

**ADMINISTRATION OF VALUE ADDED TAX:
A CASE OF MBEYA CITY IN MBEYA REGION**

**ADMINISTRATION OF VALUE ADDED TAX:
A CASE OF MBEYA CITY IN MBEYA REGION**

**By
Paul Walalaze**

**A Dissertation Submitted in Partial Fulfilment of the Requirements for the
award of the Degree of Master of Business Administration (MBA) in Corporate
Management of Mzumbe University**

2017

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled “*Administration of Value Added Tax: The Case Study of Mbeya City in Mbeya Region*” in partial fulfilment of the requirements for the award of the degree of Master of Business Administration (MBA) in Corporate Management of Mzumbe University.

Major Supervisor

Internal Examiner

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ACKNOWLEDGEMENT

This work is the end product of the contribution of several individuals. The dissertation could not have been completed without the support of many people.

First of all I thank Lord my God for enabling me in all ways to achieve this stage.

Secondly, my special thanks also go to my supervisor, Dr Gustav Kunkuta for his total devotion, counseling, guidance, patient, sacrifice and genuine critics to make this work reach its current status. He played a great role from the period I was preparing a research proposal, and used much of his time assisting me to ensure that the present report was in the required shape. He devoted much in his precious time to deeply read my drafts and recommend for several improvements.

Thirdly, I would like to convey my sincere thanks to TRA management for allowing me to carry out this study in their premises. Fourthly, I am deeply indebted to my lovely wife, Grace Obel for the endurance and perseverance to stay without the love of her husband while pursuing my Master degree.

Finally, I would like to stress that, the entire above are no way associated with any errors that may be found in this work, all the shortcomings of this study are entirely the author's responsibility.

DEDICATION

This dissertation report is dedicated to my lovely wife, Grace Obel and my Parents, Mr & Mrs Walalaze wherever they are.

ABSTARCT

This study aimed at assessing the administration of Value added tax (VAT) in Tanzania with reference to Mbeya City. This main objective was achieved with the following specific objectives: to identify the challenges facing business traders to register themselves voluntarily with VAT, examination of obstacles facing business traders in collecting the 18% from their customers, exploration of the factors making business traders to be reluctant in using EFDs, investigation of whether all eligible traders for VAT are actually registered and examining the knowledge of business owners on tax payment. The study used questionnaires, interviews and relevant documents to collect primary and secondary data.

The study found that VAT implementation in Mbeya City of Mbeya Region has been facing a combination of challenges (problems) such as: misunderstanding of the public in general and business community in particular regarding the VAT laws. It was further found that there was resistance against registrations for VAT by some traders. Moreover, it was found that some traders provide understated financial statements, while others did not issue invoice or issued illegal invoices. It is thus concluded that there are various problems in administration of value added tax in Mbeya City. On the basis of these findings, the study recommends that the authority should train the taxpayers about the rules and regulations of VAT continuously and recruit new employees.

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LIST OF ABBREVIATIONS

ABA	American Bar Association
DRD	Domestic Revenue Department
EAC	East Africa Community
EC	European Communities
EFD	Electronic Fiscal Devices
EFDM	Electronic Fiscal Device Management System
EFP	Electronic Fiscal Printer
ESD	Electronic Signature
ETR	Electronic Tax Register
FIRS	Federal Internal Revenues System
IMF	International Monetary Fund
IT	Information Technology.
ITEFDR	Income Tax (Electronic Fiscal Devices)
KRA	Kenya Revenue Authority
LTD	Large Taxpayers Department
MDGs	Millennium Development Goals
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
NSGRP	National Strategy for Growth and Reduction of Poverty
OECD	Organisation for Economic Co-operation and Development
PC	Personal Computer (e.g. Laptop)
SPSS	Statistical Package for Social Sciences
TGCVPN	Taxpayer's Guide Complied VAT Public Notice
TRA	Tanzania Revenue Authority
TTCP	TRA third corporate plan
UK	United Kingdom
URT	United Republic of Tanzania

US	United States
VAT	Value Added Tax
WB	World Bank

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Administration of value added tax (VAT) has been one of the major problems that face tax officials and law makers in Tanzania and other developing countries. In meantime, the Government has been formulating and implementing various measures to make sure that there are efficient ways to administer VAT in order to simplify its collections and hence increase VAT collections and other taxes in order to enable the Government finance its various social and economic development programmes. VAT is one of the non direct taxes charged on expenditure where the worth (value) of goods and services raises as they amend hands in course of production, distribution and ultimate sales to the consumers. Tanzania in 1999 implemented the VAT primarily to raise more revenue, modernizing its tax administration and encourage investment and trades. However, facing a couple of VAT administrations problems, the Tanzania Revenues Authority (TRA) couldn't collect sufficient revenue from the proper implementation of the VAT. TRA was established under TRA Act cap 399 and became operational in July, 1996 with among other functions is to assess, collect and account government revenue and promote voluntary tax compliance (URT, 1995).

VAT administration has been facing a combination of problems in Tanzania, which make the amount of VAT collected to be lower as compared to the actual amounts that could have been realized. Despite various policy measures being implemented by the Government and TRA officials such as increasing educational awareness campaign among VAT registered businessmen, increasing VAT audit and amending some VAT laws such as reducing VAT rate from 20 percent to the current 18 percent, VAT administration continue to be of major problems in Tanzanian taxation system and the

whole economy, which has resulted into frequent conflicts between traders on one hand and TRA officials and Government on the other hand (URT, 2012).

Its genesis can be traced away back when Tanganyika was made a Germany colon and later a British protectorate. The colonizer used taxation as a tool of obtaining cheap labour. Hut and Poll taxes were introduced in Tanganyika by German in 1912. The poll tax was personal tax payable by male native person who did not own a hut.

The collapse of EAC in 1977 brought shock waves on customs and sales tax revenue generation. In order that revenue generation is not undermined by breakdown of EAC, the Tanzania government adopted the pre-breakdown transitional administrative set-up for the period 1977-1981. The only contrast between pre-breakdown to post-breakdown set-ups was that it was the Tanzania Controller General now auditing the revenue account, not the East African Community Auditor General (URT, 2011).

Then it came Mtei commission report, which led to the formation of the TRA in 1995 by the Act of Parliament No. 11. It was created in order to carry the function of government beneath one umbrella; communicate some level of independence to the function with anticipation of rising revenue collection, enhancing deliberate obedience, reducing collection costs, broaden the tax base and controlling evasion and fraud.

The upcoming of TRA is formed by a numeral of social and economic factors and construct on millennium development goal (MDGs) particularly goal one of “eradicating extreme poverty and hunger” and first aspect of National Vision 2025 of ensuring “high quality livelihood”. This is implemented via National Strategy for

Growth and cutback of Poverty (NSGRP) commonly known as MKUKUTA for mainland and MKUZA for Zanzibar (TGCVPN, 2010).

Owing to persistence budget deficit in the 1980s, the president of URT in October 1989 appointed a Commission of Enquiry into public revenue, taxation and expenditure to undertake an in-depth study of the country fiscal problem and suggest remedies.

The commission submitted its report to the president in December, 1991. The introduction of VAT in Tanzania was one of the major recommendations of the commission. The government of URT accepted this recommendation and in May, 1992 formerly reached a decision to introduce VAT in Tanzania. Since then, various preparations were carried out including the enacted of the VAT law in August, 1997 (TGCVPN, 2000).

VAT is an indirect expenditure levy originated on the value added to a product at each spot in the series of manufacture and allocation. It is a spending tax for the reason that it is eventually borne by the customer, who pays a flat percentage of the ultimate sale price of a product. A VAT is charged on the variation (difference) between the purchase cost of an asset and the price at which it can be sold (i.e., the amount of value added to it). Producers and distributors normally pass the cost of the VAT on to the ultimate customer in the form of price increases. Tax is additional to a product's price each time it changes hands until deliverance to the consumer takes place, when the last tax is remunerated.

VAT cascade beneath the universal class of expenditure toll, implying that levy are compensated on what customer purchase rather than on their income, investments, or

savings. VAT moreover has been regarded as a kind of state sales tax, although it operates in very different way. Sales tax is obligatory on the total sales (URT, 1999). VAT, charge forced on business at all stages of the manufacture and production of a good or service and focused on the augment in price, or value, offered by each stage. For the reason that the customer finally pays a higher price for the taxed commodity, a VAT is fundamentally a concealed sales tax. VAT was initially established in France (1954); it is currently a main division of the tax arrangement of the majority of Western European nations as well as the rest countries of the continents throughout the world.

In 1998/1999 Tanzania joined more than 90 countries in the world which were operating the Value Added Tax (VAT) system. In mainland Tanzania, the VAT system is administered under the Value Added Tax Act No. 24 of 1997. As a result of the introduction of VAT in mainland Tanzania, The sale Tax Act, 1976 was repealed while Hotel Levy Act 1972, the Stamp Duty Act, 1972 were changed so as to keep out registered from paying the hotel levy and stamp duty on receipt.

The main reason for introducing VAT with among other reasons is to broaden tax base. Another reason is to achieve economic impartiality, to encourage exports, and to accomplish its managerial return (TGCVPN, 2000).

VAT was primarily initiated to restore the sales tax, which was not capable to produce enough income as it was thin based. As foodstuff supplies are usually zero-rated and the majority of farming inputs are exempted, VAT has not brought numerous new groups into the tax net (Fjeldstad, 2003). In order to assist the gathering procedure, the VAT sill was doubled, with a parallel alteration in the presumptive tax, on 1 July 2004 (IMF, 2004).

By 2004, Income Tax Act was launched. It required VAT tax payers to keep proper records of their business and TRA operations was integrated with the aim of advance effectiveness and usefulness by offering services from a sole office for all kind of taxes at a particular call by taxpayers (TRA, 2008). The characteristic of this objective was the incorporation of VAT and Income Tax Operations. This has been attained via the introduction of the huge Taxpayers Department (LTD) and the Domestic Revenue Department (DRD). TRA has resolute to launch the EFD as predetermined in the Value Added Tax (Electronic Fiscal Devices) Regulations 2010, as a gauge to progress VAT observance and restrain revenue outflow. Tax Identification number was introduced in 2009 with an objective of successful implementation and management of VAT.

In the year 2011/12, the Government continued with amendments in the structure for collecting home revenues from VAT tax by taking administrative and strategy actions, together with altering tax rates and changing tax laws. Though, regardless of complete amendments, the VAT tax system in Tanzania residue complex and unclear (WB, 2012).

This is reflected by the cumulative challenge encountered by TRA official in administration of VAT in Mbeya city as shown in Table 1.1 below:

Table 1.1 Number of Challenges Facing TRA on VAT Administration in Mbeya City

FINANCIAL YEAR	NUMBER MONTHLY VAT RETURN REJECTED	NUMBER OF VAT OBJECTIONS	NUMBER OF OFFENCES ISSUED ON NON ISSUENCE RECEIPT	NUMBER OF TRADE R FAIL TO PAY TAX ON TIME	NUMBER OF CASES TAKEN TO TAX APPEL BOARD	NUMBER OF STRIKES ON OPPOSITION USES OF EFD	TOTAL
2010/2011	50	9	52	45	1	0	157
2011/2012	40	20	50	56	0	0	166
2012/2013	100	23	100	60	3	0	286
2013/2014	192	12	120	100	5	0	429
2014/2015	216	22	156	90	7	0	491
2015/2016	240	30	208	156	7	0	641

Source: TRA Mbeya 2017

From Table 1.1 it is shown that in each financial year the challenge are increasing, this is not a good indicator in VAT administration because they may increase the cost of VAT administration.

Compared to its neighbour countries, the revenue performance of Tanzania's VAT tax structure leftovers (remain) deprived due to a big difference between the government's huge expenditure and stagnant revenue.

VAT administration in Mbeya City is under the department of domestic revenues. Also, with the matters of VAT administration, there is also collaboration with taxpayers education departments whereby the taxpayers disseminate important

educational services about VAT and other taxes to the businessmen and general public in Mbeya City and other parts of Mbeya Region.

Performance of VAT collections in Mbeya City has not been good due to the problem of administrations facing VAT. These are summarized in the Tables 1.2 below

Table 1.2: Projections and Collections of VAT in Mbeya City 2010-2015

YEAR	PROJECTION	ACTUAL COLLECTION	PERFORMANCE RATE %
2010/2011	3.5bil	3.57bil	102
2011/2012	4.9bil	4.0bil	82
2012/2013	6.1bil	4.6bil	76
2013/2014	7.93bil	5.8bil	73
2014/2015	10.6bil	8.48bil	80
2015/2016	14bil	10.5bil	75

Source: TRA Mbeya, 2017

Table 1.2 depicts the trend of revenue performance for the financial year 2010/2011-2015/2016. Overall result show that the VAT is not performing well. This may be caused by the following factors in administration of the VAT which include Complexity of VAT system, low level of VAT knowledge, unequal treatment among the traders, high compliance cost, tax payment culture and tax evasion culture as depicted in Table 1.3

Table 1.3: Obstacles Facing Traders to Collect 18% on VAT

YEA R	CULTUR E OBSTAC LE	FAIRNE SS OBSTA CLES	EDUCA TION OBSTA CLE	TAX EVASION CULTUR E	COST OBST ACLE	LACK OF PURCHAS ING INVOICE	TOTAL OBSTLES
2011/ 2012	33	93	297	913	95	105	1535
2012/ 2013	45	134	286	804	120	80	1469
2013/ 2014	56	196	307	714	150	155	1578
2014/ 2015	71	201	516	703	150	185	1826
2015/ 2016	89	311	451	681	198	190	1920

Source: TRA Mbeya, 2017

Table 1.3 depicts the trend of hindrance facing traders in collection of VAT for the financial year 2011/2012-2015/2016. It is not good indicator in VAT management because they are increasing in each year.

1.2 Statement of the Problem

Value Added Tax (VAT) was introduced by the Government of Tanzania to boost the income of the country. The aim was to enable the country raise its own sources of income rather than depending too much on donor support for her development. According to VAT system, business owners whose income from businesses approximately reaches TZS ten million (TZS 10m) for three consecutive months or reaches TZS 40 million per annum, are supposed to register themselves with VAT within 30 days from the time they realised that income. Failure to register themselves voluntarily, would mean compulsory registration as directed by the commissioner responsible for such taxes.

According to VAT system, once a business owner has registered himself/herself, he/she will be required to collect from his/her customers 18 percent of the sales made

in a particular month. The amount collected is supposed to be remitted voluntarily to Tanzania Revenue Authority (TRA). The 18% collected tax is supposed to be remitted to TRA together with a statement showing the amount charged to him/her while buying goods for resale to customers. However, experience has shown that most business owners do not voluntarily collect the 18% tax from their customers despite the possibility of being subjected to severe punishment for not collecting. The government has been incurring a lot of expenses to educate business owners regarding their role in collecting that income from customers.

To verify the sales of business owners, the government in 2010 introduced the use of Electronic Fiscal Devices (EFDs) for business owners who are registered with VAT. Later on, the government in her effort to register more business traders with VAT, it directed the use of EFDs to be applicable to all business traders whose sales equal or exceeds TZS 14 million annually. The expectation of the government was that once the traders adopt the system, it can easily identify all those who are eligible for VAT registration and hence increase the government revenue. Unfortunately, traders in Mbeya City were against this idea of using EFDs to the extent that they went on strike on 1st October, 2013.

On this position, a number of questions begin which are tranquil unrequited (unanswered) why traders at Mbeya are not involved to adhere to the VAT system? Is the VAT law very difficult? Is the VAT rate high? Is the enforcement low? What about the observance expenses of VAT for traders at Mbeya? Are compliance costs of VAT for traders very high? Why VAT, evasion and VAT disobedience are higher in Mbeya? Why traders at Mbeya are not interested with EFD Machine?

Failure to register voluntarily with VAT denies the government significant revenue, to the extent that it may fail to achieve the Millennium Development Goals by 2015 and

the set National Vision 2025. It is not clear why business traders are reluctant to voluntarily register with VAT.

1.3 Research Objectives

The general objective of the study was to assess the administration of VAT in Mbeya City.

Distinctively, the study planned to:

- i) Identify the challenges facing business traders to register themselves voluntarily with VAT.
- ii) Examine the obstacles facing business traders in collecting the 18% from their customers.
- iii) Explore the factors that make business traders to be reluctant in using EFDs.
- iv) Investigate whether all eligible traders for VAT are actually registered.
- v) Examine the knowledge of business owners on tax payment.

1.4 Research Questions

- (i) What are the challenges facing traders to register themselves voluntarily in VAT system?
- (ii) What hindrances are encountered by traders in collecting 18% from their customers?
- (iii) Which factors cause traders to be reluctant in using EFD machines?
- (iv) Are all eligible traders registered for VAT?
- (v) Does business owners have enough knowledge on tax payment?

1.5 Significance of the Study

The finding of this study on administration of VAT in Mbeya region is not only of academic interest, it is also essential for policy makers in enhancing:

- i) Voluntary tax compliance
- ii) broaden the tax base
- iii) reduce cost of enforcement hence revenue growth that will enable government to eradicate extreme poverty and hunger and first attribute of National Vision 2025

1.6 Scope of the Study

Mbeya City is the centre of Mbeya Region and its economy is dominated by small and medium scale business such as hotels, groceries, bars, shops, manufacturing industries, service sectors such as health, education and security. These businesses form the major VAT administration component in Mbeya City.

Figure 2 The Map of Mbeya City



Source: Mbeya City, 2017

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review will cover definition of the key concepts i.e. Value Added Tax (VAT), tax compliance and determinants factors and motivation. Furthermore, it will cover theoretical review, empirical review and conceptual framework.

2.2 Definition of Key Concepts

Key Terms: Value Added Tax (VAT), Taxpayers Service, Tax compliance, Non Compliance, Compliance Cost and Electronic Fiscal Device Machine (EFD).

2.2.1 Value Added Tax (VAT)

The main characteristic of the VAT are that it is a wide-based tax charged at several levels of manufacture, with significantly levy on inputs credited alongside taxes on output. That is, while sellers are obligatory to pay the tax on all their sales, they can also claim a credit for taxes that they have been imposed on their inputs. The advantages of this is that income is protected by being collected during the procedure of production (unlike a retail sales tax) but with no distortion in production decisions (as a turnover tax does).

Value added tax (VAT) is of a variety of kind of indirect taxes which has "tax credit" value. Finally, VAT is charged on broad expenditure overheads and is remunerated by consumer (end user). It should be eminent and noted that VAT is not paid by entrepreneurs or producers (Sujjapongse, 2005). The variation between value of goods and obtainable services with value of purchased or collected goods and services in a particular time (Ya'ghoubnejad, 2008).

Value added tax (VAT) in many countries has been practically used as a new revenue basis with the plan of rising government returns. Due to immensity of goods and

service transacted and exchanged in each country and since value added in each phase will be subject to value added tax, it is understandable that tax has huge purpose than any other tax. (Boskim *et al*, 1980).

2.2.2 Taxpayer Service

Taxpayer service is thus a set of appraise applied by the tax administrations that are intended to help taxpayers in abiding with the tax law.

2.2.3 Compliance

Compliance is “the timely filling and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action” where taxpayers either voluntarily or involuntarily abide by the requirements of the tax laws. These tax laws are intended to achieve either revenue objectives or non-revenue objectives of taxation (ABA, 1987).

2.2.4 Noncompliance

Noncompliance is the malfunction to file return, report income, compute deductions correctly as well as reimburse suitably and on moment. Taxpayers either voluntarily or involuntarily abide by the requirements of the tax laws (Casanegra de Jantscher, 1982).

2.2.5 Compliance Cost

Compliance cost thus refer to “the value of the time spent on task related to filling tax return, as well as to any expenditure on goods and services for that same purpose” (Blumenthal and Slemrod, 1992).

2.2.6 Electronic Fiscal Devices (EFDs)

Electronic Fiscal Device (EFD) means a “machine designed for use in business for efficient management controls in areas of sales analysis and stock control system and

which conforms to the requirements specified by the laws which include Electronic Tax Register, electronic fiscal printer and electronic signature device” (ITEFDR, 2012).

2.3 Theoretical Literature Reviews

2.3.1 Types of VAT

In the modern world there are four types of VAT, namely, consumption, production, income and wage VAT.

2.3.1.1 Consumption VAT

In consumption VAT, the firm is permitted to subtract from the gross value of its commodities not only the non-capital input bought from other firms but also the assets equipment bought. Thus, in consumption type VAT, tax base is the difference between gross value and total value of inputs purchased (capital and non-capital).

2.3.1.2 Production VAT

In the manufacture VAT, the cost of the inputs bought by the company from other company is not deducted in complete. Sorely the price of non-capital purchase is deducted. Furthermore, no depreciation is permitted on the purchase of capital goods even in subsequent years. Thus, the tax base in production type VAT is equal to gross value less value of non-capital goods purchased.

2.3.1.3 Income VAT

In income VAT, the corporation is acceptable to subtract the depreciation on the capital goods (during the year) separately from the complete value of its non-capital bought. At this point, corporation cannot subtract the whole cost of the capital goods bought in the year but they can subtract the relevant amount of depreciation related to that year.

2.3.1.4 Wage VAT

In wage VAT, the firm is able to deduct the net earnings from its capital in order to arrive at the tax base. It is unlikely to be used for taxation by any government.

i) Principal Components of VAT

There are two principal components of VAT. These are Input VAT and Output VAT.

ii) Input VAT

Input VAT is the VAT payable by a taxable person on goods and services supplied to him and on goods which he imports for the purposes of a business carried on by him and for which registered for VAT. Viewing the concept from the other angle, it is the VAT payable on purchase of taxable supply including capital goods and operating and administrative expenditures. For a VAT registered person (taxable person) input VAT is not a component of the cost of purchase/import rather the registered person is entitled to take input VAT deduction against the VAT charge on sales or is recoverable from the Tax Authority. Hence, input VAT is a receivable for a registered person.

iii) Output VAT

Output VAT is the VAT collectible by a taxable person at the time of sale of taxable goods and services (supply). It is the VAT chargeable on sales of taxable goods and services whenever a taxable person supplies taxable goods or services to other person. VAT must be included in the price charged for those taxable goods or services. This is the output VAT for the supplier. Output VAT is not a component of the sales price rather it is a liability to the taxable person which is collected on behalf of the Tax Authority.

The logic of VAT is that during a VAT accounting period, a VAT registered person pays VAT on its purchases, which is called input VAT; and the person charges VAT on its sales, which is called output VAT. At the end of the VAT accounting period, the difference between the amount of output tax and input tax represents either VAT payable to the Tax Authority or VAT Refundable from the Tax Authority. If the output VAT exceeds the input VAT, the VAT registered person has collected more tax from its sales and, thus, the excess VAT collected (net VAT) must be paid to the Tax Authority at the end of the VAT accounting period. They further point that if the input VAT exceeds the output VAT, the difference results in VAT refundable or VAT credit. A VAT credit may be allowed to be carried forward and offset against periods output. A refund may be made by the government after that if input VAT still exceeds output VAT (URT, 1999).

2.3.2 Introduction of Compliance

The matter of tax observance is the centre of a significant body of hypothetical and realistic examination. Many monograph, commentaries and tax reports have dwelled not only on tax structure of countries contemplating implementing tax reform strategies, but also on the most efficient ways of improving tax compliance.

This trend can be explained by the fact that noncompliance has developed into a crucial difficulty in both developed and developing countries and it must be addressed if the expected results of tax reform are to be realized.

Such evidence demonstrates the need for a correlation between tax policy formulation and implementation (Surrey, 1967; Jenkins, 1991).

2.3.2.1 The Concept of Voluntary Compliance

“No one likes taxes. Citizens like not to disburse them. States do not like to charge them. Except taxes charge are essential mutually to funding preferred government expenditure in a non-inflationary approach and as well as to make certain that the weight of disburse for such expenditure is reasonably disseminated. Though essential, levies enforce genuine expenses on the public. Superior tax policy seeks to reduce those expenses (Bird, 2003).

Silvani and Baer (1997:11) describe intentional observance (voluntary compliance) as the appropriate, well-timed filing and reporting of required tax information, the accurate self-assessment of taxes due, and the well-timed disbursement of those taxes with no enforcement deed.

Wang (2010) finalize that taxpayers’ self-confidence and assurance is mostly reliant on – the effectiveness and efficiency of management services, i.e., whether the services offered are cost-efficient (i.e. seeming to stand for “value for money”) and if the returns is suitably used up in a visible, clear and responsible approach; and the seeming rank of deception and fraud in the state, and whether state is grave in fighting deception and bribery, fraud and corruption.

In the surroundings and atmosphere where taxpayers normally believe state voluntary tax observance and conformity is more obvious. With reference to the local government level in Tanzania, Fjeldstad (2006:24) states that – “taxpayers’ unwillingness to pay is not perceived to be the main problem in revenue collection. The survey data point at misuse of tax revenues by council staff (particularly by tax collectors) and councilors as the major problem. Hence, stronger punishment of

council staff and councilors whose mismanagement is detected is perceived to be a key measure for improving the present system.”

In both income and VAT system, the tax authorities have tended to administer tax system in a manner that motivate and expecting taxpayers to person- review their tax charge and then submit the appropriate sum of tax to the state. This is a theoretically sound technique since the taxpayer has improved information on his source income and it is relatively expensive for the government to assess every taxpayer’s return.

Nevertheless, independent-review must go along with the mechanisms that make certain of high rank of compliance. This measure such as taxpayer service and enforcement must concentrate and speak on the personality condition that determines the intensity of tax compliance in population.

Self-assessment is combined with high level of taxpayer service. This approach proposed that voluntary observance by taxpayer would be more successful and resourceful (that is, would have lesser managerial and conformity expenses). The tax administration should put superior stress on supporting taxpayers in observing their responsibility and obligation.

2.3.2.2 Tax Compliance Determinants

Tax observance is conformity with statement obligation and requirement device conditions and clause in a manner that all expenses of taxpayers oblige submitting tax statement unsuitable moment. Furthermore, tax statement must account for tax burden exactly according to sum interior returns (revenue), court policy and decisions that are conducted at the moment of registering statement. The main objective of a return (revenue) power (authority) is to assemble the taxes and levies due in agreement with the rule and to do this in such a way that will maintain self-confidence in the tax structure and its management (Roth *et al.*, 1989).

The events and doings of taxpayers whether due to unawareness, negligence, irresponsibility, or purposeful avoidance as well as loop holes and deficiency in a tax management imply that instances of collapse to obey with the law are unavoidable. Consequently, tax management is supposed to have in place strategies and system to guarantee that non-compliance with tax law is reserved to a lowest (OECD, 2004).

Returns system (tax authorities) has a vital responsibility (and vested interest) in making sure those taxpayers and other collies understand their obligations under the revenue laws. For their part, taxpayers and others have an important role to play in meeting their obligations of complied with the law. Compliance will essentially relate to the extent to which a taxpayer meets these obligations. These broad categories of taxpayer obligation are: registration in the system, timely filing or lodgement of requisite taxation information, reporting of complete and accurate information (incorporating good record keeping); and payment of taxation obligations on time (OECD, 2004)

However, the concept of voluntary compliance cannot be adequately examined without sufficient prior understanding of the general framework of taxpayer compliance.

Melia (1987) has described four sets of belief or doctrine drive: financial structure example, improbability structure example, standards of observance and apathy model.

i) Economical Models

Allingham and Sandmo (1972) point out that for the rational taxpayers; their main goals are to maximize their financial position. Consequently, they will endlessly try to escape taxes at any time the profit from delinquency compensate the threat of revealing and penalty. Becker (1968) giving special prominence that, in broad dependent person engaged in an unlawful behaviour not for the reason that their

fundamental reasons vary from those of “honest” citizens, however for the reason that their cost and benefit disagree. The monetary and financial investigation as a result finalize that because observance decision are focused on an measurement of cost and benefit, broad possibility of finding for non-compliance and big fines for exposed violators would motivate better compliance, hence increase tax revenue streams.

ii) Uncertainty Model

These models are an additional room of the financial and economic model foundation. While retaining the hypothesis that rational taxpayers seek to maximize their economic interest, adherence to this model gives out that in the actual world, information concerning punishment requirements and the threat of audit is unsatisfactory. As a result, current or prospective taxpayers are supposed to concentrate further on the apparent, relatively than the concrete, jeopardy of discovery and punishment (Friedland *et al.*, 1982).

iii) Norms of Compliance

These are standards of taxpayer behaviour that are caused and influenced by the tax traditions. There is a cause and motive to consider and trust that public avoidance may be regarded incorrect and corrupt in some societies, it may be considered as communally reasonable in other society (Warnery and Walerud, 1982).

In nations with a custom and behaviour of high observance with the tax law, the minority taxpayers would undertake and try tax evasion approaches. Nevertheless, practical verification and facts seems to propose that taxpayer compliance and conformity with the law is motivated by their perception regarding if or not other taxpayers are compiled (Lewis, 1982), particularly when they sense that the charges they disburse are planned worth purpose (Kenney, 1980).

iv) The Inertia model

Once a person on a regular basis involved in certain performs, he has petite encouragement to transform. Through similar indication, taxpayers who comprise and possess record of falling in line with the law, they do not likely to escape their responsibilities and accountabilities. This is not due to high risk detection or some overarching ethical essential, but quite for the reason that they contain nurtured routine of fulfilment (Spicer, 1986). The psychological underpinnings of the inertia theory are deep-seated in Festinger's theory of cognitive dissonance (Festinger, 1957), which states that "When an individual holds inconsistent beliefs or acts in a way inconsistency with his beliefs, unpleasant feeling arise. In turn these feelings push the individual to change either his belief or his behaviour, so that one is consistent with the other" (Melia, 1987). The implication is that once a taxpayer begins to engage in no-compliant behaviour, his commitment to obey the law declines and his sense of the impropriety of the act fade. The consequence is that inertia sets it and it becomes increasingly hard for him to transform his routine (Spicer, 1986).

These hypotheses have enormous realistic implication for both policy makers and tax administrators. Those aspects of the assumption observance are very significant because they confront normative assumption regarding taxpayer behaviour, and are, result of, vital to the blueprint of fresh strategy initiatives that explain compliance problem straight. At various points of the discussion of these theories are drawn on in order to address the problem that they highlight and to suggest some practical solution relating to the improvement of voluntary compliance by taxpayers.

v) Inflationary Effects

Frequently articulated based or apprehension in nations with no a VAT is that the beginning of the tax would locate and place in the movement spiral in which the tax,

prices and gross return would nourish on each other, that is, a VAT would be inflationary. This analysis frequently puzzles a once charge raise with a frequent augment in cost. In broad learn in relation to the latent effect on cost of commence a VAT or altering its fee rate arrangement. Tait (1990) establish that in 22 out of 35 cases appraise, the beginning of the VAT had slight or no consequence o the customer cost (price) index. In 8 cases the introduction of VAT was connected with a once-and-for-all or uphill rising shift in the consumer price index. Merely, one of these cases could this transfer be thought to donate to stepping up in the pace of augment of the customer price index.

Regardless of fee increase or not depend on whether the tax is conceded in advance or approved rear in the form of lesser aspect expenditure. What takes place will depend on the reaction of the Central Bank. A helpful financial strategy would permit customer cost to augment and enlarge by the similar of the tax although a stiff rule would compel aspect expenses to drop (Metcalf, 1995). Price controls have also been utilized efficiently to reduce the possible price-wage speeding up of price rises after the VAT preamble for example in, Austria, France, South Korea, Netherlands and Norway (Tait, 1990).

2.3.3 An Appropriate Environment for Tax Compliance and Revenue Enhancement

Regardless of how fine tax policy is (in hypothesis), or how excellent tax administration is (in application), fine consequences are merely feasible in a suitable surroundings (Bird, 2003). Hence, as an initial walk and step are significant to realize the atmosphere inside the appropriate authority to be well thought-out. In this circumstance there are a variety of related “environments” or aspect, that is the political environment , existing financial atmosphere, accessible economic rule, the legitimate and lawful (i.e. rule of law) environment, the tax administration ,taxpayers as well as or probably jointly in state actuality, that may affect on the tax compliance.

These aspects are usually interconnected and mutually dependent. For instance, political changes or transformation to the monetary wellbeing of general public will consequence on how taxpayers react.

2.3.3.1 Political Environment

Bird (2003) properly state the following: “Abundant experience around the world has made it clear that the single most important ingredient for effective tax administration is clear recognition at the highest levels of politics of the importance of the task and the willingness to support good administrative practices even if political friends are hurt (Bird and Casanegra de Jantscher, 1992). Unfortunately, very few developing countries have so far proved able to leap this initial hurdle.”

As Bird (2003) remarks, “the widespread reluctance to collect taxes efficiently and effectively without fear or favor may be understandable in countries, many of which are somewhat fragile politically, but without major changes in this respect, no viable long-term tax system can possibly be put into place.”

The deprived state and action of accomplishing task and function by tax jurisdiction are frequently liable on insufficient of political encouragement. Political determination is an essential issue in the tax observance surrounding and situation. In additional, it appears that in various cases “deficit or insufficient of political motivation” is basically utilized as a cover defence by badly performing tax jurisdiction and local governments. Though, awareness concerning high ranks of bribery in management will probably appear and outcome on the insight of local taxpayers’ state or nation service delivery and achievable overseas savings. Therefore, it shocks on tax compliance (Franzsen, 2012).

2.3.3.2 Tax Policy Environment

Superior tax policy value is extremely small if it can't be put into practice efficiently. Hence, the managerial measurement of assessment charges (taxation) plainly can't be disregarded in superior tax policy blueprint. The appraisal of the current condition should get into explanation what can logically be completed in prospect (Bird and Zolt, 2003). For instance, how possible is it politically that transform to organization, or modification to present regulations (containing the charter) and perform will be result, yet if these would comprise better policy.

As Bird and Zolt (2003) properly state that tax blueprint (i.e., tax policy) in emergent nations is powerfully pressured by monetary arrangement. For instance emergent nations frequently contain huge customary farming area and zone that is complex to charge. a lot of emergent nations enclose a important unofficial financial system and is principally outer the proper or official tax structure. This demarcates its individual distinctive confront and barriers in the plan of tax policy and to the tax management; provided that the prospective tax base is a relatively petite (thin or small) segment of entire monetary- economic doings and function. This possibly will force government to raise tax rates, which generate additional motivation for tax evasion.

2.3.3.3 Legal Environment – Complexity of the Tax Laws

Mikesell and Birskyte (2007: 1067-1068) properly have given that, difficulty of tax administration diminish conformity. In their learn, which centre on the United States tax laws diminish observance they wind up that there is a common sanction that American revenue tax preparation is troublesome and yet great. "A rule that can be clear (if at all) single by a small priesthood of legal representative and accountants is focused to majority doubt". By discouragement majority back -up, difficulty weaken the self-independent on which monetary efficient fulfilment depends."

Mikesell and Birskyte (2007) point out that the less oppressive and expensive observance in addition possible a taxpayer is to obey with the tax regulations. Difficulty is able to aggravate taxpayers in their hard work to fulfil with tax rules and generate logic of inequality. Convenient difficulty and the requirements for lawful totality create important unfriendliness of taxpayers resulting to slight tax self-esteem and, therefore, evasion and avoidance. Yet if taxpayers do not essentially sight and observe a difficult tax scheme as inequitable, the obligation to folder an extensive tax structure construct and make chances to escape and harmfully affect conformity rate of the taxpayers encounter such a responsibility.

Tax regulations are by their extremely scenery technological and in various issues difficult. Though, these regulations can make extra difficulty in different conducts. For instance, keeping record necessities, tax allowance, several tax rates, refund, etc., all include to the difficulty.

2.3.3.4 Institutional and Administrative Environment

In an ideal world tax management supposed to include the liberty to assemble the tax unpaid in conditions of the rule and regulations. Though, as designate on top of, political and rule force often result on the gathering task.

2.3.3.5 Tax Culture

Tax structure administration of a nation can't achieve its purpose with no acknowledgment of central tax structure. The lesson of tax traditions in various nations has quite extensive familiarity. The paramount tax regulations, amenities, technique, assets and additional means will twist the unproductive and incompetent with no taking into account faith, principles, standard of culture and normally tax traditions of nation. Fundamentals and players form precise tax tradition and comprise tradition standard and the organization that have been urbanized and advance in the route of times past.

Tax traditions comprise ideas other than customs of tax assortment and customs of tax disbursement as well (Nerré *et al.*, 2003). Aqaei (2008) point the phrase "tax traditions" to free willingly tax observance enlargement of taxpayers. In Iran, several stipulations of management has been prepared in such a manner that tax elusive is optimistic and the assumed matter has influence tradition of disbursement of tax by taxpayers and tax strategy-setters by legislative organization as well as unresponsiveness of suggestion cluster.

In a study made by Pandy in U.S entitled "Development of Tax Culture for Better Cooperation", the majority of the public consider that tax is an annoyance occurrence that is supposed to be evaded. Taxpayers sense that they are acted disrespectful and aggressively. They are of the view that tax is cash collected by power which is disagreeable matter. The figures of tax piece, launched by the management for citizens are revisit and/or the figures of persons, who abstain disburse tax, are rising. Taxpayers also think that anything remunerated by them to the authority is exhausted and state abandon its community tasks as well (Pandey, 2003).

Taherpour *et al.*, (2001) in their investigation conducted in this consider identification is the mainly significant tax stipulations which have been innate from tax structure of ex-Soviet Union as follows: be deficient in clearness of tax structure, limitation of tax implementation arrangement. He also supplement: "Russian tax culture has inclined to indirect tax system in the course of tax history of Russia and personal income tax has not been considered as an important means for increasing income rate." In Russia, citizens are of the attitude that authority embezzles their property (suspect to management). Decently, taxpayers also do not think that they supposed to accomplish their responsibility. Therefore, because taxpayers obtain free involvement lone in a

fewer essential stage, they believe that hindrance in disbursement of tax or tax elusive is lawful.

2.3.4 Facilitating Compliance

As Bird and Zolt (2003) state, “the first task of any tax administration is to facilitate compliance. This requires making sure that those who should be in the system are in the system and that they comply with the rules.” here consider the catalogue (list) of four significant step:

Firstly is to make certain that taxpayer exposure, treatment and involvement are as complete as feasible. If taxpayers are necessary to register, the listing procedure must be as easy as likely beneath the conditions. Structure should be in position to recognize and go after upon those who do not list willingly. Tax system supposed to take on suitable exceptional taxpayer recognition arrangement to assist conformity and implementation and enforcement.

Secondly, tax systems require a correct procedure for influential tax burden. This may be complete managerially (as with the of majority property taxes) or by few independent evaluation process (as with the majority of income taxes and VATs).

Thirdly, levies that are unpaid should be gathered in a well-organized and appropriate approach. In several nations, this is most excellent completed via the financial institution system (banking). It is hardly ever suitable for tax administration authorized personnel to hold cash straight.

Finally, tax regime or authorities must offer sufficient taxpayer service to taxpayer observance with the applicable regulations and policies as simple as likely. This can be completed in several manners, consisting of: supply of adequate facts, data and

record, notes, structure, recommendation cabin, enlarge disbursement services and alternative, as healthy as electronic recording of return (filling). Yet tax invoice can be utilized for effectively communicating information. This technique relies in attending taxpayers as a customer. Albeit not an eager one to be provided and not a robber to be trapped (Bird and Zolt, 2003).

2.3.4.1 Taxpayer Service Concept

Spending resources to conduct an administration assessment of tax liability or to mitigate taxpayer noncompliance exclusively through auditing and penalty is ultimately very costly. We propose that taxpayer services, such as electronic filling, tax simplification, continuous withholding, and taxpayer education, would foster voluntary compliance by reducing the taxpayer's cost (Silvan *et al.*, 1991). Taxpayer education is especially crucial because the size of information gap in the tax system is inversely to the level of voluntary compliance.

Taxpayer's service helps to bridge this gap because it effectively pools information which would otherwise be unavailable to either party. Total tax revenue is affected by both administrative and compliance costs. Therefore, delivering more effective service to taxpayers would cause the tax administration to incur higher administrative expenses unless it was able to achieve larger reduction in enforcement cost. We contend, however, that the gains from lower compliance costs and improved taxpayer performance are likely to outweigh increase administrative costs (Jenkins and Forlemu, 1993).

Using taxpayer service to reduce the expenses acquired by taxpayers in their effort to understand the law or to complete their self-assessment and make payment may be a cost-effective way to increase the overall level of compliance. Although the self-assessment function facilitate the voluntary compliance process, the amount of

compliance cost borne by taxpayers is likely to be important factor in determining the overall success of this approach. At the core of taxpayer model is the suggestion that a upper rank of service help to decrease both economic and emotional rank of observance cost, which in rotate and back direct to enlarge intensity of voluntary compliance.

2.3.4.2 The Central Role of Automation and Information System

Technology is a crucial component of taxpayer service (Venner *et al.*, 1992). Given the dramatic fall in the price of information technology relative to manpower, the provision of outreach service to present or potential taxpayers cannot be cost effective without the use of technology-based products. In fact, automation that integrates a wide array of information or payment system is inextricably linked to optimal taxpayer service.

Besides helping to track and identify potential taxpayers who have not been reached previously (whether because they non-filers or stop- filers), modern computerization and electronic filing facilitate in helping significantly in improving compliance behaviour. For instance, modern technology permits the use of a unique taxpayer identification numbering system which allows for extensive cross-referencing, including VAT and customer duties.

In addition, by serving as a link between the taxpayer and the tax administration e.g. EFD machines, such technology can accommodate ant tax compliance enforcement operation, that design of strategies to generate and pool taxpayer information minimizes costs.

2.3.5 Electronic Fiscal Devices (EFDs)

Electronic Fiscal Device (EFD) means a device or instrument deliberate structured and design to be apply or used in company or business for well-organized administration

direction and control in regions or arena of trade (sales) examination and stockpile management structure and which match to the necessities particular indicated by the regulations (ITEFDR, 2012). EFDs are of different types such as Electronic Tax Register (ETR) that is utilized or employed by vend or retail trade that provide receipts by hand; Electronic Fiscal Printer (EFP) that is employed and utilized by automated computer vend channel. It is linked to a processor (computer) system and custody and record each trade event transactions or aspects prepared in its monetary reminiscence; Electronic Signature Device (ESD) that is formulated and planned to verify by symbolizing every individual laptop-computer (PC) generate fiscal article (document) such as tax bill. The machine employ a unique central processing unit (software) program plan to produce a special figures which is attach to and written to each statement produced by the user's system.

2.3.6 Historical Genesis of VAT

Harmony and according to the international Tax Dialogue VAT begin in France in the middle of 20th century after that extend quickly all over Europe and, afterward, the globe. As new nations take on the tax, numerous have customized and advanced it and altered its function to create extra revenue.

The value –added tax by Goode (1984), is "the main essential tax modernization of the second half of the twentieth century". The velocity (speed) with which the value-added-tax system has extend throughout the globe (world) is supreme by all other current period. Thirty (30) years before there was no complete VAT everywhere (Shoup, 1990).

In Japan, instantly after the Second World War, a short-lived VAT was put into practice. In 1954 France commenced inadequate VAT in the appearance of a wholesale level. VAT substituted a multi stage fabrication tax (Metcalf, 1995). “A

complete value-added tax first appeared in Brazil in 1967. This tax was designed to overcome the defects of turnover taxation and to secure a greater degree of tax coordination among the states of the Brazilian Federation (Shoup, 1990)". Later on in 1967 Denmark developed into the earliest nation to establish a complete VAT at the state level. In 1968, France compounded the limited VAT through the accessible revenue tax on services and a local tax on vend trade keen on a single, complete tax broaden all the way through the trade phase on retail. In the subsequently years, the VAT was taken up by the other associate countries of European Community to substitute their revenue taxes. Sweden, in 1969 and Norway in 1970 enacted a VAT to replace a retail sales tax.

2.3.7 Administration of VAT

"In emergent nations, a great deal of returns is "likely to be gathered from big taxpayers, the standard taxpayers can stay moderately lower, whereas small taxpayers can be an excellent prospective spring of accumulated returns (Shome, 2004). Afterwards, if the petite taxpayer would profit from tax generalization, it could take better outcome for the tax management by lifting up tax returns and reduce tax avoidance or evasion from this collection (Bahl and Bird, 2008)".

VAT management relate to how tax authorities implement the duties delegated to them. According to Jantscher (1990) these accountability (duties) comprise a variety of linked conducts and actions such as taxpayers' recognition and listing (registration) bill, filing and disbursement necessities, management of filling and expenses, rebate, review and punishment. Possibly tangentially, VAT management and administration is also involved with matters of who is supposed to control and govern the tax, what institution system to utilize and what capital, assets are accessible.

At hand, limitation may prevail in how VAT management carries out their responsibility. Flaw in VAT management, in other side, could harmfully result on the relevant attribute of the tax and Government's policy purpose or goal as a full. In this consideration, Pellechio (1995) identified that deprived tax management would alter the way in which levy influence government's strategy goals and objectives, that is financial and economic balance and stabilization, resource distribution and relocation of proceeds.

2.3.7.1 Concept of Tax Evasion

The phrase "tax evasion" indicates and implies unlawful and deliberate events employed by entity or firm to decrease their lawfully owed tax responsibility and requirement (Alm, 2012). Someone or individual may be capable to escape (evade) revenue duties and taxes by not reporting correct return; by exaggerate subtraction, exclusion, or loans; by deteriorating to filling suitable tax proceeds or by involvement in exchange.

On the issue of VAT, a seller or businessmen preserve or may be unsuccessful to or register list for the tax, they may under-report sales or, where different goods are subjected to tax at different rates, they can decrease their tax expenditure by misallocating sales keen on the group relative to a lesser pace (Lower rate) (or zero rate) of tax or avoid VAT by neglecting the loan and repayment system (Keen, 2007). In specific, the regular accumulation of the tax at each stage of the series of manufacture and allocation (production and distribution) could decrease the amount or quantity of tax at chance at every phase, and therefore achievement could be completed from building non-tax trade. An entity may submit deceptive bill that permit them to minimize their tax burden, or occasionally persons even search for to list (register) a business entity to cover their own individual expenditure as procured inputs.

Tax avoidance and evasion is a normal application and conducts are regularly employed in every state. It minimizes entire tax compilation (collection) and generate misdistribution in assets and resources utilization at a time people change their behaviour to deceive on their taxes, such as in their alternative or option of working hours, employment to penetrate and savings to carry out (Alm, 2012).

Tax skirting (evasion) has been investigated by researchers, various social sciences branch of knowledge (discipline), the majority normally economics and sociology. Economists assume that tax behaviour is created by positioning or situated in self-centredness by the psychoanalysis of the outcome of behaviour. Sociologists are likely to centre on personal and public building explanation, principles and customs. Though, above the previous forty years a substantial body of writing (literature) has been improved in the region (area) of tax avoidance and evasion.

Why do people evade tax? The majority of well-known reply and response could be “for greed (ravenousness)”. However, economists’ hypothesis is that the public will undertake an annoyance to increase their effectiveness (Webley *et al.*, 1991). Becker (1968) that citizen’s turn into illegal not for the reason that their inspiration are dissimilar from others’ but since their expenses and profit fluctuate. Practical to this tax condition, this treats and attends public as logic unprincipled judgmental and decision creator whose plan, in this as in the entire and other areas, is only to increase effectiveness and satisfaction. The standard form Allingham and Sandmo (1972); Cowell (1985) guess that behaviour is subjective by aspects such as tax rate (which influence the profit of avoidance and evasion) and the punishment for deception and the likelihood of uncovering (which decide the charge).

Persons have a preference of how much return to announce and how much to not. Though, the major purpose is to make the most of the (increase) usefulness (utilities)

of the taxpayer. Allingham and Sandmo form forecast that both likelihood of recognition (detection) and the strictness of punishment will influence evasion and avoidance; if discovery is probable and punishment is severe citizens. Allingham and Sandmo said that, tax authority can manage evasion by two alternate enforcement policy, raising either the punishment rate or the chance of being noticed.

Tax evasion is extensive, constantly has been, and possibly forever will be (Alm, 2012). Tax evasion could be the initial subject matter in a complete account and history of taxation. Pragmatic confirmation and proof concerning tax evasion writings (literature) was straight connected to casual financial system and measure the tax hole (gap), quite than examining the reasons of tax nonconformity. Starting from 80s tax evasion is carefully regarded as a community event, which cannot be conscious simply because by bearing in mind the motivation of a sole being, one also has to regard as the relations between taxpayers in a community setting (Sandmo, 2005). Lewis's (1979) study outcome also uncovered difficulty as causative reason for tax evasion. Rising difficulty might augment or add to unconstructive approach, which in circle could decrease a person's readiness to disburse tax.

Bordignon (1993) confirmed that, taxpayers are constantly aggravated by deliberation on equality in relation to the services that the management offers in barter for their tax expenditure as well as the tax arrangement and the occurrence of evasion by other taxpayers. So, once the public or an individual is asked concerning likely validation for involvement in tax evasion, an ordinary response is that they are being termed and treated unjustly by the tax system. On the other hand, Barth, Cappelen and Ogendal (2005), experiment declare that, public who are operating or working in the extended hours with lesser (lower) salary rate are constantly taken as they are unjustly treated

by other citizens who are working for few hours with superior salary rate. So the previous clusters give good reason for themselves in evading taxes.

Standing on all earlier writings and literature, Kirchler (2007) and Loo (2006) recognized the aspects that pressure tax evasion and tax observance as: arrangement of the tax scheme: tax toll, tax check, difficulty, effortlessness of the tax structure and proceeds. Tax authority's thoughts and effectiveness; approach and insight: awareness of equality, principles and manner, perception of government expenditure with tax money; poor pressure; Socio demographic uniqueness: era, returns level, learning and sexual category.

The majority of the journalism and literature on tax evasion has mostly been involved with straight or direct taxes; the investigation of non- direct tax evasion mostly has been disregarded (Sandmo, 2005); (Mirreli, 1984). Mirreli's (1984) revise well thought-out the evasion of ad valorem tax and the consequence of the recommendation that, the evasion and tax transfer result are sovereign to one different as long as the examination chance is stable. At this time, the sums of evasion by every entity are revealed and appear to depend, separately from the enforcement bound, on the amount of agreement and on marketplace distribution share. Gordon (1990) presents motivating imminent on sales tax evasion. He proposes that under-the-counter cash sales tax may give out as a way of fee (price) favouritism; cash reduction is the best value (price) policy when the strain for money acquisition (buy) is highly flexible.

VAT is an abandoned region for the conformity behaviour and tax evasion investigation area. One motive for the nonattendance of VAT for elusion learning, as there is a universal faith that VAT has independent strategy or policies assets in that purchaser of in-between commodities have contrasting benefit to the retailer, and thus decrease the range for VAT avoidance and evasion (Keen and Smith, 2007). Putting it into practice, VAT in several nations has not accomplished its purposes of increasing

the planned returns as VAT is unfasten to deception and evasion like other taxes (Keen, 2007). For these rationale, Hemming and Kay (1981) query the “self-enforcing” power regime of VAT as together retailer and purchaser add by elusion in a circumstance in deprived management and inspection capability of tax management (Barbone *et al.*, 2012).

VAT deception, dishonestly, fraud and VAT avoidance (evasion) was determined as a purpose (objective) dilemma and complete division of European (EC) policy and in 2007 the battle in opposition to VAT evasion turn into a main regard of EC deliberate, planned thoughts (Barbone *et al.*,2012). So, a big and rising anxiety concerning VAT allied counterfeit (fraudlent) in Europe strain the factual situation of VAT compliance and VAT evasion lessons in developing countries.

2.3.7.2 The Costs of Taxpayer Compliance

Administering a tax system involve various kind of costs (Sandford *et al.*, 1989). Even though a segment of tax gathering (collected) expenses is taken by tax management, it is significant to remind and note down that taxpayers tolerate a considerable split by asset of the moment and cash they use to try to understand the tax regulations related to them and filling appropriate return. Thus, the full fee of every tax system include not merely the capital used up on revenue compilation (collection), other than the cost acquired by taxpayers and third parties in observe with a variety of structure and stage of tax.

The expenses of observance, managerial expenses, and burden bear by third parties frequently mirror difficulty of the tax structure and arrangement. Hence abridge (simplify) the tax arrangement or given that other type of taxpayer service being able to considerably diminish observance (compliance) cost.

VAT administrative expenses can comprise expenses incurred by tax authority in carrying out the responsibility delegated to them. In emergent and developing countries, approximation of VAT managerial expenses is slight. In reality, as a gauge of effectiveness, some management try to increase proportion of managerial expenses to the returns produced by taxes. On the matter of VAT, Jantscher (1990) points out that incomplete information, complement by the imitation of manager, propose that managerial expenses regularly vary between one and two percent of the VAT returns assembled. In adding up to the managerial actions, functions and the accessibility of managerial resources, VAT organization and supervision concern with matters such as organizational and management appendages (organs), (who are required to control the tax) and their type and approach of organization.

The beginning of VAT in various states (with elevated and observable conformity expenses) the increase of venture traditions and culture linking the minor company division (where compliance expenses are specifically difficult) the rising difficulty of the tax structure. In adding up to that, the regressive scenery of fulfilment charge and its unfavourable result on deliberate compliance concerned the governments to take the compliance cost issue seriously in western nations.

The initial and earlier current revise of observance (compliance) charge was implemented by Haig (1935) in the United States concerning the central taxes alienated from the condition and local administration taxes. Sandford (1973) formerly recognized the unfairness of the observance expenses and the significance of emotional expenses in taxation. Since the beginning of VAT in the majority of countries, the compliance costs have significantly increased. Vaillancourt, who prepared the analysis of the writing (literature) on compliance expenses for entity business, points out that taxes charged on connections (sales taxes, VAT) have higher conformity expenses than the other types of taxes (Vaillancourt, 1987).

2.3.7.3 Compliance Benefits

Nevertheless, tax observance (compliance) does not involve just expenses for the taxpayer. There are as well tax compliance advantages which require to be regarded as. Writing (literature) on “tax observance or compliance advantage and benefit” classify these advantage into three wide group, that is cash-flow benefits, managerial benefits, as well as tax deductibility benefits (Smulders *et al.*, 2012).

Cash-flow advantages are the advantages resulting from the utilization of tax returns for a era previous should be remunerated over to the revenue power (authority), the subtraction of “pay-as-you-earn tax” (PAYE) by employee and VAT by retail and seller, earlier than these are compensated over to the appropriate proceeds authority (Smulders *et al.*, 2012). An additional instance is the advantages from the legal impediment that come up as soon as the revenue collect by a taxpayer is not instantly or fully taxed on accumulation or receipts.

Managerial advantages are the advantages that can come up due to necessity in stipulations of tax laws and regulation to keep report (record), such as better recordkeeping, the use of expertise knowledge (technology), enhanced understanding of the economic relationships of the trade in specific in the structure of amplified understanding of their multifaceted financial and accounting information structure or system and enhanced company or management decisions (Smulders *et al.*, 2012).

Tax deductibility advantages are the advantages that come up after the revenue tax structure and system allow several tax observance expenses to be treated as a lawful subtraction for tax computation reason, for instance where the tax system allow a trade a reduction for the services of their tax practitioners and tax-related subsidiary operating cost from their chargeable returns (Smulders, *et al.*, 2012).

Public's eagerness to compensate and pay taxes is based or depends on a variety of factors. Economists likely to emphasize the significance of the weight of exogenous factors such as tax rate, revenue, and possibility of discovery and the level of authorization, at the same time as psychosomatic investigation reveals that endogenous factors are also important, together with taxpayers' thoughts in the direction of the government and taxation, individual standards, seeming efficiency and equality (Hofmann et al., 2008); (Kirchler, 2007). In capturing these mutually, Cullis and Lewis (1997: 320) specify this the 'financial psychology method,' which unites the "positive approach to the empirical world" through "the softer approach" in which public "comply with taxes for different reasons and the tax compliance problem is in part socially constructed."

Adams and Webley's (2001) conducted a study particularly on how to scrutinize VAT conformity and revealed fifteen major ideas lessening keen on five input-key ideas that they considered to be appropriate. The five main themes, four were regular in earlier study on revenue tax observance investigation: fairness, thoughts in the direction of taxation and tax authorities, approval, and behaviour/ethics. The fifth idea they painted was 'psychological or mental accounting'. This five-factor representation was resonance in Webley *et al.* (2006), who comprehensively the study commenced by Adams and Webley (2001) and originate that mental accounting and fairness were principally essential issues influencing VAT compliance. These five factors are in the short term have been elaborated below.

i) Sanctions and Punishments

In finances, the fundamental hypothesis of tax evasion is an function of the theory of option in improbability (Clotfelter, 1983). In the customary manner to tax evasion, a risk-averse person decides either the quantity or the split of revenue to be covered so as to maximize her anticipated usefulness of revenue, in view of (1) the possibility of

uncovering, (2) the punishment tax rate functional when tax evasion is discovered, (3) the marginal tax rate, and (4) the level of accurate revenue (Pommerehne and Weck-Hannemann, 1996). Therefore, the difficulty an individual has to commence is whether or not to evade some element of her lawful tax accountability agreed that there is a possibility of being wedged if she makes a decision to be non-compliant. Thus, financial and economic forms and model centre on the responsibility of fine, punishments and examination, with economists hypothesize that superior punishments and appraisal possibility must enhance and amplify conformity (Slemrod, 2007). Practical study point out that both penalties and audits can direct to superior compliance (Andreoni et al., 1998), while superior punishment have been revealed to be less of a restriction than higher audit possibility (Hessing *et al.*,1992).

ii) Equity

At the focal point of tax strategy or policy are theory or idea of impartiality (fairness) as the seeming equality of a tax system has been set up to be vital to its satisfactoriness and plane functioning (Adams and Webley, 2001; Hofmann *et al.*, 2008). This ‘primary, fundamental rule of taxation’ is stand on Adam Smith’s primary maxim of a good tax, which result:

The matter of all countries supposed to donate in a direction to the encourage and buck-up the government as almost as likely in ratio of their relevant capabilities that is, in percentage to the income which they correspondingly get pleasure from in the security of the countries (as cited in Musgrave, 2002: 10).Wenzel (2003) argue that three categories of equality are appropriate in this region. Distributive fairness deals with the reasonable trade of assets and resources, advantages, and expenses, technical fairness concerns with the matter of tax compilation (collection) and resource allocation, whereas retributive fairness is concerning with the seeming justice of inspection and penalty as argue above. Generally, the study shows that, where

taxpayers suffer there is a discrepancy or difference in the trade association; it is more probable that the public will be non-complaint in order to equalize or decrease the alleged unfairness (Cowell, 1992).

iii) Personality/ Morality

In their study, Adams and Webley (2001) talk about the outcome of self-centeredness on compliance behaviour. They illustrate and describe on the study by Weigel *et al.*(1998) representing or demonstrating that public that enclose egotistical (selfishness) propensity are further expected to smash regulations when these regulations are not in their individual self-interest and therefore are further possible attempt to evade paying taxes. This plan is maintained and supported by investigation screening that selfishness is a excellent pointer of the individual's propensity to avoid earnings (income) taxes (Elffers, 1991), involve in advantage deception (Hessing *et al.*,1993), and acquire parking infringement (Adams and Webley 1996). Researchers have also sketched out other essential standards that could be significant in manipulating tax compliance, such as dictatorship and Machiavellianism (Kirchler *et al.*, 2008), and the general ending up from the study in this region is that citizens with further advanced ethical logic or tax principles are more expected to be obedient (Hofmann *et al.*, 2008); (Trivedi *et al.*, 2003).

iv) Satisfaction with the Tax Authorities

Hypothetical and practical study point out that displeasure with the tax, the system or authorities is one of the motives for non-compliance (Adams and Webley, 2001; Elffers, 1991; Hofmann *et al.*, 2008; Webley *et al.*, 2006). One technique to stare at this is stand on effectiveness, with investigation indicating that citizens believe the tax structure is incompetent are less expected to fulfil (Wearing and Heady, 1995).

v) Mental Accounting

Lastly, Adams and Webley (2001) and Webley et al. (2006) have originate that the method in which commerce inhabitants perceive the VAT cash they gather is an essential aspect in every time they opt to obey with VAT regulations or not and employ the thought of 'psychological accounting'. According to Webley *et al.*, (2006: 178): psychological accounting is frequently portrayed as a mental system whereby returns are structured in ordered of individual finance public have a numeral of psychological accounts that function separately of one another. What is exciting in the present situation is whether business men and women mentally split dues payable to the VAT keen on different psychological description from that of company revenue. If they do not, they may be more expected to attempt to avoid VAT as a consequence of considering it as 'their' cash. The consequences of their study is that the majority of the business inhabitants observe the cash or funds composed as theirs and thus hated submitting it over to appropriate authority.

In these forms or models taxpayers' attitude is subjective by a lot of aspects, together with their character towards civic organizations, the alleged justice of the taxes and current communal standards. Likewise, tax observance is subjective by a variety of aspects together with thoughts, insight, attitude, behaviour qualities and relations between the players. Particularly, in the matter of financial emotional forms, as McKerchar (2002) declared, such forms, normally, sight tax enforcement as a behavioural setback that can be resolve by collaboration involving taxpayers and tax collector. To attain this teamwork the responsibility of the tax authority in offering the optimistic incentive for instance, by reducing the tax rates or cut down punishments. These events in turn were projected to produce an additional optimistic approach in taxpayers that would then influence their conformity conclusion and decision (McKercher, 2002).

Therefore, the writing (literature) appraise emphasizes the importance of evaluating fulfilment in the background of non-economic aspects. This guides to the social and emotional forms. The reason of social psychology model is to improve an understanding of human attributes and thoughts, where financial psychology models explain region of study inside civic economics with the “supernatural environment of fiscal actions”. Social and psychological awareness recommended to be significant in sympathetic the experimental level of tax compliance (Alm *et al.*, 1999; Cullis and Lewis, 1982; McKerchar, 2002).

2.3.8 Expectancy Theory of Motivation

Vroom’s expectation hypothesis is focused on the faith that worker struggle determines guide to performance and performance will guide to return (Vroom, 1964). The hypothesis indicates that persons can be aggravated if they think that there is an optimistic association between the hard work they put in and their routine and when that favourable performance guides to a return. Therefore, the recompense assist assure a significant require and the wish to please that want is tough sufficient to make the hard work value scam. The hypothesis demarcates that the power of an person incentive will rely on the level to which they anticipate the consequences of their hard work to donate toward their individual requirements or aspiration and posits that incentive is a consequence of a lucid computation (Vroom, 1964) Vroom's hypothesis can apply to all circumstances where someone does something since they anticipate a confident result.

It may be useful theory to small VAT registered person as collection agency to TRA in the sense that they will be agency by commission, and whatever they collect on the behalf of the government certain percentage retain by them as reward. This rewards will led them to comply with VAT law. But care should be taken in balancing between enforcement cost and commission prize. The hypothesis is concerning the relations

populace formulates towards estimated result and the donation they sense they preserve towards those results (Bowen, 1991).

2.4 Empirical Literature Review

VAT was quote as the major foundation of tax observance and compliance expenses in 8 away of 11 OECD nations that were appraisal Pope (2001). VAT compliance expenses range mostly documentation custody for VAT objective only, preparation and filling of VAT proceeds, examination financial records, getting data and information concerning new events, measures and actions for satisfying VAT proceeds, modification in the regulations and other applicable information (Cléroux, 1992 *et al*; Klun , 2004; O’Keefe and O’Hare, 2008).

2.4.1.1 Administration of VAT in United Kingdom

The original rationally complete revise on the conformity expenses of VAT was also carried out by Sandford *et al. et al*, (1981) for the year 1977-78 in the UK. The aspiration of that research was approximating the entire compliance expenses (and working expenses as a complete), and evaluate the approach of VAT list (registered) traders. Practical confirmation proposes that fulfilment expenses according to VAT are a quite higher weight for small entity or company (Cnossen, 1994); Rametse and Pope, 2002). As of Sandford *et al.*, (1981) to Coolidge (2012), a lot of research concerning VAT observance expenses have amplified the common curiosity, particularly from the management and the commerce division. Thus, the significant issue that pressure observance charge learn of VAT (in monetary term) are- the difficulty of the tax scheme, trade size, the environment of trade, the quantity of business events carried out, the quantity and kind of class functional to contribution (input) and production (output) , the distance end to time the trade has been in service and also listing (register) for the tax, universal teaching and book custody teaching of company proprietor and personnel arrange proceeds, bookkeeping and accounting system

adopted and socio population issue (Pope, 2003); (Yesegat, 2008). These practical results recommend that compliance expenses illustrate huge difference among different kind of taxes.

2.4.1.2 Administration of VAT in Developing Countries

Little is known regarding tax compliance behaviour in developing countries (Andreoni *et al.*, 1998; D'Arcy, 2011; Fjeldstad and Semboja, 2001).

In rising nations, the lower performance of taxes is expected to be owed to feeble tax management (i.e., the incapability of the management to execute the tax in application). This is possibly reason for such aspects as resource restraint and calculating the tax individually from the government.

Regarding the final, prominent that emergent and intermediary nations, different developed states, emerge to have disjointed financial system, great unofficial division, low tax self-esteem, uncontrolled evasion, and sum disbelieve between tax administrator and taxpayers. In these nations, therefore, just implement a victorious VAT's blueprint characteristic of advanced nations would not create the tax victorious (Bird and Gendron, 2005). The blueprint should regard the tax administration measurement and the socio-economic actuality of the emergent nations in question.

In argue the significance of tax administration in broad-spectrum; Bird (2004) illustrates that tax administration measurement should to be positioned at the focal, not margin, of tax reform. Jantscher (1990: 179) also stated that "...in developing nations tax management is tax strategy."

Making an allowance for the importance of tax administration, a lot of research has been carried out in some rising and transitional states with admiration to the major VAT management responsibilities. These revise comprise Jantscher (1990), Edmiston and Bird (2004), Bird and Gendron (2005), Grandcolas (2005) and Bird (2005). These

documents review how VAT administrators in developing and transitional countries perform their responsibility and how the efficient taxpayer necessities fluctuate from the regulation. Further particularly, the analysis paying attention on application of dissimilar emergent states with admiration to taxpayer recognition, billing, filing and imbursement procedure, management of filing and costs, repayment, appraisal and punishments. In adding up, the expenses of VAT administration were temporarily scrutinized in the case of Jantscher's (1990) research. The major winding up of these lessons is that VATs indicates in developing nations were fairly unlike from the extensive stand tax converse in public finance literature and that administrative troubles have a main donation to this deviation.

Gray (1987) illustrates that in emergent nations, there is a large hole between what the tax systems emerge to be on the face and what it is in actuality (Bird, 1989). Characteristically in low profits nations there is frequently a space among the efficient tax system and what is legislated in the applicable tax regulations (IMF, 1989) Administrative troubles, in circle, may be partially reason for administrative resources limitation.

2.4.1.3 Administration of VAT in Iran

In Iran, Emami (2004) completed an investigation on revise of successful aspects of tax elusive in business. He accomplished that the subsequent issues have been recognized as efficient aspects of tax evasion: Managerial assurance, manage and regulation, economic and financial bribery, deficient in autonomy of communication and occurrence of disbelieve in the society culture.

2.4.1.4 Administration of VAT in Nigeria

In Nigeria, research performed on assessment of the confrontation encountered VAT administrations in Nigeria. The learning establishes the main problems that were

encountered by VAT administrations in Nigeria. Be deprived payment and incentive of federal Internal revenues System (FIRS) employees, realistic troubles associated to the execution of VATs double basics of input and output, insufficient financial support for the income services, tax avoidance and evasion and difficulty of incompetent, untaught employees and the deficient of autonomy of income services.

The study wind up by saying that : the FIRS personnel does not own the managerial expertise for efficient function of VAT procedure, VAT pressure proceeds making, the expenditure and accumulate patterns of Nigerian customers and the they live myriads of troubles powerfully militating the efficient management and impact of VAT in income creation in Nigeria.

The revise-research suggested that initially the managerial mechanism of FIRS must be enhanced to eradicate disadvantage and inside control fall in the evaluation and gathering of VAT. The Inspectorate, Audit and examination departments are specialized section and thus must be managed by qualified executive. The whole employees must be provided necessary direction on VAT procedure along with technological expertise.

Secondly, datable business and person's databank require to be properly imprisoned for successful management. The FIRS has an accountability to keep on specialized to commence community clarification on VAT learning amongst these associations and even offer specialized support in the treatment of input and output VAT matter, appraisal of VAT and payment of VAT collections.

Thirdly VAT committee suggested by the VAT Act 1993 should be launch to decrease cases of tax dodging, bribery and non-remittance of VAT collections by customers.

Fourthly researcher suggested the augment in VAT rate in the projected VAT (Amendment) Bill 2005 supposed to be balanced in sight of unfavourable effect of such rate on expenditure and investments. Relatively effort must be prepared to make best use of the collection of the 5% VAT rate which is disgustingly under review and underutilized.

Finally the researcher suggested on justifiably dispersed among the three level of government according to standard of origin. The Local Governments and States of the Federation ought to have more shared correspondingly than the Federal Government in sight of huge economic authority accessible to the Federal Government (Aruwa, 2008).

2.4.1.5 Administration of VAT in Ethiopia

In Ethiopia a research was performed to establish the confrontation encountered by VAT administration. discover that administrations of VAT in Ethiopia has been feeble due to mixture of difficulties that it encounter such as the nonappearance of resourceful VAT administration scheme, subsistence of qualified company that have not yet registered for VAT, subsistence of some VAT registered commerce ventures that have assemble the tax with unlawful bill and keep the tax for themselves, the attendance of taxpayers that did not announce the tax they gather as per the regulation, little intensity of tax understanding of the public, extinction of VAT registered trade ventures that tender consumers an view to disburse or not to disburse VAT for the procure they complete in the marketplace and supplies of fake VAT bill statements as well as the lesser level of the income control and power of the society which enlarge the demand of penetrating goods and services that keep out VAT value from its costs.

Additionally, the researcher gave out two large category of resource price or expense connected with the procedure function of any tax management expenses acquired by the tax the system, and observance expenses acquired by taxpayers, which when taken

jointly, they are recognized as compilation and gathering cost. Management outlays are similar to a cutback in tax proceeds and correctly sight as such. In region of gathering charge, the study was accomplished by articulating that when either or both administration and compliance expenses raise, it decreases extensively the tax proceeds composed or collected and this cause the Government to be unsuccessful to funding correctly its social and economic progress scheme.

The study suggested for the purpose to reduce these disputes, the power has to employ adequate and competent workers, dedicate era (time) on constantly cultivating the taxpayers throughout different Medias, progress and advance the compilation or collection system and reinforce in the region of auditing, follow-up and enforcement as well as constantly go after the execution measures and taking sober events over those who offer minimalist financial statements and fake VAT bills (Mamo, 2011).

2.4.1.6 Administration of VAT in Kenya

In Kenya, a study was carried out on the evaluation of the function of electronic fiscal device machines (EFDS) on VAT administration. The research discovered that EFDS were initially imposed for VAT and other central government administration in Kenya in 2004 to assist Kenya Revenues Authority (KRA) to introduce the rate of VAT remitted without establishing essential requirements to traders to give out appropriate information and record for cross checking and therefore the quantity of VAT gathered minimized collection expenses. The study further identified that this was taken since there was a regard that thousands of retailers understated their revenue and sales to reduce tax burden. The study ended by saying the success and efficiency of ETR device in Kenya was not superior for the reason of sabotages to device made by dishonest retailers and suggested that adequate and sufficient education should be given to taxpayer in order to enable the government raise their revenue and fulfil tax goals (Kathuri , 2006).

2.4.2 Administration of VAT in Tanzania

In Tanzania, a study was conducted on Tax compliance. The findings of the study showed that taxpayers' observance level in Tanzania is deprived. Accessible tax regulations do not assist, or support deliberate observance. They are further titled in the direction of enhancement, with audit and sanction position away as pre-eminent element. This situation, attached with unenthusiastic insight of administration and the tax scheme, generate the tax confrontation which nourish tax avoidance and tax evasion. Furthermore, the study found that as the case to other countries, taxpayers' compliance is poor for the reason that regulations in Tanzania is normally not identified by taxpayers since it is too difficult. The study concluded that deliberate taxpayer conformity has not been accomplished at adequately elevated height and the transformation of the tax management carried out in the mid-1990s, has completed small to amend the harmful taxpayer awareness on tax system at large.

The study recommended that TRA should create awareness in how public experience and see the tax management and compliance challenge and how their taxpayers traits is changed into appropriate insight in tax administration. Further, accurate procedures and systematic coherent information on taxpayer and thus demand for logical evaluation and much aware for tax policy structure and blueprint (Ongwamuhana, 2011).

However, the study did not address the issue of specific challenges in administration of VAT, since it has got unique challenges in administering voluntary compliance which the current study is going to address.

In broad, it can be accomplished and recommended that even if there have been revision on VAT management in some emergent nations, in Tanzania there are no complete research that inspect the managerial performance. It is, therefore, not

identified whether the management of VAT in Tanzania is as per the regulations and laws, and which aspects of VAT are being exaggerated due to managerial weak spot. Also, in Tanzania, managerial performances that are in conciliation with the VAT's procedure are not identified. In this circumstance, the purpose of this dissertation was to review the management of VAT in Mbeya City and recognize the major organizational troubles that deserve the government's due concentration.

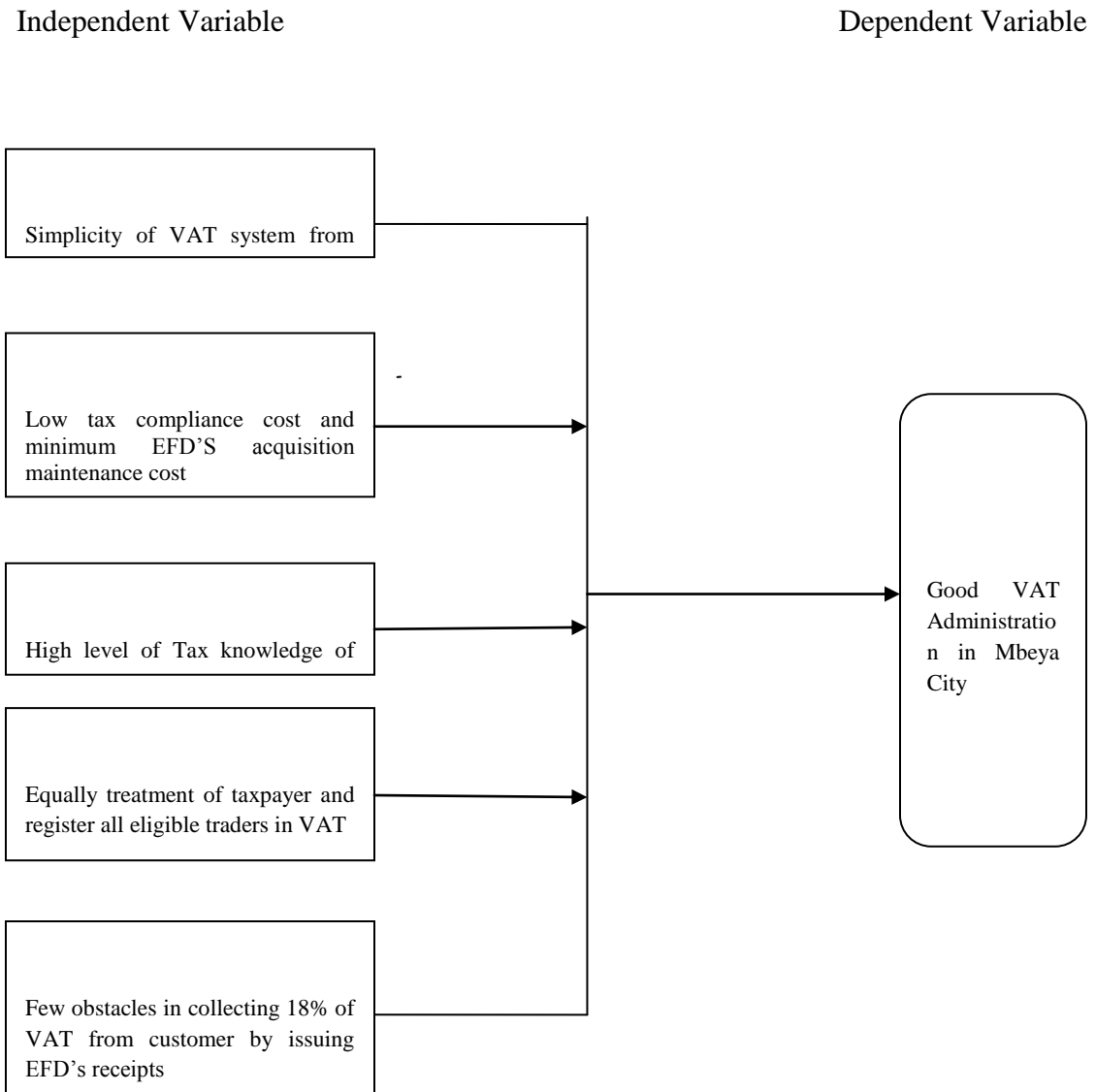
2.5 Conceptual Framework

Theoretical structure is an organized theoretical arrangement of interconnected essentials in some diagram shape (Black, 1976:68). It explains associations among and along with idea and variables. The motive for employing theoretical structure, this will facilitate the canvasser to recognize and focus on significant and applicable variables and characteristic, as an alternative of receiving misplaced in immaterial and insignificant information. It moreover stands for image of hypothesis. As such, it allows the canvasser to cluster further fast and broadly the kind of associations amongst changeable hypotheses by theories (Krishnaswami, 2002:21).

The study assumes that the cost associated with registration on VAT such as penalty, offence for failure to issue tax invoice, to keep records cause low level for VAT registration. It is also assumed that unequal treatment of taxpayers by TRA cause the traders to be reluctant in collecting 18% of VAT from customers. Furthermore, it assumed that complexity in using EFD machine makes the traders to be reluctant to acquire the EFD machine not only that the study assume high level on tax knowledge result into high level of voluntary compliance. The author conceptualize in his study that in any taxation system, where there is low tax compliance cost, high level of tax knowledge, simplicity of VAT system and equal treatment of traders by TRA staff under supportive political and culture environment when other factors remain constant, level of VAT compliance will be enhanced and rising contribution of VAT

to GDP ratio. This will enable the government to offer better service, eventually better standard of living as being presented by the researcher in Figure 1 below:

Figure 1: Conceptual Framework



Source: Author's own Construct, 2017.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methods which were used to investigate the research questions. It explains more about area of the study, research design, population of the study, unit of enquiry, sample size and sampling procedures, sampling design, as well as data collection tools and analysis techniques which were used in the study.

3.2 Study Area

The study area was at Mbeya tax regional specifically in Mbeya City where by most of VAT traders transactions are and the level of non-compliance is large. Another reason for selecting the area is an area in which relevant data i.e. primary and secondary were collected with less cost.

3.3 Research Design

Research design is an arrangement of conditions for collection and analysis of data in such a way that aims to combine relevance with the research purpose with economy or is a plan for doing a research Chamwali (2007). On the other hand, Orodho (2003) defined a research design as the outline or plan that is used to generate answers to research problem. Research design is also defined by Kothari (1990) as the detailed blue print used to guide a research study towards its objectives. It is a detailed plan of work to be done to achieve the research objectives. Research design is a science (and art) of planning procedures for conducting studies so as to get the most valid findings (Vogt1993:166).

According to Chamwali (2007), a case study is used to describe a unit in detail (when, how, and why questions are being imposed when the investigation has no control over events and when the focus is on a contemporary phenomenon within some real life

context). Other types include survey design and experimental design. The Research design adopted in this study was a case study. This design was chosen due to its flexibility in terms of data collection and analysis, also due to its depth and breadth of the study variables. Moreover, the study was less expensive given the financial constraints which the researcher had.

3.4 Population of the Study and Sample Size

3.4.1 Population of the Study

Population is the aggregate of all cases that confirm to designate set of specification (Leady, 1998) the same time Adam *et al.*, (2008) define population in research as the totality of the objects under investigation. The population of this study consisted a total of 239 respondents which were categorized in the following sub groups: 30 TRA staffs of Mbeya city, 80 small traders who are VAT registered and deals with taxable supplies subjected to VAT at Mwanjelwa area of Mbeya City, 80 Unregistered VAT traders, 5 leaders of Mwanjelwa market, 4 suppliers of EFD machines, and 40 general public in Mbeya City of Mbeya Region.

3.4.2 Sample Size

This refers to the number of respondents selected for interview from the population or items to be selected from the population to constitute a sample. It depends on the accuracy needed from the population size, population heterogeneity, whether the sample will be subdivided or not, and resources availability. The larger the sample size, the lower the likely error in generalizing to the population. The larger the sample size, the more the money and time needed. If the population is small, the sample may even be 100% of the population (Bailey, 1994).

The size of the sample for the study was 150 respondents which included 20 TRA staffs of Mbeya city, 50 small traders who are VAT registered and deals with taxable

supplies subjected to VAT at Mbeya City, 50 Unregistered VAT traders, 3 leaders of Mwanjelwa market, 4suppliers of EFD machines and 23 general public in Mbeya City.

3.5 Sampling Procedure

The sample was obtained using the formula developed by Yamane, (1967) as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Where

n = Sample size

N = Population size

e = desired precision (5- 10%)

Using a population of 239 respondents who are TRA stakeholders in Mbeya City of Mbeya Region, a sample size of 150 respondents was obtained as follows:

Where Population Size (N) = 239

e = 5%, thus

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{239}{1 + 239(5\%)^2}$$

n = approximately 150 respondents

Therefore, the sample size of 150 which included 20 TRA staffs of Mbeya city, 50 small traders who are VAT registered and deals with taxable supplies subjected to VAT at Mbeya City, 50 Unregistered VAT traders, 3 leaders of Mwanjelwa market, 4 suppliers of EFD machines and 23 general public in Mbeya City.

3.6 Unit of Inquiring and Information Obtained

The unit of inquiry was in Mbeya City by which the information were obtained from three categories of respondents which are tax officers (Head of blocks), traders Covered at the level of 5blocks and others stakeholders. This area of study was chosen because the researcher had witnessed the role played by the Head of block in the area, which deserved special attention. Specifically, the units of enquiry were: TRA staffs of Mbeya city, small traders who are VAT registered and deals with taxable supplies subjected to VAT at Mwanjelwa area of Mbeya City, Unregistered VAT traders, Leaders of Mwanjelwa market, suppliers of EFD machines, and general public in Mbeya City of Mbeya Region.

Administratively Mbeya Tax Region has been divided into 5 Districts which are; Mbeya city, Mbozi district, Kyela district, Rungwe district, Mbalali district, Chunya district and Ileje district. Mbeya City has been divided into five blocks; which are City centre, Mwanjelwa, Soweto, Mbalizi and Uyole where by all tax administrative functions are being charged by block head and the regional manager is the general overseer.

The respondents comprised of:

- (i) TRA Staff
- (ii) VAT registered traders
- (iii) Un registered VAT traders
- (iv) Leaders of Mwanjelwa market
- (v) Suppliers of EFD Machine
- (vi) General Public in Mbeya city.

3.7 Sampling Design

A sample design is a definite plan for obtaining information from the sample frame. It refers to the techniques and the procedures the researcher would adopt in selecting some sampling units from which inferences about the population (sampling frame) are drawn. This study used non probability sampling methods known as purposive sampling whereby items for analysis were selected according to knowledge, experience and the researcher's view. The second method of sampling that was used in this study was stratified sampling method whereby similar items with the same characteristics were put in the same group to facilitate the study. This is because it produced more representative and accurate sample where a population comprises distinct group. All respondents were covered during the exercise of data collections.

3.8 Data Collection Methods

Data collection refers to the gathering of specific information aimed at providing or refuting some facts. In the study, both primary and secondary data were collected.

3.8.1 Primary Data

Primary data were collected through questionnaire and interviews. The questionnaire used is attached as appendices 1 and 2 while the in-depth interview was conducted through the interview guide which is attached as appendix 3.

3.8.2 Secondary Data

It involved gathering data that had already been passed through the statistical process. Secondary data may either be published data or unpublished data. These data were available in various TRA official reports, the internet, books and professional journals.

3.9 Data Processing and Analysis

The collected data were edited, coded and analyzed descriptively. Analysis was done using a Software Package for Social Sciences (SPSS) based on both closed-ended and

open- cum-coded questions of the constructs. The package was preferred due to its extensive analytical capability and ease of administering; it also provides a wide range of choices in selecting variables at various stages of the analysis and testing various relationships. Presentation of data was made through using percentage, tables, and pie-charts

3.10 Pilot Study (Trial Study)

The study conducted a pilot study which involved five (5) respondents. This helped to test the instruments before administering them in actual study (Kothari, 2005). The trial study was expected to have similar characteristic with intended group.

3.11 Data triangulation

Validity, in qualitative research, shows whether the findings of a study are true and certain. By true it implies if it accurately reflects the situation, and by certain shows if its findings are supported by the evidence. Triangulation is a method used by qualitative researchers to check and establish validity in their studies by analyzing a research question from multiple perspectives (Patton, 2002). Data triangulation involves using different sources of information in order to increase the validity of a study. In this study, these sources were from TRA staffs of Mbeya city, small traders who are VAT registered and deals with taxable supplies subjected to VAT at Mbeya City, unregistered VAT traders, leaders of Mwanjelwa market, suppliers of EFD machines, and general public in Mbeya City.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the data, analyses and discusses the findings. It contains six parts which are general characteristics of the respondents, distribution of age of respondents, sex of respondents, education of respondents, experience of respondents and discussion of the specific objectives of the study. The specific objectives of the study were identification of the challenges facing business traders to register themselves with the VAT, identification of obstacles facing business traders in collecting VAT from customers, exploring the factors that makes business traders to be reluctant in using EFDs machine, investigating the actual registration of all eligible traders and assessing the knowledge of business traders in tax payment.

4.2 General Characteristics of the Respondents

4.2.1 Age

Age is important for the respondents to give meaningful answers. Mature age are in good position to give meaningful answers than younger age. Thus, age was one of the important variables related to the respondents that was considered in this research. The age of respondents were in groups of 15 – 24 years, 25 – 34 years, 35 – 44, 45-54 years, and 55+ years. Table 4.1 presents the results.

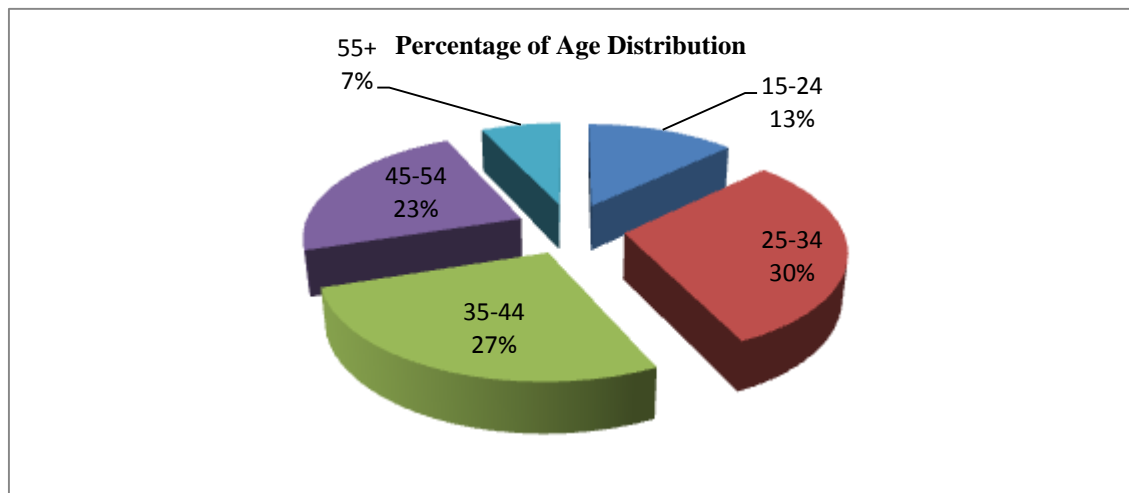
Table 4.1 Distribution of Ages of Respondents (n=150)

Age	Frequency	Percentage (%)
15-24	20	13
25-34	45	30
35-44	40	27
45-54	35	23
55+	10	7
Total	150	100

Source: Study Findings, 2017

The same information is presented using pie- chart as shown in Figure 3.

Figure 4.3: Distribution of Ages of Respondents (n=150)



Source: Study Findings, 2017

From Table 4.1 and Figure 3, it can be deduced that, most respondents covered by the study were in the age group of 25-34 years who accounted 30 percent of all respondents, followed by those in the group of 35-44 years who accounted for about 27 percent, those in the group of 45-54 years accounted for 23 percent while those in

the age group of 15-24 years accounted for 13 percent and those in 55+ years counted 7 percent. This is because most respondents were from the group of businessmen (VAT registered and unregistered VAT traders) who mostly are in the age group of 25-34 years, while ages of other group varies since anyone who is full grown men is liable to entitle that position e.g. a leader of market or general public. The age groups were important in order to enable the researcher to obtain meaningful answers from matured persons and not children whose thinking ability is still low. Since the researcher started with the age group of matured persons of 15-24 years it can be concluded that the answers obtained from the field are relevant to this study.

4.2.2 Sex

Sex shows equality of gender in undertaking various social-economic activities in the society while also shows the gender equality in involving in the decision making process. The sex of respondents considered were males and female. For the case of overall groups of respondents, they were considered in terms of TRA staffs of Mbeya City, small traders who are VAT registered and deals with taxable supplies subjected to VAT Mbeya City, unregistered VAT traders, leaders of Mwanjelwa market, suppliers of EFD machines, and general public in Mbeya City of Mbeya. Table 4.2 shows these data:

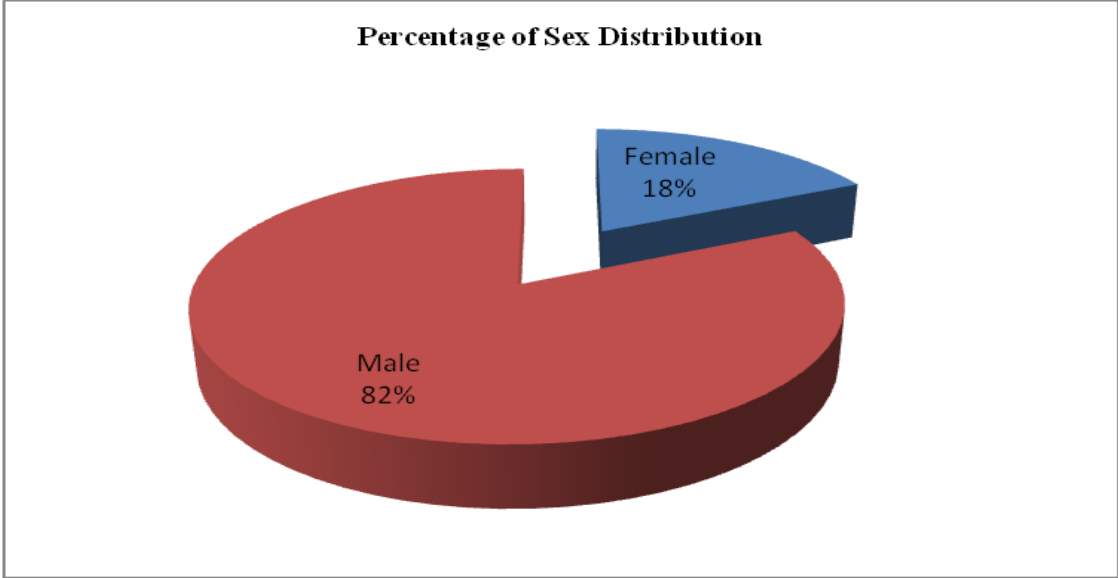
Table 4.2 Distribution of Sex of Respondents (n=150)

Respondents	Frequency	Percentage (%)
Female	27	18
Male	123	82
Total	150	100

Source: Study Findings, 2017

The same information is depicted using pie-chart as shown in Figure 4

Figure 4: Distribution of Sex of Respondents (n=150)



Source: Study Findings, 2017

From Table 4.2 and Figure 4, it can be deduced that most respondents were males who accounted about 82 percent compared to females who accounted for 18 percent. This is because most respondents were VAT registered and un-registered businessmen who are males. However, the inclusions of females also aimed at ensuring gender equality in obtaining relevant answers for this study. Thus, it can be concluded that the answers obtained in this study are relevant gender wise since it considered both gender of males and females.

4.2.3 Education

Education is important to analyze issues and offer meaningful suggestions. A person with higher formal education is likely to take and implement effectively various policy recommendations than a person with no or with lower formal education. Thus,

education was also considered as important variable of the respondents covered in this study. With regards to education of respondents, three categories were identified; namely, primary education, Secondary Education, and Tertiary education (Certificates, Diplomas and Bachelors, Masters and PhDs). Table 4.3 shows these data.

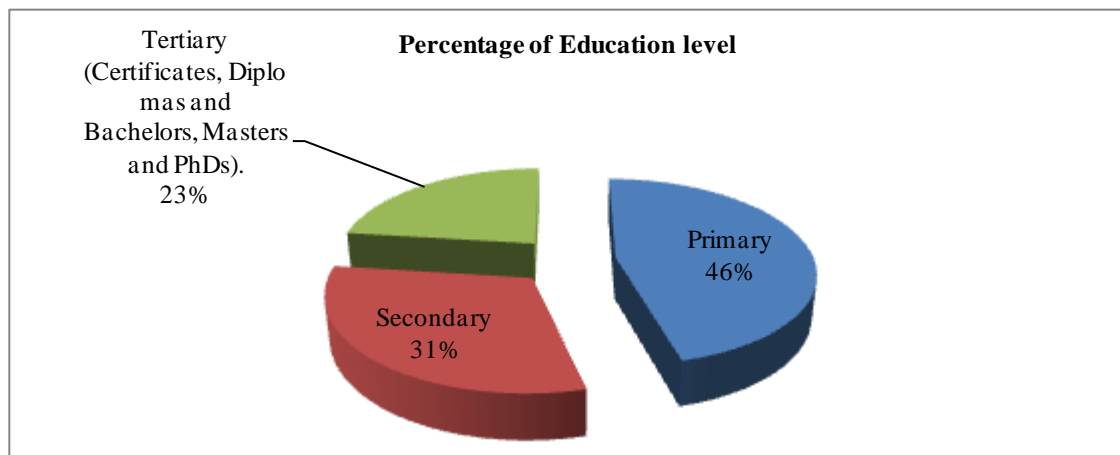
Table 4.3 Education Background of the Respondents (n=150)

Education	Frequency	Percentage (%)
Primary	69	46
Secondary	46	31
Tertiary (Certificates, Diplomas and Bachelors, Masters and PhDs).	35	23
Total	150	100

Source: Study Findings, 2017

The same information is presented using pie- chart as shown in Figure 5.

Figure 4.5: Education Background of the Respondents (n=150)



Source: Study Findings, 2017

From the Table 4.3 and Figure 5, it can be deduced that most respondents were primary education who in total accounted for 46 percent, followed by secondary

school education group who accounted for 31 percent and the least group was of tertiary education which consisted 23 percent.

Many respondents were of primary education because most of them were businessmen, and in Mbeya Region most businessmen constitute those who have not attended university, diploma and other higher education levels. Most of them have primary education and secondary education; while few of them have university level education. The inclusion of all various groups of education implies that the study obtained relevant answers on problems facing VAT administrations in Mbeya City of Mbeya Region.

4.2.4: Experience

With regards to experience of respondents on problems facing VAT administrations in Mbeya City of Mbeya Region, the researcher categorised respondents into: non-experienced, partially experienced and fully experienced. Table 7 shows the data.

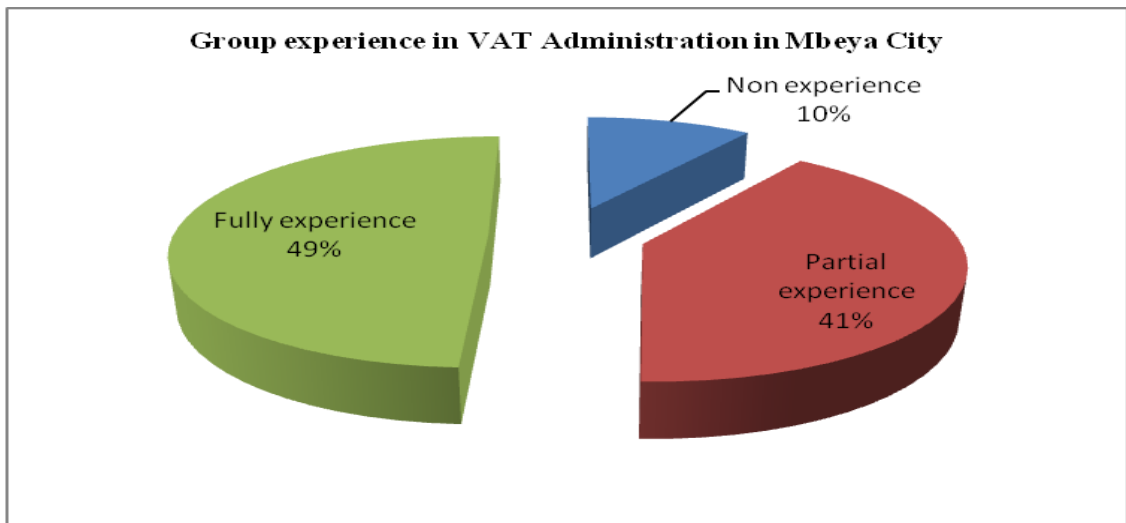
Table 4.4 Experience of Respondents (n=150)

Respondent	Frequency	Percentage (%)
Non experience	15	10
Partial experience	61	41
Fully experience	74	49
Total	150	100

Source: Study Findings, 2017

The same information is presented using pie- chart as shown in Figure 6.

Figure 6: Experience of Respondents (n=150)



Source: Study Findings, 2017

With regards to respondents' experience on problems facing VAT administrations in Mbeya City for the period of 2010-2015, Table 4.4 shows that most respondents were in the group of fully experience, accounting 49 percent; followed by the group with partial experience who accounted 41 percent while non-experience accounted 10 percent. This is because VAT was introduced in the year 1999 and most businessmen who are majority of the respondents of this study had experience with VAT administrations in one way or another. Thus, with regards to the experience, the study obtained relevant information relating to the problems facing VAT administrations in Mbeya city of Mbeya Region and other parts of Tanzania.

4.3 Challenges Facing Business Traders to Register Themselves with VAT

In assessing administration of VAT in Mbeya City, the study specifically identified the challenges facing business traders to register themselves voluntarily with the VAT system. The study asked the question of what are the challenges facing traders to register themselves voluntarily in VAT system in Mbeya City (Appendix 3).

Respondents were required to answer by indicating the degree of improvements they know. These are summarized in Table 4.5

Table 4.5 Challenges Facing Traders to Register Themselves Voluntarily in VAT System (n=150)

Challenge	Frequency	Percentage
Fear of losing Customers	22	14.7
Fear of losing Business because of tax evasion at Kariakoo.	17	11.3
Complexity of the VAT system	15	10.0
Imitation from others	21	14.0
Lack of Political will	11	7.3
Influential group on tax evasion	17	11.3
low level on VAT knowledge	17	11.3
Dissatisfaction with Tax Authority	9	6.0
Administrative Cost	21	14.0
Total	150	100.00

Source: Study Findings, 2017

The study found that the challenge facing traders at Mbeya city to registered themselves voluntarily in VAT system were fear of losing customers, imitation from others, administrative cost, fear of losing business because of tax evasion at Kariakoo, influential group on tax evasion, low level on tax knowledge, lack of political will and dissatisfaction on tax authority.

In answering what are the challenges facing traders to register themselves voluntarily in VAT system in Mbeya City (Appendix iii), out of the sampled 150 respondents, the study found that the degree of discrepancy in percentage of answered was not great. However, fear of traders to lose customers which accounted 14.7 percent of all respondents scored number one, followed by imitation from other traders which counted 14 percent as well as administrative cost. Thirdly, fear of losing business because of tax evasion at Kariakoo, influential group leader on tax and low level of tax

knowledge were counted for by 11.3 percentages. Lack of political will was another challenge which counted 7.3 percent followed by dissatisfaction with tax authority which counted 6 percent.

In their further explanations why do they thought fear of losing customers was the main challenge they said “When you are registered for VAT system you have to charge 18% on your selling price, therefore customers will not opt to buy from you but to unregistered traders who are not charging the 18% tax.

The study found that the most pressing challenge facing traders to register for VAT voluntarily for VAT was fear of losing customers. This is because there were still groups of traders who were qualified to be registered in VAT system but they did not. When they add 18% tax on their sales, customers may opt not to purchase from them because of inflated price with VAT.

Here when we say qualified traders we mean the traders who have turnover of 100million per annum and dealing with taxable supplies.

Another challenge facing traders in not registering themselves on VAT system was imitation from others traders who were not registered in the VAT system. These challenge are in line with views of Bordignon (1993) who found that taxpayers are always motivated by considerations on fairness with respect to the services that the government provides in exchange for their tax payments as well as the tax structure and the prevalence of evasion by other taxpayer.

So, when people are asked about possible justifications for engaging in tax evasion, a common answer is that they are being treated unfairly by the tax system. Alternatively, Barth, Cappelen and Ogendal (2005), observed that, people who are working in long hours with lower wage rate are always assumed themselves unfairly treated than

people who work in short hours with higher wage rate. So, the former group justifies themselves in evading taxes.

Also, the study found that, another challenge facing business traders to register themselves on VAT system is compliance cost associated with VAT. This answer is in line with the view of Pope (2001). VAT was cited as the largest source of tax compliance costs in 8 out of 11 OECD countries that were surveyed. VAT compliance costs compass mainly record keeping for VAT-purposes only, preparation and filling of VAT returns, checking accounts, obtaining information about new procedures for filling VAT returns, changes in the law and other relevant information (Cl  roux, 1992); (Klun, 2004); (O'Keefe and O'Hare, 2008).

Also, the studies in UK revealed empirical evidence which suggested that compliance costs according to VAT are relatively higher burden for small business (Cnossen, 1994; (Rametse and Pope, 2002). From Sandford *et al.* (1981) to Coolidge (2012), many studies about VAT compliance costs have increased general interest, especially from the government and the business sector. Therefore, the important factor that influence compliance cost studies of VAT (in monetary term) are- the complexity of the tax system, business size, the nature of business, the number of transactions performed, the number and type of categories applied to inputs and outputs , the length of time the business has been operating and also registered for the tax, general education and book keeping training of business owners and staff preparing returns, accounting system employed and socio demographic factors (Pope, 2003; (Yesegat, 2008). These empirical findings suggest that compliance costs show great variation among different types of taxes.

Another challenge that faced traders not to register themselves in VAT system was the complexity of VAT system itself. The study found that the VAT system is complex in

interpretation of the law governing VAT. It requires technical personnel, record keeping in every transaction they perform, failure of that is penalization. The issue of monthly file of return and maintaining VAT account required certified public accountants which had financial implication. The issue of refund on input tax took more than six months, which created problems in cash flow. As Mikesell and Birskyte (2007:1067-1068) correctly pointed out, complexity of tax legislation reduces compliance. In their study, they conclude that there is a general consent that American income tax preparation is burdensome and even overwhelming. “A law that can be understood (if at all) only by a tiny priesthood of lawyers and accountants is subject to popular suspicion”. By undermining popular support, complexity undermines the self-assessment on which economical compliance depends.”

Mikesell and Birskyte (2007) point out that the less burdensome and costly compliance is, the more likely a taxpayer is to comply with the tax laws. Complexity can also frustrate taxpayers in their efforts to comply with tax laws and create a sense of unfairness. Technical complexity and the demands for legal completeness produce significant alienation of taxpayers leading to lower tax morale and, consequently, evasion. Even if taxpayers do not necessarily view a complex tax system as unfair, the requirement to file a long tax form creates opportunities to evade and negatively effects compliance rates of the taxpayers facing such an obligation.

Tax laws by themselves are technical and in many cases are very complex. However, these laws can create additional complexity in various ways. For example, recordkeeping requirements, tax concessions, multiple tax rates, rebates, etc., all add to the complexity.

The study found that another challenge facing trader in registering themselves in VAT system was the issue of tax knowledge gap. This is because most of the small traders were of primary education. This made the level of understanding tax laws to be a big

challenge. This challenge is in line with the views of Silvan *et al.*, (1991) who asserted that taxpayers' education is especially crucial because the size of information gap in the tax system is inversely to the level of voluntary compliance.

The challenge of influential group leader and fear of losing business because of tax evasion at Karikoo were also manifested. This is because of the nature of VAT, a registered trader must make her purchase to registered traders only and input tax charge shall be deducted from output tax before submission to TRA. However, this should be supported by genuine invoice before submission to TRA office otherwise her submission shall be rejected. Because most business traders make their purchases at Kariakoo and act of tax evasion is manifested at Kariakoo, traders fear to lose their capital eventually business.

Influential group leaders are also businessmen and most of them are whole sellers and these small traders are purchasing good and services from them. Since VAT in nature is malt stage, they are in fear of the information of their business will be known, therefore discourage these small traders to register themselves voluntarily. This is one of the form of tax evasion which is in line with the view of Alam (2012) and Keen (2007) who define the term "tax evasion" as illegal and intentional actions taken by individuals or firms to reduce their legally due tax obligations. Individuals can evade income taxes by underreporting of incomes; by overstating deductions, exemptions, or credits; by failing to file appropriate tax returns or even by engaging in barter.

In case of VAT, traders can fail to register for the tax, they may under-report sales or, where different goods are subject to tax at different rates, they may reduce their tax payments by misclassifying sales into the category subject to a lower rate (or zero rate) of tax or evade VAT by abusing the credit and refund mechanism. In particular, the gradual cumulating of the tax at each stage of the chain of production and

distribution may reduce the amount tax at stake at each stage, and hence the gains to be made from making untaxed sales. Firms can present fraudulent invoices that allow them to understate their tax liabilities, or sometimes individuals even seek to register a firm to disguise their own personal consumption as purchased inputs. This has effectively answered the research question of “What are the challenges facing traders to register themselves voluntarily in VAT system in Mbeya City” and are in line with the views of Adams and Webley (2001) who discuss the impact of egoism on compliance behaviour. They draw on research by Weigel *et al.*(1998) who indicated that people who have egoistic tendencies are more likely to break rules when these rules are not in their personal self-interest and thus are more likely to try to avoid paying taxes in order to maximize their overall business profits.

Another challenge facing traders not to register themselves on VAT system was lack of political will. The respondents gave the reason on the issue of the grand corruption on the side of the expenditure of the government as the miss-use of their taxes and some politicians are doing business without paying taxes as well as issue of tax exemption given to investors. These answers are in line with the view of Franzsen (2012) who views that poor performance by tax authorities are often blamed on the lack of political support. Political will is an important factor in the tax compliance environment, it also seems that in some instances “lack of political will” is simply used as a blanket excuse by poorly performing tax authorities and local governments. However, perceptions about high levels of corruption in government will likely impact on the perceptions of local taxpayers, government service delivery and possible foreign investment. Hence it impacts on tax compliance.

Another challenge facing traders not to register themselves on VAT system was dissatisfaction with the tax authority. That is, taxpayers’ services offered and approaches used in administering of VAT did not meet taxpayers’ expectation. This

challenge is in line with views of Adams and Webley (2001); Elffers (1991); Hofmann *et al.*, 2008; Webley *et al.*, (2006) who indicate that dissatisfaction with the tax authorities is one of the reasons for non-compliance. One way to look at this is based on efficiency, with research showing that people that think the tax system is inefficient are less likely to comply. Spending resources to conduct an administration assessment of tax liability or to mitigate taxpayer noncompliance exclusively through auditing and penalty is ultimately very costly. We propose that taxpayer services, such as electronic filling, tax simplification, continuous withholding, and taxpayer education, would foster voluntary compliance by reducing the taxpayer's cost (Silvan *et al.*, 1991).

4.4 Obstacles Facing Business Traders in Collecting VAT from Customers

In assessing administration of VAT in Mbeya City the study specifically identified the obstacles facing business traders to collect VAT from customers.

The study asked a question of what are the obstacles facing business traders in collecting VAT from customers at Mbeya (appendix 3). Respondents were required to answer by indicating the degree of improvements they know. These are summarized in the Table 4.6

Table 4.6 Obstacles Facing Business Traders in Collecting VAT from Customers (n=150)

Obstacles	Frequency	Percentage
Competition on customers	20	13.3
Mental Accounting effect	15	10.0
Lack of Motivation	23	15.3
Personal Greed	57	38.0
Tax evasion at Kariakoo	35	23.3
Total	150	100.0

Source: Study Findings, 2017

The study found that obstacles facing business traders in collecting VAT from customers in Mbeya city were personal greed, tax evasion at Kariakoo, lack of motivation, competition on customers and mental accounting effect.

In answering this question out of the sampled 150 respondents, the most provided answer was personal greed which was accounted for by 38 percent of all respondents, followed by tax evasion at Kariakoo which was accounted for by 23.3 percent, lack of motivation among businessmen in Mbeya city which accounted 15.3 percent. In addition, customers' competition among Mbeya city accounted 13.3 percent and mental accounting effect accounted 10 percent as indicated in Table 4.6.

The study found that the hindrance encountered by traders in collecting 18% from their customers was personal greed and are in line with the views of Webley *et al.*, (1991) why do people evade taxes? The most familiar answer would be "for greed". He assumes that people will commit an offence to maximize their utility.

Another reason was the issue of tax evasion at Kariakoo market. Most business traders make their purchase at Kariakoo market in Dar es salaam and often are given fake tax invoice or under declared good and services or not given any receipt at all in their purchases. Whenever they demand the correct one, they are not given. And therefore they would have no another best alternative from these business traders. During submission of monthly VAT return and claiming the input VAT on their purchase, TRA deny them because they are illegal. This kills their capital and eventually their business.

This is one of the form of tax evasion which is in line with the view of Alam (2012) and Keen (2007) who state that the term "tax evasion" refers to illegal and intentional actions taken by individuals or firms to reduce their legally due tax obligations. Individuals can evade income taxes by underreporting of incomes; by overstating

deductions, exemptions, or credits; by failing to file appropriate tax returns or even by engaging in barter.

Furthermore, lack of motivation was mentioned. Respondents urged that, they were given task as government agent to collect VAT from general public without reward. This answer was in line with the view of Vroom's expectancy theory which based on the belief that employee effort will lead to performance and performance will lead to rewards (Vroom, 1964). The theory states that individuals can be motivated if they believe that there is a positive correlation between the efforts they put in and their performance and when that favourable performance leads to a reward. Consequently, the reward helps satisfy an important need and the desire to satisfy that need is strong enough to make the efforts worthwhile. The theory states that the strength of an individual's motivation will depend on the extent to which they expect the results of their efforts to contribute towards their personal needs or goals and that motivation is a result of a rational calculation (Vroom, 1964) Vroom's theory can apply to any situation where someone does something because they expect a certain outcome.

Another obstacle facing business traders to collect VAT was customers' competition. This was mentioned because there were still groups of traders who were not registered for VAT, therefore when you charge VAT your price would be more than 18% compared to the unregistered traders. Therefore, automatically customers would not opt to buy from traders who charge 18% of VAT

Another obstacle facing business traders to collect VAT was mental accounting effect. The study found that these small business traders once they collected VAT they used the money to finance their business and forget to remit to TRA office because psychologically, they thought all were their money. This answer is in line with view of Webley *et al.*, (2006) mental accounting is often described as a psychological mechanism whereby income is framed in respect of personal finance.

People have a number of mental accounts that operate independently of one another. What is interesting in the current context is whether business men and women psychologically separate monies owed to the VAT into a separate mental account from that of business turnover. If they do not, they may be more likely to try to evade VAT as a result of seeing it as ‘their’ money. The results of their research is that most of the business people saw the money collected as theirs and therefore disliked handing it over to relevant authority.

4.5 Factors Making Business Traders Reluctant in using EFDs Machine

In assessing administration of VAT in Mbeya City, the study specifically identified the factor which caused the traders to be reluctant in using EFDs machines. The study was asking the question of which factors cause the traders to be reluctant in using EFDs machine? Respondents were required to answer by indicating the degree of improvements they know. The study used the sample of 150 respondents and their answers are summarised in the Table 4.7.

Table 4.7 Factors Making Business Traders Reluctant in using EFDs Machine (n=150).

Factor	Frequency	Percentage
Low level of Education	45	30.0
Acquisition Cost and Maintaining cost	26	17.3
Fear of paying actual tax	29	19.3
Fear to be registered for VAT	35	23.3
Intimidation from Influential groups on uses of EFDs machine.	15	10.0
Total	150	100.0

Source: Study Findings, 2017

The study found that factors making business traders to be reluctant in using EFDs machine were low level of education, fear to be registered for VAT, fear of paying

actual tax, acquisition cost and maintaining cost and intimidation from influential groups on uses of EFDs machine (Appendix 3).

With regard to this section, out of the sampled 150 respondents, the most provided answer was low level of education which was accounted for by 30 percent of all respondents, followed by fear to be registered for VAT which was accounted for by 23.3, followed by fear of paying actual tax was counted 19.3 percent followed by cost of acquisition and maintaining of EFDs machine which was counted for by 17.3 percent, and finally was intimidation from influential group which counted 10 percent.

The study found that low level of education was one of the factors that caused business traders to be reluctant in using EFD machines. This factor is in line with views of Silvan *et al.*, (1991) taxpayers' education is especially crucial because the size of information gap in the tax system is inversely to the level of voluntary compliance. The information gaps were language used in machines, technicality of IT and others.

This has effectively answered the research question of “which factors cause the traders to be reluctant in using EFDs machine”, and are in line with the views of Kathuri (2006) who conducted a study to examine the role of electronic fiscal device machines (EFDS) on VAT administration in Kenya, and found that since they introduced in 2004 to help Kenya Revenues Authority (KRA) to establish the amount of VAT payable without necessarily requiring the traders to provide records for cross checking and hence increase the amounts of VAT collected at reduced collection cost, the success of electronic fiscal device machines (EFDS) machines in Kenya was not higher due to sabotages to machines made by unfaithfully traders who wanted to have higher tax evasions in order to increase their business profits by larger amounts. From these, he recommended that enough education should be provided to tax payers not to

sabotages electronic tax machines in order to enable the government increase their overall tax revenues collected.

Another factor that caused traders to be reluctant in using EFDs machine was fear to be registered for VAT. This was because in every sales they made should be supported by EFDs receipt therefore the machine will permanently record the actual sales of traders to be seen by TRA office and hence easily registration for VAT system. This is one of the forms of tax evasion

Another factor that caused traders to be reluctant in using EFDs machines was fear to pay actual tax. This is because the sales they made would be permanently recorded in the EFDMS system, therefore shall be no negotiation between taxpayer and tax officer at the period of assessment.

Moreover, traders were reluctant in using EFDs machine because of acquisition cost and maintaining cost. Taxpayer's claimed that EFDs machines were introduced by the government with the purpose of collecting government money. It is unfair for the traders to use their money to purchase the EFDs machine. It was the duty of the government to purchase and give the traders to use them freely. Furthermore, traders claimed that from the experience of users of the first phase, machines manifested several weaknesses, like network problem, power storage problem, mother board problem. Therefore, maintenance cost was thought to be high to them. However, in their response, TRA tax officers claimed that those weaknesses were not an issue because the traders have the right to claims i.e. allowable expenditure in the final return.

Another factor that caused traders to be reluctant in using EFDs machine was intimidation from influential group leaders on tax evasion. Most of the influential group leaders are the traders who are whole sellers at Mbeya City and were involve in

acquisition of machines in the first phase. They had large number of transaction and most of traders made their purchases from them. The uses of EFDs machine will enforce small traders to demand receipt and tax invoice from them. Therefore, they intimidated small traders not to acquire them by telling them that the machines will kill their businesses.

4.6 Actual Registration of all Eligible Traders

In assessing administration of VAT in Mbeya City, the study specifically went further assessing whether all eligible traders were actually registered for VAT.

The study was asking the question of does all eligible traders actually registered for VAT at Mbeya City? (Appendix 2). In answering this question, the study used a total of 150 respondents who were required to provide one answer among the three answers; namely, Yes, No, and I don't know. The views of respondents are summarized in Table 4.8.

Table 4.8 Actual Registration of all Eligible Traders for VAT (n=150)

Respondents	Frequency	Percentage
Yes	10	6.7
No	116	77.3
I don't know	24	16.0
Total	150	100.0

Source: Study Findings, 2017

The study found that there were still eligible traders for VAT registration who were not in VAT system.

With regard to this section and Table 4.8 above, the most provided answer was No, which accounted for by 77.3 percent of all respondents. Then, it was followed by the answer 'I don't know' which accounted 16 percent, and lastly, yes, which accounted

6.7 percent. Thus, in conclusion it is clear that not all eligible traders for VAT in Mbeya City of Mbeya Region had been actually registered for VAT.

These findings answered the research question which asked the respondents on whether all eligible traders were actually registered for VAT. Also, these answers were in line with the views of Aruwa (2008) who conducted a study to examine the challenges facing VAT administrations in Nigeria. He found that poor remuneration and motivation of FIRS staff, practical problems related to the implementation of VAT, dual elements of input and output, inadequate funding for the revenue services, tax evasion and avoidance and problem of unqualified, untrained staff caused a significant numbers of traders who were supposed to be registered for VAT in Nigeria, not to be registered and hence led to loss of higher amounts of VAT revenues. From these he recommended that that these problems should be solved in order to make all eligible traders to be fully registered for VAT in Nigeria.

Generally, there are still eligible traders for VAT registrations in Mbeya City.

4.7 Knowledge of Business traders in Tax Payment

In assessing administration of VAT in Mbeya City, the study also was interested in assessing the knowledge of business traders in tax payment.

In answering this objective, the study used a total of 150 and respondents who were required to provide one answer among the three alternatives which were given, namely, Yes, No, and I don't know. The views of these respondents are summarized in Table 4.9.

Table 4.9 Knowledge of Business Traders in Tax Payment.

Respondents	Frequency	Percentage
No	95	63.3
Yes	24	16.0
I don't know	31	20.7
Total	150	100.0

Source: Study Findings, 2017

In respect to this objective and the results presented in Table 4.9, out of the sampled 150 respondents, the most provided answer was No, which accounted 63.3 percent of all respondents. Then it was followed by the answer 'I don't know' which accounted 20.7 percent and lastly, was the yes answer which accounted 16 percent of the respondents. Thus, in conclusion it is clear that all traders in Mbeya Region did not have fully and right knowledge on payments of VAT and all other legal taxes. This resulted into frequent clashes with TRA officials and other Government officials. This answered the research question which asked the respondents on whether business owner had enough knowledge on tax payment. Also, these answers are in line with the views of Aruwa (2008) who conducted a study to examine the challenges facing VAT administrations in Nigeria. He found that a larger percentage of business owners in Nigeria did not have sufficient knowledge on tax laws and tax payments and this contributed to an increase in difficulties of implementing tax administrations in Nigeria. He recommended that tax authorities in collaborations with the Government should collaborate to increase tax knowledge to businessmen and the general public.

Generally, business owners of Mbeya City did not have enough knowledge of business on tax payment.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of the Major Findings

Generally, the challenge facing traders to register themselves voluntarily in VAT system in Mbeya City are fear of losing customers, administrative cost, and fear of losing business because of tax evasion at Karikoo, influential group on tax evasion and low level on tax knowledge.

The obstacles facing business traders in collecting VAT from customers in Mbeya City are personal greed, act of tax evasion at Kariakoo market, lack of motivation and competition on customers.

Factors making business traders to be reluctant in using EFDs machine are low level of education, fear to be registered for VAT, fear of paying actual tax and acquisition and maintaining cost.

There are still eligible traders for VAT registrations are not in VAT system and business owners of Mbeya City do not have enough knowledge of business on tax payment.

5.2 Conclusion

Increasing poor implementations of administration of VAT in Mbeya City by business communities in Mbeya City have contributed to weaken the overall performances of VAT collections in Mbeya City and frequently resulting into clashes between TRA officials and business men in Mbeya City and other parts of Mbeya Region. Hence, immediate measures need to be undertaken by the TRA management in Mbeya City, Businessmen and other stakeholders in order to make sure that there are overall

improvements in VAT administrations in Mbeya City and other parts of Mbeya Region.

5.3 Recommendations

In order to ensure that there are good VAT administrations in Mbeya City and other parts of Mbeya Region, according to findings of this study, the following are recommended:

- i) TRA office at Mbeya city must enhance strong block management system as a strategy to identify eligible traders who are supposed to be registered in the VAT system. This can be possible through employing qualified, trained and motivated personnel with investigative mind so as to attain desired output. This will create good atmosphere of fair competition among business community hence enhance revenue generation.
- ii) TRA office at Mbeya together with the recommendation mentioned above should use stiff punishment for those who practice this act of tax evasion once identified according to the law and register them by force.
- iii) Conduct tax audit to identify the actual tax liability from the time they were supposed to be registered and collect them immediately.
- iv) TRA and other stakeholders have to review VAT law and remove some of the laws which cause unnecessary burdens to taxpayers because some of the requirements of VAT law are costly when complied with.

- v) TRA and other stakeholders have to pay special attention at the market of Kariakoo because VAT is the system, when one part of the system fail to meet her obligation by the law, it creates problem to another part of the system. Since there is the act of tax evasiveness at Kariakoo. This causes acts of evasiveness at Mbeya too. Since this is intentionally, tax education should be given to traders at Kariakoo and strong punishment should be taken to traders who breach the law and enhance strong block management system.
- vi) National campaign should be taken as the national illness i.e. The general public, private sectors, activist, politicians, media and government through local authority at the family level, street, village, ward, schools, mosque and churches in one spirit should be sensitized to demand receipt when buying goods or services from the traders and not leave to TRA only. The tax evaders should be reported to relevant authority and be publicized through media. Tax audit, Penalties, and possibility to be detected on tax evasion should be enhanced. This will help to change attitude and act of tax evasion among business community.
- vii) TRA must invest in taxpayer's services which as electronic filling, tax simplification, continuous withholding, and taxpayer education, would foster voluntary compliance by reducing the taxpayer's cost.
- viii) Before they introduce major changes according to the law pilot study should put into the mind to assess applicability.
- ix) Not to take entire population at the time on introduce major changes, they can take certain taxpayers with the criteria.
- x) Before they introduce major changes, various stakeholders should be involved in preliminary stages such as intellectual bodies, researchers, local authority leaders, influential groups, religious groups, politician and media so as to

create conducive atmosphere and to reduce resistance of changes from business community.

- xi) The Government should show commitment in cost sharing on acquisition and maintenance of the EFDs machine because it helps to collect government revenue.
- xii) The Government should consider registered VAT taxpayers as agent by paying them some percent of their collection as reward that will motivate them to collect more and reduced VAT rate of 18% to single digit to encourage compliance behavior among general public.

5.3 Area for Further Study

This research has assessed administration of VAT in Mbeya City of Mbeya Region, future study could:

- i) Investigate administration of other taxes such as income taxes in Mbeya City and other parts of Mbeya Region
- ii) Assess capacity of TRA in administration of VAT and other taxes whether are match with the number of taxpayers.
- iii) Assess whether 100 million as a minimum threshold for VAT registration is still varied.

Varied or valid?

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APPENDICES

Appendix 1: Questionnaire for VAT registrant taxpayers in Mbeya region on the title:- Administration of Value Added Tax in Mbeya region.

Dear respondents!

My name is Paul Walalaze a student from MBA (Corporate Management) Mzumbe University Mbeya Campus. I carry out a study on administration of VAT in Mbeya City. This study is conducted in partial fulfilment of the requirements for the Master Degree in Business Administration.

The purpose of this questionnaire is to obtain your perceptions and views regarding the existing administration of Value Added Tax activities of the Mbeya City with the specific objectives on identification of challenges facing business traders to register themselves with VAT, examination of obstacles facing traders in collecting 18% from their customers, to determine factors making business traders to become reluctant in using EFD machines, to investigate whether all eligible traders are actually registered in VAT system and examination the knowledge business owners on tax payment.

This study will help Mbeya and other region to identify its problems and improve its VAT administration. The information you provide will enable me to critically analyze the subject matter. Therefore, please answer all questions.

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire.

I thank you very much in advance for your cooperation.

(Put your choice in the box and write in the blank space where it provided)

Section A: Personal data

1. Age of Respondent in (years)

- (a) 15-24 []
- (b) 25-34 []
- (c) 35-44 []
- (d) 45-54 []
- (e) 55+ []

2. Sex of Respondents

- (a) Male []
- (b) Female []

3. Education level

- (a) Primary education []
- (b) Secondary education []
- (c) Higher education []
- (d) Others (Specify) []

4. Position of the respondent in business

- (a) Business owner []
- (b) Employee []
- (c) Tax Consultant []

5. How many years are you in VAT system?

- (a) 0-5 []
- (b) 5-10 []
- (c) 10+ []

6 Type of trader

- (a) Manufacturing []
- (b) Whole Sellers []

- (c) Sub whole Sellers []
- (d) Retailer []

(7) Type of business.....

Section B Questions related to the TRA office in Mbeya

8) What do you consider in taxpayers identification and registration process for VAT system

(i) Is VAT system in Mbeya fairly enough?

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f) Strong Disagree []

(ii) Are TRA officers in Mbeya investigative enough?

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f) Strong Disagree []

(iii) Some tax officials in Mbeya intentionally miss to register for VAT some potential taxpayers

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []

- (e) Disagree []
- (f) Strong Disagree []

(iv) Still there are many potentials should be register Mbeya but didn't do so

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f) Strong Disagree []

9) List the Obstacles you face in Charging 18% of VAT in your daily gross taking

10. Mention the challenges you are facing to register yourself as a traders for voluntarily in VAT system?.....

11. Mention the hindrance you encountered in collecting 18% from your buyer customers.....

12. Mention the factors that cause you and other traders to be reluctant in using EFD machine to collect VAT and other Central Government taxes.....

13. Do you think that all eligible traders for VAT have been actually registered for VAT in Mbeya City and Other Mbeya Region (a) YES (b) NO (c) I do not know ()

14. Do you and other fellow businessmen have enough knowledge on tax payment? a) YES (b) NO (c) I do not know ()

15. Provide other information that are useful to this study.....

Section C Questions related to the TRA office in Dar es Salaam where Most Traders make their Purchasing.

10) By make your purchasing at Dar es Salaam affect your business positively in relation VAT system

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f)Strong Disagree []

What do you consider in taxpayers identification and registration process for VAT system in Dar es Salaam

11) Is VAT system in Dar es Salaam is fairly enough?

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f)Strong Disagree []

12) Is TRA officers in Dar es Salaam are investigative enough?

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f)Strong Disagree []

13) Some tax officials Dar es Salaam intentionally miss to register for VAT some potential taxpayers

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f) Strong Disagree []

14) Still there are many potentials should be register Dar es Salaam but didn't do so

- (a) Strong Agree []
- (b) Agree []
- (d) Indifferent []
- (e) Disagree []
- (f) Strong Disagree []

15) What are challenges you encounter in purchasing at Dar es Salaam in relation to VAT

system.....
.....

16) If you could have purchasing alternative with Kariakoo in Dar es Salaam VAT system could you opt to do so If Yes why? If not so why?

17) What is your opinion about the threshold, turnover of Tshs 100,000 per annum?(Tick)

- a) Very high
- b) High
- c) Moderate
- d) Low

e) Very low.

18) What are the major problems of VAT collection in Mbeya? (Tick all that apply)

- a) Monthly returns for small firms is costly
- b) There are many filing requirements
- c) Laws and procedures not clear and simple
- d) Monthly massive cross checking takes long time
- e) Tax collectors are not skilled enough

If you have any, mention it here.....

19) How do you evaluate the strength of TRA Mbeya with respect to the following aspect?

- a) Excellent
- b) Good
- c) Fair
- d) Poor

Education and assistance	[]
Program for taxpayers	[]
Qualified human resource	[]
Honest	[]
Office facility	[]

20) Do you have confidence with TRA officer in VAT assessment and auditing?

- a) Yes
- b) No

21) For question number 20, if your answer is 'No', give the reason(s) of your choice.....

.....

22) If there is no penalty, is there a possibility that you may not be register for VAT,

- a) Yes
- b) No

23) How do you express the amount of taxpayers who are not willing to be register for?

VAT system voluntarily?

- a) Many
- b) Insignificant
- c) Few
- d) Non

24) For question number '23', if your answer is 'a', 'b', or 'c' why they are not willing? (Tick all that apply)

- a) Poor VAT administrative system
- b) Due to problems from their suppliers
- c) Due to fear of competition from unregistered similar businesses

25) Does the non-registration of other taxpayers for VAT have a negative impact on business?

- a) Yes
- b) No

26) By your opinion what should done to improve VAT administration in Mbeya region.....

.....
.....

27) In terms of honesty and loyalty of VAT registrants, how do you express the Following? (Tick all that apply)

Many

Insignificant

Few

Non

VAT registrants sell goods and services without EFD receipt []

VAT registrants manipulate EFD Machine []

VAT registrants provide fake invoices to secure more input tax []

If you have any mention it here.....

27) On 1st October 2013 we experienced a strike over acquisition of EFD machine starting from Mbeya region to other regions. In your opinion what do you think was the cause and reason that led traders to close their shops as a means to force the government to suspend the enforcement measure to traders on acquisition of EFD machine?.....

.....

28. Mention the challenges traders are facing to register s for voluntarily in VAT system?

29 Mention the hindrance traders are encountered s in collecting 18% from their buyer customers.....

30. Mention the factors that cause other traders to be reluctant in using EFD machine to collect VAT and other Central Government taxes.....

31. Do you think that all eligible traders for VAT have been actually registered for VAT in Mbeya City and Other Mbeya Region (a) Yes (b) No (c) I do not know ()

32. Do you and other fellow businessmen have enough knowledge on tax payment?

a) YES (b) N (c) I do not know ()

33) Give your general comment on the overall VAT administration in Mbeya Region.....

.....

Thank you again

**Appendix 2: Questionnaire for TRA Official in Mbeya region on the title:-
Administration of Value Added Tax in Mbeya region.**

Dear respondents!

My name is Paul Walalaze, a student from MBA (Corporate Management) Mzumbe University Mbeya Campus. I am carrying out a study on the administration of Value Added Tax (VAT) in Mbeya region. This study is conducted in partial fulfilment of the requirements for the Master Degree in Business Administration.

The purpose of this questionnaire is to obtain your perceptions and views regarding the existing administration of Value Added Tax activities of the Mbeya City with the specific objectives on identification of challenges facing business traders to register themselves with VAT, examination of obstacles facing traders in collecting 18% from their customers, to determine factors making business traders to become reluctant in using EFD machines, to investigate whether all eligible traders are actually registered in VAT system and examination the knowledge business owners on tax payment.

This study will help the Mbeya and other regions to identify its problems and improve its VAT administration.

The information you will give will enable me to critically analyze the subject matter.

Therefore, please answer all questions.

I hereby assure you that all information obtained through this questionnaire shall be used for academic purposes only and will be handled and stored with the highest order of confidentiality. Please do not write your name anywhere on the questionnaire. I thank you very much in advance for your cooperation.

(Put” “in the box of your choice and write in the blank space where it provided)

Section A: Personal data

1. Age of Respondent in TRA (years)
 - (a) 0-2 []
 - (b) 2-5 []
 - (c) 5-10 []
 - (d) 10+ []
2. At what Department do you belong?
 - (a) Domestic Revenue Department
 - (b) Customs
 - (c) Investigation

Section B Questions related to the tax office

3. In registering taxpayers for VAT, what system do TRA follow? (Tick all that apply)
 - a) Physical Survey in Block Management system.
 - b) Surprise visit
 - c) checking purchase invoices of registered taxpayers during auditingIf any other, mention it here.....

4. What is your opinion about the threshold, Tsh100mil per annum for VAT registration?
 - a) Very high
 - b) High
 - c) Moderate
 - d) Low
 - e) Very low

5. How do you evaluate the strength of your office with respect to the following aspects?

Excellent

Good

Faire

Poor

- a) Simple and stable tax laws
- b) Good service to taxpayers
- c) Simple filing and payment procedure
- d) Appropriate penalties
- e) Faire and efficient appeals system

6. Do you agree that your office is effective in auditing and enforcement of VAT?

- a) Very strongly
- b) Strongly
- c) Not sure
- d) Not at all

Section c Questions related to taxpayers

7. How do you express the number of voluntary VAT payers in Mbeya Region?

- a), very high b), high c), moderate d), low e), very low

8. What do you think about taxpayers thought towards VAT?

- a), excellent b), good c), faire d),poor

9. In terms of honesty and loyalty of VAT registrants, how do you guess the following?

(Tick all that apply)

Many, Insignificant, Few, Non

VAT registrants sell goods and services without issuing EFD receipt?

VAT registrants manipulate EFD machine

VAT registrants provide fake invoices to secure more input tax

If you have any mention it here.....

10. How do you evaluate the trends of TRA Office in administering VAT in the last five years?

.....
.....

11. What are the main constraints in administering VAT in Mbeya city in terms of; registration, collection, auditing, and enforcement activities?

.....
.....

12. Do you have simplified laws and procedures particularly for small businesses?

.....
.....

13. What about your service delivery in terms of; office facilities, qualified and honest human resource, sufficient man power and so on?

.....
.....

14. On 1st October 2013 we experienced a strike over acquisition of EFD machine starting from Mbeya region to other region in your opinion what do you think was the cause and reason for traders to close their shops as a means to force the government to suspend the enforcement measure to traders on acquisition of EFD machine?

.....
.....

15. Finally, please, generalize the degree of effectiveness of the Mbeya in VAT Administration.....

.....

16. Do you think that all eligible traders for VAT have been actually registered for VAT in Mbeya City and Other Mbeya Region (a) YES (b) NO (c) I do not know ()

17. Do you and other fellow businessmen have enough knowledge on tax payment

a) YES (b) NO (c) I do not know ()

Provide other information that are useful to this study.....

Thank you again

Appendix 3: Interview Guide

1. What are the challenges facing traders to register themselves voluntarily in VAT system?
2. What are the obstacles facing business traders in collecting VAT from customers at Mbeya?
3. Mention the factors that cause other traders to be reluctant in using EFD machine to collect VAT and other Central Government taxes.....
4. How do you express the voluntary compliance of taxpayers in Mbeya and if any effort or plan to improve it?
.....
5. Give your general comment on the overall VAT administration in Mbeya Region.....