AN INVESTIGATION OF THE CONTRIBUTION OF TAXPAYER SERVICES AND EDUCATION ON REVENUE COLLECTION IN TANZANIA: THE CASE OF ILALA TAX REGION IN DAR ES SALAAM
AN INVESTIGATION OF THE CONTRIBUTION OF TAXPAYER SERVICES AND EDUCATION ON REVENUE COLLECTION IN TANZANIA: THE CASE OF ILALA TAX REGION IN DAR ES SALAAM

By
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A Dissertation Submitted in Partial Fulfilment of the Requirements for the Master Degree of Business Administration (CM) of Mzumbe University

2013
CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by Mzumbe University a dissertation entitled: *An investigation of the Contribution of Taxpayer Services and Education on Revenue Collection in Tanzania: The Case of Ilala Tax Region in Dar es Salaam* in partial fulfilment of the requirements for the degree of Master of Business Administration (Corporate Management) of Mzumbe University.

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Internal Examiner

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DEDICATION

I dedicate this dissertation to my mother Loyce Nehagwa Nyengo.
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tbody>
<tr>
<td>CTRA</td>
<td>Tanzania Revenue Authority</td>
</tr>
<tr>
<td>ERP</td>
<td>Economic Recovery Programs</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>ITRBMR</td>
<td>Ilala Tax Region Block Management Report</td>
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<td>ITV</td>
<td>Independent Television</td>
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<tr>
<td>NZ</td>
<td>New Zealand</td>
</tr>
<tr>
<td>RFA</td>
<td>Radio Free Africa</td>
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<tr>
<td>RPR</td>
<td>Revenue Performance Report</td>
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<td>SME</td>
<td>Small and Medium Entrepreneurs</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Packages for Social Sciences.</td>
</tr>
<tr>
<td>TBC</td>
<td>Tanzania Broadcasting Corporation</td>
</tr>
<tr>
<td>TIN</td>
<td>Taxpayer Identification Number.</td>
</tr>
<tr>
<td>TRA</td>
<td>Tanzania Revenue Authority</td>
</tr>
<tr>
<td>TSE</td>
<td>Taxpayer Services and Education</td>
</tr>
<tr>
<td>TV</td>
<td>Television</td>
</tr>
<tr>
<td>URT</td>
<td>United Republic of Tanzania</td>
</tr>
<tr>
<td>USA</td>
<td>United States of America</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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ABSTRACT

This study aimed at investigating the contribution of taxpayer services and education on revenue collection in Ilala Tax Region in Dar es Salaam. To this particular end, the study assessed the level of tax compliance among small and medium entrepreneurs in Ilala tax region, assessed taxpayers’ awareness and perceptions about tax issues; examined the impact of taxpayer services and education on revenue performance, and identified challenges facing taxpayer services and education in Ilala Tax Region. The research design used was case study. The research approach used was pragmatic approach. Documentary reviews, questionnaires, interviews, were used as data collection techniques.

The findings indicate that the level of compliance among taxpayers was significant. taxpayers’ awareness and perceptions about tax issues has been high, taxpayer services and education have recorded a significant impact, poor performance of taxpayer services and education was attributed to inadequate number of taxpayer education personnel, language, competition from non-compliants traders, lack of transport facilities such as cars, among others. Therefore, this study suggests that, the TRA should encourage physical outreaches by taxpayer education personnel in order to expand its tax base, promote voluntary tax compliance; and encourage on time submissions of returns and payment of taxes.
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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE PROBLEM

Since the adoption of the World Bank and the IMF supported Economic Recovery program (ERP) in 1986, the Government of Tanzania undertook various policy reform measures, including a comprehensive tax reform processes. While piecemeal reforms of particular taxes have been going on since the late 1960s, the Government appointed a "Commission of Enquiry into Public Revenues, Taxation and Expenditure" in October 1989 which studied and reviewed the central and local government tax systems and its administration, and made recommendations.

The Commission asked the government to reduce the marginal tax rates on personal and company income, to broaden the tax base by eliminating exemptions and to introduce more efficient enforcement mechanisms, and to introduce measures to simplify the tax system (Fjeldstad, 1995).

These tax reforms were based on the following facts. First and foremost, both internal and external economic and political conditions have changed significantly during the last decades, with huge effects on both public revenue and expenditure structures (Mans, 1994, World Bank, 1994a). Second, the Economic Recovery Programme (ERP) provided a broad outline of politics, including measures to increase revenue and reduce the growth of public expenditures.

Fiscal reforms have, thus, come to the heart of the ongoing economic and political reforms (URT, 1991a). Lastly, extensive tax evasion and avoidance, reflecting poor compliance and poor administrative capacity as well as other institutional constraints, have important impacts on the design and implementation of tax reforms (Bird, 1992; Tanzi, 1991).

Cementing on that, Baurer (2005) argues that an effective and efficient tax administration system is fundamental for any country’s well-being because a
country’s tax administration is one of the few public sector organizations which touch the lives of a country’s citizens and businesses on a daily basis and, by all accounts largely impacts on their livelihood. Tax administrators are amongst the most frequently contacted government officials and often represent to the public what is right or wrong about their government.

The responsiveness, integrity, and quality of tax administrators should therefore meet very high standard because revenue collected from taxes represents the major funding source for governmental expenditures.

To that end, Baurer (2005) insists that tax administrators should develop a platform which aims at creating an even playing field for businesses by ensuring that all taxpayers meet their tax filing and paying requirements. Tax administrators should balance their educational and assistance role with their enforcement role in order to foster voluntary compliance with the tax laws. However, this remains a significant challenge in most developing economies.

In the same vein, Nwanna and Richards (2010) argue that, if properly executed, tax education increases the ability of citizens to file their personal income taxes as well as their overall compliance rate, which is the fundamental goal and task of all the tax administration agencies.

Tax education creates more law abiding, empowered, taxpaying citizens. Equally as important as the financial rewards that may result from tax education is the increased tax knowledge and sense of awareness of taxpayers, benefits which will undoubtedly instill, if not equip, taxpayers with tools and knowledge to demand for better accountability from the government and appreciation of the role of their government.

Tax informed taxpayers will be better positioned to understand their tax returns as well as engage or challenge incompetent tax administrators. Additionally, the United Nations (2000) argues that taxpayer education and a better relationship with taxpayers, along with well thought out taxpayer education programmes facilitate
voluntary compliance on the side of taxpayers and that most commonwealth countries currently have some form of taxpayer education programme built into their system.

Nwanna and Richards (2010) argue that lack of tax education on the side of taxpayers may lead them to do not appreciate the importance and role of tax revenue to their own government. That many taxpayers are generally tax averse when it comes to paying taxes could be, in part, the result of their lack of understanding and appreciation of the role of government, the range of services provided by the government, and the fact that these services have to be paid for through taxes and other revenue sources.

This therefore leads to the assumption that, effective and efficient provision of public goods, namely education, health, physical infrastructures development, employment creation and poverty reduction among both the rural and urban citizens, will largely depend on the strong commitment of tax administrators to ensure that a conducive environment is created which aims at educating Small and Medium entrepreneurs on the importance of paying taxes.

This is particularly because experience reveals that majority of tax preparers spend little or no additional time educating or providing tax information to their clients. Instead, they spend much of their time only trying to collect as much relevant information to enable them to prepare and file their taxes or amend their clients’ taxes. Extensive tax evasion and avoidance, which reflects poor compliance and poor administrative capacity as well as other institutional constraints, largely impacts on the design and implementation of tax reforms.

1.1. Statement of the Problem
Taxpayer services and education is an essential factor in tax administration especially increasing government revenue collection. Also, revenue collected from taxes constitutes a fundamental source of funding for governmental expenditures.
Furthermore, assisting taxpayers by educating them to become more responsible citizens plays a fundamental role in revenue collection rather than spending more resources on enforcement activities. So far, many studies have been directed towards examining the socio-economic impact of tax administration; taxpayers’ compliance as well as the challenges faced by tax administrators in the country.

However, little has been done to find out the contribution of taxpayer education on revenue collection in the country and hence, the justification of this study.

1.2 Research Objectives

This study was guided by the following research objectives.

1.2.1. General Objective

The general objective of the study was to investigate the contribution of taxpayer services and education on revenue performance among small and medium entrepreneurs in Ilala Tax Region.

1.2.2 Specific Objectives

Specifically, this study sought to:

i. Identify taxpayers’ awareness and perceptions on tax related issues in Ilala Tax Region

ii. Measure taxpayers’ level of compliance

iii. Examine the impact of taxpayer services and education on revenue collection.

iv. Assess challenges facing taxpayer services and education in Ilala Tax Region

1.3 Research Questions

The study was guided by the following research questions.
i. What are taxpayers’ awareness and perceptions about tax related issues in Ilala Tax Region?

ii. What is the level of tax compliance among small and medium entrepreneurs in Ilala Tax Region?

iii. What is the impact of taxpayer services and education on revenue collection in Ilala Tax Region?

iv. What are the challenges facing taxpayer services and education in Ilala Tax Region?

1.4 Significance of the Study

A number of benefits will result from this study. First and foremost, this study will inform policy makers and more specifically tax administrators about the essential role played by taxpayer services and education in enhancing compliance enforcement in terms of revenue collection in the country.

It will further bring to the attention of policy makers and development stakeholders in the public as well as in the private sector about the role of played by taxpayer services and education in reducing the magnitude of non compliance, and therefore, expanding government’s tax base as well as encouraging on time submission of returns. Besides, the study will identify and analyse the different factors which act as stumbling blocks on the road to taxpayer education. Last but not least, academic institutions will use findings from this study as reference for the contribution of taxpayer services and education on revenue collection (tax compliance).

1.5 Limitations of the study

The study was conducted only in Ilala Tax Region in Dar es Salaam and partly at TRA headquarters. Limitations of this study included limited understanding of the concept of taxpayer services and education among taxpayers because it seemed to be new to majority of them; lack of willingness of by some taxpayers respondents to provide accurate information on contribution of taxpayer services and education on
revenue collection. Other limitations included lack of willingness by some respondents to be interviewed.

1.6 Delimitation of the study

However, the study solved these limitations by assuring respondents that that was an academic work and would therefore strive to be confidential. Also, the study strived to raise the awareness of the respondents about taxpayer services and education and their significance in revenue collection. The study cleared all the unnecessary information in order to remain with the accurate information.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a review of the contribution of taxpayer service and education on revenue collection (tax compliance) in Africa and worldwide. In this respect, it presents the conceptual and theoretical frameworks as well as the research gap the study intended to fill.

2.2 Theoretical Literature

2.2.1 Meaning of Tax

Tax can be defined as a compulsory charge by the state usually payable in monetary form. The essence of tax are distinguished from other charges by the government is the absence of a direct equivalent return from the government to the taxpayer (i.e. there is no quid “pro quo”). In addition, there is a significant element of compulsion in the payment of tax hence severe civil or criminal penalties or sanctions are usually evolved for either non-payable or non-compliance of the provisions governing the tax. It is important to note here that it is government only that normally impose the tax. Institutions such as Schools, Churches, sports clubs or political parties have no legal power to levy taxes (Smith, 1973).

2.2.2 Present Role of Taxation

2.2.2.1 Need for Taxation

Taxation plays an important role such as expenditure on various public services like the provision of health, education, defence, physical and information and Infrastructure and many other services. In order to maximize the public interest the role of government in promoting economic and social development is gaining wide spread acceptability and respect particularly in developing countries where the public
capital does not necessarily represent public interest and may even inadequate to tackle the severe problems of development successfully.

In addition the existence of market failure to provide certain social goods and services such as infrastructure, education, transport, forces the government to provide them instead. The market forces fail to provide these goods and services because such projects are not only capital intensive but they can also be easily subdivided for price tag.

2.2.3 Canon of good Tax

Most of taxation experts agree on some broad principles or criteria for evaluating tax system. However they still differ on the degree or weight of these criteria. These differences depend mainly on individual personal philosophy and value of judgement. The convention principles of taxation are equity, simplicity, economy and certain.

2.2.3.1 Equity

It is generally accepted that taxes should ideally levied on the important principle of fairness or equity which may either be vertical or horizontal. Inequity should be minimized by progressive tax rates structure and the minimum exemption policy. The principle aims at providing economic and social justice to the people.

According to this principle, every person should pay to the government depending upon his ability to pay. The rich class people should pay higher taxes to the government, because without the protection of the government authorities (Police, Defence, etc.) they could not have earned and enjoyed their income. Adam Smith argued that the taxes should be proportional to income, i.e., citizens should pay the taxes in proportion to the revenue which they respectively enjoy under the protection of the state (Adam Smith, 1973).
2.2.3.2 Economy
Consideration of what will cost to collect the taxes is important in any tax system. The administration of any tax system is less expensive in terms of both manpower and material.

This principle states that there should be economy in tax administration. The cost of tax collection should be lower than the amount of tax collected. It may not serve any purpose, if the taxes imposed are widespread but are difficult to administer. Therefore, it would make no sense to impose certain taxes, if it is difficult to administer (Adam, 1973)

2.2.3.3 Certainty.
The imposition of any tax should yield the expected revenues in order to assist the government forward planning. A definitive advance forecast of revenue collections therefore assist plan implementation and success. Consequently, any taxes on commodities whose demand is inelastic (necessities) would be such sure source of revenue yet government may not resort them because of possible adverse social and political implications from the people affected.

Thus it should be simple for taxpayers to understand exactly time when to pay tax,... According to Adam Smith, the tax which an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the government. In other words, every tax should satisfy the canon of certainty. At the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax. Tax is the major source of government revenue thus it should be known in advance in order to forward planning

2.2.3.4 Convenience.
The mode and timing of tax payment should be as far as possible, convenient to the tax payers. For example, land revenue is collected at time of harvest income tax is
deducted at source. Convenient tax system will encourage people to pay tax and will increase tax revenue.

**Additional Canons of Taxation**

Activities and functions of the government have increased significantly since Adam Smith's time. Government are expected to maintain economic stability, full employment, reduce income inequality & promote growth and development. Tax system should be such that it meets the requirements of growing state activities. Accordingly, modern economists gave following additional canons of taxation.

**2.2.3.5 Productivity**

It is also known as the canon of fiscal adequacy. According to this principle, the tax system should be able to yield enough revenue for the treasury and the government should have no need to resort to deficit financing. This is a good principle to follow in a developing economy.

**2.2.3.6 Elasticity**

According to this canon, every tax imposed by the government should be elastic in nature. In other words, the income from tax should be capable of increasing or decreasing according to the requirement of the country. For example, if the government needs more income at time of crisis, the tax should be capable of yielding more income through increase in its rate.

**2.2.3.7 Flexibility**

It should be easily possible for the authorities to revise the tax structure both with respect to its coverage and rates, to suit the changing requirements of the economy. With changing time and conditions the tax system needs to be changed without much difficulty. The tax system must be flexible and not rigid.
2.2.3.8 Simplicity
The tax system should not be complicated. That makes it difficult to understand and administer and results in problems of interpretation and disputes. In India, the efforts of the government in recent years have been to make the system simple.

2.2.3.9 Diversity
This principle states that the government should collect taxes from different sources rather than concentrating on a single source of tax. It is not advisable for the government to depend upon a single source of tax, it may result in inequity to the certain section of the society; uncertainty for the government to raise funds. If the tax revenue comes from diversified source, then any reduction in tax revenue on account of any one cause is bound to be small.

2.2.4 Taxpayer’s Charter
The Taxpayer’s Charter sets out the right and obligations of the taxpayer on one hand, on the other hand the duties and service standards of the TRA in dealing with the taxpayer. As such the charter is a performance standard only, it is not legally binding instrument. Both the taxpayer and the TRA must ultimately invoke the relevant laws in acting on or seeking to prevent action, which is inconsistent with the Charter and the laws.

The Taxpayer’s Charter is not a statistic instrument and will be viewed and improved from time to time along the changing economic development and changing tax practices (TRA Publications, 2006).

2.2.5 Taxpayer’s Rights
The TRA Taxpayer’s Charter proclaims that in its dealings with the taxpayer, the TRA will observe and respect the following rights of the taxpayer: i.e. Receipts of Tax Forms, Returns and Information written in plain language. The taxpayer has right to receive complete, simple and accurate tax information through the print and
electronic media i.e newspapers, pamphlets, leaflets, website, radio and television, to enable the taxpayer to comply with tax laws administered by the TRA.

2.2.5.1 Impartial Treatment
The taxpayer has the right to impartial application of the tax laws on him/her when determining his/her tax liability so that the TRA collects only the correct amount of tax, no more no less.

2.2.5.2 Courtesy and consideration.
The taxpayer has the right to receive courteous and considerate treatment in dealing with the TRA whether the TRA is requesting information or arranging for an interview or an audit of his/her business records.

2.2.5.3 Privacy and Confidentiality
The taxpayer has a right to privacy and confidentiality over personal and financial information supplied to the TRA unless the law derogates such privacy and/or confidentiality. Privacy here means is a rapidly developing area of English law that considers in what situations an individual has a legal right to informational privacy, that is to say the protection of personal (or private) information from misuse or unauthorized disclosure.

Privacy law is distinct from those laws such as trespass or assault that are designed to protect physical privacy. Such laws are generally considered as part of criminal law or the law of tort. Historically, English common law has recognized no general right or tort of privacy, and was offered only limited protection through the doctrine of breach of confidence and a "piecemeal" collection of related legislation on topics like harassment and data protection.

The introduction of the Human Rights Act 1998 incorporated into English law the European Convention on Human Rights. Article 8.1 of the ECHR provided an explicit right to respect for a private life for the first time within English law. The
Convention also requires the judiciary to "have regard" to the Convention in developing the common law". Personally identifiable information" (PII), as used in US privacy law and information security, is information that can be used on its own or with other information to identify, contact, or locate a single person, or to identify an individual in context. The abbreviation PII is widely accepted in the US context, but the phrase it abbreviates has four common variants based on personal /personally, and identifiable / identifying.

Not all are equivalent, and for legal purposes the effective definitions vary depending on the jurisdiction and the purposes for which the term is being used. (In other countries with privacy protection laws derived from the OECD privacy principles, the term used is more often "personal information", which may be somewhat broader: in Australia's Privacy Act 1988 (Cth) "personal information" also includes information from which the person's identity is "reasonably ascertainable", potentially covering some information not covered by PII.)

NIST Special Publication 800-122 defines PII as "any information about an individual maintained by an agency, including (1) any information that can be used to distinguish or trace an individual’s identity, such as name, social security number, date and place of birth, mother’s maiden name, or biometric records; and (2) any other information that is linked or linkable to an individual, such as medical, educational, financial, and employment information." So, for example, a user's IP address as used in a communication exchange is classed as PII regardless of whether it may or may not on its own be able to uniquely identify a person.

Although the concept of PII is old, it has become much more important as information technology and the Internet have made it easier to collect PII through breaches of internet security, network security and web browser security, leading to a profitable market in collecting and reselling PII. PII can also be exploited by criminals to stalk or steal the identity of a person or to aid in the planning of criminal acts. As a response to these threats, many website privacy policies specifically
address the gathering of PII, and lawmakers [have enacted a series of legislations to limit the distribution and accessibility of PII.

However, PII is a legal concept, not a technical concept. Because of the versatility and power of modern re-identification algorithms, the absence of PII data does not mean that the remaining data does not identify individuals. While some attributes may be uniquely identifying on their own, any attribute can be identifying in combination with others. Tanzania Revenue Authority maintains privacy and confidentiality as per requirements of code of ethics.

**2.2.5.4 Presumption of Honesty**

The taxpayer has a right to be presumed honest unless previous conduct or evident to the contrary exist. With this regard taxpayer should be treated with dignity and respect in dealing with all affairs. In particular to that, the laws should be adhered to in order to trace all tax defaulters.

Honesty refers to a facet of moral character and connotes positive and virtuous attributes such as integrity, truthfulness, and straightforwardness, including straightforwardness of conduct, along with the absence of lying, cheating, theft, etc. Furthermore, honesty means being trustworthy, loyal, fair, and sincere. Honesty is valued in many ethnic and religious cultures.

"Honesty is the best policy" is a proverb of Benjamin Franklin; however, the quote "Honesty is the first chapter in the book of wisdom" is attributed to Thomas Jefferson.

**2.2.5.5 Impartial Review of Assessment**

The taxpayer has a right to object to an assessment or other determination by the TRA to extent to which that right is circumscribed by law. Where the taxpayer lodges an objection, the TRA has a duty to conduct an impartial review on the
dispute acting as expeditiously as possible and notifying the taxpayer of the reviewed decision. If the reviewed decision does not fully resolve the dispute the taxpayer has the right of appeal to an impartial body as provided by law, and the TRA has a duty to explain that right of appeal to the taxpayer.

2.2.6 Tax Compliance

Fjeldstad and Heggstad (2012) define tax compliance as the degree to which taxpayers meet their obligations under the tax law. This is not just an issue of technical compliance, but the building of taxpayer behaviour or a taxpayer culture in which compliance to the spirit of the tax law is commonly perceived as a positive social value. In contrary to tax compliance, Tax noncompliance is a range of activities that are unfavorable to a state's tax system. This may include tax avoidance, which is tax reduction by legal means, and tax evasion which is the criminal non-payment of tax liabilities.

The use of the term 'noncompliance' to refer to tax avoidance, however, is not universal or standard, and similar terms are also used differently by different authors. For example, in the United States the use of the term 'noncompliance' often refers only to illegal misreporting. Laws known as a General Anti-Avoidance Rule (GAAR) statutes which prohibit "tax aggressive" avoidance have been passed in several developed countries including the United States (since 2010), Canada, Australia, New Zealand, South Africa, Norway and Hong Kong.

In addition, judicial doctrines have accomplished the similar purpose, notably in the United States through the "business purpose" and "economic substance" doctrines established in Gregory v. Helvering. Though the specifics may vary according to jurisdiction, these rules invalidate tax avoidance which is technically legal but not for a business purpose or in violation of the spirit of the tax code. Related terms for tax avoidance include tax planning and tax sheltering.
Individuals that do not comply with tax payment include tax protesters and tax resisters. Tax protesters attempt to evade the payment of taxes using alternative interpretations of the tax law, while tax resisters refuse to pay a tax for conscientious reasons. Tax protesters believe that taxation under the Federal Reserve is unconstitutional, while tax resisters are more concerned with not paying for particular government policies that they oppose. Because taxation is often perceived as onerous, governments have struggled with tax noncompliance since the earliest

2.2.7 Small and Medium Enterprises

2.2.7.1 Definition

The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (MSMEs). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services.

There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover.

Kibera (1996) argues that small and medium Enterprises are referred to as enterprises employing between 5-200 employees. Besides, O’Neil (2001) argues that the European Commission (EC) distinguished between micro, small and medium enterprises. According to EC, a micro enterprise is a firm with less than 9 employees. A small enterprise is a firm with a maximum of 49 employees, a maximum annual turnover of 7 million Euros, a maximum annual balance sheet total of 5 million Euros, and a maximum of 25 percentage shares owned by one, or several enterprises not satisfying the same criteria.

Likewise, a medium enterprise is one employing a maximum of 249 workers, has a maximum annual turnover of 40 million Euros, a maximum annual balance sheet total of 27 million Euros, a maximum of 25 percentage shares owned by one, or
several enterprises not satisfying the same criteria. The small and medium enterprises nomenclature is used to mean micro, small and medium enterprises which covers non-farm activities mainly manufacturing, mining, commerce and services (URT, 2002).

In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. (SMEs Policy 2002)

This is illustrated in the table below:

<table>
<thead>
<tr>
<th>Category</th>
<th>Employees</th>
<th>Capital Investment in Machinery (Tshs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro enterprise</td>
<td>1-4</td>
<td>Up to 5 Mil</td>
</tr>
<tr>
<td>Small enterprise</td>
<td>5-49</td>
<td>Above 5Mil to 200 Mil</td>
</tr>
<tr>
<td>Medium enterprise</td>
<td>50-99</td>
<td>Above 200Mil to 800 Mil</td>
</tr>
<tr>
<td>Large enterprise</td>
<td>100+</td>
<td>Above 800 Mil</td>
</tr>
</tbody>
</table>

Source: SME Development Policy 2002

2.2.8 Factors Influencing Taxpayer Compliance

2.2.8.1 Tax Awareness

Schmolders (1959) suggests as a behavioural problem, tax compliance depends on the cooperation of the public. Another study by Hite (1997) also found that there are greater gains in assisting compliant taxpayers to meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers. Cialdini (1989) have concluded that tax compliance could also be influenced, by educating
taxpayers of their social responsibility to pay and thus their intension would be to comply.

Assisting taxpayers by improving the flow and quality of information or educating them into becoming more responsible citizens has the potential to yield greater revenue rather than if it were spent on enforcement activities. In this respect, Hasseldine et al (2007) have found that carefully tailored persuasive communication strategies can in the short–term also have a positive effective on taxpayer reporting.

Likewise it is evident that in New Zealand (NZ) and Australia the revenue authorities support taxpayers through a range of easily accessible explanatory leaflets and provide a useful site on the internet. Undertaking these courses of action has had the desired effect of improving taxpayer relations and consequently voluntary compliance.

More specifically, factors that determine whether and to which extent taxpayers comply with their tax obligations include:2 (a) the magnitude of the tax burden; (b) the costs of being tax-compliant, e.g. the time required to register for taxation or to fill out tax forms; (c) taxpayer knowledge, i.e. skills that allow the taxpayer to pay taxes, including an understanding of why paying tax; (d) sticks, i.e. the probability of being detected and punished for non-compliance; (e) carrots, i.e. the direct benefits that taxpayer registration entails, for instance in providing access to specific services such as passport, driver license etc.; and (f) norms, i.e. the intrinsic factors that induce the taxpayer to pay taxes (Fjeldstad and Heggstad, 2012).

2.2.8.2 Tax Morals

Alm et al (1995) have examined the impact of moral values upon taxpayer compliance. Indeed, they discovered that much of the empirical work that has been carried out by social researchers in this area tends to refute the economic model of compliance (that is that taxpayers are utility maximizing creatures that only weigh up the expected costs of non-compliance against the potential gains) in its basic form.
Torgler and Schneider (2007) found that some taxpayers nevertheless comply due to their high tax morals and values.

Studies that have investigated tax morale have found that higher legitimacy for political institutions has led to higher tax morale. This was further evidenced in a study of 30 developed and developing countries (although primarily non-African) that tax morale and compliance is highest in the countries characterized by high control of corruption and low size of bureaucracy (Picur and Riahi-Belkaoui 2006).

A recommendation was also made by Kornhauser (2007) to the IRS (Inland Revenue Service) that they endorse a tax morale approach to compliance that should enable them to recognize the varying attitudes and behaviors of taxpayers.

2.2. 9 Theories which Guided the study

McKerchar and Evans (2009) have discussed a number of theories which explain, describe and predict the viability of taxpayer education/tax compliance. These theories are discussed separately in the paragraphs below:

2.2.8.3 Economic Deterrence Theory

Economic deterrence theory is based on the assumption that behavior, in a wide range of contexts including tax evasion, is responsive to punishment or sanctions. Economic deterrence theory tends to have a narrow, theoretical view of behavior, which reduces its dimensions to numerical measures and assigned probabilities from which outcomes can be predicted using calculus.

In order to determine behavior in this manner, economic deterrence theory tends to rely upon a wide range of fundamental assumptions that are generally unrealistic. For example, that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference.
Although empirical testing has been limited, the theoretical principles of economic deterrence have been widely adopted by tax administrations in developing enforcement strategies that rely principally on penalties and the fear of getting caught. It is worth mentioning that deterrence strategies are relevant in addressing non-compliant tax payers, but it appears that their impact has never been measurable because of being embedded in mathematical expression. For example, an Australian study found that individual tax evasion behaviour was not solely determined by the monetary value of expected gains, but that moral factors also influenced this decision.

These results suggest that the economic deterrence models have relevance to compliance behaviour, but that there are other influences which need to be considered. The strength of this theory is that it reminds taxpayers that failure to pay their taxes is subject to sanctions and cannot be tolerated. However, the theory has been criticised for relying on a wide range of fundamental assumptions that are generally unrealistic. Therefore, this study was not guided by this theory.

### 2.2.5 Social Psychology Theory

Social psychology theory is concerned with the prediction and understanding of human behavior, or how people make decisions, using a range of methodological approaches including compositional modeling, attribution theory and equity theory. Compositional modeling is characterized by the view that individuals undertake deliberate and reasoned action according to their personal preferences.

This approach assumes that people consider the implications of their actions before they decide, or form an intention, to engage or not engage in a given behavior. Further, this approach assumes that intention directly translates into behavior, without any further influences. The model then seeks to explain how intention is formed. As for the theory, an individual’s intention is a function of two basic determinants, one personal in nature and the other reflecting social influence.
The personal factor is the individual’s attitude toward the behavior and is assumed to be either positive or negative. The second determinant of intention is the subjective norm, or the person’s perception of the social pressures to perform or not perform the behaviour in question. Generally, individuals will intend to perform a behavior when they evaluate it positively and believe that others (whose opinion they value) think they should perform it. In testing this theory in the context of tax evasion it was found that the intention to comply could be improved by directly communicating to taxpayers their personal and social responsibilities.

These social psychology models highlight the importance of equity theory in the study of compliance and taxpayer behavior. Equity theory proposes that individuals are more likely to comply with rules if they perceive the system that determines those rules to be equitable. Where there are perceived inequities, individuals will adjust their inputs to the exchange until equity is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance.

The strength of the social psychological theory is that people decide to behave in a particular way when they realize that others perceive their decisions as reasoned. In this case, tax compliance by taxpayers is a result of the realization that they should behave that way. Therefore, this study was guided by this theory.

2.2.6 Fiscal Psychology Theory

Fiscal psychology models draw on both the economic deterrence and the social psychology models and generally view tax enforcement as a behavioral problem, one that can be resolved by co-operation between taxpayers and tax collectors. To obtain this co-operation, the role of the tax system itself in providing the positive stimulus (such as decreasing penalties) is emphasized. This stimulus is then expected to generate a more positive attitude in taxpayers that will in turn impact on their compliance decisions. Furthermore, the fiscal psychology theory places considerable emphasis on taxpayer attitude. The theory holds that tax mentality; feelings of tax
tension and tax morale are the three psyches that together make up a taxpayer’s attitude.

The more positive the taxpayer’s attitude towards paying tax the greater the level of co-operation with the tax authority and the greater the willingness to pay tax. However, fiscal ignorance may be a negative influence on a taxpayer’s attitude. Further, there is evidence to suggest that the threat of sanctions is a negative influence on taxpayers in low socio-economic groups and that appeals to conscience are less effective than the threat of sanctions on taxpayers in high socio-economic groups. It has also been found that in the case of taxpayers with low moral reasoning, appealing to their sense of morality is unlikely to be effective.

The strength of the fiscal psychological theory is that it shows the extent to which taxpayers’ attitudes influence their tax compliance. However, the theory relies only on taxpayers’ attitudes but ignores other factors such as their tax education. Hence, the theory did not guide this study either.

2.3 Empirical Studies
A study done by Heggstad (2012) indicates that a recent study from Zambia revealed that the share of small and micro entrepreneurs who regard their knowledge of the tax system as poor is significantly higher for non-taxpaying firms than for firms paying tax. This suggests that poor knowledge of the tax system is a barrier toward revenue collection (tax compliance). Generally, poor education makes it difficult to understand tax-related legislation and procedures. People from both the public and private sectors interviewed as part of this study argued that the public in general has poor understanding of tax policies and tax administration.

This is reflected in the public debate. For instance, according to one informant in Lusaka, “everyone wants the windfall tax, but few know what it is. Cialdini (1989) conducted a study on tax administration and discovered that compliance could also be influenced, by educating taxpayers of their social
responsibility to pay and thus their intention would be to comply. In the same respect, Schmolders (1959) discovered as a behavioural problem, tax compliance depends on the cooperation of the public. In the same line of thinking, Hite (1997) also found that there are greater gains in assisting compliant taxpayers to meet their fiscal obligations rather than spending more resources pursuing the minority of non-compliers.

A study conducted by Coleman and Wilkins (2001) revealed that there was a diversity of opinion and attitudes towards the tax system and compliance issues amongst the Australian public. One of the likely factors that could impede attitude change is the uneven level of comprehension or involvement in the tax system. This raises the issue of tax knowledge/awareness and the impact of this variable in improving overall taxpayer compliance.

Evidence regarding the importance of education in improving voluntary compliance in Malaysia and the impact of tax knowledge during the introduction of self-assessment there, was evidenced in a study by Loo Ern Chen (2006). A study by Kornhauser (2007) also supports the notion that educational efforts aimed at all segments of the population can improve taxpayer knowledge which in turn influences voluntary compliance.

Another study by Richardson (2006) found a link between taxpayers’ perceptions of fairness and tax compliance behaviour in Hong Kong. Chan, Troutman and O’Bryan (2000) also found that taxpayer attitudes (fairness) had a positive relationship with tax compliance in both Hong Kong and the United States of America (USA). A related issue to fairness was that of procedural justice which was discovered in a major Australian study conducted by Murphy (2003) into mass marketed scheme investors.

Hasseldine et al (2007) discovered that assisting taxpayers by improving the flow and quality of information or educating them into becoming more responsible citizens.
Has the potential to yield greater revenue rather than if it were spent on enforcement activities. For instance, Hasseldine et al argue that carefully tailored persuasive communication strategies can in the short–term also have a positive effect on taxpayer reporting. Likewise, it is evident that in New Zealand (NZ) and Australia the revenue authorities support taxpayers through a range of easily accessible explanatory leaflets and provide a useful site on the internet. Undertaking these courses of action has had the desired effect of improving taxpayer relations and consequently voluntary compliance.

A survey by REPOA (2008) which examined changes in citizens’ perceptions of local taxation in six councils in Tanzania, whereby a total of 1,260 residents from Bagamoyo District Council, Ilala Municipal Council, Iringa District Council, Kilosa District Council, Moshi District Council and Mwanza City Council participated; investigating why residents pay or do not pay taxes, and their perceptions of misuse of tax revenue, revealed that citizens’ perceptions can inform policy to improve the local taxation system in Tanzania.

According to the survey, improved tax compliance depends on the extent to which local citizens perceive that their local government officials are trustworthy, and that taxes are appropriately collected and used in order to provide public goods. To ensure this, both administrative and legal measures are essential to ensure transparency the collection and disbursement of tax revenues at the local level, to enable citizens to confidently report official misuse of revenue, and to effectively address cases of corruption.

According to study done by Fjeldstad and Heggstad (2012), in Tanzania, TRA has for many years used radio to educate taxpayers. All radio programmes by TRA are in Swahili. Also, TRA has also introduced ‘tax clubs’ in secondary schools. The clubs are given reading material, and TRA officers provide information on tax issues. Once a year, there is a competition where pupils from each tax club participate on behalf of their school.
These competitions are popular and receive substantial media coverage. On the other hand, in Mozambique, the educational officers of Mozambique Tax Authority have received special training which enables them to communicate and interact with various segments of taxpayers and citizens in general on tax issues. The Authority Mozambique uses leaflets, TV, radio, newspapers and collaborates with municipalities to propagate the simplified Tax for small contributors. Both local languages and Portuguese are used. The Mozambique Tax Authority collaborates with universities to make students register for the unique taxpayer identification number.

2.5 Research Gap

Based on the reviewed literature, specifically the empirical literature, it is evident that much has been done on tax compliance and tax education across the world. The review has revealed that much has been done on encouraging tax compliance through tax education in Mozambique, New Zealand, Zambia, Australia and many other countries Tanzania in particular. However, efforts aimed at encouraging tax payer compliance in Tanzania focused on raising tax awareness among secondary schools students and examining changes in citizens’ perceptions of local taxation. However, less has been done to find out the extent to which taxpayer education services contribute towards revenue collection in the country. Therefore, findings from this study the existing knowledge gap.
2.6 Conceptual Framework

Figure 2.1 Conceptual Framework showing independent, intervening as well as dependent variables of the contribution of taxpayer services and education on revenue collection.

1. Independent variables

- Tax awareness
- Tax morals

2. Dependent variables

- Assisting taxpayers to meet their fiscal obligations
- Increase in the number of non-compliants
- Late submission of returns

Factors that Facilitate Voluntary Tax Compliance

Factors that impede Voluntary taxpayers compliance

- Lack of trustworthiness among tax collectors

Taxpayer services and education’s contribution on revenue collection

Lack of voluntary taxpayer compliance

Source: Researcher, 2013

According to Kombo and Tromp (2006), a conceptual framework explains the relationship between independent and dependent variables. They further point out that the conceptual framework provides explanations about the possible connection between variables and answers the why questions. This study is guided by the framework (see figure 1) above; the assumption being that, tax awareness as well as tax morals are essential elements that facilitate the contribution of taxpayer services and education on revenue collection.

Additionally, the framework shows that assisting taxpayers to meet their fiscal obligations and high tax morals and values are intervening factors for the contribution of cooperative societies on economic development. In the same vein, Koopmans noted that cooperative societies usually require a significant amount of capital from their members, their net surpluses as well as external sources. For
instance, the author pointed out that members finance is the most important source for cooperative societies to survive, especially during their infant stage. Therefore, the aforementioned variables are linked to this study because, as revealed in the literature review, they are the major factors which can enable voluntary taxpayers’ compliance.

Furthermore, the framework shows that Lack of trustworthiness among tax collectors and poor education of taxpayers are the factors which hinder voluntary tax compliance. In this regard, the framework therefore indicates that increase in the number of non compliants as well as late submission of returns by taxpayers government are the major factors that hinder voluntary compliance and in the end lead to poor revenue performance. Likewise, the aforementioned variables were linked to this study because, as indicated in the literature review section, they are the major factors which hinder effective revenue collection process.
3.1 Introduction

This chapter presents the research design, study area, study population, and sample size and sampling procedures. It also discusses the data collection techniques as well as data analysis procedures that were used by this study.

3.2 Study Area

The study was carried out in Ilala Tax Region. Ilala Tax Region was chosen for this study because it has a number of small and medium enterprises (businesses) which are supposed to be good and regular tax payers.

Therefore, it is imperative to conduct an empirical study in Ilala Tax Region to examine the extent to which taxpayer services and education programmes contribute to revenue collection while at the same time reduce tax evasion attitudes among small and medium entrepreneurs in the area. The number of wards, divisions, streets, villages and Hamlets in Ilala Municipal Council are presented in the table 3.1 below.

Table 3.1: Number of Divisions, Wards, Streets, Villages and Hamlets in the Three Municipalities of Dar es Salaam

<table>
<thead>
<tr>
<th>Municipality</th>
<th>Division</th>
<th>Wards</th>
<th>Streets</th>
<th>Villages</th>
<th>Hamlets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ilala</td>
<td>3</td>
<td>22</td>
<td>105</td>
<td>9</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: Dar es Salaam City Council profile, 2004
3.3 Research Design
Research design is well understood as a logic plan of how to conduct a research. It stands for the advance planning of the methods to be adopted for collecting the relevant data and techniques to be used in their analysis, keeping in view the objectives of the research and the availability of staff, time and money (Kothari, 2003). This study needs a research design because it would facilitate the smooth sailing of various research operations, thereby making research efficient as possible yielding maximal information with sound effort, time and money.

Besides, the research design enabled the researcher to organize her ideas in a manner that made it easier for her to work out the flaws and inadequacies. In the absence of such a course of action, it might be difficult to make a comprehensive review of the proposed study (Yin, 1994).

This study therefore, used case study research design which enabled the researcher gain a deeper understanding of the role played by taxpayer education on revenue collection (tax compliance). In the process, both systematic questionnaire and interviews procedures were used to ask prescribed questions to the respondents and record their answers. Answers obtained from questionnaires and interviews were coded and analysed.

3.4 Population
Population refers to a group of individuals who have one or more characteristics in common that are of interest to the researcher (Babbie, 1990). According to Singleton and Straits (2005), the study population is the population to which the researcher would like to generalize his or her results. The population of this study included owners of micro and small enterprises; tax administrators; Local Government Officials of Ilala Tax Region.

These are expected to provide the researcher with information on the role of taxpayer education in encouraging taxpayer compliance (revenue collection).
3.5 Sample, Sampling Techniques and Plan

Samples and sampling procedures are believed to constitute fundamental elements in any research process. Singleton and Straits (2005) argued that sample size is important for two reasons. First, large samples generally enhance our confidence in study results. Secondly, sample size enables the researcher to gain access to specialized problems and smaller populations that otherwise could not be studied.

The sample size for this study included 78 respondents who were selected from the selected small and micro enterprises in Ilala Municipality as it has been shown above. They included 41 owners and workers of small and micro enterprises; 12 tax administrators and 10 local government officials as well as 15 ordinary citizens. This study used purposive and random sampling techniques to select respondents. These sampling procedures depended on the availability and readiness of the respondents.

In purposive sampling, sample elements were considered as representatives of the entire population, while in random sampling, each member had an equal chance of being selected for the study. The categories of respondents estimated sample size; and sampling procedures are shown in table 3.2 below.

Table 3.2: Categories, Estimated Sample Size, and Sampling Procedures

<table>
<thead>
<tr>
<th>Categories of Respondents</th>
<th>Estimated sample size of respondents</th>
<th>Sampling Procedure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners and workers of SMEs</td>
<td>60</td>
<td>Purposive</td>
</tr>
<tr>
<td>Tax administrators</td>
<td>15</td>
<td>Purposive</td>
</tr>
<tr>
<td>Local government officials</td>
<td>10</td>
<td>Purposive</td>
</tr>
<tr>
<td>Ordinary citizens</td>
<td>15</td>
<td>Random</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: researcher Data, 2013.
3.6 **Data Collection Methods and Instruments**

The following are data collection methods and instruments that were used to collect data.

### 3.6.1 Interviews and Interview Questions

Interviews are important in the research process because of being used to collect data. In this study, interviews enabled the researcher to collect information personally from the following 10 Local Government Officials, 12 tax administrators and 15 ordinary citizens. These interviews schedules were administered to all the categories of the respondents as stated in the sample size and sampling procedure rubric.

Interviews questions both open-ended and closed ended questions were used to collect data. For effective implementation of interviews and interview questions, a schedule was designed to ensure effective administration of methods and instruments.

**Questionnaires**

A questionnaire with open-ended and closed-ended questions was used in this study. The questionnaire consisted of 15 questions, which solicited information on the contribution of taxpayer education on revenue collection owners and workers of small and micro enterprises, tax administrators, local government officials and ordinary citizens.

The researcher used questionnaires in order enable respondents to express their opinions and views in a more confident with regard to the extent to which taxpayer education contributes towards revenue collection (tax compliance) among small and medium entrepreneurs in Ilala Tax Region. Questionnaires are also expected to provide the researcher with quantitative data.
**Field Observation and Observation Schedule**

Singleton and Straits (2005) pointed out that the primary method of data collection in field research is observation. Field researchers always begin with field observations: even when they turn to other data sources such as interviewing “informants” or analyzing personal documents, these data generally serve as supplemental evidence or cross-checks on their observations.

The kind of observation was conducted by field researchers differ from both causal, everyday observation and generic “scientific observation”. George McCall (1984) added that “while nearly everyone who goes to a 3.200 sees the animals three, and many even watch some of those animals, very few can be said to observe their behaviour”.

Thus, the researcher systematically observed the extent to which cooperative societies have transformed the livelihoods of their members as well as those of their fellow citizens in the surrounding areas. The observation schedule was used to ensure effective and systematic observation of the identified incidences.

**Documentary Review and Documentary Review Schedule**

Documentary review is another method which that was used to review documents. In the first instance, documents to be reviewed were identified and a schedule (instrument) was designed to ensure systematic review of documents. Information from documents helped to justify findings from other sources of data.

**3.7 Data Management**

Joppe (2000) defines reliability as the extent to which the results are consistent over time and represent accurately the population under study. The actual numbers of questionnaires were distributed. Reliability of data was tested using cronbach’s Alpha. An overall construct of coefficient of 0.782 should be was from the research questions. Nunnally (1998) suggests that the scales/data should have a minimum of 0.7 cronbach’s alpha to be considered reliable. Therefore, findings had high level of
internal consistency. In order to ensure validity of data, all prospective respondents were given a chance to check and make a participant validation prior to data analysis and interpretation. Also, statements and comments made by respondents were jotted down. To ensure reliability and validity of data, no research assistant were employed in this study.

3.8 Data Analysis and Processing

Singleton and Straits (2005) pointed out that data analysis and processing involves editing, coding, entering, and cleaning of the collected data. Data processing involves summarizing and presenting data. Data analysis involved categorization of data by using tables, charts, graphs, percentages, and other means of averages. In this study, data processing checked if answers provided by respondents are identical in order to facilitate cleaning of unnecessary data. Data from documentary reviews were used to expand descriptive analysis.

On the one hand, qualitative data were categorized according to themes related to the research objectives. On the other hand, quantitative data were coded, organized, analyzed and presented in the form of tables, frequencies, percentages using simple descriptive statistics and Statistical Packages for Social Sciences (SPSS) computer software.
CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents, analyzes and discusses findings on the contribution of taxpayer services and education over revenue among Small and Medium entrepreneur in Ilala Tax Region. The findings were analyzed in terms of the extent to which taxpayer services and education have facilitated the expansion of tax bases, reduction of cases of non-compliance to tax laws and regulations as whole, submission of returns on time by the tax payers in Ilala tax region, and finally according to the four specific study objectives and research questions developed by the researcher.

The main analysis areas included; the level of tax compliance among small and medium entrepreneurs, the impact of taxpayer services and education on revenue collection, taxpayers’ awareness and perceptions tax related issues as well as challenges faced by small and medium entrepreneurs in terms of taxpayer services and education.

To achieve the study objective, data were collected from 78 respondents as follows: 41 owners and workers of small and medium enterprises, 12 tax administrators, 10 Local Government Officials, 15 ordinary citizens.

4.2 Characteristics of Respondents

The characteristics of respondents was investigated due to its significance on the validity and reliability of data in this research. The following is the explanations of the findings.
4.2.1 Gender of Respondents

The gender of the respondents was considered in this study to explore the extent to which female and male were aware of the contribution of taxpayer services and education on revenue collection in Ilala tax region in terms of expansion of tax bases, reduction of cases of non-compliance, submission of returns on time. Respondents’ gender is presented in figure 4.1 below.

Figure 1: Gender of Respondents

![Gender of Respondents](image)

Source: Field data, 2013

Figure 4.1 shows that 53 (67.9%) respondents were male while 25 (32.1%) respondents were female. This implies that men and women provided their opinions over the contribution of taxpayer education services on revenue collection. Though data establishes that men outnumber women, the study was gender sensitive as all genders provided the research with information about the contribution of taxpayer services and education on revenue collection.

4.2.2 Education level of Respondents

The aim of considering the education level was to discover how the academic achievements of respondents enhanced their understanding of the performance of the taxpayer services and education department in enhancing expansion of tax bases, reduction of cases of non-compliance, and submission of returns on time. Respondents’ academic achievements are presented in Figure 4.2 below.
Figure 4.2: Education level of Respondents

![Pie chart showing education levels]

**Source: Field data, 2013**

Figure 4.2 shows that 39 respondents (50%) completed secondary education; 27 respondents (34.6%) completed tertiary education; whereas 12 respondents (15.4%) had completed primary education. This means that majority of taxpayers in Ilala tax region sufficient level of academic achievement to enable them examine the contribution of taxpayer services and education on revenue collection.

### 4.2.3 The level of Tax Compliance among Small and Medium Entrepreneurs

The level of compliance to tax by small and medium entrepreneurs in Ilala tax region has been examined under the following themes as they are separately presented below.

#### 4.2.3.1 Respondents’ Knowledge about TRA

In order to measure the level of compliance among small and medium entrepreneurs in Ilala tax region, this study examined in the first place how respondents knew about Tanzania Revenue Authority (TRA) and its functions. Respondents’ responses about their knowledge of TRA are presented in Figure 4.3 below.
Figure 4.3: Respondents’ Knowledge about TRA

Figure 4.3 shows that 10 respondents (12.8%) knew about Tanzania Revenue Authority and its functions through radio broadcasting; 15 respondents (19.2%) knew about TRA and its functions through television; 22 respondents (28.2%) knew about TRA and its functions through TRA publications; 7 respondents (9%) knew about TRA and its functions through seminars; whereas 24 respondents (30.8%) knew about TRA through friends, colleagues and relatives. This implies that though some respondents knew about TRA through its publications much needs to be done to ensure that taxpayers are well aware of this fundamental institution and its significance in the development of our country.

As revealed in Figure 4.3 above, 10 respondents (12.8%) knew about Tanzania Revenue Authority and its functions through radio broadcasting. Respondents who held this point of view stated that they were regularly accessing TRA information through radio broadcasting stations such as TBC1 Fm, Clouds FM and Radio one Stereo and Radio Free Africa (RFA). In trying to explain this, respondents reported that they knew about TRA and its related departments such as taxpayer education services department because they were listening to these electric media every now and then.

They confirmed that without these media facilities they would not have known anything about TRA. In this regard, respondents suggested however that TRA should increase the number of its education sessions on these media facilities in order to increase the number of citizens who would access their broadcasted tax related
issues. In addition to that, this would enable the institution to expand its tax base, reduce the number of non-filers and encourage on time submission of returns by taxpayers as well as encourage voluntary tax compliance.

Further, 15 respondents (19.2%) knew about Tanzania Revenue Authority and its related departments and functions through television. These respondents pointed out that they knew about TRA through such television stations as Tanzania Broadcasting Corporation (TBC1), Independent Television (ITV) Clouds TV, Mlimani TV and Star TV. Asked whether TRA taxpayer education services were not broadcasted in other electronic media, respondents stated that TRA taxpayer education was regularly broadcasted through TBC1, ITV and Clouds TV as compared to the rest.

However, they suggested that TRA should ensure that the information is broadcasted in both Swahili and English to facilitate access of the same by a large number of taxpayers bearing in mind that some among the taxpayers are illiterate or have low level of academic achievement as it has been revealed in the education level of respondents section.

Also, 22 respondents (28.2%) knew about Tanzania Revenue Authority and its departments through TRA publications. In this regard, respondents pointed out that they knew about TRA through reading TRA brochures, corporate plans which in most cases were available during Saba Saba exhibitions where they visited TRA temporary premises. When asked why those TRA publications were only accessible during Saba Saba business exhibitions, respondents stated that Saba Saba exhibitions period was the only period TRA documents could be easily accessed by ordinary citizens. Following this situation, respondents urged TRA education department to ensure that their publications are easily accessed by taxpayers in order to enable them deeply understand tax laws and become effective partners in the process.

24 respondents (30.8%) knew about TRA through friends, colleagues and relatives. To cement on this perspective, respondents pointed out that they knew about TRA through exchange of ideas with their friends, colleagues and relatives. In this regard,
one respondent reported that her literate cousin was the one who told her about tax laws. The same respondent added that though she did not have high academic achievement but she could easily read and writes. She therefore urged that apart from using electronic media such as radio stations, TV stations TRA should also encourage physical outreach by her taxpayer education officials in order to raise citizens’ awareness on the importance of their voluntary compliance to tax related issues. According to her, this would expand TRA Ilala tax region increase government revenue collection which is the engine for any country’s development.

Lastly, 7 respondents (9%) pointed out that they knew about TRA and its functions through seminars. As for these respondents, seminars enhanced their awareness of TRA and enhanced their knowledge of tax laws and obligations as well as encouraged their voluntary compliance to tax payment. These findings revealed that much needs to be done by Tanzania Revenue Authority to enhance taxpayer compliance and increase tax base as well as reduce the number of tax evaders which are fundamental ingredients in revenue collection and the process of national development in general.

4.2.3.2 Registration of SMEs with TRA

In order to measure the rate of compliance among small entrepreneurs this study first sought respondents’ opinions about whether their businesses were registered or not. Respondents’ responses are presented in Figure 4.3 below.

Figure 4.4: Respondents’ Responses over SMEs Registration

Source: Field data, 2013
Figure 4.4 reveals that 68 respondents (87.2%) confirmed that SMEs were registered, where as 10 respondents (12.8%) pointed out that SMEs in Ilala tax region were not registered. This shows that the taxpayer services education services whose aim is to ensure that small and medium entrepreneurs comply with their tax rights and obligations were effectively conducted.

According to these findings, when they were asked to show their understanding over whether small and medium enterprises in Ilala were registered, 68 respondents (87.2%) confirmed that SMEs were registered. These respondents argued that to show that they were registered they had business registration certificates showing date of registration as well as expiry date of the registration certificate.

In addition, 10 respondents (12.8%) pointed out that SMEs in Ilala tax region were not registered. According to these respondents, there existed some small and medium entrepreneurs who were not ready to pay tax and sometimes nothing was done to punish those non-filers. However, they appreciated the job performed by Ilala tax region officials in encouraging voluntary compliance.

To sum up, these findings revealed that there was huge likelihood that taxpayer education services whose aim is to ensure that small and medium entrepreneurs comply with tax rights and obligations would encourage voluntary compliance despite the observed challenges which shall be further discussed in the challenges section. This observation is supported by TRA Third Corporate Plan 2008/2009-2012/2013 which states that better service delivery will enable TRA to obtain necessary feedback of customer satisfaction for future strategic programme planning.

4.2.4 Respondents’ Perceptions about Tax Related Issues

Respondents’ perspectives about tax related issues have been examined in terms of tax rights most commonly known to the respondents, the kind of tax perceived by the respondents to be a burden, and their perception of how taxes were administered as they are separately presented below.
4.2.4.1 Tax Rights Commonly Known to Taxpayers

Assessment of respondents’ perceptions about tax issues examined in the first place the tax rights that were commonly known to the taxpayers as they are presented in the table 4.1 below.

Table 4.1: Tax Rights Commonly Known to Taxpayers

<table>
<thead>
<tr>
<th>Rights commonly Known to Taxpayers</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much they should pay</td>
<td>35</td>
<td>44.9</td>
</tr>
<tr>
<td>Why they should pay tax</td>
<td>21</td>
<td>26.9</td>
</tr>
<tr>
<td>Fair assessment of their tax</td>
<td>12</td>
<td>15.4</td>
</tr>
<tr>
<td>Getting tax information</td>
<td>10</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>78</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source: Field data, 2013**

Table 4.1 indicates that, 35 respondents (44.9%) pointed out that the first right known to taxpayers about tax issues was how much they should pay. 21 respondents (26.9%) pointed out that another right that was common among taxpayers was why they should pay taxes. 12 respondents (15.4%) reported that fair assessment of their taxes was another right. 10 respondents (12.8%) stated that getting tax information was the last right. These findings implied that taxpayers were well aware about their rights and obligations towards taxes as they were illustrated in table 4.1 above.

As indicated in Table 4.2, 29 respondents (37.1%) stated that the administration of their taxes has been highly efficient and effective. In this regard, respondents pointed out that the management of their taxes has been very efficient and effective because they witness a number of projects implemented by the government through its various ministries, particularly in Ilala Municipal Council.

For instance, they stated that the government through the ministry of works has been rehabilitating the Mwalimu Nyerere road from Pugu to Gongo la Mboto. According to them, this would not be possible if the government was not efficiently and
effectively managing their taxes. In addition, 25 respondents (32.1%) pointed out that the administration of their taxes by TRA officials has been efficient and effective. According to these respondents, tax administration has been efficient and effective of the different projects that have been implemented by the government in Ilala Municipal Council. For instance, the government has built ward secondary schools through using their taxes.

Not only that, other respondents, that is, 12 respondents (15.4%) pointed out that knowledge of their rights as taxpayers and citizens through taxpayer services and education facilitated their fair assessment of the how their taxes were being used by the responsible authorities. In this regard, respondents stated that taxpayer services and education enhanced their assessment about whether their taxes were being efficiently and effectively used the responsible authorities. According to them, they realised that the government was efficiently and effectively using their taxes after His Excellency, the President of the United Republic of Tanzania, Dr. Jakaya Mrisho Kikwete, inaugurated the Vocational Education and Training Centre at Kipawa recently.

This centre was responsible for producing Information and Technologies experts who would in the future help TRA and other public institutions improve their performance and perform at a competitive speed in the East African Region. Lastly, 10 respondents (12.8%) pointed out that taxpayer services and education enabled them understand that they had the right to the information about how Tanzania Revenue Authority has been performing. This information, the respondents added, was key to their assessment of how TRA has been performing; enhanced their understanding about why they should pay taxes and how much they should pay.

4.2.4.2 Respondents Perceptions about Tax Administration

Assessment of respondents’ perceptions about tax issues examined in the second respondents perceptions about how taxes were administered in Ilala tax region as they are presented in the table 4.2 below.
Table 4.2: Respondents’ Perceptions about Tax Administration in Ilala Tax Region

<table>
<thead>
<tr>
<th>Rights commonly known to Taxpayers</th>
<th>Number of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly efficient and effective</td>
<td>29</td>
<td>37.1</td>
</tr>
<tr>
<td>Efficient and effective</td>
<td>25</td>
<td>32.1</td>
</tr>
<tr>
<td>Moderate</td>
<td>13</td>
<td>16.7</td>
</tr>
<tr>
<td>Not efficient and effective</td>
<td>11</td>
<td>14.1</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Field data, 2013

Table 4.2 reveals that, 29 respondents (37.1%) stated that the administration of their taxes has been highly efficient and effective. 25 respondents (32.1%) pointed out that the administration of their taxes by TRA officials has been efficient and effective. 13 respondents (16.7%) indicated that tax administration has been moderate. 11 respondents (14.1%) noted that tax administration has neither been efficient nor effective. This means that performance of Ilala tax region in terms of tax administration has been good as it has been stated by majority of respondents in table 4.2 above.

As indicated in Table 4.2, 29 respondents (37.1%) stated that the administration of their taxes has been highly efficient and effective. In this regard, respondents pointed out that the management of their taxes has been very efficient and effective because they witness a number of projects implemented by the government through its various ministries, particularly in Ilala Municipal Council.

For instance, they stated that the government through the ministry of works has been rehabilitating the Mwalimu Nyerere road from Pugu to Gongo la Mboto. According to them, this would not be possible if the government was not efficiently and effectively managing their taxes.

In addition, 25 respondents (32.1%) pointed out that the administration of their taxes by TRA officials has been efficient and effective. According to these respondents,
tax administration has been efficient and effective of the different projects that have been implemented by the government in Ilala Municipal Council. For instance, the government has built ward secondary schools through using their taxes.

In the same vein, 13 respondents (16.7%) indicated that tax administration has been moderate. According to them, the management of taxes has been moderate because, on the one hand, the government was trying its level best to implement some developmental projects in education, infrastructure, and health. On the other hand however, they indicated that there were some challenges which could not enable the Tanzania Revenue Authority to adequately perform the taxpayer services and education services as they are discussed in the challenges section below.

Lastly, 11 respondents (14.1%) noted that tax administration has neither been efficient nor effective. According to them, they did not see anything done by the government to improve the living standards of its citizens. However, this study found that those respondents were not aware of the various projects that the government was implementing in their areas and they were not aware of their taxpayer rights and obligations as citizens. In fact, these findings implied that taxpayer services and education in Ilala tax region have been fruitful as it has been evidenced by the explanations provided above.

4.2.4.3 Tax Perceived by Taxpayers to be a Burden
Assessment of respondents’ perceptions about tax issues also examined the type of tax perceived by taxpayers to be a burden in Ilala tax region as they are presented in the table 4.3 below.

Table 4.3: Tax Perceived by Taxpayers to be a Burden
Table 4.3 shows that, 46 respondents (59%) indicated that Value Added Tax was a burden to taxpayers. 14 respondents (17.9%) pointed out that import duties were a burden. 11 respondents (14.1%) stated that withholding taxes were a burden. 7 respondents (9%) mentioned income taxes were a burden to taxpayers. This means that value added tax were perceived by taxpayers as to be a burden which should be removed in their way to success.

4.2.5 The Impact of Taxpayer Education Services on Revenue Collection

The impact of taxpayer services and education on revenue collection in Ilala tax region has been examined under the following themes as they are separately presented below.

4.2.5.1 Number of New Registrations

In order to establish the impact of taxpayer services and education this study examined the number of businesses that were registered following introduction of taxpayer services and education at the three TRA Service Centres in Ilala tax region as they are presented in Table 4.4 below.

Table 4.4: Number of New Registrations for TIN in Ilala Tax Region
<table>
<thead>
<tr>
<th>Service Centres</th>
<th>Year 2010/2011</th>
<th>Year 2011/2012</th>
<th>Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upanga Service Centre</td>
<td>512</td>
<td>494</td>
<td>1006</td>
<td>10.6</td>
</tr>
<tr>
<td>Kariakoo Service Centre</td>
<td>725</td>
<td>649</td>
<td>1374</td>
<td>14.4</td>
</tr>
<tr>
<td>Buguruni Service Centre</td>
<td>3,681</td>
<td>3,444</td>
<td>7125</td>
<td>75</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,918(100%)</strong></td>
<td><strong>4,587(100%)</strong></td>
<td><strong>9505</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

**Source:** Ilala Tax Region Block Management Reports, 2010/2012

Table 4.4 indicates that 1006 new businesses (10.6%) were registered for TIN between the 2010/2011 and 2011/2012 at Upanga Service Centre. 1374 new businesses (14.4%) were registered for TIN between 2010/2011 and 2011/2012 at Kariakoo Service Centre. 7125 new businesses (75%) for TIN between 2010/2011 and 2011/2012 at Buguruni Service Centre. This implies that taxpayer services and education has been successful in the three service centres in Ilala tax region. However, more taxpayer service and education is needed at Upanga and Kariakoo Service Centres to increase the number of registration for TIN.

As indicated in table 4.2, the study found that there has been an increase in the number of new businesses which were registered for TIN in Ilala tax region. This increase in the number of new registrations for TIN has been evidenced by the fact that in the 2010/2011 financial year, 512 new businesses were registered for TIN at Upanga service centre. Also, 725 new businesses were registered for TIN at Kariakoo service centre. 3,681 new businesses were registered for TIN at Buguruni service centre.

In addition, in the 2011/2012 financial year, 494 new businesses were registered for TIN at Upanga service centre; 649 new businesses were registered for TIN at
Kariakoo service centre, and 3,444 new businesses were registered for TIN at Buguruni service centre.

This rate of new registrations for TIN at three service centres in Ilala tax region testified that taxpayer services and education programs were performing well and needed more attention from higher TRA authorities to ensure that the number of new registrations grow continuously. However, this study found that taxpayer services and education should be given a big push at Upanga and Kariakoo centres given a slow increase in the number of new registrations in the two service centres as compared to Buguruni service centre.

4.2.5.2 Number of Offences Raised

In order to examine the impact of taxpayer services and education in Ilala tax region, this study also explored the number of offences raised at each service centres as they latter are presented in table 4.5 below.

<table>
<thead>
<tr>
<th>Number of Offences Raised at each Service Centre/Number of Traders</th>
</tr>
</thead>
</table>
Table 4.5 indicates that 419 tax related offences (27.8%) were raised to tax defaulters between 2010/2011 and 2011/2012 at Upanga Service Centre. 776 tax related offences (51.4%) were raised to tax defaulters between 2010/2011 and 2011/2012 at Kariakoo Service Centre. 313 tax related offences (20.8%) were raised between 2010/2011 and 2011/2012 at Buguruni Service Centre. This shows that despite the widespread of taxpayer services and education in Ilala tax region, still there are cases of non compliance to tax.

Therefore, Tanzania Revenue Authority in the region (Ilala tax region) should ensure that they institute more compliance enforcement measures through taxpayer services and education to reduce the number of tax defaulters particularly at Kariakoo Service Centre as it has been shown in table 4.2 above. However only 1508 (7.8%) business traders were found to be tax defaulters out of 19,322 taxpayers visited during financial year 2010/2011-2011/2012.

As indicated in table 4.2, this study found that the number of tax related offences raised at the three service centres in Ilala tax region were not alarming. For instance,
the study found that, in 2010/2011 financial year, 147 at Upanga Service Centre, 392 at Kariakoo Service Centre, and 117 at Buguruni Service Centre. In the 2011/2012 financial year, 272 tax related offences were raised at Upanga service centre; 384 tax related offences were raised at Kariakoo service centre; and 196 tax related offences were raised at Buguruni service centre.

When they were asked to explain the situation, respondents pointed out that taxpayers at Upanga and Buguruni service centres were showing high level of voluntary compliance in terms of complying with tax related issues. They added that the situation has been attributed to the fact that Upanga is the home for many literate people who understand the responsibilities of a patriotic and accountable citizens. According to the respondents, they were expecting that Buguruni would have recorded huge number of tax related offences because it harbours many illiterate people as compared to Upanga and Kariakoo.

However, the outcome has been different from their anticipated expectations. To reduce the number of tax offences at Kariakoo, this study suggested that more taxpayer service and education was needed to enable business people at Kariakoo understand the importance of paying tax for the individual and nation at large.

4.2.3.3 The Amount of Revenue Collected in Ilala Tax Region
In order to assess the impact of taxpayer services and education, the study also examined the amount of revenue collected in Ilala tax region between 2007 and 2012 as it is shown in table 4.6 below.

Table 4.6: The Amount of Revenue Collected in Billions.
<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Description</th>
<th>EST For Month</th>
<th>Actual Collections/Month</th>
<th>EST YTD</th>
<th>Actual YTD</th>
<th>Performance/Month</th>
<th>Performance YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007/2008</td>
<td>Ilala Tax Region</td>
<td>18,329.10</td>
<td>20,797.20</td>
<td>216,554.40</td>
<td>216,631.70</td>
<td>113</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Domestic Revenue Department</td>
<td>45,822.90</td>
<td>54,719.20</td>
<td>542,148.10</td>
<td>564,405.50</td>
<td>119</td>
<td>104</td>
</tr>
<tr>
<td></td>
<td>Net Collection</td>
<td>41,466.90</td>
<td>51,545.90</td>
<td>489,875.90</td>
<td>522,907.10</td>
<td>124</td>
<td>107</td>
</tr>
<tr>
<td>2008/2009</td>
<td>Ilala Tax Region</td>
<td>27,399.00</td>
<td>29,884.60</td>
<td>279,353.80</td>
<td>277,572.60</td>
<td>109</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>DRD</td>
<td>64,110.50</td>
<td>78,765.90</td>
<td>712,619.60</td>
<td>726,761.00</td>
<td>123</td>
<td>102</td>
</tr>
<tr>
<td></td>
<td>Net Collection</td>
<td>60,067.10</td>
<td>74,791.20</td>
<td>664,098.50</td>
<td>689,787.60</td>
<td>125</td>
<td>104</td>
</tr>
<tr>
<td>2009/2010</td>
<td>Ilala Tax Region</td>
<td>26,715.60</td>
<td>30,218.40</td>
<td>297,728.90</td>
<td>278,776.00</td>
<td>113</td>
<td>94</td>
</tr>
<tr>
<td></td>
<td>DRD</td>
<td>71,677.8</td>
<td>81,648.90</td>
<td>801,335.5</td>
<td>716,569.0</td>
<td>114</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Net Collection</td>
<td>69,846.00</td>
<td>781,040.90</td>
<td>757,437.10</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010/2011</td>
<td>Ilala Tax Region</td>
<td>35,533.50</td>
<td>38,406.90</td>
<td>388,583.20</td>
<td>353,552.00</td>
<td>108</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>DRD</td>
<td>96,816.40</td>
<td>123,229.90</td>
<td>1,047,547.20</td>
<td>996,997.90</td>
<td>127</td>
<td>95</td>
</tr>
<tr>
<td>Financial Year</td>
<td>Description</td>
<td>EST For Month</td>
<td>Actual Collections/Month</td>
<td>EST, YTD</td>
<td>Actual, TYD</td>
<td>Performance/Month</td>
<td>Performance YTD</td>
</tr>
<tr>
<td>----------------</td>
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<td>----------</td>
<td>------------</td>
<td>-------------------</td>
<td>-----------------</td>
</tr>
<tr>
<td></td>
<td>Net Collection</td>
<td>92,342.30</td>
<td>116,968.00</td>
<td>993,858.00</td>
<td>958,319.60</td>
<td>127</td>
<td>96</td>
</tr>
<tr>
<td>2011/2012</td>
<td>Ilala Tax Region</td>
<td>40,104.60</td>
<td>59,409.70</td>
<td>407,655.30</td>
<td>412,010.10</td>
<td>148</td>
<td>101</td>
</tr>
<tr>
<td></td>
<td>DRD</td>
<td>111,631.30</td>
<td>165,965.20</td>
<td>1,123,693.10</td>
<td>1,225,532.60</td>
<td>149</td>
<td>109</td>
</tr>
<tr>
<td></td>
<td>Net Collection</td>
<td>105,631.30</td>
<td>165,045.76</td>
<td>1,057,887.62</td>
<td>1,173,704.74</td>
<td>156</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>Ilala Tax Region</td>
<td>35,533.50</td>
<td>38,406.90</td>
<td>388,583.20</td>
<td>353,552.00</td>
<td>108</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>DRD</td>
<td>96,816.40</td>
<td>123,229.90</td>
<td>1,047,547.20</td>
<td>996,997.90</td>
<td>127</td>
<td>95</td>
</tr>
<tr>
<td></td>
<td>Net Collection</td>
<td>92,342.30</td>
<td>116,968.00</td>
<td>993,858.00</td>
<td>958,319.60</td>
<td>127</td>
<td>96</td>
</tr>
</tbody>
</table>

**Source: TRA Revenue Performance Reports, 2007/2012**

Table 4.6 reveals that in the 2007/2008 financial year the estimated revenue collection per month in Ilala tax region was 18,329.10 billion Tshs, but actual revenue collection rose to 20,797.20 billion Tshs. In the 2008/2009 financial year, while estimated revenue collection per month was 27,399.00 billion Tshs, actual revenue collection per month rose to 29,884.60 billion Tshs. In the 2009/2010 financial year, while estimated revenue collection per month was 26,715.60 billion Tshs, actual revenue collection was 30,218.40 billion Tshs. In the 2010/2011 financial year, while estimated revenue collection per month was 35,533.50 billion Tshs per month, actual revenue collection per month went up to 38,406.90 billion Tshs billion Tshs.
In the 2011/2012 financial year, while estimated revenue collection per month was 40,104.60 billion Tshs per month, actual revenue collection was 59,409.70 billion Tshs. This really shows that taxpayer services and education in Ilala tax region have been fruitful as it is has been testified in table 4.6 above. Thus the revenue performance in Ilala Tax region for financial year 2007/2008 in was 113% per and 100% per annum respectively, while that of Domestic Revenue Department was 124% per month and 107 per year.

However the performance in year financial year 2011/2012 was 148% per month and 101 per year respectively. While that of Domestic Revenue Department was 156% per month and 111% per year respectively. The growth rate in Ilala Tax Region was 35% per month and 1% per year respectively, while Domestic Revenue Department was 32% per month and 4% per year respectively. This has indication of increase in revenue performance as result in increase in level of voluntary compliance due to taxpayer services and education on taxpayers’ rights and obligation in particular.

The Study further more revealed that Ilala Tax region Contributes half of the total revenue collected in the DRD department during the years under review. As revealed in Table 4.2, this study revealed that the impact of taxpayer services and education has been outstanding. In this regard, the study found that taxpayer services and education have positively impacted on the performance of the Ilala tax region.

This situation has been evidenced by the increase in the number of revenue collected which is one of factors that development stakeholders would always use to measure the performance of TRA through its attached departments at a given period of time. According to tax officers, for instance, while the estimated revenue per month in the 2007/2008 financial year was 18, 3329.10 billion Tshs, actual collections were 20, 797, 20 billion Tshs.

In the 2008/2009 financial year, the estimated revenue collections per month were 27, 399.00 billion Tshs; actual collections per month were 29, 884.60 billion Tshs. In the 2009/2010 financial year, the estimated revenue collections per month were 26,
715.60 billion Tshs; actual revenue collections were 30, 218.40 billion Tshs. In the 2010/2011 financial year, the estimated revenue collections per month were 35, 533.50 billion Tshs, actual collections were 38, 406.90 billion Tshs. Lastly, in the 2011/2012 financial year, estimated revenue collections per month were 40,104.60 billion Tshs; actual revenue collections were 59, 409.70 billion Tshs.

Performance per month in this year reached 148% (Tanzania Revenue Performance Reports, 2007/2012). These findings indicate how taxpayer services and education enhanced voluntary tax compliance on the part of taxpayers, hence, increase revenue collections.

4.2.5 Challenges Facing Taxpayer Education Services in Ilala Tax Region
This study finally explored the various challenges facing taxpayer education services in Ilala tax region. Respondents’ responses on challenges are presented in Figure 4.6 below.

Figure 4.5: Respondents’ Responses on Challenges Faced by TSE

![Figure 4.5: Respondents’ Responses on Challenges Faced by TSE](image)

Source: Field data, 2013

Figure 4.5 indicates that 27 respondents (34.6%) stated that language was among the challenges; 27 more respondents (34.6%) reported that limited knowledge of tax laws among taxpayers was another; 11 respondents (14.1%) mentioned competition; whereas 10 respondents (12.8%) mentioned inadequate number of taxpayer
education officials being another challenge. This implies that taxpayer services and education have been facing a number of challenges as mentioned herein.

As indicated in Figure 4.6, 27 respondents (34.6%) stated that language was among the challenges. In connection to this, respondents stated that many of them could not understand TRA taxpayer related instructions because of limited knowledge of English language. This observation matched with the education level of the respondents discussed above which revealed that 15.4% had completed primary education.

However, based on the same section this study found limited knowledge of English language was not the relevant factor for lack of voluntary tax compliance by the respondents given that 50% of them completed secondary education while 34.6% completed tertiary education. In order to promote voluntary tax compliance among respondents, this study urged those with secondary and tertiary education levels to help their friends, colleagues and relatives understand tax related laws as they were directed by the responsive authority so much so that they can in the near future voluntarily comply with tax issues.

Further, the study urged taxpayer education services officials to consider those who cannot read and write English by providing them with materials written in Swahili in order to increase their understanding of tax laws and their obligations as citizens and principal taxpayers of their beloved country because tax collection is a key component in government’s legitimacy.

10 respondents (12.8%) mentioned inadequate number of taxpayer education officials being another challenge. In connection to this, respondents, taxpayer education had not reached majority of taxpayers because of limited number of taxpayer education services in Ilala tax region. The inadequacy of taxpayer education services providers in the area, according to the respondents, has been evidenced by the fact that 42 respondents (53.8%) had never attended any taxpayer education
session though 16 respondents (20.5%) reported they had attended taxpayer education sessions.

This indicated that TRA needed to increase the number of taxpayer education services in Ilala tax region in order to be able to reach its sixth mandate stated in its Fourth Corporate Plan which states that TRA should ensure that it takes necessary measures to improve the standards of service given to taxpayers, with a view to improving the effectiveness of the revenue collection departments and maximising revenue collection. This study found that increasing the number of taxpayer education personnel is a fundamental component. Lastly, 11 respondents (14.1%) mentioned competition to be the last another challenge.

According to the respondents, majority of loyal taxpayers were facing stiff competition from non-compliance who were selling their illegally imported and locally produced products at relatively lower prices in . Consequently, some loyal taxpayers were tempted to join the group because nobody was ready to take them to the higher authorities for disciplinary measures. This meant that taxpayer services and education services have been facing a number of challenges as were discussed herein.

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Radio Station</th>
<th>Air Time Start Date</th>
<th>End Date</th>
<th>Time On Air</th>
</tr>
</thead>
</table>

Table 4.7 Report on Public address for Reminding Taxpayers about Tax Payments before Due Date
Table above shows taxpayers education seminars conducted through radio stations which is the mostly preferred means of communication however there is no report made through day time street advertising where many taxpayers would have been reached on time and at large. Most of the taxpayers interviewed said they have never been reached physically for education purpose which is the good indication of lack of education personnel in the region. However time also was challenge for the time which seminars conducted was not a right time for businessmen.

<table>
<thead>
<tr>
<th></th>
<th>FM</th>
<th>Date</th>
<th>Time</th>
<th>Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Clouds Fm</td>
<td>22/06/2011</td>
<td>26th June</td>
<td>On Power Breakfast And Jahazi</td>
</tr>
<tr>
<td>2</td>
<td>Radio One Fm</td>
<td>23rd June 2011</td>
<td>27th June 11</td>
<td>Early Bird And Early Nite</td>
</tr>
<tr>
<td>3</td>
<td>Tbc Taifa</td>
<td>23rd June 2011</td>
<td>27th June 11</td>
<td>Pre News Morning</td>
</tr>
<tr>
<td>4</td>
<td>Uhuru Fm</td>
<td>24th June 2011</td>
<td>28th June 11</td>
<td>Pre News Morning And Evening</td>
</tr>
</tbody>
</table>
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary, conclusion and recommendations of the study. The main objective of the study was to examine the contribution of taxpayer services and Education programs on revenue collection in Ilala tax region. Specifically, the study assessed the level of tax compliance among small and medium entrepreneurs, examined the impact of taxpayer education services on revenue collection, identified taxpayers’ awareness and perceptions of tax related issues, and explored the challenges faced by small and medium entrepreneurs in terms of taxpayer services and education. To that end, data were collected from 41 owners and workers of small and medium enterprises, 12 tax administrators, 10 Local Government Officials, 15 ordinary citizens.

5.2 Summary of the Study

The study aimed to investigate the contribution of taxpayer services and education on revenue collection. The following specific objectives were formulated: (i) To measure the level of tax compliance among small and medium entrepreneurs, (ii) To assess taxpayers’ awareness and perceptions about tax issues, (iii) To examine the impact of taxpayer services and education on revenue performance, (iv) To Identify the challenges facing taxpayer services and education in Ilala Tax Region. The study was conducted in Ilala Municipal where 78 respondents participated.

The following limitations which include limited understanding of the concept of taxpayer services and education among taxpayers and lack of willingness by some respondents to be interviewed for unknown reasons were encountered and solved. Both empirical and theoretical literature review were reviewed. Research design used was case study and research approach used was the pragmatic approach. This approach was used because it provided the researcher the freedom of combining qualitative and quantitative data bearing in mind that each method has its limitations.
and that the two approaches complement each other. Pragmatic approach was used given its advantage of allowing the triangulation of information.

Data collection methods and instruments used were interviews, questionnaires and field observation. Analysis of data was based on the specific objectives. Findings indicate that the level of compliance among taxpayers was significant. For instance, findings indicate that knew about Tanzania Revenue authority through television, radio broadcasting, TRA publications, seminars and friends, colleagues and relatives. In terms taxpayers’ awareness and perceptions about tax issues, findings indicate that taxpayer services and education enhanced taxpayers’ understanding about why they should pay taxes. In addition, findings indicate that taxpayers were aware of how their taxes were administered.

Findings indicate that taxpayer services and education have recorded a significant impact on revenue collection. In this regard, findings indicate that, there has been an increase in the number of new businesses registered at the three services centres. Findings further indicate that there has been a decrease in the number of offences raised at the three service centres of Upanga, Kariakoo and Buguruni. Last but not least, findings indicate that taxpayer services and education have been facing a number of challenges in Ilala tax region. Those challenges include inadequate number of taxpayer education personnel, language, competition from non-compliants, and lack of transport facilities to facilitate outreach programs.

5.3 Conclusion
Taxpayer services and education promote voluntary tax compliance among taxpayers in Ilala tax region. Taxpayers’ voluntary tax compliance is the patriotic kind of behaviour that Tanzania Revenue Authority headquarters in collaboration with Ilala tax region should promote in order to improve revenue collection in the area. TRA should strengthen the taxpayer services and education department so it can meet the expectations of the nation at large and those of taxpayers in particular.
Taxpayer services and education have done a good job in terms of increasing the number of new businesses which register for TIN and reducing the number of offences raised. Tanzania Revenue Authority should try its level best to ensure that the number of new registrations for TIN keeps growing one year after another, the number of tax avoiders decreases as well. This will enhance taxpayers and the general public’s confidence in this significant institution in the development of our country.

Taxpayer services and education programmes have been facing some a number of challenges. TRA should ensure that it works out all the identified challenges in order to taxpayer services and education to meet their intended objectives of promoting voluntary tax compliance, raising taxpayers’ awareness about tax laws which are all necessary for TRA to meet its intended objectives.

**Recommendations**

Tanzania Revenue Authority should do much more in order enhance voluntary compliance though taxpayer services and education programs in order to raise citizens’ a awareness of tax related Issues in particular taxpayers’ rights and obligations and the importance of paying tax to the government as well and its role in the development of our country economy. Currently there is still mixed idea of “quid pro quo” meaning that nothing goes for nothing among taxpayers in a sense that ,they would like to see direct return on their paid taxes in terms of social services. This will not only reduce the number of tax defaulters but will enable TRA meet its strategic themes of convenience, compliance, and continual improvement of its performance and that of the lives of taxpayers.

Tanzania Revenue Authority should increase the number of taxpayer education personnel in Ilala tax region. This will provide the opportunity for TRA not to rely on electronic media as the only means of communicating tax related issues but it will widen the coverage of taxpayer services and education programs through physical outreach by taxpayer education personnel across the regions in a sense that they get a
wide chance to clear out their taxpayer related problems. The empirical evidence through Ilala Tax region Quality Management Service reports indicated that only 10,000,000 taxpayers were physically educated out 60,000 taxpayers in the region over the period of three years.

Tanzania Revenue Authority should protect loyal taxpayers from unfair completion with non-compliant business traders in collaboration with other development stakeholders, like Fair Competition, Tanzania Foods and Drugs Authority, Tanzania Bureau of Standards and Business Registration Licensing Authority. This study found that loyal taxpayers are in stiff competition with those who avoid paying tax and sell their imported or locally produced products, which they acquire through illegal means (smuggling or black market) at relatively low prices.

All tax defaulters should be announced publicly once they are caught and list of them must be published in the public newspapers in order to reduce practise in the society, in order to save the would be government revenue loss.

There must be tax competition and monthly awards for royal taxpayers who demands purchase receipts as well as business traders who issue receipts for any sales made by them in with an view of enhancing voluntary tax compliance among citizens in order to create culture of issuing receipts. Contrary to that that fine must be imposed for both parties, business traders and taxpayers as well unlike now all fines are imposed against traders only.

Tanzania Revenue Authority (TRA) must ensure that all Tax laws and regulations are written in both English and Kiswahili Language to make it simple order to increase their understanding of tax laws and their obligations as responsible citizens and principal taxpayers of their beloved country because tax collection is a key component in government’s legitimacy.

Some of the laws are still in English language only that makes it difficult to enforce particularly when dealing with taxpayers who could not read and write English language.
More education is still needed to make citizens understand the importance of paying taxes to the Government. The basic problem in our country seems to be that too many people think taxes are inherently bad and raising taxes will hurt the economy. In along with that a very good economy depends on government ability to collect taxes and citizens willingness to pay tax voluntarily. Thus a good campaign for taxes is still needed. People should be educated enough to understand that, When you pay taxes, you invest in Tanzania. Since our taxes pay for schools, roads, bridges and dams, preserving natural resources, and various elements of safety: police, firemen, food, medicines and weather reports. They also fund our diplomacy with other countries.

We could do none of these things by ourselves. It’s a complicated world, which requires that we all work together and that our elected officials make sure that our taxes are spent both wisely and efficiently.

5.4.1 Suggestion for Further Research

This study focused on Ilala tax region and to small extent to Tanzania Revenue Authority Head Headquarters particularly Domestic Revenue Department only. Other studies should be conducted in the remaining tax regions of Dar es Salaam to compare the findings. The specific area which should be covered by other studies includes the contribution of taxpayer services and education in enhancing performance of the TRA at the regional level.
REFERENCES


Income Tax Act,2004
I, Nelson Donald, a student at Mzumbe University pursuing a Masters Degree of Business Administration (Corporate Management) I am conducting a study on the “The Contribution of Taxpayer Education on Revenue Collection in Tanzania: The Case of Selected SMEs in Ilala Tax Region.” I am therefore requesting your opinion concerning the topic under study by filling in this questionnaire. I would like to promise that the process is absolutely confidential.

Caution: Would you please put a tick across your answer.

Section I: Personal Information
1.1 Region ..............................................
1.2 Gender of Respondent
1. Male 2. Female
1.3 Education of Respondent
1. Primary 2. Secondary 3. Tertiary
2.0 Knowledge about TRA
2.1 Do you know anything about TRA?
1. Yes 2. No
2.2 How did you know about TRA?
1. Though Radio
2. Through Television
3. TRA Publications
4. Through seminars
5. Through business colleagues/friends/relatives

2.3 Is your business registered with TRA?
2.4 How long have you known TRA?
   1. Six months ago
   2. One year ago
   3. One year and half ago
   4. Three years and above

2.5 What kind of tax do you pay to the TRA?
   1. VAT
   2. Withholding Taxes
   3. Income Tax
   4. Import Duty

3.0 Awareness on Taxpayers education programs

3.1 Have you ever attended any taxpayer education training?
   1. Yes 2. No

3.2 How often does taxpayer education take place?
   1. Once a week
   2. Twice a week
   3. One a month
   4. Twice a month
   5. Once a year
   6. Twice a year

3.3 How many times have you attended taxpayer education seminar?
   1. Once
   2. Twice
   3. three times
   4. So many times

3.4 Where does taxpayer education take place?
   1. At the TRA regional office
   2. At the TRA Headquarters
   3. At the Municipal council
   4. At my premises
3.5 What is your own assessment of taxpayer education?
   1. Necessary
   2. Not necessary
   3. Time consuming
   4. Boring

3.6 How do you assess the strategies used by the TRA to educate the public on tax related Issues?
   1. Very adequate
   2. Adequate
   3. Moderate
   4. Inefficient

3.7 To what extent do you think taxpayer education has enabled you to become a loyal taxpayer?
   1. To a larger extent
   2. To a smaller extent
   3. Moderately
   4. Little
   5. Not at all

3.8 To what extent has taxpayer education helped you to know your tax rights and obligations?
   1. Very much
   2. Much
   3. Satisfactory
   4. Very little
   5. Not at all

3.9 Has there been any change after you have attended taxpayer education trainings?
   1. There has been a some changes
   2. There has been some changes but not significant
   3. There have never been any changes at all

4.0 Challenges faced by Taxpayers
4. Have you ever faced any challenge with your business?
1. Yes  
2. No  

4.2 What are the major challenges?
   1. Language
   2. Knowledge
   3. Competition
   4. Limited awareness of the tax laws.

4.3 What would you suggest to TRA on improving taxpayer education programs?

Thank You for your collaboration!
Questionnaires
Mzumbe University
Department of Business Administration
Questionnaire for TRA Staff

I, Nelson Donald, a student at Mzumbe University pursuing Degree of Master of Business Administration(Corporate Management), I am conducting a study on the “The Contribution of Taxpayer Education on Revenue Collection in Tanzania: The Case of Selected SMEs in Ilala Tax Region.” I am therefore requesting your opinion concerning the topic under study by filling in this questionnaire. I would like to promise that the process is absolutely confidential.

Caution: Would you please put a tick across your answer.

Section I: Personal Information
1. Gender
   1. Male   2. Female
2. Education
3. Work experience
   1.1-6 months  2. 7-12 months  3. 1-5 years  4. 6 years and above
4. What is your position?
   1. Taxpayer Education Officer
   2. Investigation Officer
   3. Tax Officer
   4. Customs Officer
5. Which taxpayers’ rights are commonly known by taxpayers?
   1. How much they should pay
   2. Getting tax information
   3. Fair assessment of their tax
   4. Why they are paying taxes
   5. Not at all
6. From your own experience which taxes are perceived by taxpayers to be:-
   (i) Fair and equitable
1. Import duties
2. Value Added Tax
3. Export Taxes
4. Withholding taxes
5. Income taxes
6. None of the above

(ii) A burden to their business
1. Income taxes
2. Value Added Taxes
3. Withholding taxes
4. Export taxes
5. Import duties
6. None of the above

7. Do you think the current taxation system is equitable and fair to all taxpayers in terms of:-

   (i) Tax structure

   (ii) Collection procedures

   (iii) Enforcement mechanism
1. Yes, to a larger extent
2. To some extent
3. Not that much
4. Not at all

8. From your experience, how can you rank the level of understanding of tax administration among taxpayers?
1. Very high
2. High
3. Moderate
4. Low
5. Very low
9. Do you think the taxpayer education provided by TRA has enabled taxpayers to assess their tax liability adequately?
   1. Yes, to a larger extent
   2. To some extent
   3. Not that much
   4. Not at all

10. Do you think the taxpayer education provided by TRA promotes voluntary tax compliance?
    1. Very relevant and adequate
    2. Relevant and adequate
    3. Fairly relevant and adequate
    4. Not relevant at all

11. Do you think there has been any change of attitudes among taxpayers after introduction of taxpayer education?
    1. There has been huge change of attitude
    2. There has been significant change of attitude
    3. There has been some change but not significant
    4. There has been no change at all.

12. How can you rank the level of cooperation shown by taxpayers?
    1. High
    2. Very high
    3. Moderate
    4. Low
    5. Very low

13. What are the challenges facing taxpayer education services?
    ....................................................................................................................................................
    ....................................................................................................................................................

14. What do you think should be done to improve taxpayer education?
    ....................................................................................................................................................
    ....................................................................................................................................................
    ....................................................................................................................................................
    ....................................................................................................................................................
INTERVIEW QUESTIONS FOR TRA STAFF AND LOCAL GOVERNMENT OFFICIALS

(A) Personal Particulars:

(i) Gender: Male (……) Female (……)

(ii) Organization:.................................................................

(iii) Position:........................................................................

(B) Interview Questions:-

1. Do you know anything about TRA?
   (a) Yes (……) (b) No. (……)

2. Is there any tax procedure laid down by TRA to enhance voluntary tax compliance?
   (a) Yes (……) (b) No. (……)

3. Do taxpayer services and education programs have any impact on revenue performance?
   (a) Yes ( ) (b) No……… ( ) (c) Not always ( )

4. To what extent TRA increased the number of new registrations for TIN?
   (a) Larger ( ) (b) Smaller ( ) (c) not at all

5. To what extent has TRA reduced the number of tax related offences?
   (a) Larger ( ) (b) Smaller ( ) (c) Not at all

6. Have Taxpayer services and education enable taxpayers understand their tax rights and obligations?
   (a) Yes (b) No

7. Has there been any increase in the revenue collection of Ilala tax region after the implementation of taxpayer services and education programs?
   (a) Yes (b) No

8. What are the specific challenges facing taxpayer services and education programs in Ilala tax region?

9. What would you suggest to improve taxpayer services and education programs.

.................................................................................................................