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Original Paper

EXAMINING THE EFFECT OF TAX AUDIT ON IMPROVING TAXPAYERS' COMPLIANCE

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Abstract

This study examines the effect of tax audits on improving taxpayers' compliance in the context of the Dilla Town Revenue Office. It investigates five determinants influencing compliance:- tax education, tax rate, audit quality, top management support, and the tax legislation system. An explanatory research design is employed, utilizing quantitative approaches, with data collected through questionnaires from 250 tax office employees. The census method was employed to select respondents and a total of 250 tax office employees participated. The analysis employs descriptive and inferential statistics, including ordinal logistic regression using SPSS software. The findings reveal that tax education, tax rate, and the tax legislation system have significant positive impacts on compliance. Conversely, audit quality and top management support negatively influence compliance levels. Implement regular training sessions and workshops for taxpayers to increase awareness of tax obligations and the benefits of compliance. Invest in training for tax auditors to ensure they are well-equipped to conduct thorough and fair audits, utilizing modern tools and technologies. Review and simplify tax laws to make them more accessible and understandable for taxpayers, thus reducing confusion and errors in compliance. Conduct periodic evaluations of tax rates and policies to ensure they remain fair and conducive to compliance, making adjustments as necessary to reflect economic conditions.

Keywords

Tax compliance, Tax rate, Tax legislative system, Dilla Town Revenue Office, Ordinal Logistic Regression

1. Introduction

Taxation is a fundamental aspect of governance, providing the financial resources necessary for governments to function and deliver public services. It establishes a social contract between the state and its citizens, ensuring that everyone contributes to the collective welfare. Effective tax systems promote compliance, which is crucial for revenue generation and sustainable economic development (Fred, 2016). In Ethiopia, the tax administration is primarily managed by the Revenue Authority and Customs, which aims to optimize tax collection while ensuring fair treatment of taxpayers. Despite various efforts to enhance tax compliance, challenges persist, particularly in relation to low compliance rates and a high tax evasion tendency (World Bank, 2020).

Tax audits serve as a vital tool for tax authorities to verify taxpayer information and ensure adherence to tax laws. They not only help in identifying discrepancies but also play a deterrent role against potential non-compliance. However, the effectiveness of tax audits in improving compliance varies based on several factors, including taxpayer education, audit quality, and the overall tax legislative framework (Arens, Elder, & Beasley, 2012).

The low tax-to-GDP ratio in Ethiopia, compared to neighbouring countries, underscores the urgent need for effective strategies to enhance tax compliance. Studies suggest that factors such as tax education, perceived fairness of the tax system, and the support of management can significantly influence taxpayer behavior (Fred, 2016). As of last knowledge update in Oct, 2023, Ethiopia tax – to GDP ratio has been relatively low compared to other countries. In recent years, it has typically ranged between 10% and 15% .The government has been working to enhance tax collecting and improve fiscal policies to increase this ratio (IMF, Bank, & IMF, Tax collection and GDP Cotributions, 2023).

Some similar theses examining the relationship between tax audits and taxpayer compliance, along with a brief explanation of each:- (Tolona, 2019) "The Impact of Tax Audit on Tax Compliance in Ethiopia". Overview: This thesis investigates how tax audits influence taxpayer compliance in various Ethiopian regions. It focuses on the relationship between audit frequency, taxpayer education, and compliance rates. Key Findings:- the study emphasizes that increased audit frequency and taxpayer education lead to higher compliance rates. It highlights the role of audit visibility in deterring non-compliance and suggests that enhancing educational programs can improve overall tax compliance. (Mebrat, 2016) "The Effects of Tax Audits on Tax Compliance: Evidence from Ethiopian Federal Level". Overview: This research examines the impact of tax audits on compliance at the federal level in Ethiopia, utilizing secondary macroeconomic data. Key Findings:- the thesis finds a strong correlation between the likelihood of being audited and compliance levels. It suggests that the effectiveness of tax audits is significantly influenced by the perceptions of taxpayers regarding audit risks and penalties. (Alemu, 2020) "Tax Audits, Fines, and Tax Compliance: A Study of Hawassa City". Overview:- this study explores the interaction between tax audits, the imposition of fines, and taxpayer compliance in Hawassa City. Key Findings: The research indicates that while fines act as a deterrent, the presence of audits significantly enhances compliance. It advocates for a balanced approach that includes education and clear communication about tax obligations to foster voluntary compliance. (Bekele, 2019) "Effects of Tax Audits on Tax Compliance and Revenue in Addis Ababa". Overview:- his thesis investigates the effects of various types of audits (e.g., comprehensive, issue, back duty) on compliance and revenue generation in the Addis Ababa region. Key Findings: The study concludes that specific audit types have varying impacts on compliance behavior. Comprehensive audits were found to be most effective in increasing compliance, while issue audits had a mixed impact depending on taxpayer awareness. (Gemede & Kassu, 2020) -"The Role of Tax Auditing in Enhancing Tax Compliance in Ethiopia". Overview: This thesis provides a broader analysis of the role of tax audits in promoting compliance across different sectors in Ethiopia. Key Findings:- the authors argue that effective audit practices not only enhance compliance but also improve public trust in the tax system. They recommend policy changes to streamline audit processes and enhance taxpayer education.

Some study use qualitative methods, secondary data analysis, focus on various regions or country, they delving specific elements, potentially lacking direct engagement with taxpayers. This thesis employs a quantitative approach through surveys targeting tax office employees, allowing for a more direct assessment of opinions and experience related to tax audits.

This study seeks to explore the specific effects of tax audits on improving taxpayer compliance at the Dilla Town Revenue Office, Ethiopia providing insights into the factors that contribute to successful tax administration in the region.

2. Statement of Problem

Tax audits are critical processes carried out by tax authorities to ensure that taxpayers comply with applicable tax laws and regulations (Arens, Elder, & Beasley, 2012). Despite their importance, there is a noticeable gap in understanding how effectively tax audits influence taxpayer compliance, particularly in Dilla Town, Ethiopia. Several issues contribute to this problem:- low compliance rates, limited research, factors influencing compliance, perceptions of fairness, operational challenges gap of the study. The tax compliance levels in Ethiopia remain suboptimal, with significant portions of the population failing to meet their tax obligations. This is compounded by a low tax-to-GDP ratio, highlighting the inefficiency of current tax practices. There is a scarcity of empirical studies specifically examining the impact of tax audits on taxpayer compliance in the Ethiopian context. Most existing research focuses on broader tax compliance issues without delving into the specific role of audits. Various factors affect taxpayer compliance, including tax education, audit quality, and management support. However, the interplay between these factors and the effectiveness of tax audits in improving compliance is not well understood. Taxpayers' perceptions of the fairness and transparency of the audit process can significantly influence their willingness to comply. If audits are viewed as punitive rather than supportive, compliance may decrease. The Dilla Town Revenue Office may face operational challenges, such as insufficient resources and limited training for tax auditors, which could hinder the effectiveness of audits.

This study aims to address these issues by examining the effect of tax audits on improving taxpayer compliance, identifying the factors that enhance or inhibit this process, and providing recommendations for more effective tax audit practices in Dilla Town.

3. Literature Review

3.1 Theoretical Literature Review

3.1.1 Definition of Tax Compliance

Tax compliance refers to the adherence by taxpayers to the laws and regulations governing the payment of taxes. Tax compliance refers to the degree to which taxpayers adhere to tax laws and regulations, including the timely and accurate filing of tax returns, the full disclosure of taxable income, and the payment of owed taxes. It encompasses several key components, including:- **i)** Timely Filing:- Submitting tax returns and necessary documentation within the stipulated deadlines. Filing Requirements: The obligation to submit tax returns by the designated deadlines, ensuring that all necessary forms and documentation are complete and accurate. **ii)** Accurate Reporting:- Disclosing all relevant income and claiming appropriate deductions as permitted by law. **iii)** Payment of Taxes:- Making tax payments on time, in accordance with the amounts owed as calculated on tax returns. The requirement to pay the correct amount of taxes owed, based on reported income and applicable tax rates, without underreporting or evading taxes. Adherence to Regulations: Compliance with all relevant tax laws, including reporting requirements, eligibility for deductions or credits, and any other legal obligations imposed by tax authorities. Voluntary Compliance: The willingness of taxpayers to comply with tax laws without the need for enforcement actions. This is influenced by factors such as taxpayer education, perceived fairness of the tax system, and trust in governmental institutions (Ebimobowei, A Causality Analysis between Tax Audit and Tax Compliance in Nigeria, 2013).

The concept of tax compliance is crucial for maintaining the integrity of the tax system and ensuring that governments can effectively fund public services. Compliance is influenced by various factors, including taxpayer knowledge, perceptions of fairness in the tax system, and the likelihood of facing audits or penalties for non-compliance. The section underscores the complexity of tax compliance, as it is not solely about following rules but also involves the attitudes and behaviours of taxpayers towards taxation and their understanding of tax obligations.

3.2 Audit and Tax Audit

3.2.1 Audit

An audit is a systematic examination and evaluation of financial statements, records, and operations of an organization or individual. The primary objective is to ensure accuracy, compliance with accounting standards, and adherence to applicable laws and regulations. Audits can be conducted internally (by the organization's own staff) or externally (by independent auditors). The key types of audits include:- Financial Audit: Assesses the fairness and accuracy of financial statements. Operational Audit: Evaluates the efficiency and effectiveness of operations. Compliance Audit: Ensures adherence to laws, regulations, and policies. Forensic Audit: Investigates financial discrepancies and fraud (Arens, Elder, & Beasley, 2012).

3.2.2 Tax Audit

A tax audit is a specific type of audit conducted by tax authorities to verify the accuracy of a taxpayer's tax return and compliance with tax laws. The main goals of a tax audit include:- **i)** Verification of Information:- Ensuring that the income, deductions, and credits reported in the tax return are accurate and supported by appropriate documentation. **ii)** Detection of Non-compliance:- Identifying instances of tax evasion or avoidance by reviewing financial records and transactions. **iii)** Deterrence:- Encouraging compliance among taxpayers by demonstrating that audits are conducted regularly and that non-compliance may lead to penalties. The tax audit process typically involves:- Selection of Taxpayers:- Based on risk assessment and specific criteria, tax authorities select individuals or businesses for audit. **iv**) Fieldwork:- Auditors review records, conduct interviews, and gather evidence to assess compliance. **v)** Reporting:- After the audit, a report is issued detailing findings, which may include recommendations for corrections or penalties if discrepancies are found. Both audits and tax audits play essential roles in maintaining financial integrity and ensuring compliance with regulations, thereby fostering trust in the financial and tax systems (Whittington & Pany, 2016). **Factors Influencing Tax Compliance**:- **a)** Taxpayer Education:- Knowledge about tax obligations and benefits can lead to higher compliance rates. **b)** Perceived Fairness: When taxpayers believe that the tax system is fair and equitable, they are more likely to comply. **c)** Enforcement and Penalties: The likelihood of audits and the potential for penalties can deter non-compliance. **d)** Socioeconomic Factors:- Income levels, employment status, and social norms can also affect compliance behavior. **Importance of Tax Compliance:-** Tax compliance is crucial for the effective functioning of a tax system. High compliance rates increase government revenue, allowing for better public services and infrastructure. Conversely, low compliance can lead to budget deficits and increased tax rates for compliant taxpayers, undermining the overall integrity of the tax system. **Taxpayer rights and responsibilities**: Taxpayer rights and responsibilities are essential aspects of the tax system, ensuring that individuals and businesses understand their obligations and protections (Whittington & Pany, 2016). Here’s a summary of both:-

3.2.3 Taxpayer Rights

i) Right to be Informed:- Taxpayers have the right to clear and understandable information about their tax obligations and the tax process. **ii)** Right to Assistance:- Taxpayers can seek help from the tax authority and receive assistance in understanding and complying with tax laws. **iii)** Right to Appeal:- Taxpayers have the right to appeal decisions made by the tax authority, ensuring they can challenge assessments or rulings. **iv)** Right to Privacy:- Taxpayers have the right to confidentiality regarding their tax information, protecting their personal and financial details. **v)** Right to Fair Treatment:-Taxpayers should be treated fairly and without discrimination by tax authorities, maintaining respect and professionalism. **vi)** Right to Representation:- Taxpayers have the right to have a representative, such as a tax professional, assist them in dealings with tax authorities (Whittington & Pany, 2016).

3.2.4 Responsibilities

i. Filing Tax Returns:- Taxpayers are responsible for filing accurate tax returns on time, reporting all income and claiming only eligible deductions. **ii.** Paying Taxes:- Taxpayers must pay any taxes owed by the due date to avoid penalties and interest. **iii)** Keeping Records:-Taxpayers should maintain proper records that support their tax filings, including receipts and documentation for deductions. **iv)** Cooperating with Tax Authorities:- Taxpayers should respond promptly to any inquiries or requests for information from tax authorities. **v)** Understanding Tax Laws:- Taxpayers have a responsibility to understand the tax laws that apply to them and to seek guidance if needed. **vi)** Reporting Changes:- Taxpayers must report any changes in their financial situation that could affect their tax obligations (Tarfa, Tarekegn, & Yosef, 2020).

Understanding taxpayer rights and responsibilities is crucial for compliance and protection. Taxpayers should familiarize themselves with both to navigate the tax system effectively and ensure they are treated fairly. Tax auditors play a critical role in ensuring compliance with tax laws and regulations.

3.3 Tax auditor Responsibilities and Duties

3.3.1 Responsibilities of Tax Auditors

i) Conducting Audits:- Perform thorough examinations of financial records, tax returns, and other documentation to ensure accuracy and compliance with tax laws. **ii)** Identifying Errors and Discrepancies:- Detect inaccuracies, misreporting, or fraudulent activities in financial statements and tax filings**. iii)** Gathering Evidence:- Collect and analyse data from various sources to support audit findings, including interviews, questionnaires, and document requests. **iv)** Evaluating Internal Controls:- Assess the effectiveness of an organization's internal controls and accounting practices to identify areas for improvement. **v)** Reporting Findings:-Prepare detailed audit reports that summarize findings, including any discrepancies or issues identified during the audit process. **vi)** Advising Taxpayers:- Provide guidance to taxpayers on compliance issues, including tax laws, regulations, and best practices for maintaining accurate records. **vii)** Collaborating with Other Departments:- Work with legal, accounting, and compliance teams to ensure comprehensive understanding and adherence to tax regulations. **viii)** Staying Informed:- Keep up-to-date with changes in tax laws, regulations, and auditing standards to ensure audits are conducted according to current guidelines (Tarfa, Tarekegn, & Yosef, 2020).

3.3.2 Duties of Tax Auditors

i) Planning and Preparation:- Develop audit plans that outline the scope, objectives, and methodologies for conducting audits. **ii)** Fieldwork:- Conduct on-site audits, which may involve visiting businesses or organizations to review records and interview personnel. **iii)** Documentation Review:- Examine various financial documents, such as ledgers, bank statements, and invoices, to verify the accuracy of reported figures. **iv)** Analysis of Financial Data:- Use analytical techniques to assess financial performance and identify trends or anomalies that may require further investigation. **v)** Communicating with Taxpayers:- Maintain clear and professional communication with taxpayers throughout the audit process, addressing any questions or concerns they may have. **vi)** Follow-Up Audits:- Conduct follow-up audits to ensure that taxpayers have corrected any identified issues and are complying with tax laws. **vii)** Training and Education:- Participate in training sessions to enhance skills and knowledge related to tax auditing and compliance. **viii)** Maintaining Confidentiality:- Uphold the confidentiality of taxpayer information throughout the audit process, adhering to legal and ethical standards (Tarfa, Tarekegn, & Yosef, 2020).

Tax auditors play an essential role in maintaining the integrity of the tax system. By ensuring compliance and identifying areas for improvement, they help promote fair and accurate tax practices. Understanding taxpayer attitudes and behavior is essential for developing effective tax policies and improving compliance. Several theoretical foundations provide insights into why taxpayers behave the way they do.

3.4 Theories and Concepts Taxpayers Behave the Way They Do

3.4.1 Economic Theories

A, Rational Choice Theory:- This theory posits that individuals make decisions based on a rational evaluation of costs and benefits. Taxpayers weigh the benefits of compliance (such as avoiding penalties) against the costs (such as the burden of paying taxes). **B**.Cost-Benefit Analysis: Taxpayers assess the costs associated with tax compliance (time, money, effort) versus the benefits (public services, social responsibility). This analysis influences their willingness to comply. Economic deterrence refers to the use of financial incentives and penalties to influence behavior, particularly in the context of compliance with laws and regulations, such as tax laws. The underlying idea is that individuals and organizations will weigh the costs and benefits of their actions and adjust their behavior to avoid negative consequences. **Here's a closer look at the key components of economic deterrence:-**

1. Sanctions and Penalties:- **a)** Fines and Penalties:- Imposing financial penalties for non-compliance (e.g., tax evasion) serves as a deterrent. The severity of the penalties can influence the likelihood of compliance. **b)** Interest Charges:- Accruing interest on unpaid taxes can discourage late payments and encourage timely compliance. **2.** Probability of Detection:- The likelihood that non-compliance will be detected plays a crucial role. If taxpayers believe there is a high chance of being audited or caught, they may be more inclined to comply. **3.** Cost-Benefit Analysis:- Taxpayers assess the potential costs (penalties, interest, loss of reputation) against the benefits of non-compliance (immediate financial gain). Effective deterrence increases the perceived costs of non-compliance (Ali, Fjeldstad, & Sjursen, 2013).

3.4.2 Psychological Theories

A) Theory of Planned Behaviour:- This theory suggests that behavior is driven by intentions, which are influenced by attitudes, subjective norms, and perceived behavioural control. Taxpayers' attitudes toward taxes and their beliefs about social expectations can affect their compliance. **B**) Cognitive Dissonance Theory: Taxpayers may experience discomfort when their behavior (e.g., tax evasion) conflicts with their beliefs (e.g., paying taxes is a civic duty). This dissonance can lead to changes in attitudes or behavior to reduce the discomfort (Ali, Fjeldstad, & Sjursen, 2013).

3.4.3 Sociocultural Theories

A, Social Norms Theory: This theory emphasizes the role of social norms in shaping taxpayer behavior. If individuals perceive that their peers comply with tax laws, they are more likely to do the same. **B**. Cultural Dimensions Theory: Different cultures have varying attitudes toward authority, individualism, and collectivism, which can influence taxpayer behavior. For instance, cultures that emphasize collectivism may have higher compliance rates due to a sense of community responsibility (Ali, Fjeldstad, & Sjursen, 2013).

3.4.4 Behavioural Economics

A, Nudge Theory: This concept involves subtly guiding individuals toward desired behaviours without restricting their freedom of choice. For example, simplifying tax forms or providing reminders can encourage timely compliance. **B,** Loss Aversion: Taxpayers may be more motivated to avoid losses (e.g., penalties) than to achieve gains (e.g., refunds), influencing their compliance behavior (Ali, Fjeldstad, & Sjursen, 2013).

3.4.2 **Trust and Legitimacy**

A.Trust in Government: Taxpayer compliance is often influenced by their trust in the government and its institutions. Higher trust levels correlate with increased willingness to pay taxes. **B**. Perception of Tax Fairness: If taxpayers believe that the tax system is fair and equitable, they are more likely to comply. Conversely, perceptions of unfairness can lead to resistance and evasion (Ali, Fjeldstad, & Sjursen, 2013).

Understanding taxpayer attitudes and behavior requires a multidisciplinary approach that incorporates economic, psychological, sociocultural, and behavioural insights. By recognizing these theoretical foundations, policymakers can design more effective tax systems that promote compliance and foster positive taxpayer attitudes.

Economic deterrence plays a vital role in promoting compliance with tax laws and regulations. By understanding how financial incentives and penalties influence taxpayer behavior, policymakers can design more effective strategies to enhance compliance and improve the overall integrity of the tax system. **Fiscal exchange** is a concept that refers to the relationship between taxpayers and the government, emphasizing the reciprocal nature of taxation and public services. It posits that taxpayers contribute to the public treasury with the expectation of receiving benefits in return, such as infrastructure, public safety, healthcare, and education. **Social influences** play a significant role in shaping taxpayer behavior and attitudes toward tax compliance. These influences can stem from various social factors, including family, peers, cultural norms, and community expectations. Here’s an overview of how social influences impact taxpayer behavior:

2.2. Empirical studies and hypothesis development

2.2.1. Tax Audit and Tax Compliance

Taxation contributes a significant amount to the country’s GDP, Ethiopia tax contribution is seen as the lowest compared to that of other countries in the world. The need for tax audit arises from the non-compliance behaviour of taxpayers. Naturally, most taxpayers are always unwilling to pay their tax liability because they see tax as a burden. Tax authority needs to put some force measures in place that will influence taxpayers to comply with tax and fiscal policies, hence the need for a tax audit. Extant studies on the impact of tax audit and tax compliance behaviour have reported significant positive result. Tax audit is typically a regular activity, but the result may contribute to a reappraisal or recommendation for a specific examination, particularly where tax evasion is alleged. The primary objective of the tax audit is thus to assess the degree to which the taxpayers might have agreed with the applicable legislative requirements of the Tax Act on their audited financial accounts and other tax-related documents. This tax audit process thereby aims to preserve the trust and credibility of the self-assessment system presently in place in Nigeria, thus improving voluntary enforcement. Nevertheless, how effective this implementation of tax audit has served to implement corporate tax enforcement has prompted opinions and controversies in developing economies (Oladipo, Fakile, Ogunjobi, Oladipo, & Ademola, 2021).

Compliance with tax laws is defined as "the intention and behavior of natural persons and legal entities to voluntarily declare and pay taxes without being compelled." Tax law compliance includes making timely declarations and payments and using the correct tax base, tax rate, and calculation. The worldwide tax administration system, which is dependent on the existence of governments, places a high priority on encouraging tax compliance. A system that enables and mandates taxpayers to inform and pay their taxes in compliance with the tax legislation on their own initiative has been put into place in many countries in order to streamline the tax administration process and cut expenses (Kassaw, 2023). The level of taxpayers’ compliance with tax laws and regulations is known as their tax compliance. Although the definition of tax compliance can be viewed from a variety of angles, it is generally agreed upon that tax compliance is "...the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity". Compliance is enforced on taxpayers who are unwilling to pay their taxes through the threat and application of audit and fines (Alabede, Ariffin, & Idris, 2011).

2.2.2. Tax Education and Tax Knowledge

Tax education and tax knowledge are critical components in fostering compliance among taxpayers. They play a significant role in how individuals and businesses understand their tax obligations and the implications of non-compliance.

2.2.2.1. Tax Education

Tax education refers to programs and initiatives aimed at informing taxpayers about tax laws, filing procedures, and compliance requirements. **Objectives**:- i) To enhance awareness of tax obligations and rights. ii) To reduce the incidence of errors in tax filings. iii) To promote voluntary compliance among taxpayers. **Methods of Delivery**: i) Workshops and Seminars:- Interactive sessions to educate taxpayers on various tax topics. ii) Online Resources:- Websites, webinars, and e-learning modules that provide accessible tax information. iii) Printed Materials: Brochures, guides, and newsletters that outline tax obligations and updates (PALIL, 2010).

2.2.2.2. Tax Knowledge

Tax knowledge encompasses the understanding of tax laws, regulations, and the processes involved in tax compliance. It includes awareness of rights, responsibilities, and the implications of tax-related decisions. A) Components of Tax Knowledge:- i) Understanding Tax Legislation:- Knowledge of current tax laws and how they apply to individual circumstances. ii) Awareness of Deductions and Credits:- Familiarity with available deductions and credits that can reduce tax liabilities. iii) Filing Procedures:- Knowledge of how to accurately complete and submit tax returns. B) Importance of Tax Knowledge:- Informed taxpayers are more likely to comply with tax regulations, Increased knowledge can lead to better financial decisions and reduced tax liabilities and It fosters a sense of responsibility and fairness in contributing to public finances. C) Empirical Evidence:- Research shows a positive correlation between tax education initiatives and increased compliance rates, particularly among under-educated or underserved populations. Tax education and tax knowledge are vital for creating a compliant tax culture. By investing in educational programs and resources, tax authorities can empower taxpayers, reduce errors, and enhance overall compliance. This not only benefits the tax system but also contributes to a fairer and more equitable society (Fauziati, Minovia, Muslim, & Nasrah, 2016).

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2.2.3. Tax Rate

The tax rate is the percentage at which an individual or corporation is taxed on their income, profits, or other taxable activities. It plays a crucial role in determining the overall tax burden on taxpayers and can significantly influence taxpayer behavior and compliance (Tolona G. , 2019). **Impact of Tax Rates on Tax Compliance**: A) Behavioural Influence:- i) Higher Tax Rates: Can discourage compliance as taxpayers may seek ways to evade taxes, leading to increased non-compliance. ii) Lower Tax Rates: May encourage voluntary compliance as taxpayers perceive the tax system as fair and manageable. B) Taxpayer Attitudes:- Tax rates can influence public perceptions of the tax system. If taxpayers feel that tax rates are too high or unfair, they may be less inclined to comply. C) Economic Considerations:- High tax rates can impact economic growth by discouraging investment and savings. Conversely, reasonable tax rates can stimulate economic activity by leaving more disposable income in the hands of consumers (Ahmed & Kedir, 2015).

2.2.4. Tax Audit Quality

Tax audit quality refers to the effectiveness and reliability of the audit process conducted by tax authorities to assess taxpayer compliance with tax laws. High-quality audits ensure accurate evaluations of tax returns and promote taxpayer trust in the tax system. **Impact of Tax Audit Quality on Compliance:** A). Deterrence of Non-Compliance:- High-quality audits signal to taxpayers that there is a serious commitment to enforcing tax laws, which can deter tax evasion and encourage voluntary compliance. B) Improvement of Taxpayer Understanding:- Quality audits often involve educating taxpayers about their obligations, which can lead to improved compliance in the future as taxpayers become more informed. C) Feedback Mechanism:- Well-conducted audits provide valuable feedback to tax authorities about common areas of non-compliance, enabling them to adjust strategies and policies to improve overall compliance rates.

Research indicates a positive correlation between tax audit quality and taxpayer compliance. Studies have shown that when taxpayers perceive audits as fair and thorough, they are more likely to comply with tax obligations. Tax audit quality is vital for enhancing compliance and fostering trust in the tax system. By focusing on professional competence, thoroughness, transparency, and consistency, tax authorities can improve audit quality, ultimately leading to higher compliance rates and more effective revenue collection. Ensuring high standards in tax audits not only benefits the tax system but also supports the broader economic and social objectives of governance (I; UIC;UIS, 2020).

2.2.5. Top Management Support

Top management support refers to the commitment and involvement of senior leadership within an organization or tax authority to promote and facilitate compliance with tax laws and regulations. This support is critical for the effective implementation of tax strategies and initiatives. **Importance of Top Management Support**: A) Resource Allocation:-Top management is responsible for allocating necessary resources—financial, human, and technological—to ensure effective tax compliance programs and audits. B) Culture of Compliance:- Leadership sets the tone for organizational culture. When top management prioritizes compliance, it fosters an environment where employees understand the importance of adhering to tax regulations. C) Strategic Direction:- Management provides strategic guidance on tax policies, ensuring that compliance aligns with overall business objectives. This alignment can enhance trust and accountability within the organization. D) Training and Development:- Support from top management can lead to better training programs for staff, equipping them with the knowledge and skills needed to fulfil tax obligations and respond to audits effectively. E) Open Communication:- Top management can facilitate open lines of communication between tax authorities and taxpayers, encouraging dialogue that can clarify tax obligations and improve compliance. **Impact on Tax Compliance**: a). Enhanced Compliance Rates:- Organizations with strong top management support for tax compliance often experience higher compliance rates. Leadership commitment signals to employees the importance of adhering to tax laws. b) Improved Audit Outcomes:- When management actively supports audit processes, it can lead to more thorough and effective audits, which in turn encourages compliance among taxpayers. c) Encouragement of Ethical Practices:- A culture of compliance promoted by management can deter unethical behaviours, such as tax evasion or avoidance, by emphasizing the importance of integrity in financial reporting.

Top management support is crucial for fostering a culture of compliance within organizations and tax authorities. By prioritizing resources, training, and open communication, senior leaders can significantly enhance tax compliance rates and the effectiveness of tax audits. This commitment not only benefits the organization but also contributes to the overall integrity and efficiency of the tax system (Arens, Elder, & Beasley, 2012).

2.2.6. Tax Legislation System

The tax legislation system comprises the laws, regulations, and policies that govern how taxes are assessed, collected, and enforced within a jurisdiction. This framework is essential for ensuring that tax systems operate fairly, efficiently, and transparently. **Key Components of a Tax Legislation System: A**) Tax Laws:- These are statutes enacted by a legislative body that define tax obligations, rates, and procedures. They outline what constitutes taxable income, allowable deductions, and credits. **B)** Regulations:- Detailed guidelines issued by tax authorities that interpret and implement tax laws. Regulations provide clarity on how tax laws should be applied in specific situations. **C)** Administrative Procedures:- Processes established by tax authorities for the assessment and collection of taxes, including filing requirements, audit procedures, and appeals processes. **D)** Enforcement Mechanisms:- Tools and processes used by tax authorities to ensure compliance, including audits, penalties for non-compliance, and legal actions against tax evasion. **E)** Tax Treaties:- Agreements between countries that address issues like double taxation, helping to facilitate international trade and investment. A robust tax legislation system is essential for the effective functioning of any tax system. By providing clarity, fairness, and adaptability, it fosters a culture of compliance among taxpayers while ensuring that governments can generate necessary revenue. Continuous evaluation and reform of tax legislation are critical to address emerging challenges and maintain the integrity of the tax system (Beyene, Deresse, & Mathewos, 2019).

2.3. Conceptual Framework of the Study

When organizing a research project, you first place the study into a framework that provides an explanation of the study's design and justification. This structure is comparable to a home's foundation. It functions as the fundamental basis for the study's components and, like a home plan, makes the study's context clear to the reader. In addition to providing justification and explanation for the study to others, creating this framework allows you to assess your own comprehension of the need for the study, its conception, the knowledge it will add to the field, and how the study's design components relate to the identified problem (M.Crawford, 2020). Based on the aforementioned premise, the researcher develops a conceptual framework for this investigation. The conceptual framework model is designed to demonstrate the relationships between concepts of the dependent variable (Tax Audit on improved tax compliance) and independent variables (tax education, tax rate, audit quality, top management support and tax legislation system). The following diagram depicts the conceptual framework for the independent and dependent variables:- Conceptual frameworks of tax audit on improving tax compliance and its independent variable

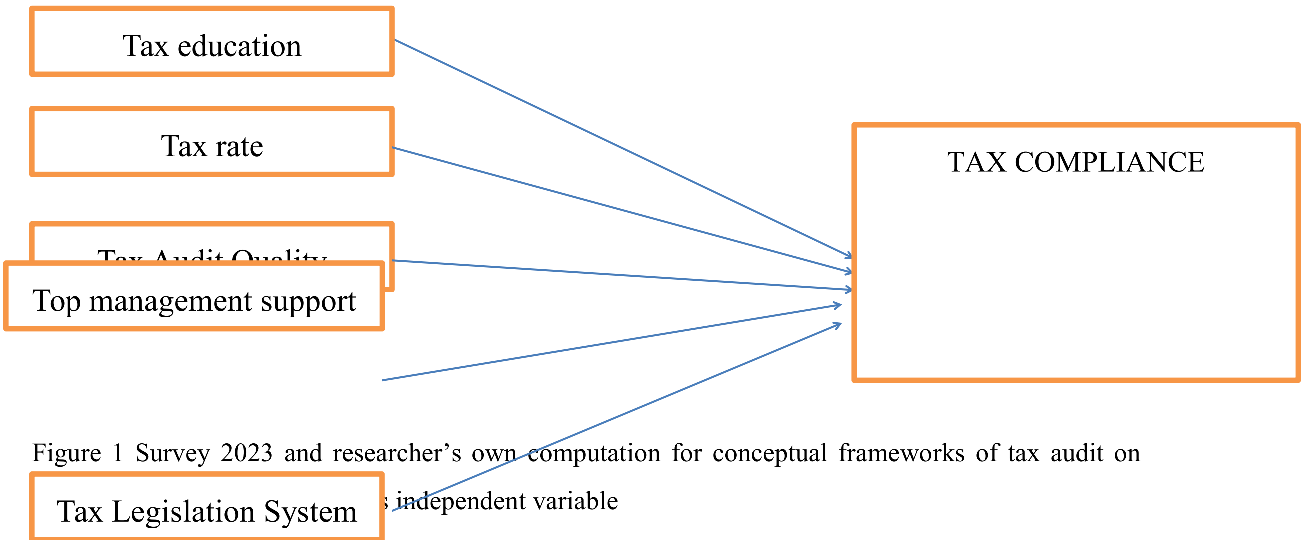

Figure 1 Survey 2023 and researcher's own computation for conceptual frameworks of tax audit on
independent variable

Methodology of the Study

3.1. Research Design

The study employs an explanatory research design, which aims to explain the relationships between tax audits and taxpayer compliance. This design is suitable for understanding causal relationships and the impact of various factors.

3.2. Research Approach

A quantitative research approach is utilized to gather numerical data that can be statistically analysed. This approach enables the assessment of the relationships between different variables.

3.3. Data Source

Primary Data: The primary source of data includes responses collected through questionnaires administered to employees of the Dilla Town Revenue Office. This allows for direct insights into taxpayer compliance and audit processes. Secondary Data: Relevant literature and previous studies on tax audits, compliance, and related theories are reviewed to support the research findings.

3.4. Sampling Techniques and Sample Size

Target Population:-The target population consists of tax office employees in Dilla Town. **Sampling Method**:- A census sampling method is employed, where all employees in the relevant departments are included in the study to ensure comprehensive data collection. **Sample Size**:- A total of 83 employees participated in the study, providing a representative sample for analysis.

3.5. Method of Data Analysis:

The data collected through questionnaires is analysed using both descriptive and inferential statistics. Descriptive statistics summarize the data, while inferential statistics help in testing hypotheses and drawing conclusions.

Statistical Tools:

The study utilizes the SPSS (Statistical Package for the Social Sciences) version 20.0 for data analysis. This software facilitates complex statistical operations, including regression analysis.

3.7. Model Specification and Estimation Procedures:

The study employs an ordinal logistic regression model to analyse the relationship between the independent variables (e.g., tax education, audit quality) and the dependent variable (taxpayer compliance).

3.8. Tests for Classical Linear Regression Model (CLRM) Assumptions:

Various tests are conducted to ensure that the assumptions of the classical linear regression model are met, including:-

- Multicollinearity Test: To check for correlations between independent variables.
- Normality Test: To assess whether the residuals are normally distributed.
- Validity and Reliability Test: To ensure the accuracy and consistency of the data.

3.9. Reliability and Validity Statistics

Validity and Reliability test

The questionnaire is one of the most widely used tools to collect data in especially social science research. The main objective of the questionnaire in research is to obtain relevant information in the most reliable and valid manner. Thus the accuracy and consistency of the survey/questionnaire form a significant aspect of research methodology which is known as validity and reliability (Taherdoost, 2016).

Validity test

Validity explains how well the collected data covers the actual area of investigation. Validity basically means "measure what is intended to be measured" (Taherdoost, 2016).To ensure the validity of the instruments, they were initially generated by the researcher and developed under the careful supervision of the advisor and an English instructor, who were both involved in providing feedback for the validity of these data collection tools.

Reliability Test

Reliability concerns the extent to which a measurement of a phenomenon provides stable and consistent results. Reliability is also concerned with repeatability. Testing for reliability is important as it refers to the consistency across the parts of a measuring instrument. A scale is said to have high internal consistency reliability if the items of a scale "hang together" and measure the same construct. The most commonly used internal consistency measure is the Cronbach Alpha coefficient. It is viewed as the most appropriate measure of reliability when making use of Likert scales. No absolute rules exist for internal consistencies, however, most agree on a minimum internal consistency coefficient of .70 (Taherdoost, 2016).

According to (Taherdoost, 2016) cited by (Straub et al., 2004), (Hinton et al, 2004) for an exploratory or pilot study, it is suggested that reliability should be equal to or above 0.60. Have suggested four cut-off points for reliability, which include excellent reliability (0.90 and above), high reliability (0.70-0.90), moderate reliability (0.50-0.70), and low reliability (0.50 and below). Although reliability is important for study, it is not sufficient unless combined with validity. In other words, for a test to be reliable, it also needs to be valid.

Cronbach's Alpha Test

Cronbach's alpha reliability (Cronbach, 1951) is one of the most widely used measures of reliability in the social and organizational sciences. Cronbach's alpha is referred to as a measure of "internal consistency" reliability (G.Bonett, 2014). A higher alpha is always expected by researchers as it increases the reliability of the research. Reliability is another measurement that can be used to assess the stability, consistency, and dependability of questionnaire items.

Data Reliability Test of statistical Alpha coefficient

Reliability Statistics		
	Cronbach's Alpha	N of Items
Tax Compliance & Tax Audit	.918	15
Tax rate	.759	6
Tax education	.653	6
Top Management Support	.921	6
Tax Audit Quality	.619	3
Tax Legislation System	.833	3

Survey 2023 and researcher's own computation for reliability test

According to (Taherdoost, 2016) cited by (Straub et al., 2004), (Hinton et al, 2004) for an exploratory or pilot study, it is suggested that reliability should be equal to or **above 0.60**. Have suggested four cut-off points for reliability, which include excellent reliability (0.90 and above), high reliability

(0.70-0.90), moderate reliability (0.50-0.70), and low reliability (0.50 and below). Although reliability is important for study, it is not sufficient unless combined with validity. In other words, for a test to be reliable, it also needs to be valid.

The above table displays the study's alpha value, which indicates the reliability of the questionnaire used in the research: 0.619-0.918 between the scales.

Multicollinearity test

The term multicollinearity originally meant the existence of a "perfect," or exact, linear relationship among some or all explanatory variables of a regression model. Assumption 8 of the classical linear regression model (CLRM) is that there is no multicollinearity among the regressors included in the regression model. Multicollinearity is a phenomenon when two or more predictors are correlated, if this happens, the standard error of the coefficients will increase. Increased standard error means that the coefficients for some or all independent variables may be found to be significantly different from 0. In other words, by overinflating the standard errors, multicollinearity makes some variables statistically insignificant when they should be significant (Daoud, 2017). After performing regression, a test of VIF can be used to determine the degree of multicollinearity among explanatory variables of tax audit on improving taxpayers' compliance. The possibility of inflated standard errors is a key issue with multicollinearity. If VIF > 10 or 1/VIF <0.10, there is a problem.

Table 1. Multicollinearity Test

Coefficients			
Model		Collinearity Statistics	
		Tolerance	VIF
1	TaxRate	.900	1.111
	TEducation	.893	1.120
	TMS	.948	1.054
	TAQ	.963	1.038
	TLS	.972	1.029

a. Dependent Variable: TCTA.

Survey 2023 and researcher's own computation for multicollinearity test.

According to the above results, this study does not have a multicollinearity issue.

Correlation among variables

Spearman's rank correlation coefficient is a nonparametric (distribution-free) rank statistic proposed by Charles Spearman as a measure of the strength of an association between two variables. It is a measure of a monotone association that is used when the distribution of data is made. Spearman's coefficient is not a measure of the linear relationship between two variables, as some "statisticians" declare. It assesses how well an arbitrary monotonic function can describe a relationship between two variables, without making any assumptions about the frequency distribution of the variables (Hauke & Kossowski, 2011).

Table 2. Correlations Analysis

Correlations

			TCTA	TaxRate	TEducation	TMS	TAQ	TLS
Spearman's rho	TCTA	Correlation Coefficient	1.000	.270*	.552**	-.043	.076	.723**
		Sig. (2-tailed)	.	.018	.000	.716	.512	.000
		N	76	76	76	74	76	76
	TaxRate	Correlation Coefficient	.270*	1.000	.350**	-.086	-.143	-.015
		Sig. (2-tailed)	.018	.	.002	.467	.219	.900
		N	76	76	76	74	76	76
	TEducation	Correlation Coefficient	.552**	.350**	1.000	.159	-.041	.083
		Sig. (2-tailed)	.000	.002	.	.176	.724	.475
		N	76	76	76	74	76	76
	TMS	Correlation Coefficient	-.043	-.086	.159	1.000	-.018	-.042
		Sig. (2-tailed)	.716	.467	.176	.	.879	.721
		N	74	74	74	74	74	74
	TAQ	Correlation Coefficient	.076	-.143	-.041	-.018	1.000	.062
		Sig. (2-tailed)	.512	.219	.724	.879	.	.595
		N	76	76	76	74	76	76
	TLS	Correlation Coefficient	.723**	-.015	.083	-.042	.062	1.000
		Sig. (2-tailed)	.000	.900	.475	.721	.595	.

N	76	76	76	74	76	76

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Survey 2023 and researcher's own computation for correlation analysis

Where:- TCTA:- Tax compliance and tax audit, tax Rate, TEducation:- tax education, TMS:- top management support, TAQ:- Tax Audit Quality, TLS:- Tax Legislation System.

The result shows that there exists a positive correlation between the tax audit on improving taxpayers' compliance and tax rate, with a correlation coefficient of .270. This positive coefficient indicates raising marginal tax rates will probably encourage people to avoid taxes more, strengthening the motivation to declare less income to make up for the reduced income, which has a mixed effect on tax compliance.

The correlation coefficient between tax audits on improving taxpayers' compliance and tax education is .552. This finding suggests that there is a clear link between tax education and tax audit on improving taxpayers' compliance, educated taxpayers may be aware of non-compliance opportunities, but they may also have a better comprehension of the tax code and a higher level of moral development, which encourages a more favorable attitude towards paying taxes and higher compliance. Taxpayers' degree of education greatly influences their comprehension of taxation, particularly about the rules and regulations governing it.

However, correlation research revealed a perfect positive association between top management support and tax audit on improving taxpayers' compliance, with a coefficient of.043 Due to this positive correlation, a tax audit increases with the level of support it receives from top management. Stated differently, increased support from top management for tax audit activities facilitates direct and open communication with the manager, thus facilitating appropriate information flow regarding the goals and operations of the revenue office.

The coefficient of correlation between the tax audit on improving taxpayers' compliance and the tax audit quality is .076. This suggests that there is a positive and statistically significant high association between tax audit on improving taxpayers' compliance and tax audit quality.

The results of the correlation analysis, on the other hand, revealed a completely positive association between tax audit on improving taxpayers' compliance and the tax legislation system, with a coefficient of .723. This means that the tax legislation system is taken into account as a factor that influences the compliance on tax audits.

Ethical Considerations

The study adheres to ethical standards by ensuring informed consent from participants, maintaining confidentiality, and using the data solely for academic purposes. The methodology of the study is designed to comprehensively assess the impact of tax audits on taxpayer compliance. By employing a quantitative approach and rigorous analysis, the research aims to provide valuable insights into the factors influencing compliance in the context of the Dilla Town Revenue Office.

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Background Information of Respondents

The research involved 83 tax office employees who participated in the study. Of the 83 tax office employees who received questionnaires, 76 of them replied, indicating a 93% response rate.

Table 4.1 Respondents' Demographic Characteristics

			Frequency	Percent	Valid Percent	Cumulative Percent
Sex	Valid	Male	48	63.2	63.2	63.2
		Female	28	36.8	36.8	100.0
		Total	76	100.0	100.0	
Level of education	Valid	Degree	59	77.6	77.6	
		Master's degree or above	17	22.4	22.4	
		Total	76	100.0	100.0	
Field of study	Valid	Accounting	36	47.4	47.4	47.4
		Economics	25	32.9	32.9	80.3
		Management	12	15.8	15.8	96.1
		Others	3	3.9	3.9	100.0
		Total	76	100.0	100.0	
Present office position	Valid	Taxpayers' educator	6	7.9	7.9	7.9
		Auditors	15	19.7	19.7	27.6
		Tax assessment and collector	23	30.3	30.3	57.9
		Others	32	42.1	42.1	100.0
		Total	76	100.0	100.0	
Work experience	Valid	Less than two years	6	7.9	7.9	7.9
		2-5 years	43	56.6	56.6	64.5
		Greater or equal to six years	27	35.5	35.5	100.0

Total	76	100.0	100.0

Survey 2023 and researcher's own computation for respondents' demographic characteristics.

The sex composition was 28 (36.8) percent female and 48 (63.2) percent male, as can be seen in the table above. 59 people (77.6) had degrees, while 17 people (17.4) had master's degrees or higher. Regarding educational background, 36 respondents (47.4) had an accounting specialty, 12 (15.8) had a management specialty, 25 (32.9) had an economics specialty, and 3 (3.9) had other degrees. The results indicate that, with regard to the positions held by the respondents, 15 (19.7) were tax auditors, 23 (30.3) were tax assessors and collectors, 6 (7.9) were taxpayer educators, and the rest 32 (42.1) were other workers. Regarding the work experience of the respondents, the findings indicate that 43 (56.6%) have worked for two to five years, 27 (35.5%) have worked for six years or more, and 6 (7.9%) have worked for less than two years. **Analysis of Econometrics Model Regression**

This section is about data analysis and interpretation. It is preferable to look at the model's overall specification test first.

PLUM - Ordinal Regression

Ordinal regression is a member of the family of regression analyses. As a predictive analysis, ordinal regression describes data and explains the relationship between one dependent variable and two or more independent variables. In ordinal regression analysis, the dependent variable is ordinal (statistically it is polytomous ordinal) and the independent variables are ordinal or continuous-level (ratio or interval). Sometimes the dependent variable is also called response, endogenous variable, prognostic variable, or regressand. The independent variables are also called exogenous variables, predictor variables, or regressors (Statistics Solutions, 2021).

Interpretations of Ordinal Logistic Regression

Model Fitting Information				
Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	340.461			
Final	234.198	106.263	5	.000
Link function: Logit.				

Interpretation of Model fitting information

Ho; The Model is not fit

H1; Model is fit

As the p-value is smaller than the standard value (0.05), reject Ho and conclude that the model is valid. The above table shows that the sig.000 is less than 0.05.

Goodness-of-Fit			
	Chi-Square	df	Sig.
Pearson	346.687	382	.902
Deviance	234.198	382	1.000
Link function: Logit.			

Interpretation of Goodness of Fit.

In both cases P-values are less than the standard value (0.05), reject Ho and it is concluded that fit is not good. In both cases P-values are greater than standard value (0.05). It concludes the model data was fit. Based on this model was fitted to data.

Pseudo R-Square	
Cox and Snell	.762
Nagelkerke	.770
McFadden	.312
Link function: Logit.	

The Pseudo R-Square provides pseudo-R^2 (Cox and Snell and Nagelkerke) values. The R^2 values tell us approximately how much variation in the outcome is explained by the model (like in linear regression analysis).Or the co-efficient of determination (R^2) value indicates how much variation in Y is explained by the model.

From the table above we can conclude that between 76.2% (Cox & Snell) and 77% (Nagelkerke) of the variation in survival can be explained by the model.

Parameter Estimates								
		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[TCTA = 2.20]	40.116	7.532	28.366	1	.000	25.353	54.879
	[TCTA = 2.27]	41.323	7.582	29.707	1	.000	26.463	56.183
	[TCTA = 3.07]	42.020	7.613	30.465	1	.000	27.099	56.942
	[TCTA =	42.809	7.647	31.336	1	.000	27.820	57.798

	3.20]							
	[TCTA = 3.67]	43.663	7.683	32.300	1	.000	28.605	58.721
	[TCTA = 3.87]	44.594	7.724	33.335	1	.000	29.456	59.732
	[TCTA = 4.00]	47.811	8.441	32.083	1	.000	31.267	64.354
	[TCTA = 4.20]	51.773	8.952	33.447	1	.000	34.227	69.319
	[TCTA = 4.27]	53.397	9.102	34.416	1	.000	35.557	71.236
Location	**TaxRate**	**.862**	.346	6.206	1	**.013**	.184	1.541
	TEducation	**6.202**	1.082	32.877	1	**.000**	4.082	8.321
	TMS	**-.472**	.220	4.594	1	**.032**	-.903	-.040
	TAQ	**1.364**	.868	2.469	1	**.116**	-.337	3.065
	TLS	**4.570**	.780	34.294	1	**.000**	3.040	6.099
Link function: Logit.								

Survey 2023 and researcher's own computation for model regression.

The aforementioned table indicates that tax audit quality has insignificant regression coefficients, whereas tax rate, tax education, top management support, and tax legislative system are independent variables with significant regression coefficients.

The result of the ordinal logistic regression shows that there is a positive and statistically significant relationship between tax rate and tax audit on improving taxpayers' compliance, while other variable remain constant with p-value .013. Therefore the hypothesis, that there is significant relationship between tax rate and tax audit on improving taxpayers' compliance is accepted.

The result of the ordinal logistic regression shows that there is a positive and statistically significant relationship between tax education and tax audit on improving taxpayers' compliance, while other variables remain constant with p-value of .000. Therefore the hypothesis, there is a significant relationship between tax education and tax audit on improving taxpayers' compliance is accepted.

The result of the ordinal logistic regression shows that there is a negative and statistically significant relationship between top management support and tax audit on improving taxpayers' compliance with a p-value of.032. Therefore the hypothesis, that there is significant relationship between top management support and tax audit on improving taxpayers' compliance is accepted while other variables remain constant. The internal control unit was unable to perform its role effectively due to a lack of regulation, which included restrictions on auditors' authority in operational activities, intervention in decision-making related to planning and budgeting, and a lack of commitment from leaders to strengthen the internal control unit as well as its responses to findings and recommendations.

The result of the ordinal logistic regression shows that there is a positive and statistically insignificant relationship between tax audit quality and tax audit on improving taxpayers' compliance, while other variables remain constant with p-value .116. Therefore the hypothesis, that there is significant relationship between tax audit quality and tax audit on improving taxpayers' compliance is rejected.

The result of the ordinal logistic regression shows that there is a positive and statistically significant relationship between the tax legislation system and tax audit on improving taxpayers' compliance while other variables remain constant with a p-value of .000.

Summary of Hypothesis test

Hypothesis		Remark
H1	The tax rate has a positive and statistically significant influence on the tax audit on improving taxpayers' compliance	Accepted
H2	Tax education has a positive and statistically significant influence on the tax audit on improving taxpayers' compliance	Accepted
H3	Top management support has a negative and statistically insignificant influence on the tax audit on improving taxpayers' compliance	Rejected
H4	Tax audit quality has a positive and statistically insignificant impact on tax audit on improving taxpayers' compliance	Rejected
H5	Tax legislation system has a positive and statistically significant influence on tax audits on improving taxpayers' compliance	Accepted

Summary, Conclusion, and Recommendation

The purpose of this study was to examine the effect of the tax audit on improving taxpayers' compliance. Finally, the researcher delivers significant and fruitful comments on the probable findings in this chapter by summarizing the data from Chapter Four.

Conclusion

The results of ordinal logistic regression revealed a statistical relationship between tax audit on improving taxpayers' compliance and independent variables that are considered in this study. Accordingly, the findings of this study are presented below:-

- According to the findings of the ordinal logistic regression analysis, the tax rate has a positive and statistically significant influence on the tax audit on improving taxpayers' compliance. In a similar vein, the study's findings showed that if the tax system is unjust, taxpayers should avoid paying taxes.
- According to the findings of the ordinal logistic regression analysis, tax education has a positive and statistically significant influence on the tax audit on improving taxpayers' compliance

- According to the results of the ordinal logistic regression analysis, the finding shows top management support has a negative and statistically insignificant influence on the tax audit on improving taxpayers' compliance.
- According to the findings of the ordinal logistic regression analysis, tax audit quality has a positive and statistically significant impact on tax audit on improving taxpayers' compliance. It implies the tax audit team follows up on a regular basis to assess the efforts made to correct the problems, design processes, and perform economic and financial audits and the entire yearly audit strategy determined by the tax auditor.
- The results from the ordinal logistic regression analysis indicate that the finding shows tax legislation system has a positive and statistically significant influence on tax audits on improving taxpayers' compliance. This indicates that the tax legislation is considered a factor for tax audit on improving taxpayers' compliance in the study area.

Effective tax audits play a crucial role in enhancing taxpayer compliance. The findings underscore the importance of holistic strategies that incorporate education, management support, and quality audits to promote a compliant tax culture. As taxpayer attitudes and behaviours are significantly influenced by these factors, addressing them can lead to improved compliance rates and better revenue generation for the government.

Recommendations:-

Based on the findings, the study offers the following recommendations:-

1. **Enhance Tax Education Programs**:- Implement regular training sessions and workshops for taxpayers to increase awareness of tax obligations and the benefits of compliance.

2. **Improve Audit Quality**:- Invest in training for tax auditors to ensure they are well-equipped to conduct thorough and fair audits, utilizing modern tools and technologies.

3. **Strengthen Top Management Support**: - Encourage senior management within tax authorities to actively promote compliance initiatives, ensuring that a culture of integrity and accountability is established.

4. **Simplify Tax Legislation**:- Review and simplify tax laws to make them more accessible and understandable for taxpayers, thus reducing confusion and errors in compliance.

5. **Regular Assessment of Tax Policies**: - Conduct periodic evaluations of tax rates and policies to ensure they remain fair and conducive to compliance, making adjustments as necessary to reflect economic conditions.

By implementing these recommendations, tax authorities can significantly improve taxpayer compliance, leading to a more efficient and fair tax system.

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