Tax Evasion and Effective Budget Implementation: Case of Inland and Customs Revenue Departments in Somaliland

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Abstract
This study aimed at assessing the effects of tax evasion on effective budget implementation in Somaliland. The specific objectives of this study were to find out the relationship between tax rates and effective budget implementation in Somaliland, to evaluate the effects of tax payers’ record keeping on effective budget implementation in Somaliland, to investigate how the information provided by tax payers affect effective budget implementation in Somaliland and to assess the role of taxpayers’ registration on effective budget implementation in Somaliland. The theoretical framework focused on the ability theory, benefit theory, equal distribution theory and optimal taxation theory. The empirical literature was guided by the study objectives. The study used descriptive design with a target population of 234 public servants of the customs and Inland Revenue departments in Ministry of finance. Stratified random sampling technique was used to pick 71 respondents for this study. Both primary and secondary data were used to collect. Primary data was collected by aid of structured questionnaires while secondary data was collected by aid of published materials such as ministry releases, reports and financial statements. A pretest of 3% (3 respondents) was used to test the instruments. Reliability was tested by use of the Cronbach’s alpha. Both content and face validity were ensured by insisting on comprehensiveness in the research questionnaire and the objectivity of the questions thereon. Descriptive research was used in qualitative method, data was used to analyze by SPSS and Microsoft excel and presented by aid of frequency tables and charts.

Key Words: Tax Evasion, Record Keeping, Budget Implementation

1. INTRODUCTION
Olabisi (2010) defined tax evasion as a deliberate and willful practice of not disclosing full taxable income so as to pay less tax and as a contravention of tax laws whereby a taxable person neglects to pay tax due or reduces tax liability by making fraudulent or untrue claims on the income tax form. This is not new to the world, but it differs from country to country.

Tax avoidance and tax evasion brings with it a lot of economic challenges, for instance tax avoidance causes investment distortions and thus companies and individuals would undervalue or even have some of their assets exempted from tax purposes. Whereas tax evasion on the other side would cause twists in business morals or ethics are destroyed as people look for loopholes in the system (Dalu et al., 2012)

DFID (2009) emphasized that the obtainable knowledge on tax revenue losses in developing countries caused by tax evasion and tax avoidance is very limited. This is partially due to the lack of data and partially due to methodological shortcomings of existing studies. Some of the existing evaluations of tax revenue losses due to tax avoidance and evasion by firms systematically overestimate the losses. Other theories are based on assumptions which are so restricting that the results are difficult to interpret. Overall, it is fair to conclude that most existing assessments of tax revenue losses in number of countries due to evasion and avoidance are not based on reliable methods and data. However tax evasion and avoidance are both phenomena that are probably as old as taxation itself. Whenever authorities decide to levy taxes, individuals and firms try to avoid paying them. Though this problem has always been present, it becomes more pressing in the course of globalization as this process extends the range of opportunities to circumvent taxation while simultaneously reducing the risk of being detected.

According to Tulsa (2012), the goal of budget implementation was to assure citizens that funds were used legally and efficiently, as directed by the Legislature and Government, to provide effective public services for. Before the fiscal year begins, agencies were required by law to submit a budget work program to ministry of
effective budget implementation in Somaliland. The specific objectives were to find out the relationship between tax rates and determine the relationship between tax evasion and effective budget implementation.

Economy of Somaliland. Notwithstanding, the government budgets continue to be affected in terms of deficits due to education on the accrued benefits of tax payment and citizens do not look at taxation as being important to the economy of Somaliland. There is no tax on the process of tax evasion, the amount of the source of income is misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated.

In Somaliland, there is lack of clear procedures and policies on tax investigation and audits. Many tax payers are not registered; some of them are prone to the eyes of tax authorities hide and sometimes understate their incomes due to the lack of proper book keeping amongst a majority of business people. There is no tax education on the accrued benefits of tax payment and citizens do not look at taxation as being important to the economy of Somaliland. Notwithstanding, the government budgets continue to be affected in terms of deficits even when the actual estimates on how the government will raise funds is real. This has resulted to lack of rapid development which can be seen by poor road constructions, shortage of clean supply of water, shortage of social amenities such as hospitals and schools among other lagged development.

Although tax evasion is a normal reason as to why many African nations are lagging behind, there exist very few studies on this topic. Many of the current studies have concentrated on the effect of tax evasion on economic growth and development without a specific focus unto effective budget implementation since it’s from the lack of effective budget implementation that economic growth is never achieved. This study sought to determine the relationship between tax evasion and effective budget implementation.

The general objective of this study was to determine the relationship between tax evasion and effective budget implementation in Somaliland. The specific objectives were to find out the relationship between tax rates and effective budget implementation in Somaliland, to evaluate the effects of tax payers’ record keeping on effective budget implementation in Somaliland, to investigate how the information provided by tax payers effect on good budget implementation, rather than lack of capacity.

In this chapter the researcher explained the literature which will be adopted by this study. Both the theoretical and empirical literature will be explained together with the gaps identified from the empirical literature. The conceptual frame work will be illustrated and the chapter will be crowned with a recap of literature.

2. LITERATURE REVIEW

In this chapter the researcher explained the literature which will be adopted by this study. Both the theoretical and empirical literature will be explained together with the gaps identified from the empirical literature. The conceptual frame work will be illustrated and the chapter will be crowned with a recap of literature.
2.2 THEORETICAL FRAMEWORK

2.2.1 Ability Theory
Harley (1943) explained the ability to pay as an influential in the modeling of income tax policy. This theory has some relation to the tax evasion, by means of not convincing the taxpayers to go tax authorities in order to compute the tax due, but the tax payer goes tax offices only when he/she is afford, this can simplify the taxpayer to evade or make avoidance claiming he is not able to pay. Palao (1976) criticized this theory saying the ability to pay principle alone is not enough to achieve tax justice, but it is obvious that this inclusion would frequently lead to extreme hardship, to say nothing of the administrative difficulties involved. The amount of income received is commonly regarded as the best indicator of ability. In the case of the property tax, all non-income producing property is assessed and taxed. This ability theory focuses that the taxation should be charged only according to an individual’s ability regardless of the income and his business’s activities. According to this theory public expenditure should come from those can afford to pay tax. This is actually the basis of progressive tax as the tax rate increases by the increase of the taxable amount. This principle on other hand is the most reasonable tax system, and has been widely used in industrialized economics. The common and most maintained justification of ability to pay is on grounds of sacrifice. The payment of taxes is viewed as a deprivation to the taxpayer because they surrendered money to the government which they would have used for their own personal use. However, there is no concrete approach for the measurement of the equity of sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured (Cesar, 2008)

2.2.2 Benefit Theory
The benefit theory is one of the theories of taxation from public finance. It is based on taxes to pay for public-goods expenditures on willingness to pay for benefits received (Knut and Erik, 1919). The theory also been put on to such subjects as tax progressivity, corporation taxes, and taxes on property or wealth, the benefit principle approach shows to general business taxation offers resolution of these confrontational issues, much as user fees for highways and business license fees for regulatory services are used today. The theory offer priority to the grounds of fairness to individuals, with respect to their ability to pay the current basis for business taxation, this theory points the benefits individuals receive should be based on the tax system, but on other hand the benefit is what the individuals and businesses hide in order to evade tax.

2.2.3 Equal Distribution Theory
Oakland (2000) discussed theory of equality, and explained as a treaty of articles touching dimensions, quantity, likeness in accordance with two things compared. We express the equality of two or more areas, of two bodies in length, breadth or thickness, of advantages or failings. The same degree of dignity or claim, so taxes must be equal and uniform. Not only does that mean geographically, but in presentation to people. That is, one set of procedures cannot apply to one individual and another set of rules apply to another. All people are assumed to be equal before the law, therefore, from a revenue collection perspective, there can be no classes of people or exceptions, or graduated tax rates. Appah (2010) stated that without the rule of equality and uniformity, people tend to believe it’s not fair, and then avoid and evade tax systems. Basically, without the rule of equality and uniformity, many people influence other people to bear the burden of taxation. What happens is those people who enjoy the so-called benefits of a political system, the protection of rights and property will avoiding the cost of that protection. Such tax patterns inherently violate the concept of equal protection of the laws. Furthermore, when some people are forced to pay the liability of other people directly or indirectly, then the rule of consent is violated.

2.2.4 Optimal Taxation Theory
Gregory and Mathew (2011), discussed the standard theory of optimal taxation and proposes that a tax system should be chosen to exploit a social welfare function subject to a set of constraints, in order to solve social problems this theory highlight social problems and solves social hardships, since tax evasion is social problem this theory has some relation to the topic, and as justified below this theory states the taxpayers should be the same according to paying tax whether rich or poor. This theory is based on the values of individuals in the society. To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure (Mirlees, 1971). Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. The social planner’s goal is to choose the tax system that maximizes the representative consumer’s welfare, knowing that the consumer will respond to whatever incentives the tax system provides. In some studies of taxation, assuming a representative consumer may be a useful simplification.

2.3. EMPIRICAL LITERATURE

2.3.1. To find out the relationship between Tax Rate and Tax Evasion
Raymond (2004) denotes that tax rates have been widely accepted as a primary determinant of income tax evasion. In fact, one argument in support of cutting marginal tax rates has been that by tempting greater income
reporting, lower rates will broaden the tax base. While usually appealing, this claim has not been confirmed by traditional micro theoretic analyses which have generally found the consequences of a tax rate. Latest efforts to analyze this issue have even resulted in negative relationship between tax rates and evasion. Empirical analyses have also been unable to determine the evasion. Some studies ignore the theme all together by omitting tax rates (Witte and Wood, 1985).

The typical approach to analyzing the individual's evasion decision has been to use a portfolio-choice framework in which the optimal level of evasion is obtained from maximizing expected utility of income after taxes and penalties (Allingham and Sandmo, 1972). Using this approach, four factors have been commonly found to affect the decision to evade. These are the individual's true income, the tax rate, the probability that the evader is detected, and in the penalty rate to which detected evaders are subjected. In most cases, a positive relationship between the level of evasion and the individual's actual income, and negative relations with both of the compliance policy tools are obtained. With respect to the tax rate, however, most models have been unable to resolve an un-clear relation.

The increase in tax rate brings excessive tax evasion, it has two perspectives, and first, the disposable income goes down. Second, this change discourages the accumulation of human capital, which will drive the marginal productivity of human capital up, this brought great number of income and taxes to be unpaid (Slemrod and Yitzhaki, 2000). The important issue to understand is the relationship between tax rates and tax evasion. A number of theories have evolved to incorporate tax evasion but fail to provide any prediction concerning the uniform impact of tax rates on evasion.

Allingham and Sandmo (1972) assert that the relationship between tax rates and evasion is positive, but this depends on particular statements of risk aversion and the punishment for evasion. Generally the forecasts of the effect of tax rates on evasion are highly sensitive to displaying assumptions even if the impact of tax rates on evasion may be signed and there is a need to evaluate the magnitude of this effect (Slemrod and Yitzhaki, 2000). Therefore, examining the effect of tax rates on evasion would be very useful from the perspectives of both theory and policy. This has evidenced to be a challenging task because of the difficulties in measuring evasion, which by definition is not directly observed.

### 2.3.2. Record Keeping

Benno (2007) stated that the internal revenue service (IRS) is responsible for the collection of tax revenues to collect revenues; the IRS must inform the public of tax obligations and devise data collection systems that will facilitate for collection and confirmation of tax information so that collectible revenues can be verified. In other words, the IRS has to show how to inform the public and collect taxes while also collecting adequate information to be able to check that those taxes are correct. There are more than a thousand forms and associated with the instructions to file complete tax information, although most taxpayers actually file about half a dozen forms each year. In addition, the IRS can provide instructions and telephone support to answer questions and assist in preparing tax filings.

Most income taxes from wages are collected through withholding as earned. For most taxpayers, wages represent the primary form of income, and thus most of their taxes payments are withheld or paid as wages are earned. Still, everyone has to file to summarize the details of the year's incomes for the IRS and to calculate the final tax obligation.

Alison (2007) argues that the individuals must collect and report the information on tax forms and schedules. Fortunately, this is not as difficult as the volume of data would suggest. Employers are needed to send Forms to each employee at the end of the year, detailing the total wages earned taxes and contributions withheld. Incomes may be summarized and reported to IRS, but only taxpayer knows his expenses. If taxpayers do nothing more than keep a checkbook, then they will have to go through it and identify the deductible expenses for the tax year. Financial software applications will make that task easier; most allow you to flag deductible expenses in your initial setup (Targler, 2008)

### 2.3.3. Taxpayer's Information

Cherry (2010) explained that the falsification and crimes include filing a false tax return, tax evasion, filing false documents, failure to collect employment taxes, failure to pay taxes, and failing to file a tax return increases the level of evasion. Sometimes the tax fraud and a simple mistake can close, but in general tax fraud involves deliberate wrongdoing like understatements of income, inadequate records, incredible or inconsistent explanations of behavior, concealment of assets, failure to cooperate with tax authorities, engaging in illegal activities, attempting to conceal illegal activities; and Failure to make estimated tax payments

A tax cut is a reduction in taxes whose immediate effects are a decrease in the real income of the government and an increase in the real income of those whose tax rate has been lowered (André on, 1998). Bhal (1993) asserts that running cash-based businesses have been identified as the taxpayers committing most of the tax fraud because it is easy to underreport cash income. Restaurant and clothing storeowners, car dealers, salespeople, doctors, lawyers, accountants, and hairdressers were ranked as the top offenders in a government study of income tax fraud. Service workers, such as restaurant servers, mechanics, and handymen, also commonly underreport cash income.
These are the most common under declaration methods like making false or altered entries, making false invoices, destruction of records, hiding sources of income, handling transactions to avoid usual records, and any other conduct likely to conceal or mislead, the accurate estimation requires accurate prediction of the future, taxpayers sometimes underestimate the amount due. Return preparer fraud generally involves the preparation and filing of false income tax returns by preparers who claim inflated personal or business expenses, false deductions, unallowable credits or excessive exemptions on returns prepared for their clients. This includes inflated requests for the special one-time refund of the long-distance telephone tax. Preparers may also manipulate income figures to obtain tax credits, such as the earned income tax credit, and fraudulently (Andreon, 1998).

2.3.4. Tax Registration
According to Tulsa (2012), completing taxpayer’s return will require the following documentation in order to verify the existing information that appears in the return, as well as to complete any remaining portions the employees: tax certificate that employer issued, certificates received for local income earned and any other documentation relating to income received or accrued, such as remuneration that has not been reported to internal revenue service (IRS)by employers, or businesses or investment income, it is also important to register the details of business income, rental income tax, payroll tax, road tax and all normal tax which is paid on as taxable income.

According to Clotfelter (1983), companies, businesses and persons related to business are liable to register with the Inland Revenue department and obtain a tax identification number, whereas all companies established are liable to register with the Inland Revenue department and obtain a tax identification number for tax purposes, then they are accountable to tax only in respect of their source income. The unique taxpayer reference (UTR) is only issued by Inland Revenue & Customs when companies and their clients have registered for self-assessment, it is made up of numbers, and can be found on documentation issued by revenue departments that document can be the tax return, a notice to complete a tax return or a statement of account.

Businesses and individuals can also be registered for online system, they can automatically be enrolled for online service they selected, and then income tax returns can be submitted electronically through the internet service for those persons who have access codes (Clotfelter, 1983). But tax evaders hide important details for registration procedure in order to escape taxes, this hurts the collection of taxes and to realize the actual number of companies, corporations, small businesses, and self-employed individuals, the tax authorities give them to identification number when registered, on the other hand without enrolled them in the tax offices, it results decrease in budget that cause later difficulties to make effective implementation of budget Persons that have income from business (profits or benefits), leases, intellectual property or patent rights, fees or other profits arising from property and goodwill are required, for each fiscal year, to issue invoices and receipts relating to the transactions and receipts.

According to Auerbach et al. (2002), self-employed taxpayers and business owners who get annual turnover are obliged to submit Income tax returns of self-employed persons and business income taxes and pay the relevant tax amount of their income by the end of the taxable year where businesses and individuals are obliged to keep their books and records which shall be used to prepare accounts, which must be audited by certified auditors and submit company income tax declaration or income tax returns of self-employed persons with their accounts, this facilitates to implement budget as intended when businesses and companies have good record keeping and are registered in the revenue offices.

3. RESEARCH METHODOLOGY

3.1 Introduction
This chapter explained the research design, population of the study, sampling frame, sampling technique and sample size, data and data collection techniques, pilot test, validity and reliability tests, and finally data analysis and presentation

3.2 Research Design
According to Anderson (1958), research design is a detailed outline of how an investigation will take place. A research design typically explains how data is to be collected, what instruments employed, how the instruments used and the intended means for analyzing collected data. A descriptive research design was used due to the fact that it helps researchers to be able to understand the how, why, when and which answers pertaining the study of interest (Mugenda and Mugenda, 1999).

3.3. Target Population
Target population is defined as the group of people to whom we want our research results to apply (Baker, 1938). The study targeted 234 staff of the revenue departments of the Ministry of Finance in Somaliland. These encompassed of the directors from the two different sectors, district managers, head of sections and selected staff of tax collectors in the Ministry.
3.4. Sampling Frame
Basically, sampling frame is a comprehensive list of all the members of the population that we desire to study (Kothari, 1985). The sampling frame for this study was drawn from the Human Resource Department of the Ministry of Finance in Somaliland by the researcher who approached the human resource manager for the information.

3.5. Sampling technique and sampling size.
Sampling Technique is the term or other identification of the particular process by which the entities of the sample have been selected (Warrier, 2004). The study used stratified random sampling method where district managers, heads of departments, directors and other staff members of the departments were chosen to provide information. This sampling method is a method of probability sampling in which decisions regarding the individuals who included in the sample were taken by the researcher. 71 respondents were picked for this study that according to Macharia (2013) in Mugenda and Mugenda (1999), a sample size of between 10% and 30% is good representation of the target. In this research 30% was taken, the sample size shown in the table below. The sample size of 30% was good enough to represent the target population; the calculation of the sample size was easy and understandable using the method of Mugenda and Mugenda

<table>
<thead>
<tr>
<th>Group</th>
<th>Population</th>
<th>Percentage 30%</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inland Revenue</td>
<td>132</td>
<td>30%</td>
<td>40</td>
</tr>
<tr>
<td>Customs</td>
<td>102</td>
<td>30%</td>
<td>31</td>
</tr>
<tr>
<td>Total</td>
<td>234</td>
<td>30%</td>
<td>71</td>
</tr>
</tbody>
</table>

3.6. Data and Data Collection Technique
Data collection is the process of gathering and measuring information on variables of interest, in an established systematic manner that enables one to answer stated research question (Warrier, 2004). Both primary and secondary data were used for this study. Primary data was collected by aid of structured questionnaires and survey while secondary data was collected by aid of published materials such as ministry releases, publications and financial statements.

3.7. Pilot study
Pilot Study is a type of the main study that is run in miniature to test whether the components of the main study can all work together (Mubashir, 2010). This research focused on the processes of the main study, like to ensure the tax evasion and its effects to budget implementation. The researcher took 3% (3 respondents) from total sample respondents 70 respondents in order to predict the whole respondents.

3.8. Reliability test
Mubashir (2010) defined reliability as the degree of consistency with which an instrument measures the attribute it is designed to measure. The reliability was tested by use of the Cronbach's alpha test where a value of more than 0.7 was considered as ideal as far as reliability was concerned.

3.9. Validity test
The validity of an instrument is the scale to which an instrument measures what it is proposed to measure (Warrier, 2004). The questionnaires were tested for both face and content validity. To achieve content validity, questionnaires included a variety of questions on the knowledge of tax authorities and their experience to the field as per the study objectives. Face validity was ensured by insisting on clarity and conciseness when formulating the questionnaires.

3.10. Ethical Consideration
David (2010) defined ethics as a method, procedure, or perspective used in determination of how to act for analyzing complicated problems and issues. To abide by the ethical conduct, this study was carried out under respondents’ consent. The respondents were assured of their confidentiality and the researcher explained the objective of this research prior to issuing out of questionnaires.

3.11. Data Analysis and Presentation
After data collection, the researcher edited and coded the questionnaires appropriately. Data was analyzed by use of Statistical Package for Social Sciences (SPSS) software and by aid of percentages. The analyzed data was presented by aid of frequency tables and charts.

4. FINDINGS, RESULTS AND DISCUSSION

4.1 INTRODUCTION
This chapter presented the findings, results presentation and discussions of this study. It was began with the background information findings, then findings on the relationship between tax rate and tax evasion followed by findings on record keeping and its relation to tax evasion, taxpayers’ information and finally tax registration and its relation to tax evasion.
4.2 BACKGROUND INFORMATION

This chapter contains the analysis and interpretation of background data collected from the respondents by means of questionnaire. The findings were explained by tables and graphs as appropriate and their relevant interpretations are made. Background findings were based on response rate, gender of respondents, academic qualifications, their department in the Ministry, experience and terms of service.

4.2.1 Response Rate

Out of the total issued questionnaires, it is only 1 equivalent to 1.4% which was not returned, the table 4.1 shows the response rate as 98.6% which is excellent to assertion that the population is well represented.

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected</td>
<td>71</td>
<td>100%</td>
</tr>
<tr>
<td>Actual</td>
<td>70</td>
<td>98.6%</td>
</tr>
</tbody>
</table>

4.2.2. Gender of Respondents

From the figure 4.1, 67% of the respondents were male while 33% were female. The male respondents suggested that in the Ministry majority of the employee are men and this raised concerns on the gender balance between male and female in the organization. Perhaps this imbalance can be explained by the culture and religious beliefs of the people in Somaliland.

4.2.3 Academic Qualifications of Respondents

The researcher found out that the academic qualifications of the employees in the ministry of finance range from secondary, bachelor degree and master degree. It was established that 17.1% of the respondents were secondary level, another 74.3% had different bachelor degrees, while 8.6% were master holders the researcher didn’t meet any one having PhD. This indicates that the majority of employees working at the Ministry of finance is qualified to perform their task and will be able to give more informed decisions to the study questions.
4.2.4 Respondents per Department
The statistics from figure 4.3, 57.1% of the respondents were from department of Inland Revenue while 42.9% were from the customs department. The respondents from the Inland Revenue department were predominant to those of customs department.

![Figure 4.3: Respondents per department](image)

4.2.5 Working Experience of Respondents
The study findings on the experience of respondents reveal that a majority of respondents being 34.3% have more than 3 years experience followed by 30% who have 2-3 years experience than 27.10% who have between 1-2 years experience and finally 8.6% who have below 1 year experience. Many of them were more experienced working with the Ministry and were able to give relevant responses to the study questions.

![Figure 4.4: Working experience of respondents](image)

4.2.6 Respondents’ Terms of Service
Figure 4.5 on the respondent’s terms of service reveal that 4.3% are temporary hence social workers, 4.3% were on contract basis while a great number of 91.4% were permanent and pensionable. Many respondents have longer terms of service and were fit to help in giving most reliable information which will be assumed the opinion study of the whole Ministry of finance in Somaliland.

![Figure 4.5: Respondents’ terms of service](image)
4.3 TAX RATE AND TAX EVASION

4.3.1 Taxpayers’ knowledge towards tax rates
Table 4.2 on the taxpayer’s knowledge of tax rates revealed that many taxpayers lack knowledge on the existent tax rates. This is supported by 57.1% of respondents’ views while 42.9% refused. The government needs to invest in tax education so that taxpayers can be informed more about the existent tax rates and possible benefits which accrue payment of taxes.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>30</td>
</tr>
<tr>
<td>No</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
</tr>
</tbody>
</table>

4.3.2 Relationship between tax rate and tax evasion
Results of responses from the table 4.3 show that there is a relationship between tax rate and tax evasion in Somaliland 50% of the respondents agreed, 22.9% strongly agreed to this whereas 10% disagreed, 7.1% strongly agreed while 10% of the respondents were not able to determine whether there existed a relationship or not. The above statistics indicated that one of the possible reasons contributing to tax evasion is the lack of taxpayers’ knowledge of tax on tax rates. This is likely to affect voluntary compliance on the part of taxpayers due to lack of adequate tax payers’ education.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>16</td>
<td>22.9</td>
</tr>
<tr>
<td>Agree</td>
<td>35</td>
<td>50.0</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>7</td>
<td>10.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>7</td>
<td>10.0</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>5</td>
<td>7.1</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.3 Tax Evasion as Economic Survival
On the tax evasion being a form of economic survival, it was found that the majority of respondents 25.7%, agreed and 21.4% that taxes are heavy which compel them to evade in order to enhance their survival, 24.3% disagreed, 8.6% strongly disagreed while 20% neither agreed or disagreed. The statistics on table 4.4 reveal that many respondents evade taxes because they are so heavy for them to bear and yet remain economically viable. Tax rates needs to be adjusted equitably and on the account of employees’ income so that they don’t become digressive or a form of punishment to the poor.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>Agree</td>
<td>18</td>
<td>25.7</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>14</td>
<td>20.0</td>
</tr>
<tr>
<td>Disagree</td>
<td>17</td>
<td>24.3</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>8.6</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.3.4 Reasons for Tax Evasion
Table 4.5 on the reasons why taxpayers evade tax, many respondents attribute to 22.9% have developed weak confidence on the legal system of the country, 24.3% believed that the tax rates were high, 20% believed that the taxpayers are afraid of not getting any service returns despite paying taxes, 17.1% did not understand the objective behind taxation while 1.4% believed that the government is untrustworthy. There is need to change these tax payers’ attitude so as to improve the receive amounts collected through taxation once tax evasion is minimized.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>High tax rate</td>
<td>17</td>
<td>24.3</td>
</tr>
<tr>
<td>Taxpayers fear not to get return</td>
<td>14</td>
<td>20.0</td>
</tr>
<tr>
<td>Confidence of people to the legal system is weak not understand the objective behind taxation</td>
<td>16</td>
<td>22.9</td>
</tr>
<tr>
<td>Government is untrustworthy</td>
<td>10</td>
<td>14.3</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
</tr>
</tbody>
</table>
4.4 RECORD KEEPING AND TAX EVASION

4.4.1 Taxpayers’ Daily Record Keeping
According to the table 4.6, 34.3% of respondents strongly agreed that taxpayers don’t record their daily transaction, 24.3% agreed that, 11.4% of respondents neither agreed nor disagreed that taxpayers don’t record their daily transaction, 21.4% disagreed while 8.6% strongly disagreed that statement. The above statistics implied that lack of daily record keeping potentially results to tax evasion, the government should foster tax education on the benefits of record keeping for all business forms ownerships, so that it can ensure compliance. Also the government can foster thus by introduce point of sale bookkeeping which will ensure compulsory compliance.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>24</td>
<td>34.3</td>
</tr>
<tr>
<td>Agree</td>
<td>17</td>
<td>24.3</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>8</td>
<td>11.4</td>
</tr>
<tr>
<td>Disagree</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>6</td>
<td>8.6</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.2 Taxpayers and Tax Authorities’ Engagement
The results of the table 4.7 indicated that 21.4% voluntarily engage into tax authorities, 45.7% engage by warrant, 21.4% engage through coercion and 11.4% due to other reasons such as being reported, tax investigations and tax audits. The statistics above resulted that many respondents are not voluntarily willing to engage with local authorities and there is need to change these taxpayers’ attitudes.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntarily</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>By warrant</td>
<td>32</td>
<td>45.7</td>
</tr>
<tr>
<td>Through public coercion</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
<td>11.4</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0</td>
</tr>
</tbody>
</table>

4.4.3 Taxpayers’ Submission of Actual Financial Statements
Figure 4.6 reveals that many tax payers do not submit financial statements. This is supported by 66% of the respondents who manifested these. Only very few tax payers 34% submit actual financial statements. There is need for the government to be keen on this matter for this is what will deteriorate compliance to tax laws.

Figure 4.6: Taxpayers’ submission of actual financial statements

4.4.4 Tax payers’ Tax Assessments
The table 4.8 on tax payers’ tax assessments by tax authorities indicated that many tax payers are assessed based on the average mad by tax officers 37.1% opined this. 25.7% believed that the assessment is based on taxpayers’ claim, 28.6% believed the assessment is based on taxpayers’ previous payments while 8.6% believed that the assessment is based on other factors such as growth, number of employees, and size of the firm. There is need for the government to identify and implement a common form of assessment based on realistic determinants of taxpayers’ income such as through tax investigation, tax audits, and forced declaration of income and in prom to investigations.
Table 4.8: Taxpayers' tax assessments

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assessment based on taxpayers' claim</td>
<td>18</td>
<td>25.7</td>
</tr>
<tr>
<td>Assessment based on average made by tax officers</td>
<td>26</td>
<td>37.1</td>
</tr>
<tr>
<td>Assessment based on previous payments by taxpayers</td>
<td>20</td>
<td>28.6</td>
</tr>
<tr>
<td>Assessment based on other factors</td>
<td>6</td>
<td>8.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.5 TAXPAYER’ INFORMATION

4.5.1 Tax Collectors’ Understand of Taxpayers’ Information

On the tax collectors’ understand of taxpayers’ information, tax payers observed changes to clients’ original 22.9% believed that collection, 21.4% of the respondents observe the information about deductions and returns filed another 21.4% believed that tax authorities observed claims of fabricated expenses, and deductions on tax return, 17.1% believed that tax authorities observed claims and submissions of unrelated data and the filing of status, claims that accurately not reflect taxpayers’ actual situation. Above statistics indicate that the tax authorities are to a great excellent reacting to tax evasion instead of putting preventive structures in place.

Table 4.9: Tax collectors’ understand of taxpayers’ information

<table>
<thead>
<tr>
<th>Statement</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Claims of fabricated expenses and deductions on tax return</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>Claims and submissions of unrelated data to the tax authorities</td>
<td>12</td>
<td>17.1</td>
</tr>
<tr>
<td>The changes to client's original tax documents</td>
<td>16</td>
<td>22.9</td>
</tr>
<tr>
<td>Claims on improper filling status on tax return</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>The filling status claims that accurately not reflect the taxpayer's actual situation</td>
<td>12</td>
<td>17.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.5.2 Underestimation of income Per Tax Type

Figure 4.7 shows that many taxpayers underestimate business income tax (37.1%), followed by 22.9% who ascertained that rental income tax was underestimated by tax payers. 10% of respondents believed that tax payers underestimated other taxes such as property taxes, and fines above statistics shall help the government of Somaliland to put more close investigations on business income and payroll tax so as to ensure greater compliance.

4.5.3 Reasons for Taxpayers’ Falsification of Their Information

Table 4.10 reveals that the main reasons to why many taxpayers falsify their tax information is because they not know more about taxes (44.2% concern with this). 15.7% believe that the Ministry has not given taxpayers enough information, 12.9% believed that tax payers fear government offices while 14.3% believe that tax payers generally dislike paying taxes. There is need for the government to educate citizens on the tax knowledge to ensure more compliance provision of accurate tax information about their financial positions.

Figure 4.7 Underestimation of income per tax type
Table 4.10: Reasons for taxpayers’ falsification of their information

<table>
<thead>
<tr>
<th>Statement</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers not know more about tax</td>
<td>31</td>
<td>44.2%</td>
</tr>
<tr>
<td>There is a lack of enough information from Ministry of finance towards taxpayers</td>
<td>11</td>
<td>15.7%</td>
</tr>
<tr>
<td>Taxpayers fear about government offices</td>
<td>9</td>
<td>12.9%</td>
</tr>
<tr>
<td>Taxpayers dislike payment of taxes</td>
<td>10</td>
<td>14.3%</td>
</tr>
<tr>
<td>Other</td>
<td>9</td>
<td>12.9%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Figure 4.8: Taxpayers’ evasion through false information is normal

4.5.4 Taxpayers’ Evasion through False Information is Normal
When asked whether it’s normal for tax payers to evade taxes through falsification of information, 71.4% of respondents believed that it’s normal while 28.6% of respondents believed that it’s not normal and may be added to some reasons. These shows that tax evasion through falsification of information has been a normal tendency and its high tax the government needs to put structures in place to ensure the tendency is discouraged.

4.6 TAX REGISTRATION AND EVASION
4.6.1 Tax Evasion by Non-Registration
From the table 4.11, 28.6% of the respondents agreed that taxpayers evade by not registering with tax authorities, 21.4% strongly agreed, 20% of the respondents disagreed while 17.1% did not agree or disagree, 12.9% strongly disagreed. Above statistics reveal that majority respondents evade tax by not being registered as tax payers with local authorities.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>15</td>
<td>21.4%</td>
</tr>
<tr>
<td>Agree</td>
<td>20</td>
<td>28.6%</td>
</tr>
<tr>
<td>Neither agree nor disagree</td>
<td>12</td>
<td>17.1%</td>
</tr>
<tr>
<td>Disagree</td>
<td>14</td>
<td>20</td>
</tr>
<tr>
<td>Strongly disagree</td>
<td>9</td>
<td>12.9%</td>
</tr>
<tr>
<td>Total</td>
<td>70</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

4.6.2 Tax System is Digressive
Many respondents in figure 4.9 agreed that the current tax system is digressive 50% of them agreed and 12.6% strongly agreed while 13% disagreed, 10% strongly disagreed where 14.3% not agreed or disagreed. It only benefits the rich and that is unfair to the poor. There is need to review the tax system to ensure its fair suit Fairness and equality is one of the signs of good tax system.

Figure 4.9: Tax system is digressive
4.6.3 Electronic Tax Registration

As indicated from the figure 4.10, 7.1% stated electronic registration is used but huge number of respondents refused 90% said tax payers do not use electronic registration in Somaliland and this could be attributed to the non-existence of the system in the first place.

4.6.4 Requirements of Tax Registration

Majority of the respondents indicated there are requirements looked in two sides in business and as individual. In the business requirements are the size of the business, business location, business license, business statements. In the individual it's required personal full information, his/her work station. First there should be system, computer programs and database, well trained employee. To get the exact number of all tax payers' individuals and all businesses levels small, medium size and large corporations, other essential requirements that respondents pointed were to get the location of businesses and financial statements and finally environment supporting these entire thing.

5. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 SUMMARY

5.1.1 Tax rate and Tax evasion

Nearly half of the respondents confessed the existence relationship between tax rate and tax evasion in Somaliland. The findings show that one of the possible reasons interjecting to tax evasion is the lack of taxpayers' knowledge of tax rates. If tax rate is high taxpayers can’t afford to make full payments of their assets and income, this brings half of taxpayers utilize the tax as economic affairs they evade in order the tax to be remained in their treasury. This is expected to assume in-voluntary compliance on the part of taxpayers due to the lack of sufficient tax payers’ education.

The statistics revealed that many respondents evade taxes because they are so heavy for them to tolerate and still remain economically viable. Tax rates need to be amended equitably and on the side of employees’ income so that they don’t become load or a kind of punishment to the poor. This research have established weak confidence on the legal system of the country, high tax rate and taxpayers are afraid of not getting any service returns despite paying taxes some of them not understand the objective behind taxation while. The tax payers’ attitude is good to be changed so as to progress the receive amounts collected through taxation once tax evasion is reduced.

In other words the high tax rate is not only the cause of tax evasion but there are also other elements supporting taxpayers to evade such as low confidence of the legal system when taxpayers believe if they don’t come revenue offices and pay taxes they will be suited and adjudicated with penalties or arrest this will reduce evasion, other factors are the taxpayers believe they will not get return from the central government in return for their money as result these tax evasion wounded the collection system of government revenue so as to make development and make budget for social affairs like health, education, sanitation, supply of clean water, supply of energy.

5.1.2 Record Keeping

The study showed that taxpayers don’t make daily record for their transactions, this recordkeeping support the tax officers to make true assessments and calculation. The study statistics denote that lack of daily record
keeping potentially results to tax evasion, the government should adopt tax education on the assistances of record keeping for all business levels, shareholders and ownerships, so that it can guarantee compliance. Also the government can foster this by guiding them to record all transactions at point of sale which will ensure compulsory compliance.

since they intend to hide from tax authorities they come tax offices compulsory after revenue offices sent them latter ordering them to come in fixed time, if they refuse to accept again another latter intensified by soldier is sent to them. According to the findings, they mostly come by pressure the respondents clearly stated that after taxpayers come offices by any means they don’t submit their actual financial statements; they come with under declaring of their income. The statistics above developed that many respondents are not voluntarily willing to engage with local authorities and taxpayers’ attitudes changes are needed. Few tax payers present their actual financial statements this is what deteriorated compliance to tax laws. In order taxpayer complete his/her duty and pay taxes tax authorities make assessments based on average, they ask taxpayer to mention how much he receive daily, other solution to assess tax is that tax officer use assessment based on last years’ payment of taxpayer then increase it, taxpayers claim is considered some time other assessment factors include growth, number of employees, and size of the firm. There is need for the government to relate and fulfill ordinary form of assessment based on realistic determinants of taxpayers’ income such as through tax investigation, tax audits, and forced declaration of income and in prom to investigations. The lack of record keeping and without submission of financial statements of businesses, companies, corporations and individuals is problem to budget formulation because when government have records that is good start to take into account

5.1.3 Taxpayers’ Information

According to taxpayers’ information there were unreliable information communicated by taxpayers to make tax evasion but tax officers indicated they are aware of distortions intentionally made by taxpayers such as changes to original tax documents, any claims of fabricated expenses and deductions. On the tax collectors’ understand of taxpayers’ information, tax payers observe alterations to clients’ original tax authorities observe the information about deductions and returns filed, some believe that tax authorities observe claims of fabricated expenses, deductions on tax return, they view that tax authorities observe claims and submissions of unrelated data and the filing of status, claims that accurately not reflect taxpayers’ actual situation. Above statistics signify that the tax authorities are to a great excellent reacting to tax evasion instead of putting preventive steps in place.

People made underestimation of income, the most common type of income tax underestimated observed by tax officers were business income tax, payroll tax and rental income tax. Some respondents believed that tax payers underestimate other taxes such as property taxes, fines, registration taxes on buildings. This statistics shall aid the government of Somaliland to put more close investigations on business income and payroll tax so as to safeguard bigger obedience

When asked whether it’s normal for tax payers to evade taxes through falsification of information, mostly respondents supposed that it’s normal while small number of respondents stated that it’s not normal. These shows that tax evasion through falsification of information has been a normal viewpoint so the government is required to establish environment of changing taxpayers’ wrong believe and discourage the wrong tendency. Finally revenue officers know if taxpayers get chance they evade taxes generally. So as to increase budget the collection of all kinds of income taxes should be intensified that can be reached in budget effective budget implementation.

5.1.4 Tax registration and Tax evasion

The findings expressed that taxpayers evade because they now they are not registered by the Ministry of Finance, the majority of the respondents believe the present tax system in Somaliland supports the rich means the actual tax due are not charged, but in comparison to low income ones they are charged as tax is. The research statistics disclosed that mostly respondents evade tax by not being registered as tax payers with local authorities

According to the study the current tax system is digressive. It only profits to the rich and that is imbalanced to the poor. There is need to review the tax system to ensure its justice fairness and equality is one of the elements of good tax system.

The results indicated that the two departments of Inland Revenue and customs don’t make computerized system registration, but the requirements to make registration are: computers, printers, internet service, well trained employee, then start to register businesses dividing them into geographical areas, get their income statements and balance sheet.

The most important factor for effective budget implementation is registration, then during budget forecasting, recorded data will be reviewed the number of businesses, professional individual, companies with different levels, and corporations can be shown from that so budget department can mention to what income they expect from each category. That is how tax registration affects budget implementation.
5.2 CONCLUSIONS

5.2.1 Tax rate and Tax evasion
The study found out that there existed relationship between high tax rate and tax evasion, majority of the respondents confessed they agreed the presence of that relationship despite great number of people not know more about different rates of taxes, they believe the taxes are so heavy to them and cannot bear it, the government is needed to make pressure in order to conform tax regulations and give tax awareness. The study suggested the government is required to invest on tax education program in order taxpayers be well informed towards the tax rates and reasonable advantages and returns results from payment of taxes. This is expected to assume in-voluntary compliance on the part of taxpayers due to the lack of sufficient tax payers’ education. Tax rates needs to be amended equitably and on the side of employees’ income so that they don’t become load or a kind of punishment to the poor.

5.2.2 Record Keeping
The lack of recordkeeping and appropriate information from taxpayers brought lack of actual income statements and balance sheet from people then tax authorities use different assessments, these evaluations are suggested by tax authorities which are average assessment, calculations based on last taxpayers’ documents, and claims of taxpayers are also considered, while taxpayers don’t come to revenue offices independently but come by means of force.

The study suggested the importance of tax education on the assistances of record keeping for all business levels, shareholders and ownerships, so that it can promise compliance it also developed that many respondents are not voluntarily helpful to engage with local authorities and taxpayers’ attitudes changes are needed, there is necessity for the government to transmit and fulfill ordinary form of assessment based on realistic determinants of taxpayers’ income such as through tax investigation, tax audits, and obligatory declaration of income and in prom to investigations.

5.2.3 Taxpayers’ Information
The study ensured all misinformation paid by taxpayers can be comprehended by tax officers like changes to original tax documents, any claims of fabricated expenses and deductions. The most common type of income tax underestimated looked by tax officers are business income tax, payroll tax and rental income tax. Reasons make them to misrepresent their income including taxpayers don’t know about taxes, lack of public awareness from the Ministry.

The study stated that the tax authorities are to a huge outstanding responding to tax evasion instead of putting preventive steps in place. There is demand for the government to educate residents on the tax knowledge to ensure more acceptance provision of accurate tax information about their financial positions.

5.2.4 Tax registration and Tax evasion
Statistics developed that majority of the respondents evade tax by not being registered as tax payers with tax authorities. Respondents agree that the current tax system is partial it only helps the rich and that is inequitable to the poor.

There is need to review the tax system to ensure its fairness. The study also showed that computerized database system registration doesn’t exist in the Ministry, some suggested in order implementing electronic registration system: It is better to get first the material and equipment necessary for it, second human resource work in it properly. There is demand for the government to educate residents on the tax knowledge to ensure more agreement provision of accurate tax information about their financial positions.

5.3 RECOMMENDATIONS

5.3.1 Policy Recommendation
The research identified the relationship between tax rate and tax evasion, in order to increase the number of taxpayers and minimize tax evasion, the research therefore recommends the Ministry of Finance should low the tax rates and to build the confidence of people, the government should explain and promise them encouraging that taxes will come back the people by building infrastructure and social needs.

The study also recommended that tax authorities should encourage taxpayers to make record keeping books and submit their actual financial statements this will enable them to make evaluation correctly. The study urges tax officers to scan all information from the taxpayers in the time of under declaration of income, to endeavor to strengthen the collection of losing income from the business income taxes, rental income taxes and payroll taxes.

The ministry should use local media like journals, television, and erect billboards to make awareness to tax existence and necessary tax rates, this will take part to educate people for the taxes finally Ministry of finance should register all taxpayers as individual, making categories, putting and registering all same size companies and businesses in the same class, and all same types of business in another class as grouping same professional people, this will really decrease the level of tax evasion continuing currently and enable to make budget forecasting and formulation in order to effectively implement All tax payers should be equal according to tax regulation and no discrimination towards who have more income or low, geographically, gender, or tribe.
5.3.2 Further Research
The researcher recommends further research on the various perspectives taken by tax authorities to curb tax evasion and also the impact of tax education on compliance to tax laws.

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