2015

Relationship between Tax Compliance Barriers and Government’s Revenue Generation at Gobonimo Market in Somaliland

Elmi, Mukhtar Abdi

International Journal of Business Management and Economic Research

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Abstract
The study examined tax compliance and its effects on government’s revenue generation. The specific objectives were to determine how computerization of tax collection, tax literacy, tax investigation and audits affects government’s revenue generation. The theoretical framework was based on the benefit theory of taxation, the equal sacrifice theory and the ability theory. The empirical review was be guided by the study objectives. Descriptive research design was used. The target population comprised of all the 150 business owners of Gobonimo market. Stratified random sampling technique was adopted from which a total of 52 respondents formed part of the sample size. Both primary and secondary data was used. Primary data was collected by use of the questionnaires while secondary data was collected by use of already published materials. A 1% pilot test of the sample size was computed to determine the viability of research instruments. Reliability was tested by the Cronbach’s alpha test. The researcher ensured content validity by ensuring that the questionnaire was well structured and that it contained all the relevant questions responsible to ensure the study’s purpose is achieved. Data was analyzed using SPSS software and through percentages and later presented by use of frequency tables. The study findings reveal that taxpayers lack knowledge of how to use tax machines. Also, the findings reveal that if implemented, tax computerization could results to higher tax compliance levels. The study established that taxpayers are not enlightened on the benefits of paying taxes nor are they aware of the current tax rates, current tax issues and even emerging issues in taxation. The study found out that tax authorities at Gabonimo market do not conduct tax audits aimed at ensuring greater compliance in tax payment. The study recommends for the computerization of tax through the use of tax machines such as electronic tax registers and point of sale machines. Tax payers should be enlightened on the current and emerging issues in taxation and also sensitized on the benefits of paying taxes. Taxpayers also through those sensitization forums should be informed the prevailing tax rates and how best to remit taxes to the authorities. Voluntary tax compliance should be encouraged but there should be periodic audits and investigations to ensure taxpayers are compliance as per the prevailing tax laws. This study recommends further research on the relationship between tax education and voluntary tax compliance at Gabonimo market in Somaliland and also the role of tax audits in tax compliance.

Key Terms: Tax Computerization, Tax Literacy, Tax Investigation, Tax Audit

1. INTRODUCTION

1.1 BACKGROUND
A tax is a compulsory levy by government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue. It is levied against company profit, petroleum profit, capital gains and capital transfer (Bello, 2001). Therefore, taxation is a compulsory payment or transfer of resources from private to public sector levied on the basis of the determined criterion and without reference to specific benefits received in order to accomplish some of the nation’s economic and social objectives. Taxation is primarily aimed at generating revenue for government in order to cater for its expenditure (Al Zakari, 1995).

The government of Somaliland needs funds to provide social amenities and infrastructures, among other things, for its citizenry and ensure good governance. The government is able to finance and provide public goods be it justice, security, or social services independent of the conditionality of external donors. The underlying assumption is that there exist a close link between tax compliance barriers and governments’ revenue generation.

In developing countries, income taxation is widely accepted as the most suitable primary source of revenue and remains the most effective way of reaching above-subsistence incomes (Tanzi and Zee, 2001). A large portion of the revenues raised with personal income taxation is obtained from civil servants, business executives, employees, and professional people (Tanzi and Zee, 2001). The direct burden of the tax has the advantage of
making people aware of their responsibilities to the government. Furthermore, the yield is more stable because it can be collected by employers, making it much more difficult for employees to evade it (Zee, 2005). These are levied on persons in the expectation that the taxes will be shifted or passed on to others. Here the impact and incidence are on different persons. They are called Indirect Taxes because the administering authorities the Customs and Excise Service, which levy the taxes on goods, do not collect the taxes from the consumer but indirectly through importers, manufacturers or other intermediaries. The shifting or passing on is effected by embodying the amount paid in taxes in the selling price of the commodities taxed to the consumer. The payment and collection of the taxes are easy and convenient. In general, yield is elastic and evasion is quite difficult compared with direct taxes. As a policy it can be used to restrict harmful consumption (Abdallah, 2006).

Weaknesses in revenue collections lead to inadequate tax collections. Not only do developing countries face an uphill battle in bringing individuals and businesses into the taxation process but governments face insufficient administration staff with low skills, high levels of illiteracy among tax payers, lack of logistics and lack of reliable data (Kangave, 2005).

A major constraint is the lack of adequate resources to sustain and facilitate the operation of tax authorities. Resources to administer a tax can be generally divided into two categories: human resources and physical resources. Human resources is not only the number of tax officials but also the quality of tax officials. Physical resources cover a wider dimension, ranging from office buildings and office equipment to vehicles and communication systems. These are the resources required by the human resources in order to ensure compliance with the tax laws. Due to financial constraints, many tax officials lack the accounting concepts that are essential to analyzing returns and this is worsened by lack of adequate training facilities and opportunities. Most of the training is general in nature (Tanzi and Zee, 2000).

Lack of modern technology, especially computers, to facilitate the taxation process is another impediment to effective tax administration. Until recently, the tax agencies had to rely on manually entering taxpayer data into records books, and keeping a voluminous amount of tax information in print. The other problem is the high levels of illiteracy in the Municipality. According to Bard (2010), 51.5% of the adult population in the region is illiterate. The Prevalence of illiteracy inevitably affects tax administration, because taxpayers are unable to file returns or record their income sources and expenditures. Hence tax authorities are usually unable to collect appropriate taxes from such people (Bird, 2003).

It is estimated that, in terms of economic activities, about 86.3% is carried out by the self-employed sector mostly operating informal structures (IRS, 2011). Despite the fact that the highest Official from the Internal Revenue Service often put in strenuous efforts in getting the tax payers honors their tax obligations. In an informal interaction with some officers at the office of the Internal Revenue Service, it was discovered that in some cases, officers had to lock up shops of artisans and stores as a mechanism to get the owners pay their tax obligation.

A pure failure to pay one’s tax on income earned amounts to non-compliance of the tax laws, which eventually lead to a loss of revenue to the government. This study therefore, assesses the tax compliance of the tax payers in the Gabonimo market Hargeisa. Findings from IRS (2011) could serve as a facilitator for future nationwide studies on issues regarding to tax compliance by the tax payers in Somaliland. The Internal Revenue Service and the state as a whole could then draw a comparative analysis to influence policy decisions.

This study sought to understand the possible barriers to tax compliance and how that affects government’s revenue generation in Somaliland. The study area was Gabonimo market and the researcher sought to objectively address this issue so as to establish potential policy recommendations on how the government of Somaliland can go along ensuring tax compliance is adhered to.

1.2 STATEMENT OF THE PROBLEM

It is obligatory for every resident of Somaliland to pay a part of his or her income to the state in a form of tax; tax revenue is the main form of income to the government of Somaliland. Gabonimo market of Somaliland lacks special rules and laws pertaining to tax collection. The individual business owners of Gabonimo market remit taxes to the government. While some remit loyally, others understate their incomes and even others do not make any income declaration at all. In fact there are some business owners who have not registered to tax authorities although they have been operating for considerably long periods in the market.

In 2012, the Inland Revenue authority estimated a total of $300,000 as being the expected total income to be collected from Gabonimo market, it was later established that only $220,000 was collected. Out of the expected $400,000 in 2013, only $317,000 was collected. Mostly recently in 2014, the Inland Revenue authority estimated to collect $550,000 out of which only $413,000 was collected. The statistics reveal cases of tax evasion whose barriers have to be understood and solved to ensure the government doesn’t continue losing money.
Some of the tax compliance barriers inherent at Gabonimo market are the lack of modern technology systems of tax collection such as Point of sale equipments and e-tax systems, illiteracy among tax payers and the lack of tax audits and investigation. Abdirahman (2011) asserts that one of the major challenges facing Somaliland is on how to ensure tax compliance is adhered to. Out of a pool of 2 million potential taxpayers, only 33.5% pay income taxes. Apart from employees on the government's payroll, only about 10.45% employees in the private formal Sector pay taxes. Employees in the private and public institutions can hardly avoid or under pay their tax liability because there are records on them since they operate in formalized organizations. There is lack of clear structures on how to determine the employees who are tax worthy and also the ones who have not complied to pay taxes. This area of interest has not been studied in Somaliland despite the weight of this issue and how it remains one of the largest government leakages to its potential revenue. The study sought to explain the tax compliance barriers and their relationship with government’s revenue generation in Somaliland

1.3 Objectives of the Study

1.3.1 General Objective
The general objective of this study was to assess the relationship between tax compliance barriers and government’s revenue generation.

1.3.2 Specific Objectives
1. To determine how computerization of tax collection affects government’s revenue generation.
2. To establish the relationship between tax literacy and government’s revenue generation.
3. To assess the effects of tax investigation and audit on the government’s revenue generation.

1.4 Research questions
The study will be guided by the following questions:
1. What is the effect of computerization of tax collection on government’s revenue generation?
2. Is there any relationship between tax literacy and government’s revenue generation?
3. How does tax investigation and audit affect government’s revenue generation?

1.5 Scope of the study
This study was confined to Gabonimo market in Hargeisa Somaliland. The subject scope revolves around tax compliance barriers experienced in Gabonimo market and how they influence the government’s income generation amounts. The study commenced during the end of August all the way to the October 2015.

1.6 Limitation of the study
This study was limited in terms of subject; covered the effects of tax compliance on government’s revenue generation. Tax compliance is the last stage in tax collection which reveals from amongst the registered tax payers how many might have evaded and even from among the unregistered, how many ought to have been registered for tax purposes. The study was limited to the context of Gabonimo market in Somaliland, although there are other markets in Somaliland, which is at generalizing the study findings to the entire Somaliland context.

1.7 Assumptions of the Study
The study was based on the following assumptions:

i) The respondents could provide accurate responses and hence not be biased
ii) There could be a positive correlation between tax compliance and government revenue generation.
iii) The study could be conducted within the budgetary estimates initially proposed.

2. Literature Review

2.1 Theoretical Review

2.1.1 The benefit theory of taxation
According to this theory of taxation, citizens should be asked to pay taxes in proportion to the benefits they receive from the services rendered by the Government. This theory is based upon the assumption that there is an exchange relationship or quid pro quo between the tax payer and Government (Feinstein, 1998). Under the benefit theory, tax levels are automatically determined, because taxpayers pay proportionately for the government benefits they receive. In other words, the individuals who benefit the most from public services pay the most taxes. Income tax, property tax and sales tax all reduce how much money consumers have to save or spend. Business taxes place some of the burden on commercial enterprises (Lewis, 1982). According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This principle has been subjected to severe criticism on the following grounds The world over, taxes is one major source of government revenue, however, not every national government have been able to effectively exploit this great opportunity of revenue generation. This can be attributed to a number reasons including the system of taxation; tax legislation; tax administration and policy issues; over reliance on other sources of revenue (such as foreign aid and grants); corrupt practices in the system – especially as it relates to the system of tax collection and behavior of citizens towards tax payment; and ease of tax payment (Thornhill, 2007).
2.1.2 Equal Sacrifice Theory of taxation

The theory Equal in taxation is important for both principled and practical reasons. Citizens have, in general, the right to expect “fairness” in public policy, including taxation. As well, since tax systems perceived to be “unfair” tend to be resisted with special intensity, such tax systems tend to generate less revenue, and have higher administrative costs, than tax systems that are perceived to be “fair.” However, it is not immediately obvious what a “fair” tax system would look like. Section of this paper, therefore, begins with four real-world tax examples rationalized by differing concepts of “equity” (Alm, 1991).

The concept of tax equity states that people with different amounts of wealth and different amounts of income should pay taxes at different rates (Milliron, 1986). Ability to pay, the dominant theory of taxation, is usually interpreted in terms of sacrifice. It is held to justify progressive taxation under any one of three possible interpretations of sacrifice: the equal, equal-proportional, and least-sacrifice theories. These theories rest in turn on three assumptions: the declining marginal utility of money with an increase in its supply, the existence of sacrifice. Analysis discloses each of these supports to be defective and thereby breaks down the theory of ability to pay.

Equal absolute sacrifice (where each taxpayer surrenders the same absolute degree of utility that he obtains from his income). Equal proportional sacrifice (where each sacrifices the same proportion of utility he receives from his income). Equal marginal sacrifice (where each gives up the same utility from the last unit of income): It is often used to justify progressive taxation (Torgler, 2001).

This researcher explores how to think about fairness in relation to taxation. It seeks to make a paradigm shift, moving away from assuming the rationality and neutrality of the disciplines involved in creating the theory and practice of tax. Instead it argues for investigating tax practices and associated discourse as a social organization. I use feminist method and scholarship to problem realizes rationality and neutrality and argues that we need to seek fairness in relation to the everyday realities of people’s lives (Somasundram, 2003).

According to Harris (1989)‘s theory, equity or fairness in taxation demands that an individual should be asked to pay a tax in proportion to the benefits he receives from the services rendered by the Government. However, there are some difficulties in application of this theory. The most crucial problem faced by benefits received approach is that it is difficult to measure the benefits received by an individual from the services rendered by the Government.

Ahmed (2011) argues that the tax system department of revenue in Somaliland fills its role in equitable taxation in two broad ways: 1) by equalizing the value- action of property under the law and 2) by ensuring proper compliance with state taxes. The Department determines the classification of property and assesses its value directly. In this regard, the quality of the Department’s classification and valuation practices largely determines the degree of equity in property taxes. In contrast, state taxes are generally self-assessed by taxpayers, with the Department checking compliance and correcting instances of non-filing or underreporting after the fact. For state taxes, the initial quality of taxpayer filing combined with the effectiveness of the Department’s compliance activities determines the degree of equity achieved (Mohamed, 2013).

It is difficult to determine how the Fair Tax will affect the economy of Somaliland. If the Fair Tax act is ever passed, implementation would need to be slow and consistently evaluated. Perhaps the best approach is a gradual shift from income tax to the Fair Tax. Alternatively, perhaps a small region could be used as a test market to iron out the problems. The scale of the change alone would probably make this plan unworkable unless a great deal more research is done (inland revenue department of Somaliland) (Samatar, 2012).

Taxes must not only be fair they must also be seen to be fair if the taxing public is to find them acceptable. There is also a greater tendency for tax evasion when the tax system is perceived to be inequitable; it is often said that if there is widespread tax evasion, then it is the system of taxation that is at fault, and not the taxpayer (Wartick, 1994). There are two types of equity to be considered. Vertical equity would require the rich to pay more than the poor, which advocates a progressive system of taxation. Horizontal equity is easier to achieve through the tax system than vertical equity, as there are different attitudes as to what is a necessary degree of inequality. Equity is concerned with the distribution of the tax burden. Equity means a tax system should be fair among individuals and taxes should be levied based on taxpayers’ capacity. Horizontal equity means that taxpayers with the same income or wealth should pay the same amount of tax (tax burden) while vertical equity means that taxpayers with high income (capacity) should pay higher tax burden (Lymer, 2009).

2.1.3 Ability Theory

The ability-to-pay theory is one of the main theories of taxation. According to the theory, taxes should be based upon the amount of money people earn. For example, those who earn more money are expected to pay a higher rate of taxes, which means a higher portion of their income, than people who earn less money. Remember, governments impose taxes to pay for services, like public schools, roads, police, and governance (Richardson, 2008). Governments impose taxes to pay for their operations and state services. But how do governments decide how to use a system of taxation to charge taxpayers for those services? One of the most common theories of how people should pay taxes is the ability-to-pay theory of taxation (Milliron, 1986).
Torgler (2007) argues that the ability-to-pay theory of taxation does not take into consideration the amount of these services that taxpayers actually use. For instance, all taxpayers contribute to public schools, even if they do not have any kids in a school system. The ability to pay is another criterion of equity or fairness in taxation. This theory requires that individuals should be asked to pay taxes according to their ability to pay.

The rich have greater ability to pay; therefore they should pay more tax to the Government than the poor (Lowes, 1982). Essentially, the ability to pay approach to fairness in taxation requires that burden of tax falling on the various persons should be the same. In the discussion of various characteristics of a good tax system, we mentioned about the two concepts of equity, namely horizontal equity and vertical equity based on the principle of ability to pay. According to the concept of horizontal equity, equals should be treated equally, that is, persons with the same ability to pay should be made to bear the same amount of tax burden. According to the vertical equity, the unequals should be treated unequally, that is, how the tax burden among people with different abilities to pay (Terkper, 2007).

In both these concepts of equity, what exactly do we mean by ability to pay and what are the objective measures of ability to pay are crucial. Some have explained the ability to pay treating it as a subjective concept. Others have treated the ability to pay in terms of some objective bases such as income, wealth, consumption expenditure etc. We shall explain below both these approaches to the measurement of ability to pay (Wenzel, 2004).

The ability-to-pay principle in taxation maintains that taxes should be levied according a taxpayer's ability to pay. This progressive taxation approach places an increased tax burden on individuals, partnerships, companies, corporations, trusts and certain estates with higher incomes. The theory is that individuals who earn more money can afford to pay more in taxes. Ability-to-pay taxation requires that higher earning individuals pay a higher percentage of income towards taxes. The tax rate increases as a percentage along with income (Torgler, 2007).

2.2 EMPIRICAL LITERATURE
2.2.1 Computerization of tax collection

Computerization of the tax collection process enables easy detection of defaulters, and also helps to reduce corruption by reducing personal interaction between tax officials and taxpayers that is necessitated by inefficient manual systems (Kayaga, 2007). Tax content repository system stores data from the tax content service, which would be used for reference in other components for easy management of the system. The faster returns can be processed then faster tax payments can be put to work managing cash flow, investing excess for a return (Hopkinton, 2010).

Tax determination services system is used to look at the different tax services and how best they can be applied. Every tax within a tax regime has its own regulations that determine when the tax is applicable, that is, when the tax needs to be charged or paid. The tax determination contains two components including tax determination management and the tax rule management which manages the requirements and processes around automatic tax calculation based on transaction details and tax setup information (Stacey, 2010).

Tax record repository system contains the components used to record all the tax documentations and transactions, which makes reference easy incase the need arises (Stacey, 2010). Properties are conveyed free and clear of the tax and municipal claims, and charges of whatsoever kind, depending on how it is designed separately for tax issues.

Tax administration services looks at the operations of the outstations to provide a convenient option for persons to pay their taxes, without having to visit a tax office or pay online. This one manages the accounting for all tax transactions. It would include; Value Added Tax (VAT), Income Tax (IT) filings and property tax many more.

Point of sale (POS) systems enable retailers to consult more detailed management information compared to traditional cash registers and Electronic Cash Registers (ECRs). As this management information is based on sales figures, retailers can improve their business by maintaining a better product strategy and pursuing a more efficient replenishment process matching customer demand, alleviating what is often referred to as the ‘bullwhip effect’ (Lee, Padmanabhan and Whang, 1997). This enables inventory optimization, minimizing storage space and ‘sold-out’ situations. Moreover, cash slips can be stored electronically and the results can be brought up in the POS system immediately, both reducing time spent on administrative tasks.

Professionalizing through ICT may particularly help the small, independent retailers to improve their competitive position against larger retailers and internet based vendors. Despite their potential benefits and their wide availability on the Dutch market, POS systems are not (yet) widely used by smaller retail organizations. Statistics from the Dutch central industry board for retail trades (HBD, 2009) show that in 2008, 30% of retail organizations actually used a POS system. This adoption level differs per branch, ranging from 57% for supermarkets to 10% for shops for household products. The most recent Sectorial e-Business Watch (European Commission, 2008) confirms that smaller retail companies tend to be less automated than larger ones.
2.2.2 Tax Literacy

Tax literacy is a rather new and still developing concept which is highly related to financial literacy. Financial literacy presents a very broad concept which is usually defined as basic financial knowledge and financial skills needed to make informed financial choices. Financial literacy reflects individuals’ ability to understand financial concepts, financial products and services and enables them to control their personal financial resources (Bahovec et al., 2014). Worthington (2006) argues that although policy makers and researchers have attempted to define financial literacy, it can mean different things to different people. It might be a broad concept involving an understanding of economics, or alternatively a narrower concept focused mainly on basic money management. International Adult Literacy Survey (IALS) defines literacy as ‘the ability to understand and employ printed information in daily activities, at home, at work and in the community - to achieve one’s goals, and to develop one’s knowledge and potential.’

Similarly, UNESCO (2012) considers that “literacy is the ability to identify, understand, interpret, create, communicate and compute, using printed and written materials associated with varying contexts.”

Discussions on tax literacy are not widespread and the concept is also not discussed widely nor is it generally defined or accepted. Basic literacy without any doubt presents a first prerequisite for acquisition of tax literacy. In other words, the capacity to read and to write is crucial for understanding the tax laws, tax procedures, and tax burden. Teachers of tax law and legal tax are usually measuring basic tax knowledge in the sense of calculating tax liabilities on income and wealth for different taxpayers in different situations. Tax knowledge combines information about tax rules and tax policies with financial skills needed in calculation of economic consequences for taxpayers (Fallan, 1999).

According to Waris and Murangwa (2012), tax literacy is intended to firstly, help provide information about taxes, secondly, not to support any particular type or amount of taxes, but to simply explain taxes within a domestic system as well as a regional and international system, and how it impacts on those being informed. Furthermore, tax literacy can be defined as the ability to fill in the tax form and calculate tax liabilities independently (Bardai, 1992; Razman and Ariffin, 2000).

Tax literacy may be defined as the knowledge which an individual should possess in order to manage the issues concerning personal taxation effectively (Bhushan, Medury, 2013). According to study made by Madi et al. (2010) a person can be considered functionally literate if he/she can read, write and calculate for his/her own self. By analogy tax literacy may be defined as follows: a person is considered functionally tax literate if he/she can independently read and understand tax reports, can engage independently in various tax calculations and is aware of possible tax risks in its financial environment.

Nevertheless, tax ignorance and illiteracy are dangerous not only for the economy but also for individuals and their personal budgets. In other words, if taxation issues are not regarded with special attention, there might occur certain financial problems which represent significant risks for endangering household financial stability (for ex. it can cause taxpayers to pay too much tax by preventing them from taking advantage of tax benefits to which they are entitled). In order to ensure household financial stability, it is very important to make sure that taxpayers have an adequate level of tax literacy.

Tax management plays a very important role in personal financial planning. An individual should have thorough knowledge of various aspects of taxes and tax policies, which should help him to better understand how much he can save even after paying taxes. The ability to meet tax liabilities on time, prepare returns accurately and claim all the possible entitlements for sure impacts one’s overall financial situation (Brackin, 2007). The findings of the financial literacy researches are suggesting that a financially capable person is more likely to take an active and responsible role in their financial life. Therefore, a more tax literate person should be more likely to take an active and responsible role in the taxation arena (Brackin, 2007).

On the other hand, people who have not received any formal type of education on taxation found it very difficult to understand and comprehend the issues related to determination of tax liability, tax filling and tax saving (Bhushan, Medury, 2013).

Rizeman and Slemrod (1987) investigated the role of the tax collection costs on fiscal decisions. They found that a low literacy imposes countries to rely more on import and export taxes, while on the other hand, an increase in literacy is linked to a decline in the percentage of revenue accounted for by the trade taxes. Ghura (1998) investigated the effect of literacy rate on the tax revenues and concluded that there is a positive relationship between them. Author stressed out that when the corruption is included in the same regression, the magnitude and statistical significance of their impact decreases.

Book (2003) suggests that low literacy, with different taxes and languages, is used by the deviant taxpayers to hide their tax evasion. By consequence, an increase of literacy tends to eliminate this kind of evasion. Furthermore, Kenny and Winer (2006) in their research explored about 100 democratic and nondemocratic countries for three distinct periods of time (1975-1980, 1981-1985, and 1986-1992) and used the average years of educational attainment in the adult population as a measure for literacy. Their results are very similar to those of Rizeman and Slemrod (1987). According to their study, the rise of the educational attainment is accompanied...
by a higher importance of taxes that require widespread literacy (i.e. individual income taxes, and domestic goods and sales taxes). At the same time, there are taxes that have less demanding literacy requirements, such as payroll and trade taxes.

Using a modified version of the models employed by Heller (1975), Leuthold (1991) and Ghura (1998), Mahdavi (2008) in his study found that a higher level of basic education is one of the key factors that affects positively the sales and excise taxes. Therefore, he concluded that improving the literacy rate should lead to the increase in the level of taxation. Kirchler et al. (2008) developed an explanatory framework (“slippery slope”) to emphasize the necessary actions of the state in order to improve the taxpayers’ tax compliance. They suggested that developing tax educational programmes would be a good direction to improve tax compliance for those taxpayers with a motivational commitment. In the case of taxpayers with motivational capitulation or resistance to the educational programmes, they suggested actions that profile the state power in respect to tax compliance.

Chaudry and Munir (2010) analyzed the determinants of low tax revenues in Pakistan and concluded that an increase of literacy rate results in a decrease of collected tax revenues. The main results of the study made by Mutascu and Danuletiu (2013) also showed that a very low literacy is associated with reduced tax revenues. Moreover, Lewis (1982) studied the impact of tax knowledge and attitudes of an individual on completing the tax returns. His aim was to study the impact of increase in tax knowledge on tax compliance behavior. He found that there is insufficient knowledge about tax regulations amongst the population which negatively effects tax compliance behaviour.

Eriksen and Fallan (1999) in their study found that fiscal knowledge is significantly correlated with attitudes towards taxation. They suggested that tax behavior could be improved by a better understanding of tax laws. In their opinion, taxpayers must be given better tax knowledge in order to improve their tax ethics and compliance behavior. Singh (2003) in his research concluded that general tax knowledge of an individual is correlated with taxpayers’ ability to understand the rules and regulations of taxation, and their ability to comply with them.

Christie and Holznner (2006) in their study found a positive relationship between chosen measure of tax complexity and tax compliance for personal income tax. Moreover, Marti et al. (2010) showed that misunderstanding of the fiscal law (such as tax rates, tax base and paying dates) is one of most important factors that affect tax compliance in Kenya. Their results showed that an improvement in the tax collection was caused mainly by an increase of the taxpayers’ ability to understand the tax laws. Furthermore, research done by Bhushan and Medury (2013) showed that salaried individuals in India have low level of tax literacy and are not well versed with the basic concepts of personal taxation which at the end caused them difficulties in computing their tax liabilities and file their tax returns. After reviewing the relevant literature, it becomes clear that developing tax knowledge among taxpayers is an important element of creating and maintaining a successful tax system. In other words, it can be concluded that higher tax literacy should decrease the possibility of individual or household indebtedness by decreasing their exposure to the tax risk, increase their tax morale and respectively decrease informal economy and increase tax revenues.

2.2.3 Tax Investigation and Audit

Auditing is an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor in accordance with his terms of engagement and compliance with statutory regulation and professional requirements (Daniel, 1999). It is important to note that any individual or organization that falls within the scope of the above income groups, is obliged to pay tax, this can be voluntarily or otherwise. It is within this process that the issues of returns and assessment arose. Every individual or organization liable to income tax for a year of assessment is required to submit returns of his income and other relevant matters to the tax authority having power to assess him to tax. And this is subject to satisfaction of the returns by the Tax Authority (Oyebanji, 2006).

Slemrod (2000) is of the view that Tax audit is one of the most effective policies to prevent tax evasion behaviour. The level of tax audit can be determined by two elements: one is how many tax payers are selected for audit and the other is how much intensive the audit is. The first element is easily measured by the number of audited tax payers divided by the total number of tax payers. However, the latter is so difficult to measure due to non-published information about tax audit progress. It is commonly measured by the first element to indicate the level of tax audit for practical comparison.

Tax audit can be defined as “an examination of an individual or organization’s tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state”. He further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return (Kircher, 2008). Tax compliance can be defined as “the ability of a tax liable body to submit accurate, complete and satisfactory returns in conformity with tax laws and regulations of the state to the authority for the purpose of tax assessment” (Kircher, 2008).

Frank (2010) concludes that the designed tax authorities audit policy can have important effects on production decision by firms. The nature of such effects depends on whether firms compete or collude. Accordingly, an appropriate designed audit policy may not only achieve greater compliance and higher net revenue for given
output and resources spend on audit but may also have other effects that would be normally considered desirable in a wider economic context. By a smart design of audit policy, the authorities can create information externalities that partially offset the informational advantages of industry insider. Since decision in the product market is in the light of the eventual outcome of net after tax expected profits, the audit policy can create a linkage to Output decisions. Specifically, it may be possible to nudge firms in the direction of greater efficiency. Kwon (2004) concluded that Korea needs more rigorous analysis to evaluate the determinant of tax culture for the study of tax compliance tax audit. Luigi (1999) concluded that better integration of the research on tax evasion the “law and economics” analysis of legal rule, is definitely desirable. As theoretical analysis proceeds, additional empirical work will be needed together with more extensive study of comparative tax enforcement law and procedure. Erard (1994) mentioned some reasons for tax audit which include, among others: To assist the government in collecting appropriate tax revenue necessary for budget, maintaining economic and financial order and stability, to ensure that satisfactory returns are submitted by the tax payers, to minimize the degree of tax avoidance and tax evasion, to ensure strict compliance with tax laws by tax payers, to improve the degree of voluntary compliance by tax payers and to ensure that the amount due is collected and remitted to government. James (1993) identified a priority list of tax audit mission as follows: To establish a viable and effective tax administration in order to deal with constantly changing economy, to put strategies in place in order to resolve tax dispute between the tax authority and the liable tax payers, to maintain a strong mechanism to deal with tax avoidance techniques which are available to various organizations, but are susceptible to tax abuse, to bring defaulting tax payers to the net of tax authorities, to prove the completeness, accuracy and timely filing of tax returns submitted by the tax payers. Cremer (1990) concluded that “International tax laws have their domicile in their domestic tax laws of respective states (countries)”. Countries enact laws in order to enable their tax authorities to collect tax funds for public welfare and stimulation of domestic investment and business. From the explanation, it can be seen that the international taxation system has taken an important role in many countries of the world. An international tax audit is the examination of MNCs tax reports to ascertain compliance with applicable tax laws and regulations, domestic and foreign. It is often said that the customer is always right, this is however not the case in the relationship between the tax authority and the taxpayer. This is so because the major aim of tax audit and investigation is not to manage the taxpayer but a focus on generating revenue (Ojo, 1996).

2.3 IDENTIFICATION OF GAPS
The topic of tax compliance and government’s revenue generation has not been holistically studied. Although we have many studies done on tax compliance, we don’t have an immediate study done to reveal the relationship between tax compliance and governments’ revenue generation. Besides, although the topic on tax compliance has been exhaustively done in developed countries and even in the East African nations, there exist major gaps in the Horn of Africa and most importantly in Somaliland, a developing country whose main income comes from taxation since we don’t have any published source for the same. This study aims to fill this gap

2.4 CONCEPTUAL FRAMEWORK

![Conceptual Framework](image)

Source: Author (2015)
3. RESEARCH METHODOLOGY

3.1 Introduction
The chapter discusses the research design adopted for the study, sources of data, instrument for data collection, the study population and sample size, as well as the sampling procedures, data analysis, simply frame, sampling technique, sample size, pilot test, test of reliability and validity, data analysis and presentation.

3.2 Research Design
The research design is defined as plan, structure and strategy of investigation conceived to obtain respond to research question and control variance (Kerlinger, 1964). This study used descriptive survey method. A descriptive survey is method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2003). Kerlinger (1969) states that the descriptive studies are not only restricted facts finding, but might often the result in the formulation important principle of knowledge and solution to significant problem. This design was therefore adopted for this study as it enables the researcher to obtain a cross-reference data and some independent confirmation of the data, as well arrange of options.

3.3 Study Population
According to Schneider (2001), population is generally a large collection of individuals or objects that is the main focus of a scientific query. The population of this study consisted of all the 150 business owners registered at Gobonimo Market.

3.4 Sample Frame
Sampling frame is a complete list of all the members of the population from which the sample is drawn (Meera, 2005). According to Edward (2001), sampling frame is a complete list of all the members of the population that is to be studied. The sampling frame was collected from the chairman of Gobonimo business owners association.

3.5 Sample technique and sample size
Sampling techniques is used in selecting a given number of subjects from a defined population as reparative of the populating (Orodho, 2003). The researcher used stratified random sampling methods. The use of stratified sampling is justified by the fact that it makes the ideal sample homogenous and hand representative (Kumekpor, 2003).

According to Chow (2004), the sample size of a survey most typically refers to the number of units that were chosen from which data were gathered. A sample is a subset of population. There is the designated sample size, which is the number of sample part selected for population; there is also the final sample size, which is the number of completed interviews or units for which data are actually collected (McKee, 1992). Therefore the sample size of the study was 52 respondents. This was 34.7% which more than to 30% sample size acceptable (Mugenda and Mugenda, 2003).

<table>
<thead>
<tr>
<th>STRATUM</th>
<th>Shops</th>
<th>Supermarket</th>
<th>Furniture</th>
<th>Pharmacies</th>
<th>Restaurants</th>
<th>Tailors</th>
<th>Building material</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population Size</td>
<td>25</td>
<td>25</td>
<td>20</td>
<td>19</td>
<td>21</td>
<td>15</td>
<td>25</td>
<td>150</td>
</tr>
<tr>
<td>Sample Size 30%</td>
<td>8</td>
<td>9</td>
<td>7</td>
<td>8</td>
<td>7</td>
<td>5</td>
<td>6</td>
<td>52</td>
</tr>
</tbody>
</table>

3.6 Data Collection Procedure
This study used both primary and secondary data. Primary data was collected by use of the questionnaire. Mugenda and Mugenda (2003) observed that the use of questionnaires make it easier to collect information cheaply and quickly. The study questionnaire consisted of closed and open- ended questionnaire. During the distribution of the instruments, the purpose of research will be explained. The secondary data was collected from the Somaliland publications on the operations of the top three markets within the country.

3.7 Pilot Testing
The research instrument in this study was carefully constructed to ensure their reliability and validity in to attainment of the objective of study. 1% of the sample size was used for the the pilot test. The 1% is supported by Orodho (2008) who argued that a sample size of 1% is ideal for the pilot test. The main objective of pilot testing is to ascertain the accuracy and valid of the instrument before they are used the actual study (Mugenda and Mugenda, 1999)
3.8 Test for Reliability
According to Shaghverzy (2003), reliability refers to consistency of measurements. Reliability is also extremely important externally, and another researcher should be able to perform exactly the same experiment, with similar equipment, under similar conditions, and achieve exactly the same results, if they cannot, then the design is unreliable (McBarnet, 2001). Reliability was tested by the use of Cronbach’s alpha where a value of 0.899 was found which is ideal.

3.9 Testing for Validity
Careswell (2003) laments that validity is the strength of the qualitative research, although another researcher prefer to substitute valid with terms such as trustworthiness, credibility, transferability, dependability and conformability (Gall, Gall and Borg, 2009). Validity existing when the knowledge sought is arrived at through description that makes possible and understanding the of meaning and essence of experience (Castillo, 2009). Waber (1990) assert, that in order to make valid inference from the text, it is important to classifications procedure be reliable in the sense of being consistent. Different people should code the same text, in the same way. The researcher ensured content validity by that the questionnaire was well structured and with all and relevant questions which will help ensure that the researcher’s purpose is met (Cresswell, 2003).

3.10 Data Analysis and procedure
Data analysis is a practice in which raw data is ordered and organized so that useful information can be extracted from it (Gall, Gall & Borg, 2007). After data had been collected through questionnaires, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keying into statistical package for social sciences (SPSS) computer software for analysis SPSS was used to produce frequencies, descriptive and inferential statistics which was used to derive conclusions and generalizations regarding the population. The particular inferential statistic was correlation analysis. The analysis of variance (ANOVA) was checked to reveal the overall model significance. In particular, the calculated f statistic was compared with the tabulated f statistic. A critical p value of 0.05 was also used to determine whether the overall model was significant or not. The individual regression coefficient was checked to see whether the independent variables significantly affected the business performance. A critical p value of 0.05 was used to determine whether the individual variables are significant or not. Data was then presented by aid of frequency tables and figures.

4. FINDINGS AND DISCUSSION

4.1 INTRODUCTION
This chapter presents the study findings and their discussion. The chapter findings are presented by aid of tables and figures. The chapter begins with the background information after which the study objectives were covered.

4.2 BACKGROUND INFORMATION
4.2.1 Gender of Respondents
On the gender of respondents, it was established that 65.4% were male while 34.6% were female. These statistics reveal that both gender (male and female) were well represented in this study. The findings are as shown in table 4.1 below:

<table>
<thead>
<tr>
<th>Table 4.1: Gender of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Male</td>
</tr>
<tr>
<td>Female</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.2.2 Age of respondents
On the age of respondents, it was established that majority respondents (36.5%) were between 20-30 years, 26.9% of respondents were between 40-50 years, 21.2% were between 30-40 years while 15.6% were between 50-60 years. The statistics indicate that the respondents were well distributed to represent all age sets and hence the opinion of the whole organization was well represented. This is as shown in table 4.2 below:

<table>
<thead>
<tr>
<th>Table 4.2 Age of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>20-30</td>
</tr>
<tr>
<td>30-40</td>
</tr>
<tr>
<td>40-50</td>
</tr>
<tr>
<td>50-60</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>
4.2.3 Educational Level of Respondents
On the educational level of respondents, majority respondents (36.5%) were undergraduate degree holders, 32.7% were high school finalists, 21.2% were master holders while 9.6% were PhD holders. The statistics reveal that majority respondents were well educated to provide important input for this study. The Findings are shown in table 4.3 below:

<table>
<thead>
<tr>
<th>Table 4.3 : Educational Level of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>High school</td>
</tr>
<tr>
<td>Undergraduate</td>
</tr>
<tr>
<td>Masters</td>
</tr>
<tr>
<td>PhD</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.2.4 Respondents' Nature of Business
The largest group of respondents was in the furniture business (40.4%), 23.3% were shops retailers, 21.2% were Supermarket workers and lastly 15.4% were in building material business. The statistics above reveal that all the major types of businesses at Gabonimo market were well represented for this study and that respondents' information could be generalized to all traders at the market. Table 4.4 below represents the above relationships:

<table>
<thead>
<tr>
<th>Table 4.4 : Respondents' Nature of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Super market</td>
</tr>
<tr>
<td>Furniture</td>
</tr>
<tr>
<td>Shop</td>
</tr>
<tr>
<td>Building Material</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.2.5 Types of Business Ownerships
On the types of business ownerships at Gabonimo market, the study established that 57.7% of the respondents were from sole proprietorship form of business ownership, 30.8% were from partnerships while 11.5% were from corporations. The statistics indicate that all the different types of business ownerships were well represented for this study. Table 4.5 below represents the study findings:

<table>
<thead>
<tr>
<th>Table 4.5 : Types of Business Ownerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Sole Proprietor</td>
</tr>
<tr>
<td>Partnership</td>
</tr>
<tr>
<td>Corporation</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3 COMPUTERIZATION OF TAX COLLECTION
4.3.1 Usage of Point of Sale (POS) Machines
A majority of respondents (82.7%) opined that taxpayers do not use point of sale machines in their transactions while only 17.3% argued that the taxpayers use the POS machines at their business premises. At the point of sale, the merchant would prepare an invoice for the customer (which may be a cash register printout) or otherwise calculate the amount owed by the customer and provide options for the customer to make payment. After receiving payment, the merchant will also normally issue a receipt for the transaction. Usually the receipt is printed, but it is increasingly being dispensed electronically. The point of sale machines is helpful in the collection of input tax by shop owners on behalf of tax authorities and they ensure that tax records are kept for the tax liability owing to the government. The business owners should be encouraged to make use of these machines to ensure accountability as regards to their tax liability for ease of verification and investigation evidence. The findings are represented in table 4.6 below:

<table>
<thead>
<tr>
<th>Table 4.6 : Usage of Point of Sale Machines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3.2 Usage of Electronic Cash Registers
Very few respondents (23%) believed that taxpayers use electronic cash registers while 77% of the respondents argued that taxpayers do not use them. The electronic cash registers are mechanical or electronic devices for registering and calculating transactions. They are usually attached to a drawer for storing cash and other valuables. The cash register is also usually attached to a printer that can print out receipts for record
keeping purposes. The government should ensure it as a regulation for the tax business owners to provide
electronic cash registers in their business and also to ensure their usage, aimed at ensuring high compliance in
tax collection. The findings are as shown in table 4.7 below:

<table>
<thead>
<tr>
<th>Table 4.7: Usage of Electronic Cash Registers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3.3 Computerization of Book keeping Operations

On the question whether the businesses operated at Gabonimo market make use of computerized book
keeping, 32.7 % of respondents accepted that businesses use computerized book keeping whereas a greater
percentage of 67.3% did not concur with this matter. These findings are of concern since many business
owners will not be able to enjoy the usage of computerized book keeping which would ease the way with which
accounting and auditing work can be done. Using a computerized accounting system saves time, it allows
faster data entry than manual accounting, and allows documents such as invoices, purchase orders and payroll
to be collated and printed quickly and accurately. Because of its efficiency and ease of use, computerized
accounting systems also allow for the improvement of inventory control and payment collection, saving time and
improving cash flow. Because computerized systems update some records automatically, there usage could
ensure that business accounting records are always up to date, saving time in updating. The findings are shown
in table 4.8 below:

<table>
<thead>
<tr>
<th>Table 4.8: Computerization of Book keeping Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of respondent</td>
</tr>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3.4 Tax Computerization and Compliance Levels

Respondents were asked whether tax computerization results in higher tax compliance. A great percentage of
respondents (34.6%) strongly agreed that tax computerization results in higher compliance, 26.7% agreed,
28.8% disagreed while 7.7% strongly disagreed. The above statistics reveal that many of the respondents were
of the opinion that in order to ensure higher compliance is achieved, tax operations should be computerized.
These findings are as shown in table 4.9 below:

<table>
<thead>
<tr>
<th>Table 4.9: Tax Computerization and Compliance Levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Agree</td>
</tr>
<tr>
<td>Strongly agree</td>
</tr>
<tr>
<td>Disagree</td>
</tr>
<tr>
<td>Strongly disagree</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3.5 Tax Computerization and Tax Monitoring Capability

On the question whether tax computerization promotes tax monitoring capability among tax authorities, 40.4%
of respondents strongly agreed, 30.8% agreed, 17.3% disagreed while 11.5% strongly disagreed. On overall, it
can be concluded that tax computerization result to higher tax monitoring capabilities. Table 4.10 below
illustrates the above arguments:

<table>
<thead>
<tr>
<th>Table 4.10: Tax Computerization and Tax Monitoring Capability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Agree</td>
</tr>
<tr>
<td>Strongly agree</td>
</tr>
<tr>
<td>Disagree</td>
</tr>
<tr>
<td>Strongly disagree</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.3.6 Knowledge of Tax machine Operation

On the question whether the business owners at Gabonimo market are well informed about the prevailing tax
machines and how to handle them, 42.3% of respondents strongly disagreed, 21.2% disagreed, 28.8% agreed
while 7.75% strongly agreed. The above statistics call for the need of tax authorities to enlighten the business
owners on the existence and mode of operation of these machines so that they can take advantage of them
and thus the government to be able to collect more tax revenue though increased compliance. The findings
above are represented in table 4.11 below:
Table 4.11: Knowledge of Tax machine Operation

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>22</td>
<td>42.3%</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
<td>21.2%</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
<td>28.8%</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>4</td>
<td>7.75%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

4.3.7 Correlation and Anova Tests for Tax Computerization

4.3.7.1 Anova Test

Table 4.12: Anova on Tax Computerization

<table>
<thead>
<tr>
<th></th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax computerization and compliance level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Between Groups</td>
<td>1.709</td>
<td>4</td>
<td>.427</td>
<td>.471</td>
<td>.756</td>
</tr>
<tr>
<td>Within Groups</td>
<td>41.703</td>
<td>46</td>
<td>.907</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>43.412</td>
<td>50</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.12 above reveal that there is no significant difference between tax computerization and compliance levels since the significance value is greater than 0.05 i.e. Sig. .756. Therefore, the differences between the condition means are not likely due to change and are probably due to the Independent variable (tax compliance barriers)’s manipulation.

4.3.7.2 Correlation on Tax Computerization

Table 4.13: Correlation on Tax Computerization

<table>
<thead>
<tr>
<th></th>
<th>Pearson Correlation</th>
<th>Tax computerization and Revenue Generation</th>
<th>tax compliance barriers and government revenue generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax computerization and</td>
<td>Sig. (2-tailed)</td>
<td>1</td>
<td>-.152</td>
</tr>
<tr>
<td>Revenue Generation</td>
<td>N</td>
<td>52</td>
<td>282</td>
</tr>
</tbody>
</table>

The Sig. (2-Tailed) value in this study’s correlations is 0.282. This value is less than .05. Because of this, we can conclude that there is a statistically significant correlation between Tax computerization and tax compliance.

4.4. TAX LITERACY AND GOVERNMENT’S REVENUE GENERATION

4.4.1 Tax Payers’ Awareness of the Benefits of Paying Taxes

A majority of respondents (36.5%) disagreed with the fact that taxpayers were aware of the benefits of paying taxes while 34.6% respondents strongly disagreed. 21.2% and 7.75% agreed and strongly disagreed respectively. It is important for the government to conduct sensitization programmes aimed at helping the business owners gain more knowledge on tax education and its benefits for them to comply even more voluntarily. The failure of the government to do this will result to the continued failure by tax payers to comply voluntarily in payment of taxes at Gabonimo market of whose results are painful losses with the government. The above findings are illustrated in table 4.14 below:

Table 4.14: Tax Payers’ Awareness of the Benefits of Paying Taxes

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>18</td>
<td>34.6%</td>
</tr>
<tr>
<td>Disagree</td>
<td>19</td>
<td>36.5%</td>
</tr>
<tr>
<td>Agree</td>
<td>11</td>
<td>21.2%</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>4</td>
<td>7.7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

4.4.2 Tax Payers’ Knowledge of Existing Tax Rates

On the question whether tax payers are informed about the existing tax rates, the findings reveal that many taxpayers aren’t informed as it was supported by 32.75% of the respondents, 26.9% strongly disagreed, 30.8% agreed while 9.6% strongly agreed. The above statistics point the need with which the government should act to create more workshops and seminars aimed at sensitizing its people on the current tax rates for this is the only way with which the taxpayers can be liable to remit their tax owing. The findings are illustrated in table 4.15 below:
Table 4.15: Tax Payers’ Knowledge of Existing Tax Rates

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>14</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>16</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

4.4.3 Taxpayers’ Knowledge on Computation of Tax Liability

As to whether the taxpayers know how to compute their tax liabilities at Gabonimo market, majority of respondents disagreed (32.7%), 30.8% strongly disagreed, 17.3% agreed and another 17.3% strongly disagreed. The government needs to invest in tax knowledge for the benefits of ensuring compliance to tax rules through the ability of taxpayers to compute their tax liability themselves. The above findings are shown in table 4.16 below:

Table 4.16: Taxpayers’ Knowledge on Computation of Tax Liability

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>16</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>9</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

4.4.4 Taxpayers’ Knowledge on Emerging and Current Issues in Taxation

As to whether taxpayers are aware of emerging and current issues in taxation, majority of respondents (32.7%) disagreed, 28.8% strongly disagreed, 25% agreed while 13.5% strongly agreed. The above statistics reveal a situation where the taxpayers are not informed about the current and future issues affecting them. This tax ignorance and illiteracy are dangerous not only for the economy but also for individuals and their personal budgets. In other words, if taxation issues are not regarded with special attention, that might cause certain financial problems which represent significant risks for endangering household financial stability. The findings are as shown in table 4.17 below:

Table 4.17: Taxpayers’ Knowledge on Emerging and Current Issues in Taxation

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly disagree</td>
<td>15</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
</tr>
<tr>
<td>Agree</td>
<td>13</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
</tr>
</tbody>
</table>

4.4.5 Anova and Correlation Tests on Taxpayers’ Literacy

4.4.5.1 Anova Test on Taxpayers’ Literacy

Table 4.18 below reveal that there is no significant difference between tax computerization and compliance levels since the significance value is greater than 0.05 (Sig value .827). Therefore, the differences between the condition means are not likely due to change and are probably due to the independent variable (tax compliance barriers)’s manipulation.

Table 4.18: Anova Test on Taxpayers literacy

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers Literacy and Compliance</td>
<td>Between Groups</td>
<td>1.383</td>
<td>4</td>
<td>.346</td>
<td>.373</td>
</tr>
<tr>
<td></td>
<td>Within Groups</td>
<td>43.598</td>
<td>47</td>
<td>.928</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>44.981</td>
<td>51</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4.4.5.2 Correlation Test on Taxpayers’ Literacy

The study found a positive correlation (r = 0.141) which can be explained that tax literacy is directly related to government's revenue generation. The more the citizens are educated, the higher the rates of voluntary compliance, the opposite are true. The table 4.19 below illustrates the findings.

Table 4.19: Correlation on Taxpayers’ Literacy

<table>
<thead>
<tr>
<th>Tax Literacy and Revenue Generation</th>
<th>Tax compliance barriers and government revenue generation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (1-tailed)</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>
4.5 TAX INVESTIGATION AND AUDIT

4.5.1 Tax Authorities’ Examination of Accounting documents and supporting Evidence
As to whether tax authorities examine accounting documents and supporting evidence for the purpose of reaching an opinion concerning taxpayers’ liability, 36.5% and 25% strongly agreed and disagreed respectively. Its only 26.9% and 11.5% who agreed and strongly agreed respectively. Many respondents opined that the tax authorities do not examine accounting documents and supporting evidence in order to determine tax compliance and hence tax audits. Perhaps the lack of this tax audits is one of the biggest reason as to why there still exist high rates of tax evasion at Gabonimo market in Somaliland. These findings are illustrated in table 4.20 below:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>19</td>
</tr>
<tr>
<td>Disagree</td>
<td>13</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>

4.5.2 Tax audit and investigations help curb Tax Evasion Problems
On the question whether tax audit and investigations helps curb the problems of tax evasion at Gabonimo market in Somaliland, majority (34.6%) of respondents strongly agreed followed by 26.9% who agreed. 32.7% and 5.8% disagreed and strongly disagreed respectively. The above statistics reveal that if well undertaken, the problems of tax evasion can be solved by continuous tax audits and investigations on taxpayers’ statements. The findings are as shown in table 4.21 below:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>18</td>
</tr>
<tr>
<td>Agree</td>
<td>14</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>

4.5.3 Tax Audit and Investigations as Motivational factors for Compliance
As to whether tax audit and investigations can serve as motivating factors to tax payers in carrying out their tax obligations in Gabonimo market, majority respondents (26.9% and 28.8%) strongly agreed and agreed respectively. Only 21.2% and 23.1% disagreed and strongly disagreed respectively. The findings are illustrated in table 4.22 below:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Agree</td>
<td>14</td>
</tr>
<tr>
<td>Agree</td>
<td>15</td>
</tr>
<tr>
<td>Disagree</td>
<td>11</td>
</tr>
<tr>
<td>Strongly Disagree</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>

4.5.4 Existence of Internal Auditors
As regards whether business owners at Gabonimo market have employed internal auditors, majority of respondents (28.8% and 34.6%) strongly disagreed and disagreed respectively. Only 23.1% and 13.5% agreed and strongly agreed respectively. This implies that even the business owners themselves are not able to have an independent examination and expression of opinion on the financial statement of their businesses by an appointed auditor. The findings are as shown in table 4.23 below:

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>15</td>
</tr>
<tr>
<td>Disagree</td>
<td>18</td>
</tr>
<tr>
<td>Agree</td>
<td>12</td>
</tr>
<tr>
<td>Strongly agree</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
</tr>
</tbody>
</table>

4.5.5 Tax Authorities’ use of Back duty
On the question as to whether tax authorities carry out back duty assessment on taxpayers’ liability on routine basis, majority of respondents (34.6% and 28.8%) strongly disagreed and disagreed respectively. 23.1% and 13.5% agreed and strongly agreed respectively. This implies that tax authorities at Gabonimo market are not
keen on the use of back duty which could help them recover past unpaid taxes resulting due to the lack taxpayer’s failure to disclose relevant information through negligence or fraud. Table 4.24 below illustrates the study findings above explained:

<table>
<thead>
<tr>
<th>Table 4.24: Tax Authorities’ use of Back duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>Strongly Disagree</td>
</tr>
<tr>
<td>Disagree</td>
</tr>
<tr>
<td>Agree</td>
</tr>
<tr>
<td>Strongly Agree</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.5.6 The actual tax collected and estimate tax collected in Gobonimo market

Variance analysis is the quantitative investigation of the difference between actual and planned behavior.

<table>
<thead>
<tr>
<th>Table 4.25 The actual tax collected and estimate tax collected in Gobonimo market</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of years</td>
</tr>
<tr>
<td>The budgeted/estimated tax collected</td>
</tr>
<tr>
<td>The actual tax collected</td>
</tr>
<tr>
<td>Variance Analysis</td>
</tr>
<tr>
<td>Variance Analysis %</td>
</tr>
</tbody>
</table>

The variances between the actual revenue and the expected revenue collection are wide and clear, they shown signs of tax evasion and barriers by tax authorities to ensure compliance. The tax estimates and actual in 2012 were $300,000 and $220,000 respectively the variance is 80,000 or 36.36%. The tax estimates and actual in 2013 were $400,000 and $317,000 respectively variance 83,000 or 26.18%. While the tax estimates and actual in 2014 were $550,000 and $413,000 respectively variance is 13,700 or 33.17%. The barriers were attributed to lack of tax effective computerization, high rates of illiteracy among taxpayers and the lack of audits and investigations on the part of taxpayers which results to limited compliance. The conclusions are hereby presented as per study objectives

4.5.7 Anova and Correlation Tests on Tax Audit and Investigation

4.5.7.1 Anova Test on Tax Audit and Investigation

The significance level is 0.702 (p = .0702), which is higher 0.05. And, therefore, there is a statistically significant difference in the mean length of time to complete the spreadsheet problem between the different courses taken. The findings are as shown in table 4.26 below:

<table>
<thead>
<tr>
<th>ANOVA</th>
</tr>
</thead>
<tbody>
<tr>
<td>tax compliance barriers and government revenue generation</td>
</tr>
<tr>
<td>Between Groups</td>
</tr>
<tr>
<td>Within Groups</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

4.5.7.2 Correlation Test on Tax Audit and Investigation

The Sig. (2-Tailed) value is 0.046. This value is less than .05. Because of this, the study can conclude that there is a statistically significant correlation between Tax Audit and Investigation can lead to an increase in Government Revenue to a great extent and tax.

<table>
<thead>
<tr>
<th>Table 4.27: Correlation Test on Tax Audit and Investigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Correlations</td>
</tr>
<tr>
<td>Tax Audit and Investigation can lead to an increase in Government Revenue to a great extent</td>
</tr>
<tr>
<td>tax compliance barriers and government revenue generation</td>
</tr>
<tr>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td>N</td>
</tr>
</tbody>
</table>
5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION
This chapter contains the summary of the study, conclusions and recommendations which are made based on the study finding. The summary and conclusions are guided by objectives while the recommendations section contains both the policy recommendations and recommendations for further research.

5.2 SUMMARY
This chapter presents the summary of the whole study as guided by objectives. The first objective is that of tax computerization followed by tax literacy and finally auditing and investigation, all aimed at ensuring greater compliance on the part of taxpayers.

5.2.1 Tax Computerization
The study established that majority respondents (82.7%) do not use point of sale machines in their transactions while only 17.3% of respondents opined that taxpayers use the POS machines at their business premises. The findings above are supported by Lee et al. (1997) who believed that as the management information is based on sales figures, retailers can improve their business by maintaining a better product strategy and pursuing a more efficient replenishment process matching customer demand, alleviating what is often referred to as the ‘bullwhip effect.'

Also, on the usage of electronic cash registers, many respondents (77%) were of the opinion that taxpayers do not use the electronic tax registers in their operations. Further regarding the question as to whether the businesses operated at Gabonimo market made use of computerized book keeping, majority of respondents (67.3%) argued out that the businesses at Gabonimo market do not use computerized book keeping.

Majority of the respondents believed that tax computerization results to higher compliance levels. The above findings are supported by Kayaga (2007) who concluded that computerization of tax collection enables easy detection of defaulters, and also helps to reduce corruption by reducing personal interaction between tax officials and taxpayers that is necessitated by inefficient manual systems.

As regards to the relationship between tax computerization and tax monitoring capability among tax authorities, majority of the respondents (71.2% in total) opined that tax computerization results to greater compliance and that the relationship therein was thus positive. These findings are supported by Stacey (2010) who found out that computerized tax record repository systems contains the components used to record all the tax documentations and transactions, which makes reference easy incase the need arises thereby creating monitoring capabilities.

On the question as to whether taxpayers at Gabonimo market were aware on how to interact with tax machines, majority respondents (63.5%) disagreed. This implies that it could be very difficult for them to become compliant in the first place since they could not properly operate the tax machines and hence couldn’t remit taxes appropriately and within the prevailing deadlines.

5.2.2 Tax Literacy
A majority of respondents (71.1% in total) disagreed with the fact that taxpayers are aware of the benefits that accrue them when they pay taxes. The government should promote literacy levels of tax payers at Gabonimo market since tax literacy helps provide information about taxes as well as simply explaining the taxes within a domestic system how it impacts on those being informed (Waris and Murangwa, 2012).

It was established that majority of respondents (59.65) are not informed on the existing tax rates. The lack of knowledge on the part of taxpayers imposes serious possibilities of tax evasion as supported by Riezman and Slemrod (1987) who concluded in their study that the lack of taxpayers’ knowledge on existing tax imposes countries to rely more on import and export taxes; while on the other hand, an increase in literacy is linked to a decline in the percentage of revenue accounted for by the trade taxes. Ghura (1998) also found that there is a positive relationship between taxpayers’ knowledge of existing tax rates and compliance.

Majority of respondents (63.5% in total) disagreed with the fact that taxpayers know how to compute their tax liabilities at Gabonimo market. There is need for the government to sensitize the taxpayers on tax issues coupled with financial skills on how to compute the tax liability to ensure greater compliance. This assertion is supported by Fallan (1999) who concludes that, tax knowledge combines information about tax rules and tax policies with financial skills needed in calculation of economic consequences for taxpayers.

Further, it was established that taxpayers are not enlightened with current issues in taxation as supported by majority respondents (61.5%). Current issues are key to enable tax payers understand the changing nature of tax rates and policies. Brackin (2007) supports this assertion in the argument that the ability to meet tax liabilities on time, prepare returns accurately and claim all the possible entitlements for sure impacts one’s overall financial situation and that, that ability is determined by one’s enlightenment on the current and emerging issues in taxation.
5.2.3 Tax Investigation and Audit

Majority of respondents (61.5%) were of the support that tax authorities do not examine accounting documents and supporting evidence for the purpose of reaching an opinion concerning taxpayers’ liability. This could possibly be the contributing factors towards the high and rising tax evasion rates in Gabonimo market. Slemrod (2000) laments that the most effective policies to prevent tax evasion behavior is through tax audits. Findings reveal that tax audit and investigations helps curb the problems of tax evasion at Gabonimo market in Somaliland as supported by majority respondents. Frank (2010) supports this statement in his argument that an appropriate designed audit policy may not only achieve greater compliance and higher net revenue for given output and resources spend on audit but may also have other effects that would be normally considered desirable in a wider economic context.

A majority of respondents (54.8%) supported the assertion that tax audit and investigations can serve as motivating factors to tax payers in carrying out their tax obligations in Gabonimo market. These findings are supported by Ojo (1996) who concluded that the major aim of tax audit and investigation is not to manage the taxpayer but a focus on generating revenue and hence greater compliance whenever the audits and investigations are done.

Findings reveal that Gabonimo business owners have not employed internal auditors, 63.4% respondents revealed this. This is quick dangerous more so for small and medium enterprises since Daniel (1999) laments that the lack of internal auditors is one of the greatest causes of business failure.

It was also realized that tax authorities do not use back duty to investigate and audit taxpayers’ statements. Back duty could help the tax authorities are able to detect any unpaid taxes emerging from the lack of disclosures or understatements on the part of taxpayers’ statements. This is a benefit the tax authorities shouldn’t leave unearned since its one of the most effective ways of ensuring tax compliance.

5.3 CONCLUSIONS

The variances between the actual revenue and the expected revenue collection are wide and clear, they shown signs of tax evasion and barriers by tax authorities to ensure compliance. The tax estimates and actual in 2012 were $300,000 and $220,000 respectively. The tax estimates and actual in 2013 were $400,000 and $317,000 respectively while the tax estimates and actual in 2014 were $550,000 and $413,000 respectively. The barriers were attributed to lack of tax effective computerization, high rates of illiteracy among taxpayers and the lack of audits and investigations on the part of taxpayers which results to limited compliance. The conclusions are hereby presented as per study objectives

5.3.1 Tax Computerization

The computerization of tax collection, the study concludes that point of sale machines and electronic tax registers are important to ensure higher productivity. Tax computerization enables easy detection of defaulters, and also helps to reduce corruption by reducing personal interaction between tax officials and taxpayers that is necessitated by inefficient manual systems.

Also, the study concludes that majority of taxpayers at Gabonimo market are not aware of how to use and interact with tax machines. This makes it difficult for taxpayers to remit taxes whenever they are due and even more difficult to record transactions by those electronic gadgets such as electronic cash registers which could help during audits and investigations and most commonly, the back duty processes.

5.3.2 Tax Literacy

The study concludes that majority taxpayers are not aware of the benefits that accrue them when they pay taxes. Also, many respondents are not informed on the existing tax rates. The lack of knowledge on the part of taxpayers imposes serious possibilities of tax evasion due to ignorance. It was established that majority taxpayers do not know how to compute their tax liability and that they are not enlightened with current issues in taxation. This poses a risk of the lack of awareness arising whenever the tax laws and policies change and thus contributing to greater risks of tax evasion.

5.3.3 Tax Investigation and Audit

The study established that tax authorities do not examine accounting documents and supporting evidence for the purpose of reaching an opinion concerning taxpayers’ liability. This motivates the taxpayers to evade paying taxes and even understate their incomes with the assurance that their financial statements couldn’t be investigated to determine their tax owing.

The study also based on this objective concludes that tax audit and investigations can help curb the problems of tax evasion at Gabonimo market in Somaliland by serving as a motivational factor to tax payers in carrying out their tax obligations in Gabonimo market. It was established that business owners at Gabonimo market have not employed internal auditors resulting to the loss of internal controls. Also noticed was the fact that tax authorities do not use back duty to investigate and audit taxpayers’ statements.
5.4 RECOMMENDATIONS

5.4.1 Policy Recommendations

The study recommends for the computerization of tax through the use of tax machines such as electronic tax registers and point of sale machines. Taxpayers should be enlightened on the current and emerging issues in taxation and also sensitized on the benefits of paying taxes. Taxpayers also through those sensitization forums should be informed the prevailing tax rates and how best to remit taxes to the authorities. Voluntary tax compliance should be encouraged but there should be periodic audits and investigations to ensure taxpayers are compliance as per the prevailing tax laws.

5.4.2 Recommendations for Further Research

This study recommends further research on the relationship between tax education and voluntary tax compliance at Gabonimo market in Somaliland and also the role of tax audits in tax compliance.

REFERENCES

McBarnet, D. (2001). When compliance is not the solution but the problem: From changes in law to changes to attitude. Canberra: Australian National University, Centre for Tax System Integrity.


