

USE OF MULTI-LEVEL FINANCE ON TAX

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ABSTRACT

The main objective of the study was to assess factors that affect tax compliance behavior of small and medium enterprises taxpayer in nekemte city administration. The study used descriptive and explanatory research design. The total population of the study was 8458 small and medium business enterprises in nekemte city from which the sample of 386 were determined for data collection. To ensure the representativeness of different business sectors of small and medium enterprises taxpayers, stratified sampling technique was adopted. In order to gather the required data, structured questionnaires have been used. Data collected was analyzed by Statistical Package for Social Science version 24 and the findings were presented using tables and figures. The finding shows that tax rate have statistically significant negative effect on tax compliance behavior of small and medium enterprises tax payers, but the level of income, fine and penalty, Rewarding and incentives, simplicity of tax system, perceptions of government spending, tax audit, Attitude toward tax and tax knowledge and awareness were statistically, significantly and positively associated with tax compliance behavior of small and medium enterprises tax payers. The study recommended that management of tax revenue authority has keep tax rates to the minimum as much as possible, putting legal sanctions in terms of penalties and fines on non-compliant SME tax payers, simplify filling and tax collection procedures, maintain transparency on how the revenue collected from taxation was being expended. Provide tax rewards and incentives to honest tax payers, educating the taxpayers to create the necessary awareness on tax laws and the detection of noncompliance so as to increases tax compliance behavior of SME taxpayers.

Keywords: Tax Compliance Behavior, Small and Medium Enterprises.

INTRODUCTION

A country's development and growth is generally dependent on the revenue level obtained and in this regard, taxes form one of the top major national revenue sources all over the globe. Tax revenues are the lifeblood of the social contract and become the central to economic, social and political development Government use taxation to raise revenues to cover their expenditures on the provision of social goods and services, to regulate the level of spending in the economy, redistribute income among the populace and control imports into the country. However, tax collection is the major challenging that has attracted increasing attention in the last two decades for financing government expenditure and funding of public goods and services. Most governments of developing countries are facing difficulty in collecting tax they need because of tax noncompliance reason. There is widespread tax avoidance and evasion in most African countries. Also, most tax payers are reluctant to pay tax in at the right amount, time and place.

In order to mitigate the difficulty of tax collection, a good tax system is essential. Tax law specifies the processes and procedures that tax payers' need for voluntarily tax comply Tax administration is a requisite for ensuring high compliance and administering tax policies).The abilities of Governments' to collect taxes depend on people's willingness to pay and requires strong understanding of factors underlying taxpayers' decision about whether to pay or evade taxes(Ali, Fjeldstad, & Sjursen, 2013).Understanding taxpayers' attitudes and behaviors toward voluntary tax compliance is constructive for tax authority (Ali, Fjeldstad, & Sjursen, 2013).

Tax compliance is a major problem for many tax authorities and it is not an easy task to

persuade taxpayers to comply with tax requirements even though tax laws are not always precise. Tax Compliance can be referred to as the process in which tax returns required to be submitted to the tax authorities are filed at the appropriate time with the accurate tax liability as required under the tax laws and regulations of a country. Tax compliance is the degree to which taxpayer complies or fails to comply with the tax rules of his country. Tax compliance is the accurate reporting of income and claiming of expenses in accordance with stipulated tax laws. It is the process of fulfilling tax payer's civil obligation for tax payment, filing of tax returns and explanations required by tax authority in a timely manner (Daniel, Akowe, & Awaje, 2016). Tax compliance is the willingness of individuals to comply with relevant tax authorities by paying their taxes (Appah & Wosowei, 2016; Beesoon, 2016). Tax compliance is a global phenomena hassling both developed and developing countries and become the major concern for all tax administrations. The tax compliance is influenced by economic, social and psychological factors. The economic deterrence of tax compliance is influenced by tax rate, benefits of evasion, probability of detection and penalties for fraud. Social norms constructed through social pressure that influences people attitude towards tax compliance. Tax compliance is mostly influenced by government expenditure on public goods and services (Damayanti, Sutrisno, Subekti, & Baridwan, 2015).

According to Alshir'ah (2016) for most small and medium businesses, tax compliance is associated with heavy costs due to the various limitations they face, particularly in maintaining proper and sufficient records for management and taxation purposes. There are also various determinant factors that may affect tax compliance by SMEs to different tax rules, regulations and proclamations. Hence this study focuses on identifying factors that may determine the tax compliance behavior of small and medium enterprises tax payers in the study area.

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