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Abstract

Tax evasion is one of the biggest challenges the current government in Somalia is facing in terms of increasing its revenue, it also hinders the ability of the government to provide basic services to its citizens. This study evaluates the determinants of tax evasion in Banadir Region of Somalia. A questionnaire was used to collect information on how drivers in the region pay their taxes, 240 randomly selected drivers have successfully responded to this study. The outcome of the study demonstrates that tax system has a significant negative relationship with tax evasion. On the other hand, tax rate, corruption, income level, and also education level have a positive significant relationship with tax evasion. This study suggests that essential measures ought to be taken by the tax authorities to enhance income collection and decrease tax evasion. It is additionally recommended that crusade against corruption, public enlightenment on tax issues and correction of tax procedures should be embraced.

Keywords: Tax Evasion, Tax System, Income level, education level, tax rate, corruption, Banadir State, Somalia.

1. Introduction

Taxes are a massively fundamental instrument and essential wellspring of incomes to a government. The revenues are expected to fund basic projects (e.g., medicinal services and education), services (e.g., legal requirements and public utilities), and infrastructures (e.g., road constructions and natural protection) which are vital to the public. As indicated by Worlu and Emeka (2012), usage of tax revenue is a basis for supporting developmental activities in under-developing countries. Nevertheless, it has been hard to boost tax revenue collection because of different types of tax evasion. According to Eschborn (2010), tax evasion is an issue that will exist as long as taxation exists. Tax evasion happens when individuals or associations purposely neglect to maintain their tax obligation (Simser, 2008).

Regardless of its esteems, tax evasion decreases the amount of state budget each year all around the nations. Tax evasion denies each government the tax revenue because of the system, which brings about a gap between the potential and real tax collection (Adebisi and Gbegi, 2013). Tax evasion is a worldwide phenomenon that has been rehearsed in both developed and developing nations. Challenging tax evasion is serious to conquer unlawful related money streams and close channels of corruption and wrongdoings (UN, 2007). According to Murphy (2011), the value of tax evasion overall surpasses US\$3.1 trillion or 5.1% of the worldwide gross domestic product. In another example, a report from leadership (2013) demonstrates that the world top ten nations with the dominant part of unlawful money related depletions are Mexico (\$476 billion), China (2.74 trillion), Malaysia (\$285 billion), Saudi Arabia (\$210 Billion), Russia (\$152 billion), Philippine (\$138 billion), Nigeria (\$129 billion), India (\$123 billion), Indonesia (\$109 billion) and latest United Arab Emirates (\$105 billion). The report additionally clarifies that around 60-65% of the sum was because of tax evasion activities from the period of 2001-2010.

In Somalia, the contribution of revenue from taxes is not encouraging because the government is heavily dependent on international grants rather than taxes and other income sources. (MOF, 2016). According to Ariyo (1997), over the reliability of a government on a source of revenue rather than taxes will result in a waiver of taxes. Ali (2017) stresses that tax evasion signifies a portion of the astounding issues confronting Somali economy. Asad (2010) contends that, whenever taxation agencies choose to impose tax laws, individuals and organizations try to avoid compliance. As indicated by the Department of Inland Revenue, Ministry of Finance, MOF 2017, 70% of the road tax revenues were not collected as expected due to several reasons, tax evasion become on the top of the reasons that caused the tax gap.

In conclusion, tax evasion is among the major societal issues restraining improvements in developing nations. This has prompted developing consideration among the policymakers, developed nations, international agencies and researchers to study the determinants of tax evasion. Studies on tax evasion have likewise been led in Kenya, Ethiopia, Tanzania and Nigeria, (see for instance Olatunde, 2007; Temipote et al., 2010; Peter and Efiatoh, 2013; Adebisi and Gbegi, 2013; Akinyomi and Okpala, 2013; Mansor and Gurama, 2016; Tesso, 2013; Levin and Widell, 2007). But in Somalia, no study has been done on tax evasion determinants which makes it so important. This study has chosen to explore tax rate (TR), tax system (TS), Corruption (CR) education level and income level as factors determining tax evasion in Somalia. These determinants have been tested previously in different countries i.e. Kenya, Ethiopia, Nigeria and Tanzania but with contradictory results. Hence, this study will incorporate these factors to see their results in the Somali context. This study has chosen the taxpayer of Banadir region with a fundamental point of concentrate the issue of a highly-populated region with a growth potential and less developed source of revenue generation. This would give a condition of correlation between the variables impacting tax evasion as indicated by the taxpayers' perceptions. Hence, the objective of this study is to examine the relationship between TS, TR, Corruption, education level and income level with tax evasion in Banadir Region.

2. Literature review

Tax evasion is a word used to depict endeavours of people and organizations to illegally reduce the tax liabilities. It has been defined by Alm and Martinez-Vazquez (2001) as an insightful and excitedly practices of not divulging comprehensive taxable income to repay lesser tax. This shows tax evasion is a criminal offense in perspective of the law. Tax evasion additionally includes citizens deliberately distorting and covering the real position of income to shrink tax payment from tax authorities. The demonstration of evading includes especially untruthful and false tax reporting by announcing of condensed income, gains and profits that really earned or overstated deductions. Kabel and Nwokah (2009) proposed that tax evasion is the false, crafty, purposefully concealment of realities and numbers in order not to pay due taxes.

1.1. Tax System (TS)

The tax system is one of the determinants that utilized as a part of different studies to test taxpayers' attitude toward tax evasion. It refers to a framework that incorporates tax organization, revenue utilization, tax policies and collection of taxes in the nation (Mughal and

Akram, 2012). A few empirical studies conducted used TS as a variable trying to examine the courses and issues of the shifty conduct of the citizens in both developed and developing nations. Mughal and Akran (2012) for instance, have discovered a significant relationship between tax evasion and tax system in their study on tax evasion and tax avoidance in Pakistan. The findings of the investigation demonstrated that TS in the nation contributes positively toward taxpayers' perception and empowers evasion behaviors. The study additionally concludes that the TS will inspire taxpayers to comply or not to comply voluntarily with the tax authorities. In other studies, by Lutfi (2009) and Fakile and Uwuigbe (2013), TS has a negative relationship with tax evasion. Facile and Uwuigbe's (2013) study on the influence of tactical tax behavior on corporate governance in Nigeria demonstrates that strong tax systems are one of the essential instruments utilized by tax authorities for having a brilliant collection.

1.2. Tax Rate

Tax rate (TR) is the amount of tax a citizen will pay as per the taxable items and guideline of tax assessment. For both developed and developing nations, a significant number of studies have been done on the relationship between tax rates and tax evasion. Their outcomes demonstrate that a positive relationship exists (Bashar et al., 2008; Lutfi, 2009; Aloys, 2010; Jayeole, 2010; James and Moses, 2012; Mughal and Akram, 2012; Tijani and Mathias, 2013; Guldana, 2013; Richard, 2013; Maria and Judith, 2013; Friedrich et al., 2013). These investigations presumed that Tax rate corresponds with the capacity of the citizens in behaving positively or negatively towards the perception of tax evasion. Taxpayers are utilizing high tax rate as the chance for evading taxes and underreporting their income and revenue to the tax authorities. James and Moses (2012) in their study on the effect of tax management on government revenue in an emerging economy, concluded that a positive relationship exists amongst tax rate and tax evasion. Maria and Judith (2013) found in their study that higher tax rate debilitates a tax compliance. Mughal and Akram (2012) and Jayeole (2010) studied tax evasion and tax avoidance in Lagos state in Nigeria and their outcomes are in accordance with past studies which demonstrates that there is a positive relationship between tax rate and tax evasion. The study inferred that high tax rate draws in resistance and energizes tax evasion. However, opposing to the above outcomes, Nhano et al. (2013), Fasina and Olowokere (2013) and Adebisi et al. (2013) found that there is a negative relationship amongst tax rate and tax evasion. On the other hand, Peter and Efiatoh (2013) in their investigation on self-employed Nigerian concerning tax evasion presumed that neither negative nor positive relationship exists between tax evasion and tax rate.

1.3. Corruption

Corruption is an act by a taxpayer to pay something to somebody in order to relieve the taxpayer from taking part in paying taxes or evading taxes. Some literature shows a positive relationship between tax evasion and corruption. Akinyomi and Okpala (2013) for instance, evaluate the elements impacting tax evasion and avoidance in Nigeria through a survey and found that the level of corruption has a positive relationship with tax evasion. Citizens are being rational in taking a decision about their income and reporting to the suitable authority for tax assessment. When corruption exists between tax authorities and tax collectors, then taxpayers can easily evade. However, Tijani and Mathias (2013) when investigating expert viewpoint of tax evasion in Nigeria, inferred that a negative relationship exists between corruption and tax evasion. Their respondents were tax operators, tax lawyers, tax practitioners and tax accountants. Therefore, there is a need to study corruption level in connection with tax evasion because of these mixed outcomes. This may additionally distinguish and comprehend the citizen's point of view on complying with tax laws and authorities.

1.4. Education level

Researchers have likewise utilized educational level as a factor to examine the relationship between tax evasion and attitude of taxpayers. Peter and Efiaboh (2013) examined tax evasion and avoidance of the self-employed in Nigeria and concluded that there is a positive relationship between educational level and tax evasion. The level of education of the taxpayers determines the attitude to dodge taxes. Correspondingly, Fasina and Olowekere (2013) led an examination of citizens' education in Lagos State, Nigeria and found that education level of the taxpayers is one of the key determinant variables of tax evasion. Studies have also demonstrated that citizens with low education level will probably evade taxes due to the low awareness of the consequence of doing so (Devos, 2006; Aziah et al., 2011). Different investigations here such as Lutfi (2009) and Peter et al. (2013) discovered a negative relationship between tax evasion and education level. On the other hand, Ranjana and Robert (2009) when conducting an examination on tax evasion in New Zealand found a non-conclusive relationship between education level and tax evasion.

1.5. Income level

Income is the essential source by which citizens are taxed for financing public activities. Different modes are utilized while imposing taxes to decide how much taxpayers should pay as per their income. Some evidence from the literature sets that low-wage workers are highly occupied in the attitude of tax evasion (Johns and Slemrod, 2008). They additionally expressed

that various huge underreported taxes came from low-pay workers. As indicated by Alm et al. (1992), high-pay workers are less evasive i.e., high pay energizes and expands tax compliance. Therefore, the literature demonstrates that there is a negative relationship between income level of taxpayers and tax evasion. Different studies that demonstrate the existent of connection between income level and tax evasion incorporated the study of Nor et al. (2012), Bashar et al. (2008) and Davos (2006). Aziah et al. (2011), in their study on tax evasion in Yemen, found that wage level has a huge relationship with tax evasion i.e., how much a person earns explain the way he thinks in reporting and complying with the tax authorities. On the other hand, Lutfi (2009) found that income level has no significant relationship with tax evasion. This implies, huge or low-income earnings, will not influence the taxpayers' choice to avoid taxes. As indicated by the study, other factors are considered responsible for non-compliance and not income status of the taxpayer.

1.6. Gap in the literature and hypothesis of the study

From the above discussion on the topic and the relevant available published studies (see for instance Olatunde, 2007; Temipote et al., 2010; Peter and Efiatoh, 2013; Adebisi and Gbegi, 2013; Akinyomi and Okpala, 2013; Mansor and Gurama, 2016; Tesso, 2013; Levin and Widell, 2007; Lutfi, 2009; Lutfi et al., 2011) and due to the gap in the Somalia context, there is a clear evidence to carry out this study in Somalia. As far as the researchers' knowledge there is no study of tax evasion conducted in Somalia. The study will examine the relationship between tax rate, tax system, corruption, income level and education level and tax evasion. Therefore, this study will help to understand the factors that determine tax evasion in Banadir region. To analyze the relationship between the determinants and tax evasion in Banadir Region, this study built up the following hypotheses:

H1: Tax rate has a positive relationship with tax evasion in Banadir region.

H2: Tax system has a negative relationship with tax evasion in Banadir region.

H3: Corruption has a positive relationship with tax evasion in Banadir region.

H4: Income level has a negative relationship with tax evasion in Banadir region.

H5: Education Level has a negative relationship with tax evasion in Banadir region.

3. Research Methodology

The research adopts a survey study design and using random sampling. The population of this study is automobile taxpayers in Banadir region. According to the MOF 2017, the registered

number of automobiles in Banadir region is 47,995, by using Yaro Yamani's formula in determining sample, the sample of the study became 396 automobile taxpayers in Banadir Region. An adapted questionnaire from Chandarasorn (2012) and Sleht (2009) was used in this study. Five-point Likert-scale structured questionnaire beginning with Strongly disagree (SD), disagree (D), neutral (N), agree (A) and strongly agree (SA) was distributed to collect data from respondents. However, 240 were returned which represented 61% of the whole sample. SPSS version 21 was used in analyzing the collected data. Reliability test, multicollinearity test, and descriptive statistics were performed on the data. Multiple regression was used to comprehend the relationship that exists between the variables, and to demonstrate the quality of the relationship and the rate of variance that is explained by the independent variable.

4. Result and Discussion

In this section, the results of the reliability test, multicollinearity test, and descriptive statistics are discussed in this section. Table 1 shows the reliability test of this study. According to Sekaran and Bougie (2013), the reliability with Cronbach's alpha of less than 0.6 are considered to be poor, those ranking from 0.6 to 0.7 are considered to be acceptable and those above 0.8 are considered to be good. Table 1 indicates that the Cronbach's alpha for TR, TS, and CR are 0.884, 0.705 and 0.879 respectively. The results showed that the responses provided by the respondents of the questionnaire were consistent, reliable and stable.

Table 1: Reliability test

Variable	Number of Items	Cronbach's alpha
TR	4	0.884
TS	4	0.705
CR	5	0.879

TR: tax rate, TS: Tax System, CR: Corruption

Table 2 shows the results of the multicollinearity test of this study. Tolerance and variance inflation factor (VIF) is commonly used in detecting multicollinearity among the variables. As stated by Pallant (2007), if the value of VIF is less than 10 and the tolerance value is within the threshold of 0.10, then no multicollinearity problem exists. The result showed that the VIF for TR, TS, CR, income level and education level are 1.625, 1.820, 2.227, 1.213 and 1.248 respectively. This indicated that the assumptions of multicollinearity have not been violated.

Table 2: Variance inflation factors of the independent variables

Variable	Tolerance	VIF
TR	0.616	1.625
TS	0.549	1.820
CR	0.449	2.227
Income Level	0.824	1.213
Education Level	0.801	1.248

VIF: Variance inflation factor, TR: tax rate, TS: Tax system, CR: Corruption.

Table 3 reflects the descriptive statistics for this study. The result indicates that TR has a mean value of 3.20 and a standard deviation of 1.02, TS has a mean value of 2.85 and standard deviation of 0.88, Cr level has a mean value of 3.17 and a standard deviation of 1.39 and education level has a mean value of 3.55 and a standard deviation of 0.96.

Table 3: Descriptive statistics

Variable	n	Mean	Standard deviation
TR	240	3.20	1.02
TS	240	2.85	0.88
CR	240	3.29	1.03
Income Level	240	3.17	1.39
Education Level	240	3.55	0.96

VIF: Variance inflation factor, TR: tax rate, TS: Tax system, CR: Corruption.

The regression equation results for this study are shown in Table 4. The result indicates that TR, CR level, income level and education level have a positive relationship with tax evasion. While tax system has a negative significantly related to tax evasion.

Table 4: Analysis of coefficients of the regression

Model	Unstandardized Coefficient		Standardized Coefficient	T	P-value
	B	Std Error	Beta		
Constant	1.428	0.649		2.199	0.000
TR	0.168	0.125	0.082	1.348	0.000
TS	-0.306	0.114	-0.171	-2.679	0.003
CR	0.119	0.105	0.111	1.830	0.000
Income Level	0.146	0.080	0.111	1.830	0.000
Education Level	0.343	0.109	0.182	3.147	0.002

VIF: Variance inflation factor, TR: tax rate, TS: Tax system, CR: Corruption.

Based on the result in Table 4, Hypotheses of the study has been supported despite of the level of significance which is found in the outcome of the study. The details of the results of the hypothesis are presented in Table 5.

Table 5: Summary of results

Variable	Hypothesis	Results
TR	H ₁ : Tax rate has a positive relationship with tax evasion in Banadir region.	Supported
TS	H ₂ : Tax system has a negative relationship with tax evasion in Banadir region.	Supported
CR	H ₃ : Corruption has a positive relationship with tax evasion in Banadir region.	Supported
Income Level	H ₄ : Income level has a negative relationship with tax evasion in Banadir region.	Not Supported
Education Level	H ₅ : Education Level has a negative relationship with tax evasion in Banadir region.	Not Supported

In the study on Banadir region, it was found that TS has a negative relationship with tax evasion. This indicates that Somali taxpayers shows concern to an effective and efficient TS when complying with tax rules. In addition, this study support the study of Lutfi (2009), Mughal and Akram (2012), Fakile and Uwuigbe (2012) who confirms the tax system have a negative relationship with tax evasion.

The result also showed that tax rate has a positive relationship with tax evasion, which makes the results of this study similar to the Gurama (2014), McGee and Ho (2006), McGee and Rossi (2006), Slehat (2009) that provide evidence on the positive relationship between tax rate and tax evasion. Also, the study found that there is a significant positive relationship between corruptions and tax evasion. The result is supported by Akinyomi and Okpala (2013), Gurama (2014), and Slehat (2009). This means that the level of corruption is affecting tax evasion. The higher the corruption in the tax authorities, the more taxpayers will evade taxes. The findings of level of income revealed that it has a positive relationship between level of income and tax evasion. This means that if the level of income is higher, they may want to evade tax. The finding of the study was supported by previous studies of Alm and McKee (1992), Nor Aziah et al., (2006).

Studies have demonstrated that a sufficient knowledge of taxes leads to a decent comprehension of tax laws and policies hence encourages tax compliance and demoralizes tax evasion (see, for instance, Devos, 2006; Aziah et al., 2011). This is because, normally, the level of education positively influences the disposition and behavior of people. However, in this study, the result demonstrated a negative and significant relationship between education level and tax evasion. This indicates the more education the taxpayers have would reduce their

evasion, this result could be like the result of Chan, Troutman, and O'Bryan (2000) and Helhel and Ahmed (2014) who found a negative link between education level and tax evasion.

5. Conclusion, Limitation and Future Research

This study examined the factors which affect tax evasion in Banadir region. The outcomes of the study demonstrated that: (i) there is a negative significant relationship between tax system and tax evasion in Banadir region; (ii) there is a positive significant relationship between tax rate and tax evasion in Banadir region; (iii) there is a positive significant relationship between corruption and tax evasion in Banadir region; (iv) there is a positive significant relationship between income level and tax evasion in Banadir region; (v) there is a positive significant relationship between education level and tax evasion in Banadir region;

Tax evasion typically results in revenue loss to the government. This may cause an inevitable distraction to the potential performance of the public sector, hence threatening its competence to finance public expenditure. This study investigates the factors that influence tax evasion in Banadir Region, Somalia. From the above discussion, the findings of this study are highly significant to academic researchers and taxation students. For the academic researchers, the findings of this study provide a new foundation for the taxation research because there were no studies on tax before in Somalia. The result also provides a new dimension in understanding the tax evasion and its determinants. For the students in taxation, the study provides additional knowledge regarding the variables tested and how they are related to tax evasion.

The findings of this study primarily have practical implications in explaining the relationship between the variables that are examined in this study. Tax evasion decrease and erode the revenue generated used to support government function. Also, it is critical to note the taxpayers are rationally and mentally ready to comply with the tax authority, but other factors influence their behavior and change their individual perception toward taxes and evasion. Besides understanding the factors that influence tax evasion, this study also has practical implication to the government in curbing the phenomenon through effective tax laws and policies and incentives for voluntary compliance. Similarly, the result is also useful to tax practitioners and other stakeholders of tax administration.

Several limitations exist in this study. Firstly, the sample of this study only considers automobile taxpayers instead of other groups of taxpayers. In addition, this study is limited to Banadir region which represents 1 out of 18 regions in Somalia. This implies difficulty in generalizing the research findings due to different factors and geographical locations.

Therefore, future study should consider a larger sample size consisting of other groups of taxpayers. Also, the scope should go beyond one state as the country has 7 federal states and at least one region should be chosen from each state.

Another limitation is the sampling technique and the method of data collection used in this study. The information collected from the questionnaire survey is not enough to richly explain tax evasion phenomenon in Banadir region. Therefore, future researchers should consider other data collection methods such as mixed methods. Lastly, this study only examined five factors in relation to tax evasion. This is due to the constraints faced by the author in terms of a time limit. Future research should consider other variables by increasing the number of tax evasion determinants to cover more aspects that have not been tested or to include variable with conflicting results. In addition, future research can include mediating variable to examine whether they have any influence on tax evasion.

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