain in the chapter two of this research taxpayer's behavior is affected by deferent factors. As we studied by this research tax audit is the main influencer of the taxpayer's behavior because the tax audit has a vital role on both taxpayer's as well as tax office. The ministry of revenue gives more emphasize on tax audit to change the behaviors of tax audit.
- The ministry of revenue gives more attention to the taxpayers to educate the tax laws and amend the tax laws frequently that match with the current global economy.
- Create a good work environment by encouraging relationship among tax auditors and taxpayers, increase salary, and immediate supervisors so that they are motivated in performing tasks/activities in the office.
- The ministry of revenues should consider on the convenient tax audit system as well as making brief tax law, policies, rules and regulations in the office.
- The ministry of revenues tax laws must interlink with the international auditing standards and accounting principles.
- The ministry of revenues focuses on the taxpayer's behavioral change with related to compliance cost, frequently update the tax law, smooth relationship with taxpayer's and technological effect on taxpayers.
- The ministry of revenues must focuses on the capacity of tax auditor with the current situation in order to give professional audit conclusion and has appositive effect on taxpayer's behavior.
- The ministry of revenues must focus on the new technology that apply to taxpayer's about e-filing, e-payment and other issues that related with tax audit
- The ministry must use the computer assisted audit technique for simplify the auditing process and reduce compliance cost of taxpayer's.

6.3.2 Future Research Implications

The results will have important implications and is believed to be helpful for all ministry of revenues branch office. While this study has revealed some interesting results, one should be careful of its limitations related essentially to its sample size and scope of the study and the other factors that affects taxpayer's behaviour like attitude, Norm, Economic, Business and the like.

Although the researcher believes that this study is deep, it is still believed that it can be further extended to include more respondents from externals to make it more realistic and more reliable. Finally, due to different factors I couldn't touch other dimensions of taxpayer's behaviour. Thus, further research needs to contain more desirable dimensions, in order to gain better insight.

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Appendix 1 Survey questioner

Dear participants

This study is entitled “The Effect of Tax Audit on Taxpayers Behaviour in Medium Taxpayer’s Branch Office” of the Ministry of Revenues. The researcher is Eshetu Teka who is currently a Tax Audit Team coordinator in medium taxpayer’s branch office. The researcher going to ask you some questions about your company as well as the effect of tax audit on your business. Your participation in this study is completely on voluntary bases and you have the right to refuse, to take part or to contact at any time. But the information that you will give us is quietly useful to know about the effect of tax audit on taxpayer’s behaviour on Medium Taxpayer’s Branch Office.

I would like to assure you your name will not be mentioned in anywhere. The information that you will give us will be kept confidential and only be used for this research purpose.

For further information, please contact Eshetu Teka by the following address:

Tel.: +251 913 74 82 61

E mail: eshetekus@gmail.com

Instruction: Please make a tick (√) mark you thought appropriate questions on the box’s.

I thank in advance

Part I General information

1. What is Your position in the company

   Owner and manager

   Manager

   Employee

2. How long have you been in the company?

   Less than a year 1 to 3 years 3 to 5 years more than 5 years

3. What is your level of Education

   Less than 12 grade Diploma Degree Master and above

4. What is your field of study?

   Business and Economics Engineering Other None Profession

5. What are the main Operations of your company? Multiple answer is possible

   Manufacturing Construction Import and Export Hotel Wholesaler

   other-----------

6. For how many years are the company stays in this operation?

   Less than a year 1 to 5 years 6to 10 years 11 to 15 years More than 15

7. For how many times did your company Audited?

   1 Time

   2 Times

   For 3rd Time

   More the 3 Time

Part II Questions related Tax Audit procedure

8. Does the audit department informs you in letter to prepare your documents before or at the time of interview

   No

   Some what

   Highly

9. Do the tax auditor interview has a detailed analysis of the nature of business, get basic information and understanding of internal control

   No

   Some what

   Highly

10. Do the tax auditors communicate the findings in form of query to your company before the exit conference

No ☐

Some what ☐

Highly ☐

Do tax auditors present the findings in as per tax laws and accounting principle in detail at the exit conference?

No ☐

Some what ☐

Highly ☐

13. Do audit approaches (technique) made by the auditor are in accordance with the GAAS

No ☐

Some what ☐

Highly ☐

14. Does the tax Auditor understand the nature of your business as well

No ☐

Some what ☐

Highly ☐

15. Does the Tax auditor's gives final assessment letter after the exit conference?

No ☐

Some what ☐

Highly ☐

Part III Question related to deterrence

16. What types of adjustments are given by auditor for the next tax periods

On VAT credit forward to next month on closing period ☐

Fixed assets adjustment book value ☐

Withholding tax refund ☐

SIGTAX and Manual reconciliation ☐

Inventory adjustment ☐

Loss Carried forward ☐

No direction is indicated by tax auditor ☐

17. what kinds direction is given by auditor in the Exit conference

How and when to Appeal ☐

What is the benefit for appeal and what you are going to cost you? ☐

About payment of additional tax assessed ☐

No direction is indicated by tax auditor ☐

18. Which of the followings are more focused by tax auditors
    - Educating taxpayer only ☐
    - Penalizing by additional tax, interest and penalty ☐
    - Both educating and additional tax ☐
    - Penalizing by tax criminal ☐

19. Does your company correct any errors before your company is selected by tax authority for audit by external or internal body as a result of any audit?
    - No ☐
    - Some what ☐
    - Highly ☐

20. Do your company made an adjustment on the above issues (#15) on the next tax period?
    - No ☐
    - Some what ☐
    - Highly ☐

21. Do your company benefited from the above directions (#16) given by the Auditor?
    - No ☐
    - Some what ☐
    - Highly ☐

22. Do the Audit conducted by tax audit is focuses on Penalizing by additional tax, interest and penalty?
    - No ☐
    - Some what ☐
    - Highly ☐

23. Does your company pay more tax on the next tax period as a result of prior Audit?
    - No ☐
    - Some what ☐
    - Highly ☐

24. Does your company reduce its operational capacity, Total Revenue or Other as a result of audit?
    - No ☐
    - Some what ☐
    - Highly ☐

25. Do the Audit conducted by tax authority is benefit for taxpayer's for the next Audit period?

No ☐

Some what ☐

Highly ☐

Part IV Question related to tax audit laws

26. Do the draft tax laws are present to taxpayers and stakeholder for discussion and comment?

No ☐

Some what ☐

Highly ☐

27. Do tax laws related to tax audit are complex?

No ☐

Some what ☐

Highly ☐

28. Do tax laws related to tax audit are accessible for taxpayers?

No ☐

Some what ☐

Highly ☐

29. Do tax laws related to tax audit are informed to the taxpayers prior to its enforcement?

No ☐

Some what ☐

Highly ☐

30. Does the audit finding focus on tax law, rules and regulations?

No ☐

Some what ☐

Highly ☐

31. Do the tax Audit laws have an interpretation problem?

No ☐

Some what ☐

Highly ☐

32. Do the customs, National bank and other laws are interrelated with the domestic tax audit laws

No ☐

Some what ☐

Highly ☐

33. Do the tax laws related to tax audit amended frequently with the business environment?

No

Some what

Highly

34. Do the tax audit laws have a benefit for taxpayers?

No

Some what

Highly

Part V Question related to Economic effect

35. Because of the assessment of tax audit do your company face liquidity (cash) problem? To pay additional tax assessed by tax audit

No

Some what

Highly

36. Does your Company reduce its labor (workers) because of the additional Tax Assessed Amount?

No

Some what

Highly

37. Because of the assessment of tax audit do your company losses biding, loan from financial institution or other opportunity?

No

Some what

Highly

38. Because of the assessment of tax audit do your company revenues and net income as well as indirect taxes are reduces in the next tax period?

No

Some what

Highly

39. Does the tax audit Assessment Amount is out of the reality in your business?

No

Some what

Highly

Part VI Question related to taxpayers behaviour

40. Does Your Company affected by tax audit procedure that applies to your at the time of audit

Yes ☐ No ☐

41. Does Your Company affected by the prior audit findings for next tax period?

Yes ☐ No ☐

42. Does Your Company affected by tax laws that applies to your company's at the time of audit

Yes ☐ No ☐

43. Does Your Company affected by tax audit assessed amount to your company's at the time of audit

Yes ☐ No ☐

Thank you for your response

Appendix 2 Notice of Intention to Audit

Comp /Tax payer Name

TIN

Address: Region Sub City Woreda House No. Tel. No.

Subject: - Notice of Intention to audit under Income tax proclamation 983/2016 article 18, VAT proclamation 285/2002 article 30 sub article 2(b), Turnover tax proclamation 308/2002 article 12 sub article 2(b), Excise tax proclamation 307/2002 article 9 sub article 2

Notice is hereby given under the above legislations of an intention to carry out an audit on your operations for the years of ……………...

The audit will cover Accounts, Business income tax; VAT, Payee, Withholding tax, Excise tax, and others schedule D taxes.

You are therefore required to avail for examination the records, books of accounts and other documents on or before ……………………. If this is not done, the Ministry will assess the tax based on the available information.

The required books/ records/ documents should include, but are not limited to the following:-

- Sales and Purchases invoices, Receipts, Credit Notes, Debit Notes
- Journals
- Ledgers/soft copy backup
- Cash Books
- VAT Records and Returns
- Excise Records and Returns
- Other relevant documents

The audit will be conducted mainly at Tax office and at your business premises when it's necessary. In order to perform the audit, the under named auditors are assigned.

1. Ato/W/r…………………..

2. Ato/W/r……………........

With regards

Notice received by: Name Position/title Date

Annex 3: Entrance Interview Questionnaire

Comp/Tax payer Name: ………………

TIN No.…………………

2. Business sector-------------------------------

3. Address: …………………………………………………..

4. Name and position of those present at interview:

On behalf of the taxpayer	On behalf of the Ministry
1.	1.
2.	2. .

5. Date and time of interview ______________ Place_____________________

6. Reasons for interview:________________________

7. Explain Scope of Audit: __________________________

8. Agenda:____

____

9. How Many years have you been in the business Industry?

____

10. What type of business activities do you perform?

____

11. What are the major suppliers of the company and origins of your company suppliers?

____

____

12. What are the major customers of the company and addresses?

____

____

13. Specify the Value Added Taxable, Tax-exempted and Zero Rated supply of goods and services of your company.

____

14. Explain other sources of Income your company earned other than the main operations.

____

____

15. Describe the locations of your company, Ware Houses, sales outlets, etc both for Raw Material, inventory and Finished Goods.

____

16. Provide all your company Bank Names and Account Numbers.

____

____

17. Explain the amount and source of any loans from Financial Institutions.

____

18. Explain the type and ownership of properties your company use as a collateral for loan applications.

____

19. Explain the amount and source of any loans from Owners of the company.

____

20. Explain the names and amounts of any loan from Individuals, Business Organizations, Affiliated Companies, Relatives or employees of your company.

____

____

21. Describe the costing systems of your company follows for cost allocation purposes of either standard costing or actual costing and for Services rendered.

____

22. Provide the names of cheque signatories for various payments.

____

23. Describe the roles of the General Manager in the preparations of financial documents and financial statements.

____

24. Describe the roles of the General Manager and Owners' of the company in purchase activities.

____

25. Who prepares and maintains books of accounts of your company?

____

26. Describe how you treat Sales Returns.

____

27. Describe how you determine Selling Price for your goods and/or services.

____

28. If your company accounting system is computerized, provide the type of Software you use and the Organization whom install and customized it for your company's business.

____

29. Explain the type of financial documents you use such as Cash Payment Vouchers, Credit Sales Invoices, Cash Receipt Vouchers and others.

____

30. Who approves payments for various purchases/ expenses?

____

31. Provide the name of your company External Auditors.

____

32. Describe the responsibilities of Owners' relatives in the preparations and maintenance of financial documents and financial statements.

____

33. Are there related parties with transactions under the definition of related party under Income Tax proclamation 979/08 and Tax Administration 983/08? If yes, state the names, nature of relationship and amounts of transactions.

____

____

34. Please provide us any additional issues and information that might be relevant for our assessment of your tax liability for the above mentioned Tax Periods.

____

____

Appendix 4 Exit Conference Format

Ethiopian Ministry of Revenues Medium Taxpayer's Branch Office

Audit Exit Conference

Place of meeting

Taxpayers/ Company Name:

TIN

VAT No.

Company's phone No.

Business type

Audit coverage from to _ _____

Reason why the company selected for audit

Audited tax type

Auditor's name

Team coordinator name

Name of participant	Position	signature
1. ______________	____________________	_______________
2. ______________	____________________	_______________
3. ______________	____________________	_______________
4. ______________	____________________	_______________

Discussion Agenda:

- About All records examined
- A detailed description of audit procedures used and audit adjustments supported with evidence

where appropriate;

- Minor errors for which no adjustments were made;
- Applicable law and procedures;
- Any additional information the taxpayer may provide within a set time to reduce the tax liability;
- Taxpayer’s objection and disagreements with the audit;
- Proposed tax adjustments;
- Payment procedures;
- Policies and procedures pertaining to penalty and interest imposition waiver
- Also Auditors are required to educate the taxpayer as to the proper procedures to follow in future, and make recommendations on proper reporting methods without attempting to redesign the taxpayer’s accounting system.

1. Audit Methodology for

a)Revenue/Sales

b) Cost of good sales/Purchase.

c)Expenses

2. Findings on

a)Revenue/sales

Reason of findings

b) Cost of good sales

Reason of findings

____

____

c)Expenses

____

____

Reason of findings

____

____

2. Total due for the period

No	Description	Amount in birr
1	Tax	
2	Penalty	
3	Interest	
Total Due		

4. Taxpayers response on audit methodology and findings

4.1 According to tax regulation points/issues/findings that taxpayers agreed.

4.1.1 ____

4.1.2 ____

4.1.3 ____

4.1.4 ____

4.2 Findings that Taxpayers disagree

4.2.1 ____

4.2.2 ____

4.2.3 ____

4.2.4 ____

Reason of disagreement

____

____