TAXPAYER’S PERCEPTIONS ON COMPLIANCE OF ELECTRONIC FISCAL DEVICES (EFD) ON REVENUE COLLECTION IN DAR ES SALAAM REGION

The Case of Medium Entrepreneurs in Ilala District
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The Case of Medium Entrepreneurs in Ilala District

By

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A Dissertation Submitted to Mzumbe University Dar es Salaam Campus College, in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Business Administration –Corporate Management (MBA-CM) of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled *Taxpayer’s Perception on (EFD) Electronic Fiscal Devices on Revenue Collection in Dar es Salaam Region: The case Study of Medium Entrepreneurs of Ilala Tax Region* in partial fulfillment of the requirements for award of the degree of Master of Public Administration of Mzumbe University.

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DEAN/DIRECTOR, FACULTY/DIRECTORATE/SCHOOL/BOARD
I, Anastazia Mulyalya, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature____________________________

Date________________________________

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God bless you all.

DEDICATION
This dissertation is dedicated to my husband Peter Kaluwa who gives me full support. (God bless you).

ABBREVIATIONS AND ACRONYMS

BMTL - Business Machines Tanzania Limited
ECR - Electric Cash Register
EFDMs - Electronic Fiscal Devices Management System
ETR - Electronic Tax Register
LTD - Large Taxpayer Department
TIN - Taxpayer Identification Number
TRA - Tanzania Revenue Authority
UIN - User Identification Number
VAT - Value Added Tax
ZIMRA - Zimbabwe Revenue Authority

ABSTRACT
The study investigated the Taxpayer’s perceptions on compliance of fiscal electronic devices on revenue collection in Dar see Salaam region, the case of medium entrepreneurs in Ilala district. Specifically, the study investigated whether Taxpayers have enough knowledge on Electronic Fiscal Device (EFDs), assessed Taxpayer’s altitude towards utilization of EFDs, investigated the challenges facing Taxpayers on utilization of EFDs whereby (41.7%) were females and (58.3%) males. Data collection methods were questionnaires, personal interview and documentary review.

Results revealed that 87% of respondents had no enough knowledge on utilizations of EDF while 23% had; it was also revealed that 84% had negative attitudes towards utilization of EFDs while 12% had not. Results as well revealed that there was an increase of revenue collection from less than million 500 to above million 3,500 in 2011/12. Different challenges for utilization of EFDs revealed such as; higher purchasing price of EFDs, Taxpayer dislikes EFDs system, difficulties from the suppliers of the EFDs, devices were not working properly. Other challenges were; technical problems, lack of education among Value Added Tax (VAT) traders on how best to use EFDs and the problem of breakdown. Different strategies to enhance utilization of EFDs were discovered including; EFDs be paid in installments, compatibility between EFDs and computers, provision of free EFDs, provision of education on EFDs, provision of praises, TRA should introduce EFDs that can handle field sales, Tanzania Revenue Authority (TRA) should introduce cheaper EFDs; introduce EFDs that have less rates or breakdowns; introduce different systems for different businesses and promotion of EFDs machine in the media through radios, magazines and television.

It is concluded that the strategies used to enhance utilization of EFDs machines must reflect the challenges facing implementations of the EFDs machines. However, the improvement of machine and knowledge for both Taxpayers and Tanzania Revenue Authority need to be emphasized. It was recommended that a policy on fiscalization of devices should be done under TRA officer’s supervision to make sure that fiscalization process is properly done within time frame.

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CHAPTER ONE

INTRODUCTION

1.0 Introduction

The Government of Tanzania through its TANZANIA Revenue Authority embarked on the system of providing receipts by using Electronic Fiscal Devices (EFDs) which replaces the former machines known as Electronic Cash Register (ECRs) that were implemented before and proved futile to the expectations and objectives including enhancing effective tax administration and proper management of sales in business. 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.

The Tanzania Revenue Authority (TRA) is implementing the Electronic Fiscal Devices Regime as one of the initiatives under its Third Corporate Plan (2008/2009 – 2012/2013) to enhance voluntary compliance in areas of receipt issuance and increase tax revenue collection in a cost effective way (Tanzania Revenue Authority, Electronic fiscal devices phase I evaluation 2012). The implementation of Electronic Fiscal Devices is expected to ensure issuance of homogeneous fiscal receipts and fiscal invoices. (Tanzania Revenue Authority, manual, 2011).

Electronic Fiscal Devices are also meant to intensify controls, improve tax data quality, safety and minimize the use of parallel and fake receipts. The devices ensure easy access of online tax information and quick response to deviation or malpractices over the machine(s); facilitates efficient time management for compliance monitoring. Also, it simplifies field tax audits and refunds, facilitates retrieval of adequate information for administration of other taxes as well as provision of high quality taxpayer services and consequently minimizes tax disputes.

Therefore, the Tanzania Revenue Authority (TRA) has embarked on a comprehensive strategy aimed to control tax evaders registered under the value added tax (VAT)
(Tanzania Revenue Authority, Annual report 2010). According to TRA report (2010), the strategy of applying the Electronic Fiscal Devices Regulation (EFD) was for ensuring that all traders registered under VAT are prohibited from conducting business without Electronic Fiscal Devices machines.

1.1 Background of the Study
Fiscal cash registers (FCR), sales register machines, electronic tax registers (ETR), electronic fiscal devices (EFD), are just some of the names to describe business machines used for production of invoices with capability to store daily reports in its fiscal memory (Tanzania Revenue Authority Annual Report, 2011). These electronic devices are designed to address the need of taxpayers, in terms of being suitable for the business model and functionality to secure tax information for audit purposes (Tanzania Revenue Authority, Annual Report 2010). For the case of this study, electronic fiscal devices (EFD) only were discussed.

The EFD machines aims at allowing TRA to get correct sales information from businesspeople; reduce tax collection costs and helping businessmen to comply with the Value Added Tax (VAT) regulations (Tanzania Revenue Authority, Annual Report 2010). Businessmen records also monitored directly from the Tanzania Revenue Authority headquarters; a step that eliminates the need for issuance of untrue receipts to customers (Tanzania Revenue Authority, Annual report 2011).

Implementation of EFDs has caused an increase of tax revenue collected by the TRA from an equivalent of US$1,575 million in 2004/05 to the current levels of US$3,185 million in 2010/11 while revenue to GDP ratio increased from 10.8% to 15.3 % respectively (Tanzania Revenue Authority, Annual report, 2011).

Study has shown that EFDs in Kenya is very effective as they provided grace period by introducing Electronic Fiscal Devices to supermarkets stakeholders, all weaknesses identified with regard to Electronic Fiscal Devices were settled and then Electronic Fiscal Devices was extended to all other VAT taxpayers (Kenya Revenue Authority, Annual Report, 2011). Zimbabwe’s Ministry of Finance and the Zimbabwe Revenue Authority (ZIMRA) launched fiscalised electronic registers and fiscal memory
devices. The devices are a new legal requirement for all businesses with an annual turnover threshold of $240,000 (Zimbabwe Revenue Authority, 2010). This information indicates that utilization of EFDs facilitates revenue collection despite of the challenges facing implementation of the system.

However, implementation of Electronic Fiscal Devices in Tanzania is facing a lot of challenges. Taxpayers are not responding to use EFDs as was expected. Though, researchers had concentrated much of their work on tax systems, tax evasion, taxes and interest rates (Belkaoui, 2004; Das-Gupta, 2006; Richardson 2006). Although, Mboma (2010) conducted a study on the challenges to Electronic Fiscal Devices adoption in Tanzania: Enhancing VAT Services in Tanzania. Still the issue of Taxpayer’s perceptions on compliance of fiscal electronic devices on revenue collection in Dar es Salaam region was of concern. This study aimed to fill the gap.

The implementation of the Electronic Fiscal Devices has, however, been marked with technical difficulties. Businesses have been complaining that it is at times difficult to link the Electronic Fiscal Devices with their accounting systems.

Another issue was communications problems between EFDs installed in business premises and TRA which is done using normal telecommunications lines. If TRA succeeds in solving all these problems, EFDs could help it avoid missing its revenue collection targets. According to estimates the devices could help the revenue body realize up to 50 per cent increase in collections if all the VAT [Value Added Tax] registered businesses are connected to the devices (Tanzania Revenue Authority, Annual Report 2010).

1.2 Statement of the Problem

Despite the importance of Electronic Fiscal Devices for both entrepreneurs and TRA, there is poor performance of the compliance on Electronic Fiscal Devices. Medium enterprises are selling their goods without use EFDs machines. However, those who tried to use complain on hardship of the devices and unavailability of the technical assistant from both suppliers and staff of Tanzania Revenue Authority. Continued avoidance of the utilization of Electronic Fiscal Devices by Taxpayers may lead to
reduction in tax collection which eventually will affect Government revenue. Therefore, this study aimed to answer a general question “What are Taxpayer’s perceptions on compliance of fiscal electronic devices on revenue collection in Ilala Tax Region”. Hence the general problem remains that there is low compliance on EFDs despite the fact that there numerous benefits to both traders and government on revenue collection.

1.3 Perception and attitude on Electronic Fiscal Devices

Encouraging tax compliance is among the most basic tasks of any tax system (Das-Gupta, 2006). Compliance demands a careful understanding of taxpayer perceptions of the tax system, and thus of how compliance could be more effectively encouraged (Chue-Qun and Kok-Eng, 2008). Research on the determinants of tax compliance illustrates the importance of encouraging “quasi-voluntary” compliance, which depends on taxpayers trusting the government to provide reciprocal services, tax administrators to treat them fairly and other taxpayers to pay their fair share. (Hugh et al. (2010).

The Taxpayers’ perception of the appropriateness and reliability of EFDs use contribute to the sources effectiveness and help them to make the final choice. The importance of pre-purchase information in consumer behavior or the consumer evaluations of services is very important. Fiscal knowledge correlates with attitudes towards taxation and that tax behavior can be improved by better understanding of tax laws. A recent study by Kirchler et al. (2008) also emphasizes that tax knowledge in individual taxpayers is also positively related to tax compliance.

Therefore the researcher focused on assessing the taxpayer’s attitude towards the EFDs and eventually its impact on revenue collection at Ilala District.
1.4 Research Objectives

1.4.1 Main Research Objectives
The general research objective was to assess taxpayer’s perceptions on compliance of fiscal electronic devices on revenue collection in Dar es Salaam region, the case of medium entrepreneurs in Ilala district

1.4.2 Specific Objectives
The study was guided by the following specific objectives:
(i.) To assess the taxpayers’ understanding on the EFDs usage
(ii.) To assess the willingness of taxpayers to comply with EFDs
(iii.) To investigate the challenges facing Taxpayers on utilization of EFDs
(iv.) To determine strategies to enhance utilization of EFDs

1.5 Research Questions
(i.) To what extent do taxpayers perceive on EFDs usage?
(ii.) To what extent are taxpayers willing to comply with EFDs?
(iii.) What are the challenges facing Taxpayers on utilization of EFDs?
(iv.) What are strategies to enhance utilization of EFDs?

1.6 Limitation and Delimitation of the Study
The study was constrained by finance, time and data. The funds that were allocated to undertake the study were very minimal as compared to the real situation. Also, the time allocated for the study was not enough with regard to data collection. Lastly, data factor was also a limitation in this study since it is normally difficult to convince people to give their key information because of fear that one may be studying to break their interests. However the researcher focused on the most crucial areas so as to acquire the most relevant data as per time and funds allocated so as to arrive at a meaningful work.
CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction
Chapter one was an introduction part of this study. This chapter presents literature review related to conceptual definitions of this study, strategies employed by TRA to implement EFDs in Tanzania, impacts of EFDs on revenue collection, challenges facing Taxpayers on utilization of EFDs and strategies to enhance utilization of EFDs.

2.1 Definition of Terms
2.1.1 Electronic Fiscal Device
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. This includes; Electronic Tax Register (ETR), Electronic Fiscal Printer (EFP) and Electronic Signature Device (ESD) (TRA manual 2010).

2.1.2 Types of Electronic Fiscal Devices (EFDs)
2.1.2.1 Electronic Signature Device (ESD)
The device is designed to authenticate by signing any personal computer (PC) produced financial document such as tax invoice. The device uses a special computer program to generate a unique number (Signature) which is appended to and printed to every invoice issued by the user’s system. (www.tra.go.tz/index.php/e-fiscal-devices-efd)

2.1.2.2 Electronic Tax Register (ETR)
This device is appropriate and commonly used by retail business that issue receipts manually. This device may be used as standalone which keeps totals in fiscal memory and print retail receipts using an in built printer, example of users of this device include small retailers of all types of business, www.tra.go.tz/index.php/e-fiscal-devices-efd).
2.1.2.3 Electronic Fiscal Printer (EFP)

The device is commonly used by computerized retail outlet. The device is connected in a computer network to store every sale transaction made its fiscal memory while the user issue receipts to customer. It is basically similar to printers that are currently used in supermarkets, except for the fiscal memory. Example of users of this kind of device includes supermarkets, Petrol Stations and Ticket offices (TRA manual 2010).

2.1.2.4 Revenue

For a company, this is the total amount of money received by the company for good sold or services provided during a certain period. It is also include all the net sales, exchange of asset; interest and any other increase in owner’s equity and is calculated before expenses are subtracted. Jerome (2007). From government perspective can be defined as the increase in assets of governmental funds that do not increase liability or recovery of expenditure. This is revenue obtained from taxes, licenses and fees. Jerome (2007).

Fiscalised electronic devices are small machines or mini-computers that are used to determine the amount of Value Added Tax remitted to the government Niosi (1994). These devices are designed in such a way that they record each transaction made by an organization to calculate the amount which is supposed to be remitted to the government as Value Added Tax. Rathus and Nevid (1987) identified four types of fiscalised electronic devices, which comprises of electronic cash registers (ECRs), electronic Tax registers (ETRs), Fiscalised printers (FPs) and Electronic Signature Devices (ESDs).

Electronic cash registers are devices used by traders to record sales and issue receipts, they also store information such as sales, stocks and can issue reports for example daily sales report. Rathus and Nevid (1987) define electronic tax registers as cash registers with fiscal memory, which is a special, read only memory built into the cash register to store tax information at the time of sale. Cascio (1986) also defines electronic signature device as any electronic means that indicates that a person adopts the
contents of an electronic message. This electronic device is used in conjunction with
the accounting system to validate documents. Fiscal printers are high speed printers
connected to a point of sales terminal or sales computer to store every sale transaction
in its memory while it issues receipts to taxpayers.

Burkhardt and Marlene (1994) argue that technological change has become the mode
of operation in the 20th century business community. As the workplace product
transforms from paper to information services, employers and employees scramble to
keep abreast of the rising tide of information and the new service opportunities created
by the innovations in the technology available to business. However, there are some
organizations which are still using the manual method which involves the use of hands
instead of computers for determining the value of tax remitted to the government.
According to Koohang (1989), companies are resorting to manual method because the
cost incurred in the process of acquiring such devices is exorbitant.

Another reason why some companies are still using the manual method is that they are
not aware of the latest methods used in determining the value of tax remitted to the
government, and some are just resistant to change that is given all the resources the
managers and directors will reject the new technology. Arthur (1990) propounds that
individuals with low educational levels may consciously opt not to become familiar
with computers (fiscalised electronic devices) due to the challenging nature of the
technology. This theory shows us that companies in the motor industry with employees
who have low educational ability will find it difficult to use fiscalised electronic
devices.

Cascio (1986) states that electronic device processing methods make use of computers
in determining the amount of tax to be remitted to government. He further argues that
this method is more reliable and fast as compared to the manual data processing
method. Electronic device processing method is less time consuming, less costly, more
accurate and faster as compared to the manual data processing method. According to
Liden and Adams (1992), older employees usually favor the use of manual methods in
determining the value of tax while the younger employees usually favor the use of
electronic devices citing the above benefits. They went on to say that younger generations usually have positive attitudes towards the use of electronic devices while older generations have negative attitudes towards the use of electronic devices.

The Motor industry in Zimbabwe spearheaded the introduction of the electronic tax registers and electronic signature devices because they offer unique benefits to traders and revenue authority. Newcomb (1943) states that the benefits of automation include a reduction of fraud, remote access to information, improved collection of statistics and uniform application of tax legislation. The introduction of tax automation minimizes direct contacts between tax collection officers and traders or their agents and hence leads to a reduction of corruption. Further benefits achieved through customs automation include improved reporting, control of file transfer, automation reconciliation of Tax returns declarations and compliance testing of bank files. Paperless declarations and customs automation save time and make it easier to focus on inspecting high-risk consignments. The possibility of submitting Tax returns declarations on-line has in some cases made it possible to reduce the associated fees, in other cases it eliminates the obligatory contracting of customs agents.

Sacks (1991) developed a theory, which advocates that males tend to display positive attitudes towards the use of these devices, regardless of the level of familiarity, while females’ attitudes become more positive as the levels of familiarity increases. Brief (1998) argues that females tend to be resistant to the use of fiscalised electronic devices while males accept to the change in the motor industry. In contrast, a survey conducted by Baack and Brown (1991) advocate that older adults indicated that they are less likely than their younger counterparts to use these devices unless there is a perceived need. The same study attributed the low usage rates to low levels of familiarity.

According to Liden and Adams (1992) older individuals do not respond as well to rapid change as their younger counterparts unless the change is gradual overtime. A study by Arthur, Winfred and Hart (1990) identified a positive relationship between educational ability and familiarity with these electronic devices. The authors suggested that employees with low educational ability levels might consciously opt not to
become familiar with these electronic devices due to the challenging nature of the technology.

A study by Gardner, Dukes and Discenza (1993) identified a positive correlation between experience with electronic devices and attitudes towards them. Not surprisingly, negative experience with these electronic devices correlated with negative beliefs and attitudes towards the technology. Employees with positive experience also espoused positive attitudes towards the devices.

Koohang (1989) advocates that people of varying backgrounds often have different beliefs and values system which give rise to dissimilar attitudes. Therefore, varying backgrounds and beliefs systems contribute to an individual’s attitude towards technology. Belief systems also contribute to attitudes towards innovation adoption rate.

Koohang (1989) concludes that there is a positive correlation between favorable attitudes towards new technology and computer familiarity, meaning that employees that are computer familiarity will produce positive attitudes towards the use of fiscalised electronic devices and on the other side employees that are not computer familiarity will produce negative attitudes towards the use of these devices. A study by Gardner et al (1993) identified a positive 0.75 correlation between experience with computers and beliefs towards them. He concludes that negative experience with computers correlate with negative beliefs and attitudes towards the technology.

Northcraft (1996) postulates that the effects of introducing new technology on attitudes and perception is more positive when employees are given enough time to become familiar with the technology in a risk free environment. Both satisfaction levels and feelings of expertise were positively related to the user’s perception of having control of the environment pertaining to interfacing with the technology. In another study carried by Murrell, Audrey and Sprinkle (1993) it was concluded that organizations must address the user’s phobia of the technology and allow for a gradual introduction of the innovation. Anna (2006) carried a research on the attitudes towards the use of
Electronic invoicing by financial managers in small to medium sized companies in Finland.

Electronic tax registers were introduced to help KRA establish the amount of VAT payable without requiring necessarily requiring the traders to provide records for crosschecking. There was concern that thousands of traders were undervaluing their sales in order to evade tax. The success of ETR machines in Kenya was questioned during its initial stages of implementation. According to Kathuri (2006), the gadgets had failed in 21 countries including Tanzania. There was also fear that accurate records could not be kept with the devices because there is no provision for return of goods and services.

2.2 Administration of EFDs
The system has been implemented in two phases, the first phase started in July, 2010. It involved taxpayers registered for VAT annual taxable sales above Tshs 40 million. The second phase of EFD covers non VAT traders with a yearly turnover of above 14 million. Users of EFD are supposed to issue fiscal receipts/ invoices, keep records of all the transactions and ensure that at the end of day all sales are transmitted to Tanzania Revenue Authority (TRA) through Z-reporting system. TRA has been conducting sensitization campaign to taxpayers and the general public on importance of issuing EFDs upon sales. Taxpayers who fail to acquire or use EFD according to the laws will be penalized. (Tanzania Revenue Authority, Annual Report 2010).

2.3 Implementation of Electronic Fiscal Devices in Tanzania
The Tanzania Revenue Authority (TRA) is implementing the Electronic Fiscal Devices Regime as one of the initiatives under its Third Corporate Plan (2008/2009 – 2012/2013) to enhance voluntary compliance in areas of receipt issuance and increase tax revenue collection in a cost effective way (Tanzania Revenue Authority, Electronic fiscal devices phase I evaluation 2012). The implementation of Electronic Fiscal Devices is expected to ensure issuance of homogeneous fiscal receipts and fiscal invoices. Users are supposed to be compelled to keep proper records and full details of their business transactions which will be accessible online to TRA central server.
Electronic Fiscal Devices are also meant to intensify controls, improve tax data quality, safety and minimize the use of parallel [and] fake receipts. The devices ensure easy access of online tax information and quick response to deviation or malpractices over the machine(s); facilitates efficient time management for compliance monitoring. Also, it simplifies field tax audits and refunds, facilitates retrieval of adequate information for administration of other taxes as well as provision of high quality taxpayer services and consequently minimizes tax disputes. (Tanzania Revenue Authority, Annual Report 2010).

Therefore, the Tanzania Revenue Authority (TRA) has embarked on a comprehensive strategy aimed to control tax evaders registered under the value added tax (VAT) (Tanzania Revenue Authority, Annual report 2010). According to TRA report (2010), the strategy of applying the Electronic Fiscal Devices Regulation (EFD) was for ensuring that all traders registered under VAT are prohibited from conducting business without Electronic Fiscal Devices machines. Introduction of Electronic Fiscal Devices machine is enabling the Tanzania Revenue Authority (TRA) to increase revenue collections; improve voluntary compliance, minimize collection costs, widen the tax base, and control evasion and fraud (Tanzania Revenue Authority, Annual report 2011).

The EFD machines aims at allowing TRA to get correct sales information from businesspeople; reduce tax collection costs and helping businessmen to comply with the Value Added Tax (VAT) regulations (Tanzania Revenue Authority, Annual Report 2010). Businessmen records also monitored directly from the Tanzania Revenue Authority headquarters; a step that eliminates the need for issuance of untrue receipts to customers (Tanzania Revenue Authority, Annual report 2011). According to TRA report (2011), tampering with or sabotaging the device is punishable by law. A special signal notifying such cases at the TRA headquarters is recorded and the perpetrator is fined with fines ranging from Tsh. 2 million per each receipt ignored to be issued. Implementation of EFDs has caused an increase of tax revenue collected by the TRA from an equivalent of US$1,575 million in 2004/05 to the current levels of US$3,185
million in 2010/11 while revenue to GDP ratio increased from 10.8% to 15.3 % respectively (Tanzania Revenue Authority, Annual report, 2011).

Study has shown that EFDs in Kenya is very effective as they provided grace period by introducing Electronic Fiscal Devices to supermarkets stakeholders, all weaknesses identified with regard to Electronic Fiscal Devices were settled and then Electronic Fiscal Devices was extended to all other VAT taxpayers (Kenya Revenue Authority, Annual Report, 2011). Zimbabwe’s Ministry of Finance and the Zimbabwe Revenue Authority (ZIMRA) launched fiscalised electronic registers and fiscal memory devices. The devices are a new legal requirement for all businesses with an annual turnover threshold of $240,000 (Zimbabwe Revenue Authority, 2010). This information indicates that utilization of EFDs facilitates revenue collection despite of the challenges facing implementation of the system. Introduction of any new system is not smooth process because the adoption of the new system depends on the Customer perception.

However, implementation of Electronic Fiscal Devices in Tanzania is facing a lot of challenges. Taxpayers are not responding to use EFDs as was expected. Not only that the situations also show that there is some circumstances of staff of TRA on incapability of know-how as far as EFDs is concerned. The compliance of EFDs use in Dar es Salaam medium enterprise is problematic and needs special attention. The factors related to noncompliance of medium enterprises on EFDs use are not well clear. Though, researchers had concentrated much of their work on tax systems, tax evasion, taxes and interest rates (Belkaoui, 2004; Das-Gupta, 2006, Richardson 2006). Although, Mboma (2010) conducted a study on the challenges to Electronic Fiscal Devices adoption in Tanzania: Enhancing VAT Services in Tanzania. Still the issue of Taxpayer’s perceptions on compliance of fiscal electronic devices on revenue collection in Dar es Salaam region was of concern. This study aimed to fill the gap. Mboma (2010)
2.3.1 Strategies Deployed by Tanzania Revenue Authority to implement EFDs

Strategies deployed by Tanzania Revenue authority to implement Electronic fiscal devices. Tanzania Revenue Authority deployed different strategies to implement EFDs such as approval of manufacturers and suppliers (Tanzania Revenue Authority, Manual, 2011). Manufacturers and suppliers approved by TRA authority requires to distribute the devices according to the given specifications from the TRA management.

The second strategy used by TRA to implement EFDs is to provide knowledge to the staff of TRA. TRA organized workshops to conduct training to its staff and make sure that all users have sufficient EFD knowledge. Knowledge of EFDs to the staff of TRA helps to build confidence when they provide awareness to the Taxpayers.

The third strategy used by TRA to implement EFDs is to provide training to the Taxpayers. Taxpayer’s awareness on introduction of the new system of paying tax is very important. Publicity and sensitization programmes were set as one of the strategies to influence the use of EFDs by traders. The planned programmes included preparation and distribution of publications, promotional materials, carryout seminars, radio and TV programs and advertisement (Tanzania Revenue Authority, Manual, 2011). Knowledge to Taxpayers on EFDs can help Taxpayers to comply with taxation policies. However, unawareness of the taxation policies encourages tax avoidance.

2.4 The treatment of Cost for Acquisition of EFDs

Cost incurred by traders for the purpose of EFD for the first time shall be borne by the government. EFD are exempted from all taxes and duties.

(i) **Vat Registered traders**, the cost of the machine shall be set off from the output tax on submission of VAT returns, under normal refund system. The entire cost of the machine is treated as input tax and shall be claimed under normal input claim procedures.

(ii) **Non VAT traders**, as a general principle, and in order to minimize time period of recouping the cost of acquiring EFDs, all users of EFDs are allowed to deduct the cost of acquisition and treat as allowable deduction. Such deduction has to be made within the period of one year.
2.5 Impacts of EFDs on Revenue Collection

The impacts of EFDs in Tanzania are not an issue to be ignored. Nevertheless, the impacts lie on the side of Tanzania Revenue Authority, users and suppliers.

The impacts of utilization of EFDs at Tanzania Revenue Authority based on the facts that EFDs facilitates revenue collections easily, therefore, TRA expects to increase its revenue. Utilization of EFDs machines helps to record trader’s transactions and so it is difficult for the traders to cheat; this can help to trace tax avoiders. The tendency of tracing Tax avoiders facilitates them to comply with taxation. In general, acquisition usage of EFDs machines expects growth of revenue in Tanzania Revenue Authority.

The revenue collections are expected to increase by one percent 2012/13 due to higher collections. EFDs to non VAT will be complimented by the national identification cards that are being introduced in the country starting in Dar es Salaam city. [Link](http://www.dailynews.co.tz/index.php/biz/8055-tra-extends-fiscal-devices-to-non-vat-traders)

2.6 Challenges facing Suppliers and Taxpayers on Utilization of EFDs

Challenges in any activity are part of the improvement. Implementation of EFDs in Tanzania is not smooth one because there are different hindrances from suppliers and users of EFDs machines. On the side of users, there is a habit of reluctance among users to purchase devices and use them. The reasons for delay to purchase and use are related to the costs of EFDs machines. Higher costs of EFDs machines make users fail to purchase them in cash as a result most of traders purchase by paying in installments.

On the side of the suppliers, there are problems of delay of suppliers to establish integration solution to the accounting packages (Tanzania Revenue Authority, Manual, 2011). Failure to provide solution to the accounting packages is probably due to lack of knowledge on EFDs machines. This signifies that even suppliers have no enough knowledge on the applicability of EFDs machines. It was also discovered that there are difficulties to use ETR to write customers’ name and descriptions of the items sold from the suppliers.
There are also problems of lack of supplier’s services centers in upcountry Regions. This is because most of suppliers are situated in Dar es Salaam Region. However, Dar es Salaam Region was a pilot and a business area; therefore it is easy for suppliers to be more in Dar es Salaam Region because they are traders also. High initial acquisition costs and subsequent maintenance charges are also a challenge to the implementations of the EFDs.

2.7 Strategies to Enhance Utilization of EFDs
Tanzania Revenue Authority has a duty to use different strategies to improve usage of EFDs among Traders. TRA commenced the second phase of EFDs use. Therefore, it is necessary for TRA to introduce the new manufacturers before the commencement of EFDs second phase in order to gain new technology and bring in competitions. On the other hand, TRA is responsible to inform the existing approved manufacturers on the need to upgrade their products quality, functionality and usability.

Other enforcement measures are the imposition of fines and penalties. The use of EFDs is backed by laws and regulations. The law requires every person who qualifies to use the machine to use it in the required manner. However the user of the machine who goes contrary to the requirement of the law penalties is charged accordingly. However, in order to improve usage of EFDs, TRA should stop implementing EFDs without engaging other stakeholders. In case the local institutions do not have the capacity to do the job at the moment, as temporary measures, TRA may consider engaging other recognized testing centers from abroad to assist in testing. TRA should engage also all Government Institutions to enforce EFDs by demanding fiscal documents. Engagement of stakeholders in any activities normally increase performances and reduces risks.

2.8 Tax compliance and Electronic Fiscal Devices in Tanzania
Taxation is a major way to raise revenue to any Government in the world. Until mid of 1980s most of less developed countries continued to depend largely on the external source to finance their development and social service expenditures. The internal
source taxation was given less weight in contribution toward financing Government expenditures (Taylor, 2001). The global change in economic, political and social situations resulted in emergence of conditions that has been attached to grants or aids given by either International institutions or developed countries like good human right records, holding fair and transparent general elections and freedom to news agents (McCluskey, 2002).

This has been done in order to ensure that there is no room for corrupt or incompetent Governments can use to maintain their hold on power (Taylor, 1970). These conditions have been a new and bitter story and most of the African Governments has turned their eyes in the taxation in a way to reduce the dependence in external sources (Taylor, 2001). Most of less developed countries have unfavourable balance of payments in the sense that they have more imports than exports, this situation led to Government to formulate tax policies which in one or another way are seen to set higher tax rates in importation of goods and services and set zero rate on exportation of the same, the aim is to increase the Government revenues (Sjoquist, 2008). However, the tax systems in most poor countries are characterized by widespread of tax evasion. It is without flicker of doubt that through tax evasion the government is losing income which could have been used in financing development activities.

In insuring that there is effective control over tax matters Tanzania introduced the major reform in 1996 with the formation of Tanzania Revenue Authority. Since the Authority has been formed there is vivid example of its effectiveness in tax collection however on the other side of the coin there is massive increase of tax evasion techniques. Tax avoidance and tax evasion undermine the ability of a government to raise revenue in an equitable and efficient manner. Non-compliance is likely to reduce both the efficiency and equity of an economic system, and will have effects beyond the simple act of non-compliance (Gupta, 2006). To ensure the integrity of the tax system, it is important to identify and close loopholes offering opportunities for tax avoidance and tax evasion, and to maintain vigorous enforcement. Since 2010, the Tanzania Revenue Authority (TRA) has embarked on a comprehensive strategy aimed to control tax evaders registered under the value added tax (VAT). The strategy,
applying the Electronic Fiscal Devices Regulation (EFD) that ensured all traders registered under VAT are prohibited from conducting business without EFD machines.

An effective and efficient tax system makes a crucial contribution to national economic well-being. Tax avoidance and tax evasion undermine the ability of a government to raise revenue in an equitable and efficient manner. Non-compliance is likely to reduce both the efficiency and equity of an economic system, and will have effects beyond the simple act of non-compliance (Gupta, 2006). To ensure the integrity of the tax system, it is important to identify and close loopholes offering opportunities for tax avoidance and tax evasion, and to maintain vigorous enforcement. Therefore, the Tanzania Revenue Authority (TRA) has embarked on a comprehensive strategy aimed to control tax evaders registered under the value added tax (VAT). The strategy, applying the Electronic Fiscal Devices Regulation (EFD), which ensured that all traders registered under VAT are prohibited from conducting business without EFD machines.

The main reason for introduction of EFD in Tanzania was to fight tax evasion, filing of wrong tax returns and claiming of undeserved tax refunds. As much as it was initially looked from such a perspective, a clear investigation has to be made to establish on the Taxpayers perception on utilization of Electronic Fiscal Device. The importance of Electronic Fiscal Device include; saves time initially wasted in perusing of records for businessmen, reduction in tax preparation costs for example those paid to tax agencies. Reduction in labour costs for example overtime cost. Good record keeping increases profits, increases efficiency in businesses and reduces costs of tax refund claims. Moreover, the EFDs machines aims at allowing the taxman to get correct sales information from businesspeople; reduce tax collection costs and helping businessmen to comply with the Value Added Tax (VAT) regulations.

The system allows business records, recorded by business operators to be preserved properly (Tanzania Revenue Authority, Annual report, 2010). Businessmen records also monitored directly from the Tanzania Revenue Authority headquarters; a step that
eliminates the need for issuance of untrue receipts to customers. Tampering with or sabotaging the device is punishable by law.

A special signal notifying such cases at the TRA headquarters is recorded and the perpetrator is fined with fines ranging from Tsh. 2 million per each receipt ignored to be issued. Introduction of EFD machine is enabling the Tanzania Revenue Authority (TRA) to increase revenue collections; improve voluntary compliance, minimize collection costs, widen the tax base, and control evasion and fraud. In absolute terms, tax revenue collected by the TRA increased from an equivalent of US$1,575 million in 2004/05 to the current levels of US$3,185 million in 2010/11 while revenue to GDP ratio increased from 10.8% to 15.3 % respectively (Tanzania Revenue Authority, Annual report 2011).

This improvement of tax revenue is due to the implementations of electronic fiscal devices for revenue collection. The EFDs reduce tax collection costs and medium entrepreneurs in complying with rules governing VAT. The EFD machines aims at allowing the taxman to get correct sales information from businesspeople; reduce tax collection costs and helping businessmen to comply with the Value Added Tax (VAT) regulations. The system allows business records, recorded by business operators to be preserved properly (Tanzania Revenue Authority, Annual report, 2010). Businessmen records also monitored directly from the Tanzania Revenue Authority headquarters; a step that eliminates the need for issuance of untrue receipts to customers. Tampering with or sabotaging the device is punishable by law.

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Study have indicates that EFDs have been used in Kenya. EFDs in Kenya is very effective as they provided grace period by introducing EFDs to supermarkets stakeholders, all weaknesses identified with regard to EFDs were settled and then EFDs was extended to all other VAT taxpayers. Zimbabwe’s Ministry of Finance and the Zimbabwe Revenue Authority (ZIMRA) launched fiscalised electronic registers and fiscal memory devices. The devices are a new legal requirement for all businesses with an annual turnover threshold of $240,000. This information indicates that utilization of EFDs facilitates revenue collection despite of the challenges facing implementation of the system. Introduction of any new system is not smooth process because the adoption of the new system depends on the customer perception.

However, VAT traders on utilization of Electronic Fiscal Devices influence compliance. Tax compliance can be defined as the degree to which a taxpayer complies or fails to comply with the tax rules of their country. It is accepted that the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties (Park and Hyun, 2003). Due to the increasing number of regulations and need for operational transparency, businessmen are increasingly adopting the use of consolidated and harmonized sets of compliance controls.
Taxpayers have widespread and invention of new techniques of tax evasion which has resulted into the government losing revenue. There are many advantages of using EFDs, but there are different expectations of VAT traders on compliance on EFDs machines. VAT traders are selling their goods without providing receipts using EFDs. Many shops do not use electronic tax register devices as required by the law.

However, few of the shops furnished with the devices, the shopkeepers issue handwritten receipts to customers in case they demand them. Not only that many traders in Ilala area deliberately avoid using the EFDs machine purposely. If VAT traders will continue avoidance of the utilization of EFDs, they may lead to reduce tax collection in Tanzania.

2.9 Tax Reforms in Tanzania

The tax reforms undergone by Tanzania aimed at constantly raising the revenue productivity of the tax system. Nevertheless, Osoro (1991) demonstrated that the reforms have not achieved the objective of raising revenue productivity. This is evidenced by the low buoyancies and the elasticities that the tax system has exhibited over the last decade. Such a low revenue productivity of the tax system is argued to have been attributable to mainly generous tax exemptions, low compliance and tax evasion coming both from a weak tax administration and high tax rates.

One criterion of a good tax system is high revenue productivity. Since the tax system is not revenue productive, it is pertinent to link measured productivity with specific tax policies. This analysis is important because, for example, tax policies and reform in the 1970s differed from those of the 1980s (Osoro, 1991, pp. 9-13).

Thus, it is likely that the specific tax policies in a given period might have had different impacts on revenue productivity. It is at this juncture this study aim at finding out whether the newly introduced EFD will bring positive impact on the collection of tax and consequently contributes towards the GDP of Tanzania.
2.10 Research Gap
From the above empirical analysis, it shows that extensive empirical studies on the impact of introducing electronic fiscal device (EFD) system in revenue collection in Tanzania is not yet done, and very few in Kenya have been done. The studies reviewed, the main problem in the implementation of EFDs is the implementation of the laws. Apart from close relationship they have, the studies have not yet conducted in Tanzania specifically at Ilala Tax Region. Therefore, it is on the light of these studies the researcher can be able to go about the study titled, “The impact of introducing Electronic Fiscal Device (EFD) system in revenue collection in Tanzania the case of Ilala Tax Region.

2.10 Conceptual Framework
The literature on taxpayers’ perception on EFDs compliance points out, the knowledge of taxpayer, probability of detection by tax authorities and severity of punishment if caught as some of the important determinants of EFDs compliance model. EFD compliance can therefore be increased if control measures are put in place to detect non compliers and punitive measures instigated.

The use of ETR serves two purposes in this model: automatically generating knowledge of tax due, and acting as a control compliance control measure. According to Ritsema et al (2003), tax compliance decision depends on income level of an individual taxpayer, inspection (audit) by tax authorities and deterrent measures put in place. This theoretical framework has been adapted for this study since other determinants of compliance such as severity of punishment are uniform for all taxpayers. The use of ETR is likely to go hand in hand with inspection.

Figure 2.1: Conceptual Framework
CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The research methodology is an approach a researcher uses to investigate a subject. This part of the study examined the methodology that was employed for data gathering and analysis, including the Research design, area of study, methods of data collection, sample size and sampling procedure. The other items of this chapter are data collection methods, validation of the instruments, administration of questionnaire and finally the methods employed to analyze the data.

3.1 Research Design

According to David et al (1980) research design is a roadmap used to guide implementation of the study. There are different designs available for research studies. Hence the need to gain familiarity with taxpayer’s perception on EFDs in Tanzania. The corporate tax system was studied using selected companies paying corporate tax and individuals taxpayers, which are based in Ilala Tax Region. Due to the sensitivity of the issue under the study and inaccessibility of other up country regions levying corporate tax, only taxpayers in Ilala tax region located at Dar es Salaam were visited.

During this research, the researcher used a case study design of TRA in Dar es Salaam. The design was be useful to collect all relevant data because the case study provided a greater opportunity and flexibility in the data collection process, it served the way for focused study where a single unit was intensively be studied, and the information was verified on the spot through interviews, questionnaires and documentation. In this respect, the researcher was be able to secure accurate information about the topic.

3.2 Methods of Data Collection

In this study the main source of data included questionnaires, interviews and documentations. Where these sources were used to collect primary data pertaining to factors attributing to improper invoicing, thus internet, magazines, books and journals were also used to gather most of secondary data. To get sample of taxpayers for questionnaires, a corporate tax register was used and the members of sample inclusion were picked randomly basing on the size of the firm. Tax officials were distributed from staff attendance register.

Factors for improper invoicing however have not widely discussed by researchers and it by this reason the data collection through documentation was a little bit cumbersome as most of literatures found in internet were not much relevant. This research proposal therefore constitutes more of primary data, which was made available through questionnaires, interviews and some documentation.
3.2.1 Interviews
It is a common and popular method of data collection tool in scientific research. In this study two interview tables was used. One targeted the tax officers and the other one taxpayers, the main focus in the researchers mind was to obtain reliable answers in relation to the topic hence the respondents were be free to talk whatever about the topic.

3.2.2 Questionnaires
Kothari (2006), explained about questionnaires as the one which consist of number of set of questions typed and printed in a defined order in a form or set of forms. It involved both closed end and open ended question giving respondents an opportunity to select appropriate answers in line with the opportunity to express answers without any limitations in all issues concerning taxpayer’ perception on revenue collection. Questionnaires are mostly used due to their ability to collect more information from the source.

3.2.3 Documentation
The researcher read documents relevant to the study such as material related to the research questions like the usefulness of Electronic Fiscal Devices in collecting VAT, the revenue trend after the introduction of Electronic Fiscal Devices in the country, the strategies used to improve Electronic Fiscal Devices implementation and other methods of tax collection in a cost effective way. The reason why the researcher chose the method that helps to know what has been done by others and give the wider area to deal with the problem.

3.2.4 Observation
Observations are used to acquire first hand, live, sensory accounts of phenomena as they occur in a real world settings (Kothari, Ibid). Non participatory observation method was used during the study. The rationale for using observation during data collection is that the method gives an opportunity to gather live data from live situation (Cohen et al, 2000). Furthermore, observation enables the researcher to observe at what is actually taking place in the study area. Observation schedule obtained from observation provided primary data.
3.3 Population of the Study

Due to time constraints all data collected for the study originated from Ilala Tax Region to represent other regions. Although a sample of one hundred sixty corporate taxpayer was chosen for questionnaires and the sample of twenty tax officials was randomly selected for the purpose of giving their general view on the perception of taxpayers on compliance of EFDs. Hence from the unit of respondents data was analyzed for the study, where the questionnaires were administered on the business premises, thus I ensured that responses in the questionnaires are confidential.

3.4 Sample and Sampling Procedures

3.4.1 Sample Size

A sample is the unit or item derived from the population to represent the total population. Since it is not possible to examine every item in the population, the researcher selected few items (samples) from a big population which was representative. So the selected items are what we call samples. By using samples, it is possible to obtain sufficiently and accurate results by studying only a part of total population (Kothari, 1990:65).

In this study, the sample constituted 180 respondents which represented the total population from which 20 respondents were tax officers and 160 respondents were taxpayers. Stratified random sampling technique was used in the selection of employees of the TRA in order to ensure appropriate representation. In addition, simple random sampling was used to Tax payers at Ilala District.

3.4.2 Sampling Procedures

This study used a combination of purposive and stratified sampling techniques as underscored here under.

3.4 Data Analysis

The whole process of data collection was verified accurately and most of useful data was selected, coded, edited and recorded for analysis, which place information of
statements in order to meet the objectives of the study in form of report simple and understandable, further the research expects to adopt descriptive and qualitative methods of data analysis.

On the other hand to enhance this study, the qualitative data analysis method was adopted to examine the data to be collected, hence the responses from the questionnaires are qualitatively analyzed rather than hypothetically tested.

CHAPER FOUR

STUDY FINDINGS AND DISCUSSION

4.0 Introduction

The first part of this chapter provides background characteristics of respondents in terms of age, sex, marital status and their education levels. The researcher considered the age from 18 years to above 50 years, so as to get the range of respondents answers, the study wanted to know the respondents view on male and female involved in business, marital status was evolved by researcher to make comparison on married and unmarried respondents engaged in business also level of education was considered in order to get knowledge of the respondents concerning the perception of EFDs on contributing to revenue collection.
4.1 The Profile of Respondents

4.1.1 Sex

Respondents were asked to indicate their gender. Researcher was interested in collecting information on gender issue in order to know gender balance as shown in table 1 below.

<table>
<thead>
<tr>
<th>Respondent</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>93</td>
<td>58.13</td>
</tr>
<tr>
<td>Female</td>
<td>67</td>
<td>41.87</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>100</td>
</tr>
<tr>
<td>Tax officers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>9</td>
<td>45</td>
</tr>
<tr>
<td>Female</td>
<td>11</td>
<td>55</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study finding (2014)

Results in Table 1 revealed that the study involved both gender categories. It was discovered that out of 180 respondents, 41.9% were Females and 58.1% Males. These findings show that more than 58% of respondents were Males. However, the number of businesswomen was not differing much from businessmen. The number of Males and Females was not differing much because of the fact that women nowadays are engaged in business due to the difficulties of life.

4.1.2 Age and Experiences of Respondents

Respondents were asked to state their ages and experiences in nearest months on using electronic fiscal devices (EFD). The reason for looking for respondent’s age and experiences were based on the fact that a researcher was interested in knowing ages of respondents as well as their experiences.

Respondents filled the questionnaires and the data were analyzed by statistical methods and results were presented in Table 2 below.
Table 4.2: Distribution of Respondents by Age and Months of Experiences (N=180)

<table>
<thead>
<tr>
<th>Experiences on using electronic fiscal devices</th>
<th>Age</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Between 15 and 50 years</td>
<td>Between 51 to above years</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>%</td>
</tr>
<tr>
<td>Less than 5 months</td>
<td>19</td>
<td>10.6</td>
</tr>
<tr>
<td>6 to 18 months</td>
<td>20</td>
<td>11.1</td>
</tr>
<tr>
<td>19 to 36 months</td>
<td>11</td>
<td>6.1</td>
</tr>
<tr>
<td>Above 36 months</td>
<td>23</td>
<td>12.8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>73</strong></td>
<td><strong>40.6</strong></td>
</tr>
</tbody>
</table>

**Source:** Field Data, 2014

Results in Table 2 revealed that respondents differed in their ages likewise with experiences on utilization of EFD. It was revealed that out of 180 respondents, 40.6% were between 15 and 40 years and 59.4% were above 41 years. However, respondent’s experiences were as follows; 17.2% had less than 5 months experiences on utilization of EFD; 18.9% had experiences between 6 to 18 months; 11.7% had experiences between 19 to 36 months and 52.3% had experiences above 36 months. This information can also be portrayed by then figure 4.1 below.
In general, these findings show that respondent’s experiences on utilization of EFDs differed. The highest respondent’s experiences were observed to be above 36 months. This finding implies that respondents had enough experiences on utilization of EFDs services. On the other hand, these findings show that the highest respondent’s age were between 41 and above years. This implies that the study dealt with grown up respondents. These also signify that there was a possibility of getting reliable information from experienced and aged Respondents.

### 4.1.2 Level of Education

Respondents were asked to state the highest level of education they had attained. Particularly they had to select from a given list comprising various levels of education as per the Tanzanian education system such as; Primary Education, Secondary Education, college or university education. Respondents filled the questionnaires and the data were analyzed by statistical methods and results were presented in Table 4.3.
Table 4.3: Distribution of Respondent's Education Level (N=180)

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>none</td>
<td>2</td>
<td>1.1</td>
</tr>
<tr>
<td>Primary education</td>
<td>41</td>
<td>22.8</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>76</td>
<td>42.2</td>
</tr>
<tr>
<td>College/ University Education</td>
<td>61</td>
<td>33.9</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Field Data, 2014

The level of education of the respondents can also be shown by the figure 2 below:

Figure 4.2: The Distribution of Respondent's level of Education

Source: Field Data, 2014

Results in Table 4.3 revealed that respondents had different levels of education. It was revealed that out of 180 respondents, 1.1% had no formal education, 22.8% primary education, 42.2% had Secondary 33.9% had College/ University Education. These findings show that the education levels of respondents differed from the lowest level of education to the highest level of education this implies that the some users of EFDs know how to read and write. This signifies that the majority of Taxpayers have ability
to understand the importance and applicability of EFDs for themselves and for Tanzania Revenue Authority.

4.1.3 Marital Status of Tax Payers

97 (53.9%) out of 180 were married while 82 (46.1%) were single. This variation of marital status has an implication on complying with EFDs. Married taxpayer (both women and men) are more affected with acquisition and implementation of EFDs as the costs are high than those who are singles as the profit seems to be low as the married ones have extra responsibilities of taking care of the family such as children. It was useful therefore knowing their differences. Table 4 portrays the findings.

Table 4.4: Marital Status of Taxpayers and Officers

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>97</td>
<td>53.9</td>
</tr>
<tr>
<td>Unmarried</td>
<td>83</td>
<td>46.1</td>
</tr>
<tr>
<td>Total</td>
<td>180</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Study finding (2014)

It was noted that in Ilala district (Ilala Tax Region) business women and men have the tendency of not complying with EFDs as required to by the government for the reason that the revenue they got was not enough for them to pay for the machines and their maintenance and sustaining their families. That explains why there are many married taxpayers than single in the study area. The data can also be viewed by the figure 4.3 below.
Under specific research question number one, the researcher was interested in gathering information from Tanzania Revenue authority on their strategies used to implement Electronic Fiscal Devices in Tanzania. Under specific research question number one, Researcher directed a question to the Tanzania Revenue Authority. This was because Tanzania Revenue Authority were the one who introduced the system to intensify controls, improve tax data quality, safety and minimize the use of parallel and fake receipts. The data obtained was presented as shown below;

Results revealed that there were different strategies used by Tanzania Revenue Authority before implementation of Electronic Fiscal Devices.

One of the strategies deployed by TRA to implement EFD Project was to make registration of all devices before they are put into use by the Taxpayers. The registration procedures involved the application for registration to TRA offices by the

**4.2 What are Strategies Employed by TRA to Implement EFDs in Tanzania?**

![Figure 4.3: Marital Status of a Taxpayer](image)

Source: Study finding (2014)
Approved Suppliers for every device sold. Upon satisfaction by the contents of the application a User Identification Number (UIN) was issued by TRA. The implementation of EFD involved also the appointment of Manufacturers and Suppliers to manufacture and distribute devices according to technical specification. It was also revealed that before the implementation of the Electronic Fiscal Devices the authority approved manufactures of Electronic Fiscal Devices machines. It was noted that the number of manufactures of Electronic Fiscal Devices machines that were approved include; Business Machines Tanzania Limited (BMTL), Pergamon Tanzania Limited, Total Fiscal Solutions Limited, Advantech Office Supplies Limited and Compulynx Tanzania Limited. On the other hand, it was also revealed that the current number of manufacturers contribute to lack of competition among themselves.

Additionally, it was revealed that before the implementation of the second phase of the Electronic Fiscal Devices, Tanzania Revenue Authority planned to approve new manufactures of Electronic Fiscal Devices machines to compete with those who were in the first phase of the implementations. However, it was noted that the existing approved Manufacturers should be informed of the need to upgrade their products quality, functionality and usability before commencement of EFD Second Phase. In line with new Manufacturers, the number of approved suppliers should also be increased so as to bring about competition controlled pricing and better services. Results also revealed that there are different challenges that emanated from manufactures and suppliers of Electronic Fiscal Devices.

Findings also revealed that another strategy used by Tanzania Revenue Authority before the implementations of Electronic Fiscal Devices was to provide training for the staff of Tanzania Revenue Authority. Training before the implementation of any system is very important to bring awareness to the users. One of the Approved Suppliers’ responsibilities was to train users on the best way to administer Electronic Fiscal Devices. Approved Suppliers were required to provide training to staff of Tanzania Revenue Authority. The perception of conformity to the act from TRA staff revealed that suppliers managed to train few Tanzania Revenue Authority Staff at a range from 16% to 60%. This implies that few numbers of staff were trained by
suppliers during the period under first phase of implementation of Electronic Fiscal Devices.

On the other hand, the researchers was interested in gathering information from Taxpayers on know how regarding the utilization of Electronic Fiscal devices machines. This was because knowing the strategies used by Tanzania Revenue Authority to implement Electronic Fiscal devices was not enough unless the knowledge on Electronic Fiscal devices for Taxpayers is clear. Based on the Electronic Fiscal devices knowledge to Taxpayers, the researcher asked respondents to indicate their feeling on whether they had enough knowledge on EFDs.

Furthermore the Tanzania Revenue Authority introduced the usage of the EFDs for the traders whose turnover exceeds fourteen millions a year, this strategy is known as EFD second phase. These traders are not registered for VAT and the majority fall under this category, by doing so TRA has tripled the number of EFD users within a short period of time.

Other strategies used to enhance usage of EFDs are enforcement measures like sanctions and penalties ranging from 1 to 8 million for the EFDs defaulters which in return make them comply with the regulations. The TRA officers also use the method of making physical visit to the taxpayer’s place of business or offices to convince them to acquire the machine, this method proved to have a strong impact as most of taxpayers commit themselves to acquire the machines immediately.

One of the questions: “Do you have enough knowledge on Electronic Fiscal Devices?” The questionnaires was analyzed by statistical methods and results show that 87% of respondents indicated that they had no enough knowledge on utilization of EFDs while 23% indicated that they had. Through personal interviews with one businessman in Kariakoo area on understandability of regulation regarding EFDs; said, “……..the regulations do not provide for training of customers on use of devices. At the same time the EFD language and, in fact, one for tax is English. Not all traders
are conversant with it; it’s high time tax language was translated into Kiswahili to help our people understand better matters related to tax."

On the other hand, researcher was interested to gather information on attitudes of Taxpayers towards EFDs because attitudes influence tax compliance. Therefore, respondents were asked to indicate their feelings on whether they liked to use EFDs machines or not. Therefore, respondents were given the questionnaires to fill by selecting either YES or No. Results showed that out of 180 Respondents; 84% agreed that they have negative attitudes towards utilization of EFDs while 12% disagreed.

Through personal interview with those who had negative attitudes towards utilization of EFDs, they revealed that it was disadvantageous to use EFDs machines due to different challenges. It was further exposed that there were relative few benefits in utilizing EFDs such as records managements only. These findings show that more than 80% of Taxpayers among those who responded had negative attitudes towards the utilizations of EFDs. This implies that Taxpayers were not prepared to accept the new system of using EFDs as shown by the figure 4 below.
Still it was also revealed that publicity and sensitization programmes were set as one of the strategies to influence the use of EFDs by traders. The planned programmes included preparation and distribution of publications, promotional materials, carryout seminars, radio and TV programs and advertisement.

On top of that the Tanzania Revenue Authority on its effort to enhance utilization of EFDs has instructed the suppliers to reduce the cost of EFDs to a minimum of Tshs 600,000 per machine to enable the lowest income earners to acquire it. Through the studies the supplies claim that the sales of EFDs have increased abruptly after the reduction of price. Increasing people’s involvement on decision making, TRA
involved the stakeholders in business in whole process of implementing use of Electron Device on Business. This will help to reduce the misunderstandings between the business owners and the government as happens now days.

Study further shows that the implementation of Electronic Fiscal devices by Tanzania Revenue Authority has not been successful as the traders do not want to cooperate with the tax officers, they regularly close their shops and offices once the officers conduct physical visits as shown by the figure 5 below.

**Figure 4.5: Taxpayers Closing Their Shops After Having Information of Tax Collectors Visiting their area at Narung’ombe Street –Kariakoo for EFDs monitoring in April 2014**

![Image of taxpayers closing their shops](image)

*Source: Field Data, (2014)*

The situation shows that there are challenges regarding Electronic Fiscal devices implementation which hinder the performances. Despite the existence challenges, the first phase targeted group acquired the machines irrespective of the limited number of staff available to enforce Electronic Fiscal devices. The Electronic Fiscal device
machines have been useful in improving Taxpayers’ record keeping and simplifying preparation of tax returns. However, in these findings concluded that Tanzania Revenue Authority requires immediate attention for smooth commencement of second phase. However, to facilitate smooth implementation of Electronic Fiscal devices, approved Suppliers were supposed to open upcountry offices to facilitate distribution and maintenance of the Electronic Fiscal devices. Additionally, approved manufactures of Electronic Fiscal devices need to provide enough training to the staff of Tanzania Revenue Authority and Taxpayers to smooth the implementation of the second phase.

4.4 The impacts of Electronic Fiscal devices on revenue collection

Under research question number two, Respondents (staff of Tanzania Revenue Authority) were required to provide the information on whether there were impacts on utilization of Electronic Fiscal devices

On the questions “what are the impacts of Electronic Fiscal devices on revenue collection?” In this part, the study sought to investigate whether there was an increase of revenue collection after implementation of EFDs. Through review of Tanzania Revenue Authority document on revenue after Electronic Fiscal devices implementation, the record had shown that there was significant difference on revenue collection after implementation of EFDs and results were presented in Figure 4.5 below.
Results in Figure 4.3 revealed that use of EFDs have improved revenue collection for about 32% of VAT tax collected by TRA. The use of EFDs has increased the amount of money the businesses receive from its activities in a given period, mostly from sales of products and/or services to customers. It was observed that sales have increased after acquisition of EFDs; furthermore the increase can be seen after enforcement. It was further discovered that the VAT revenue collection for the regions indicated that, for the first year of EFD implementation 2010/11 was TZS. 791,462.90 million and for the period of 2012/2013 was TZS. 567,224.91 million (Tanzania Revenue Authority, Annual Report, 2012). Revenue collection showed an increasing trend. This increase is attributed to EFD, among other factors.

On the other hand, through documentary review, it was revealed that TRA collected a total of Tsh. 785,882.4 million in the 2009/2010 financial year, before the EFDs were introduced. By comparison, the Authority collected Tsh. 791,462.9 million in FY-2010/11, immediately following introduction of the devices (Tanzania Revenue Authority, Annual Report, 2012)
Authority, Annual Report, 2012). Significantly enough, in the following year – FY-
2011/12 TRA collected Tsh. 1,086,374.0 million, about a 40 per cent increase. This
indicates that the introduction and use of the machines has brought about marked
improvement in the collection of VAT. According to Tanzania Revenue Authority,
Annual Report, 2012, in another development, the Tanzania Revenue Authority was
projected to collect Tsh. 3,945,004.10 million by December 31, which marks the end
the first half of the current financial year, 2012/2013

Through personal interview with one of the top Management members of TRA, it was
revealed that Businessmen did not fully comply with using EFDs. Therefore, staff of
TRA have regular physical visit to the business premises on daily bases to monitor
their compliance on the use of EFDs machines. It was further exposed that regular visit
has resulted in the mentioned increment in VAT collection. Other measures taken are
conducting Stakeholders Forums; conducting Customer Care Training for Tanzania
Revenue Authority Staff and establishing Tax Centers.

The findings as well revealed other impacts of EFDs use such as timely filling of VAT
returns. It was further exposed that the timely filling of the monthly VAT returns is
attributed to many factors. EFDS is one of the factors. This is an indication that indeed
the use of EFDs has improved sales audit on top of timely filling of monthly VAT
returns. It was further exposed that TRA has articulated a vision for Tanzanian
customs, and in the process of delivering such mandate, it has faced challenges while
meeting its pillars that include: Building the capacity of customs to better carry out its
responsibilities in a fast changing global environment; Better synergy and cooperation
between customs, and customs and other government agencies, intergovernmental
organizations and the private sector.

The impacts of EFDs use on revenue collection shows that there was good progress on
revenue collections. However, this study also revealed other impacts of EFDs a part
from revenue collections such as easy, save and fast revenue collection. Therefore,
Taxpayers have to recognize the duty of use EFDs in paying taxes as an important
ingredient in the democratization process. Paying taxes empowers them to assertively
demand accountability in government spending, especially at the local level where they can see what their money is actually being spent on.

4.5 The Challenges Facing Taxpayers on utilization of EFDs

Under research question number three of this study, the researchers was interested in gathering information on the challenges facing Taxpayers on utilization of Electronic Fiscal Devices. Hence, respondents were required to answer the question as indicated in On the questions “What are the challenges facing Taxpayers on utilization of EFDs?” The researcher was interested in investigating the challenges influencing the utilization of Electronic fiscal devices. The reason for asking this question was based on the fact that there were complaints on Electronic fiscal devices use in Tanzania. Therefore, respondents were given questionnaires to fill in order to provide their opinions. Results were analyzed by statistical methods and results were presented in Figure 7 where by Y axis represent Respondent’s percentages and X axis represent different challenges.

Figure 4.7: Different Challenges Facing Taxpayers on Utilization of EFDs

Source: Field Data, 2013
Results in figure 7 revealed that respondents had different feelings on the challenges on utilization of EFDs. Results exposed that out of 180 of respondents; 20.5% indicated that the purchasing price of EFDs was higher, 15.2% indicated that Taxpayer dislikes EFDs system, 34.2% indicated that there was difficulties from the suppliers of the EFDs machines, 19.1% indicated that devices did not work properly and 11% indicated other factors such as technical problems, unavailability of education among VAT trades on how best to use EFDs and there had been no solution. These findings show that the challenges facing Taxpayers on utilization of Electronic Fiscal Devices originated from suppliers of the machines, Taxpayers themselves and Tanzania Revenue Authority.

Through personal interview with one of the businessmen on any other challenges facing them on utilization of EFDs machines; He said

“……..there are numerous problems including frequent battery breakdowns and network and printer failures. Many traders are forced to use manual receipt books at times due to failure of the EFDs,” He said further that people using the devices are not conversant with tax laws, and regulations hence the call for the translation. It noted that traders were not happy with the efficiency of the EFDs due to the hurdles involved.”

Furthermore, the researcher was interested in gathering information in detail on breakdown of EFDs machines. Respondents were asked to indicate their feelings on whether their businesses have ever encountered a breakdown of the EFDs machines and the time period the EFDs breakdown lasted; 62% of the Respondents indicated that they have encountered EFDs break down; which lasted for more than 6 hours, 20% lasted between 6-4 hours and 18% for less than 2 hours. This is actually a persistent situation. It is an indication that the breakdowns are severe.

Through personal interview with one of the staff of Tanzania Revenue Authority regarding breakdown of EFDs machine; He said;
“The businesses need to report any breakdown of their EFDs to TRA within 24hrs and inform the supplier the same and shall be the responsibility of the supplier to address the problem within not more than 48hrs and return the machine to the trader, since such breakdowns might lead to failure to file returns, failure to pay correct taxes, tax evasion activities, non-payment of duty on imported goods undisclosed payments to employees, unethical conduct by TRA officers and/or taxpayers, which can amount to corruption. After reporting the breakdowns, it is the responsibility of the supplier to take action.”

However, using documentary review from the Tanzania Revenue Authority it was discovered that as at 31st May, 2012 10,434 traders were using EFDs. However, the information from EFDMS showed that as at the same period a total number of 10,835 traders were registered to use EFDs. This implies that, a total number of 401 traders were in possession of un-fiscalized devices hence not in use. It was observed that, neither suppliers nor users have fulfilled the obligation to fiscalize the devices within the required time frame of five days from the date of UIN acquisition. TRA should enhance follow up of fiscalization process by assigning enforcement officer to make sure that devices are fiscalized within the given time frame.

On the other hand, it was also revealed that as at July, 2010 VAT registered traders were 10,809, as at May, 2012 the number increased to 13,188. However, out of 13,188 traders 10,434 were using EFDs. This implies that, a total of 2,754 traders had not acquired the devices. It is observed that, the rate of enforcing the devices acquisition is relatively very low. Considering the large number of traders to be covered under the second phase (200,000 traders) new acquisition enforcement approach should be adopted.

Through personal interview with Taxpayers it was discovered that approved suppliers and users had encountered several problems that emanated from reluctance of the users to collect the purchased devices and ready to use, failure by the users to make full payments for the acquired devices; failure/delay by the suppliers to establish
integration solutions to the existing accounting packages; lack/shortage of qualified technicians to carry out device technical maintenance/services; difficulties to use ETR to write customers’ name and descriptions of the items sold; lack of suppliers’ service centers in upcountry regions; high initial acquisition cost and subsequent maintenance charges.

Additionally, through personal interview with the staff of Tanzania Revenue Authority, it was revealed that, TRA staff have insufficient knowledge on Electronic Fiscal Devices Management System (EFDMS) hence the system has not been fully and effectively utilized to determine the accuracy of tax information transmitted, verify accuracy of the tax returns and check compliance of the requirement of the law; users possess the devices but they do not properly use them for issuance of receipts or invoices for every transaction; the rate of enforcing the devices acquisition and usage is relatively very low, considering the large number of traders to be covered under the second phase (200,000 traders). It was further revealed that, EFD Machines in circulation lack important features pertinent to current business operations such as barcode reader scanner, alphanumeric keypad, large capacity price look-up and stock control capability. On the side of Taxpayers, the findings revealed other complaints from Taxpayers on EFDs machines such as; the EFDs do not suit their kind of business; the EFDs gave inaccurate records and results for businesses that field sales; the EFDS Machine was not applicable to service providers; and some businesses had already had point of sale software that did all calculations.

Conclusively the findings of this chapter revealed that there are many factors that hindered implementations of Electronic Fiscal Devices. Some of the hindering factors include; inefficiencies and ineffective on the side of approved suppliers, lack of technical staff regarding EFDs, lack of knowledge for both staff of TRA and Taxpayers. It was concluded that before the implementation of the second phase of the EFDs use, approved suppliers should be informed to provide quality services, education for both TRA staff and Taxpayers should be emphasized.
4.6 Strategies to enhance utilization of EFDs

On the questions “What are strategies to enhance utilization of EFDs?” The study investigated the strategies which could use to enhance utilization of Electronic fiscal devices. Respondents were given questionnaires to fill in order to provide their opinions. Results were analyzed and presented in Figure 8 where Y represents percentages of Respondents while X axis represents different strategies.

Figure 4.8: Different strategies to enhance utilization of EFDs

<table>
<thead>
<tr>
<th>Payments of EFDs in installment</th>
<th>Compatibility of EFDs and computers</th>
<th>Free provision of EFDs</th>
<th>Education on EFDs</th>
<th>Other strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>21.7%</td>
<td>22.8%</td>
<td>21.1%</td>
<td>28.9%</td>
<td>5.5%</td>
</tr>
</tbody>
</table>

Source: Field Data, 2014

Results in Figure 8 show that respondents had different feelings on strategies to enhance utilization of EFDs machines. Out of 180 Respondents; 21.7% indicated that EFDs should be paid in installments; 22.8% indicated that there was a need to have compatibility between EFDs and computers, 21.1% indicated that EFDs should be provided freely, 28.9% indicated that provision of education on EFDs, 5.5% indicated other strategies such as; provision of praises, TRA should introduce EFDs that can handle field sales, TRA should introduce cheaper EFDs; TRA should introduce EFDs that have less rates or breakdowns; TRA to introduce different system for different businesses; and TRA should introduce reimburse servicing expenses or terminate use
of EFDs and promotion of EFDs machine in the media through radios, magazines and television.

These findings show that provision of education on EFDs to both Taxpayers and staff of Tanzania Revenue Authority as a new system is essential. These findings were supported by the study done by Ritsema, Thomas and Ferrier (2003) on Economic and Behaviors Determinants of Tax Compliance. Results of their study discovered that provision of education to Taxpayers on website and printed materials encourage Taxpayers on compliance of Income tax laws as shown by the figure 9 below.

Figure 1: A seminar to taxpayers on EFDs conducted by TRA in Ilala, May 2014

Source: Study findings (2014)
These findings also show that promotion was among the factors that encourage Taxpayers to pay tax. These findings were supported by the study done by Wang, (2003) on the factors affecting the adoption of electronic tax-filing systems.

The strategies used to enhance utilization of EFDs machines must reflect the challenges facing implementations of the EFDs machines. However, the improvement of machine and knowledge for both Taxpayers and Tanzania Revenue Authority need to put emphasized.

4.6.1 Conclusion
The implementation of Electronic Fiscal devices by Tanzania Revenue Authority has not been successful. The situation shows that there are challenges regarding Electronic Fiscal devices implementation which hinder the performances. Despite the existence challenges, the first phase targeted group acquired the machines irrespective of the limited number of staff available to enforce Electronic Fiscal devices. The Electronic Fiscal device machines have been useful in improving Taxpayers’ record keeping and simplifying preparation of tax returns. However, in these findings concluded that Tanzania Revenue Authority requires immediate attention for smooth commencement of second phase. However, to facilitate smooth implementation of Electronic Fiscal devices, approved Suppliers were supposed to open upcountry offices to facilitate distribution and maintenance of the Electronic Fiscal devices. Additionally, approved manufactures of Electronic Fiscal devices need to provide enough training to the staff of Tanzania Revenue Authority and Taxpayers to smooth the implementation of the second phase.

4.8 Effect of non Compliance on EFDs
It was revealed from the study that techniques used by tax officers to enhance EFDs usage increases the amount of VAT collected for the past three years. In this case, respondents were asked to explain techniques used to reduce the rate of non-EFD compliance. Findings indicated that, poster, workshops and seminars were used during EFDs sensitization. Three tax collectors (1.5%) said that media such as Television, radios and News papers were used to motivate people to comply with EFDs. They said
that radios were used to inform people to acquire and use EFDs. Similarly, they explained that Televisions and poster played some role though in different styles.

Taxpayers 62 (34.7%) explained that they benefited much from such EFD implementation techniques because media makes them aware of its usage and benefits. One respondent from the group of taxpayers explained further that

“....From media we are able to know where to purchase the machines and their benefits.”

Analysis of the media indicated that for the months (April, 2014), 7 tax advertisements were in Habari Leo News paper, 3 advertisements were in Nipashe News papers and one advertisement was in The Daily News paper. There were also advertisements three times a day in the Tanzania Broadcasting Corporation (TBC) television, Independent Television (ITV) and star television. As well as on radios Clause FM, Channel ten and Radio one for every day morning session.

Many posters on were also observed scattered all over the study areas and concentrated on areas where people did not have easy access to the other media such as radio and televisions. However, the uses of posters were criticized by many respondents especially from a group of residential houses. For example, 40 respondents (22%) explained that they did not know how to read English language advertisements and therefore they did not benefit from the information contained in the posters.

Analysis of respondents response indicated that were valid because Ilala rural have high illiteracy rate (12.7%) compared to Ilala urban illiteracy rate 5% (DEO,2013).In this regard, respondents belonged to such group of illiterate people. Thus, the use of such method (posters) negatively affected implementation of EFDs as those people did not know the importance of such machines.

Findings also revealed that those people with sight problem did not manage to read posters which were posted at high distance. The led one respondent to argue that
“…..it is better these posters to be printed in large quantity so that people with sight problem to get copies and that will enable us to read them easily.”

According to the respondent he was not able to acquire EFD on time because the reminder note to the public to acquire EFDs failed to access him since it was posted at high post. Again this was observed by the researcher to negatively affect the introduction of EFDs in Ilala Tax region.

The second technique identified to be used by tax officers to introduce EFDs was to move house to house/market to market and industry to industry. Ten tax collectors (5%) said they use such method to collect taxes from people who failed to pay tax on time. They explained that they were also assisted by military police during the exercise. One respondent explained the role of military police during EFDS exercise as follows:

“….We use military police. ….. They catch those who refuse to issue fiscal receipts on the spot. They chase and catch those who try to run away during house to house/ market to market visit….. They are very helpful indeed.”

The food venders 30 (16.6%) complained that military police are not good, they are using too much force to force us to use EFDs. One food venders sadly complained

“…. They are beating us, they are powering down our tea and food which we prepared for selling on this they create loss to our businesses.”

Another respondent continued to explain that apart from doing such dirty habits they took away business facilities such pots and utensils. Respondents 30 (16.6%) from retail shops said that harassment from military police who accompany tax collectors caused them to fear and hate all EFDs issues. They said that they have developed communication system which enables them to get information about the movements of tax collectors and military police. Once respondent explained:
“...I am able to know the date they are coming into our street to collect tax, I am able to know at what time they will be near to my shop”

According to the respondent, all retailers in that study area decide to close shops when they get information about the visit of tax officers in the streets. They continue closing their shops up to the time they found out that Tax collectors have passed the area; all these are done as taxpayer do not like to comply in paying Tax as required by the government they tend to evade.

Furthermore 50 percent from a group of small business said that the military police used to take away livestock after their failure to pay property taxes and other charges. According to them, tax collectors together with military police used to destroy people’s properties which were difficult to take way and according to the respondent, they used to appropriate those goods, facilities and equipment they take from people who run away.

Generally, the researcher justified respondents’ responses after observing brutality to business people which was employed by a group of tax collector and military police which ended up spoiling/breaking people’s facilities and equipment.

Analysis of the way such EFD implementation technique employed by tax collectors and military police indicated that it was backed by silentness of tax collection policy which did not stipulate on how each tax collection technique should be implemented.

Further analysis on the business performance in relation to such technique indicated that it led to poor business performance, for example retailers due to fear to be harassed they used to close shops and run away. Under this situation no business is done and that automatically negatively affect the profit to be realized from selling different items from shops. This is due to the fact that for retailers amount to be sold a day which is directly proportional to the profit is also related to the operating hour for that particular day. Thus, according to Tsmai (2003), the more operating hours per day, the more the
opportunity for realization of profit (vice versa). This of course automatically led to non tax compliance.

This also has negative implications on the tax collection because if people are not effectively doing the business automatically they will not effectively pay taxes. This finding was justified by respondents 14 (7.7%) tax collectors who said that the use of such techniques during tax collection was not good because they used to collect little amount of money because many people managed to run away.

Further analysis with regard to that type of EFD technique indicated that brutality employed by policemen during EFD implementation created fear to people which also negatively affected business performance and hence, de-motivated them from complying with it willingly. In fact fear is among psychological factors which influence living things to react aggressively to restore the situation and in this case, reaction of people was to run away from tax collectors and hence evade from paying taxes.

Other techniques identified to be used by tax collection authorities to collect taxes from Ilala traders were through the use of sanctions and penalties. In this case, eight tax officers explained that tax payers within the district who fail to comply with EFDs measures are taken against them usually payment of penalties or imprisonment or both. This was confirmed by 55 respondents (30.5%) from the study sample who said that they were made to pay penalties of failing to pay acquire EFDs. One respondent (0.1%) explained further that

```plaintext
....I failed to pay property rent..... I was charged and the judgment was either to pay the EFD offence penalty or to be jailed for three month. ... I paid the offence.
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Observation indicated people feared to be brought before the law especially to be imprisoned and therefore 24 respondents (13%) said that would rather pay the penalty than being jailed.
Despite such argument, observations revealed that the rate of EFD usage at Ilala revenue office increased when people where informed through the media that they could be brought before the law after the dead line for acquiring these machine.

In this chapter, presentation, analysis and interpretation of data obtained from taxpayers, tax officers and Tax administrators, policy makers at Ilala region through questionnaire, interview and focus group discussion and transect walks is made. Frequency analysis using statistical package for social sciences of the data collected through questionnaires is used and thematic presentation is made for information collected through interview and the key informants. Some figures and plates have been presented for the data collected during transect walk. The presentation and analysis of these findings are made such that they address the objectives of this study.

CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter represents the conclusions and recommendations of this study. Firstly, a summary of the study is presented. This is followed by conclusions and recommendations in terms of further research that could be done into this area of study, as well as some advice for the Tanzania Revenue Authority, and recommendations of the study. Also, suggestions are presented in this chapter.

5.2 Summary of the Study

5.2.1 Strategies Employed by TRA to Implement EFDs in Tanzania
Under specific research objective one, study revealed different strategies used by Tanzania Revenue Authority to implement electronic fiscal devices such as; to make registration of all devices before they are put into use by the Taxpayers, to approve manufactures of Electronic Fiscal Devices machines, to provide training for the staff of Tanzania Revenue Authority and to provide training for the Taxpayers. However, it was revealed that the training was not successful because even staff of Tanzania Revenue Authority were not competent with EFDs machines and the situation of Taxpayers on EFDs machines was worse. These findings show that knowledge on EFDs use is very important. These findings were supported by the study done by Eriksen (1996) who demonstrated the importance of tax knowledge in a tax system. They suggested that fiscal knowledge correlates with attitudes towards taxation and that tax behaviour can be improved by better understanding of tax laws. A recent study by Kirchler et al. (2008) also emphasizes that tax knowledge in individual taxpayers is also positively related to tax compliance. The study concluded that approved suppliers of EFDs should make sure that staff of Tanzania Revenue Authority and Taxpayers has enough knowledge on EFDs use to smooth implementation of EFDs use in Tanzania and other parts of the World especially in Developing Countries.

5.2.2 Impacts of EFDs on Revenue Collection
Under specific research objective two, study revealed the record had shown that there was significant difference on revenue collection after implementation of EFDs. It was
revealed that use of EFDs has improved revenue collection for about 32% of VAT tax collected by Tanzania Revenue Authority for 2011/12. The use of EFDs has increased the amount of money the businesses receive from its activities in a given period, mostly from sales of products and/or services to customers. It was observed that sales have increased after acquisition of EFDs; furthermore the increase can be seen after enforcement. It was further discovered that the VAT revenue collection for the regions indicated that, for the first year of EFD implementation 2010/11 was TZS. 791,462.90 million and for the period of six months between July and December, 2011 was TZS. 567,224.91 million (Tanzania Revenue Authority, Annual Report, 2012).

Revenue collection showed an increasing trend. This increase is attributed to EFD, among other factors. It was also revealed that TRA collected a total of Tsh. 785,882.4 million in the 2009/2010 financial year, before the EFDs were introduced. By comparison, the Authority collected Tsh791, 462.9 million in FY- 2010/11, immediately following introduction of the devices (Tanzania Revenue Authority, Annual Report, 2012). Significantly enough, in the following year – FY-2011/12 TRA collected Tsh. 1, 086,374.0 million, about a 40 per cent increase. This indicates that the introduction and use of the machines has brought about marked improvement in the collection of VAT. According to Tanzania Revenue Authority, Annual Report, 2012, in another development, the Tanzania Revenue Authority was projected to collect Tsh. 3,945,004.10 million by December 31, which marks the end the first half of the current financial year, 2012/2013.

There was effectiveness of Electronic Tax Registers in processing of Value Added Tax returns; Electronic tax Registers reduce the tax-reporting burden on businesses while improving the efficiency and effectiveness of government operations, provides timely and accurate tax information to businesses, increases the availability of electronic tax filing, and models simplified state tax employment laws. It was found that EFDs have enhanced the revenue collection resulting from sound sales and stock audits. Thus, most businesses qualified the use of EFDs in business to have accrued many benefits to their businesses, citing the following reasons ranging from: Increased efficiency in sales audit; Increase in sales collection; increased efficiency in
stocktaking; easy VAT Processing leading to less risk of prosecution; EFDs have led to timely preparation of reports; EFDs have led to Increase in returns, and fast and efficient.

5.2.3 Challenges facing Taxpayers on Utilization of EFDs

Under specific research objective three, results revealed different challenges facing Tanzania Revenue Authority on EFDs implementation such as; higher purchasing price of EFDs, Taxpayer dislikes EFDs system, there were difficulties from the suppliers of the EFDs machines, machines were not worked properly, technical problems, unavailability of education among VAT traders on how best to use EFDs, frequent battery breakdowns and network and printer failures, and Taxpayers not being conversant with tax laws. Also the breakdowns might lead to failure to file returns, failure to pay correct taxes, tax evasion activities, non-payment of duty on imported goods undisclosed payments to employees, unethical conduct by TRA officers and/or taxpayers, which amount to corruption, reluctance of the users to collect the purchased devices and ready to use, failure by the users to make full payments for the acquired devices; failure/delay by the suppliers to establish integration solutions to the existing accounting packages; lack/shortage of qualified technicians to carry out device technical maintenance/services; difficulties to use ETR to write customers’ name and descriptions of the items sold; lack of Suppliers service centers in upcountry regions; high initial acquisition cost and subsequent maintenance charges.

TRA staff have insufficient knowledge on Electronic Fiscal Devices Management System (EFDMS) hence the system has not been fully and effectively utilized to determine the accuracy of tax information transmitted, verify accuracy of the tax returns and check compliance of the requirement of the law; users possess the devices but they do not properly use them for issuance of receipts or invoices for every transaction; the rate of enforcing the devices acquisition and usage is relatively very low. These findings show that the challenges facing Taxpayers on utilization of Electronic Fiscal Devices originated from suppliers of the machines, Taxpayers themselves and Tanzania Revenue Authority.
Nevertheless, it is not necessarily the case that people do not use EFDs because the machines are expensive. Compliance with paying tax depends on goodwill of the Taxpayers and corruptions from Tanzania Revenue Authority. Noncompliance with the use EFDs machine for paying tax creates a severe problem for any process of sustainable development and is especially detrimental to good financial governance. These findings were supported by the study done by Torgler and Valev (2007) on Public Attitudes towards Corruption and Tax Evasion. The findings of their study revealed that corruption was one of the challenges facing staff of revenue authority. Unrealistic tax computation and estimation, too many taxes which results in tax avoiders were mentioned as factors hindering compliance on Taxation, 2004. These findings were supported by the study done by Richardson and Sawyer (2001) on Taxonomy of the Tax Compliance Literature.

The findings of their study exposed that unrealistic tax computation and estimation and too many taxes were the factors hindering taxpayers on compliance with Income Tax laws. Cost of public awareness regarding the importance of paying tax and low level of compliance on the part of Taxpayers and the system of Tax administration seems to be complicated. These findings were also supported by the study done by Chau and Leung (2009) on a critical review of Fisher Tax Compliance Model. Higher revenue collection target provided by the Ministry of finance affects Taxpayers compliance. These findings comply with the study done by Devos (2005) on Attitudes of Tertiary Students on Tax Evasion and Penalties for Tax Evasion, the findings of his study exposed high working targets of Government on revenue collection, absence of business premises, aggressive nature of the actors and absence of data information were the factors that made Taxpayers not to comply with tax laws. It was concluded that the challenges regarding EFDs use are solvable if purposeful initiatives will be taken for both Tanzania Revenue Authority and approved suppliers of EFDs machines.

5.2.4 Strategies to Enhance Utilization of EFDs

Under specific objective four, the study revealed different strategies which could be used to enhance utilization of Electronic fiscal devices in Tanzania. Among the strategies revealed include; payment of EFDs machines should be done in installments,
compatibility between EFDs and computers, EFDs should be provided freely, provision of education on EFDs, provision of praises, TRA should introduce EFDs that can handle field sales, TRA should introduce cheaper EFDs; TRA should introduce EFDs that have less rates or breakdowns; TRA to introduce different system for different businesses; and TRA should introduce reimburse servicing expenses or terminate use of EFDs and promotion of EFDs machine in the media through radios, magazines and television, approved Suppliers were required to open upcountry offices to facilitate distribution and maintenance of the EFDs, acquisition enforcement approach should be adopted and sufficient production of EFD related publications and promotional materials and introduction of incentives for tax payments like bonuses for good tax payers. Also, special recognition to those making full compliances has encouraged few individual taxpayers to pay tax freely.

There are more fundamental factors that would attract people to use EFDs. Use of EFDs is therefore, positively correlated with the socio-economic benefits people attach to paying taxes or not paying taxes. The key issue, therefore, is how does goodwill generate and create a sense of patriotism among citizens in order to pay taxes using EFDs voluntarily without forcing them to do so. Taxpayers have to recognize the duty of using EFDs in paying taxes as an important ingredient in the democratization process. Paying taxes empowers them to assertively demand accountability in government spending, especially at the local level where they can see what their money is actually being spent on. Designing an effective, efficient and transparent system of taxation is essential in increasing effectiveness and efficient of compliances on use of EFDs machines in Tanzania. A successful and sustainable strategy has to take into account the interests and aims of all parties involved as well as the specific situation in which the process is placed.

These findings were supported by the study done by Pashev (2005) on presumptive Taxation and Gray Economy. The findings of his study exposed that transparency of rules and policies increases Taxpayers behaviours on compliance with Income Tax laws. Promotion on online tax filing system was among the factors that encourage Taxpayers to pay tax. These findings were supported by the study done by Wang,
(2003) on the factors affecting the adoption of electronic tax-filing systems. The findings of his study revealed that use of the online tax filling increases Taxpayers on compliance of the tax laws. These findings were supported by the study done by Ritsema, Thomas and Ferrier (2003) on Economic and Behaviours Determinants of Tax Compliance. Results of their study revealed that provision of education to Taxpayers on website and printed materials encourages Taxpayers’ compliance with Income tax laws. The strategies used to enhance utilization of EFDs machines must reflect the challenges facing implementations of the EFDs machines. However, the improvement of machine and knowledge for both Taxpayers and Tanzania Revenue Authority need to be emphasized.

5.3 Conclusions
The study concluded that approved suppliers of EFDs should make sure that staff of Tanzania Revenue Authority and Taxpayers has enough knowledge on EFDs use to smooth implementation of EFDs use in Tanzania and other parts of the World especially in Developing Countries. Ilala Tax Region should take this as a challenge for better performance in tax collection.

Similarly, results revealed different challenges facing Tanzania Revenue Authority on EFDs implementation such as; higher purchasing price of EFDs have been the main cause of resistance of EFD implementation by the majority of the traders and this can be minimized by cutting down the price of EFDs, remove the EFDs technical problems, maintenance/services; difficulties to use ETR to write customers’ name and descriptions of the items sold.

It is therefore significant for Ilala Tax Region management which also manages tax payers to build lovely atmosphere including extending grace period before enforcement of EFDs to enable people to love them and hence, to be able to comply with them willingly and effectively.
5.4 Recommendations

(i.) Tanzania Revenue Authority to introduce new manufacturers before the commencement of EFD Second Phase in order to gain new technology and bring in competition.

(ii.) The existing Approved Manufacturers should be informed of the need to upgrade their products quality, functionality and usability before commencement of EFD Second Phase.

(iii.) In line with new Manufacturers, the number of approved Suppliers should also be increased so as to bring about competition controlled pricing and better services.

(iv.) Tanzania Revenue Authority to engage independent institutions such as University of Dar es Salaam Computing Centre (UDCC) or Dar es Salaam Institute of Technology (DIT) to carry out compliance test of the devices and software drivers for Electronic Fiscal Printers. If case the local institutions do not have the capacity to do the job at the moment, as temporary measures, other testing centers from abroad should be considered as an alternative to come to provide assistance in testing;

(v.) The initial costs of acquisition should be borne by the government as it promised as the amount still seems big for the small and medium traders as most of them claim that the cost of the machine to be the main constraint.

(vi.) Give a longer grace period to determine effectiveness of EFDs in the country by carrying out a pilot project and could select a group of traders before it is used by all traders. This would allow the traders to acquire and use the machine to allow room for identifying the weaknesses of arising during the introduction and implementation of the EFDs before extending to other traders.

(vii.) Ensure availability of power supply and a fast internet system to allow a smooth implementation of the machines as it causes inconveniences for both traders and their customers. It further causes problems for the TRA to get correct sales information daily.

(viii) In my opinion the EFD suppliers should rethink and come up with more durable materials with regard to fiscal invoices and z - report as most of them do not last for more than two years.
(ix) The use of military police during EFD implementation to be abolished as what they do to people is against human rights and our constitution. This will enable people not to run away from tax collectors and that will enable the latter to collect enough amount of tax because the many the tax payer the large the amount of money to be collected.

(x) Constant staff and development to be effected to tax officers to enable them to update and upgrade knowledge and skills in their professionals especially in the newly introduced system of EFDMS. They will also be able to practice good customer care services which may build good relationship between them and taxpayers.

5.4.1 Suggestion for Policy Implications

(i.) Policy should be made to develop certification procedures or adopt procedures used in other countries such as Ethiopia that ensure the machines deployed are of high quality. In line with adoption of new certification procedures, and in line with users’ response to regular breakdowns of the devices, the existing devices should be subjected to a new test in order to minimize and remove substandard devices believed to be in circulation.

(ii.) Policy to engage all Government Institutions to enforce EFDs by demanding fiscal documents in relation to claim of payments for every goods and services supplied.

(iii.) A policy on fiscalization of devices should be put in place and implemented under TRA officer’s supervision to make sure that fiscalization process is properly done within time frame.

5.4.2 Suggestion for Further Research

The study focused on Taxpayer’s perceptions on compliance of fiscal electronic devices on revenue collection in Dar es Salaam region; the case of medium
entrepreneurs in Ilala district. Another study could be studied on the same topic but for specific Tax Regions and thus a wider sample should be involved.

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**APPENDICES**

**Appendix I: Questionnaires**

**Questionnaire**

Dear respondents
The aim of this work is to find out the taxpayer’s perception on EFDs on revenue collection invoices in Tanzania. The accomplishment of this study is greatly on your hand, with this regards I request for your kind and exhaustive response to the available set of questions.

I strongly assure that all information availed will strictly be confidential and dealt with for the purpose of this research and there is no intention of doing otherwise.

**PART 1: To be answered by Taxpayers.**

**The Taxpayers’ Perception on Electronic Fiscal Device (EFD) System Compliance on Revenue Collection In Tanzania**

**Category A:**

1. **Names [optional]**

   Surname…………………………… First Name……………………………

   (i) Sex. Male [  ]

   (ii) Female [  ]

2. **Age of respondent**

   (i) 18-25 [  ]

   (ii) 26-35 [  ]

   (iii) 36-45 [  ]

   (iv) 50 and above [  ]

3. **Marital Status**

   (i) Single [  ]

   (ii) Married [  ]

   (iii) Separated [  ]

   (iv) Widower/Widow [  ]

4. **Education**
Category B:

1. Do you think is EFD effective as far as revenue collection is concerned
   (i) Yes [ ]
   (ii) No [ ]

2. What is the difference between the old-fashioned Electronic Cash register and Electronic Fiscal Device in term of quality
   (i) No different [ ]
   (ii) Differ in terms tax collection [ ]

3. EFD machines are reported that they have many operational and technical difficulties,
   (i) Strongly Agree [ ]
   (ii) Agree [ ]
   (iii) Neutral [ ]
   (iv) Disagree [ ]
   (v) Strongly Disagree [ ]

4. Did the TRA and authorized Supplier provide education on the use of EFDs?
   (i) Yes [ ]
   (ii) No [ ]

5. If it happens that the machine has a breakdown, how do you deal with transactions?
   (i) Give the customer the normal cash voucher [ ]
ii) We don’t give any cash voucher [ ]
iii) We call the supplier immediately [ ]
iv) We call TRA authority [ ]

6. In your personnel perspectives, what do you think are the advantages and disadvantages of using EFD machines in business?
   (i) Good record Keeping [ ]
   (ii) Good in Transaction presentation [ ]
   (iii) Easy in tax Collection by TRA [ ]
   (iv) It wastes time for business owners [ ]

7. Do you have any other comment?
   ________________________________________________________________
   ________________________________________________________________

8. The name of your company/business/organization?
   ________________________________________________________________

9. In which Industry your businesses belong?
   (i) Retailers [ ]
   (ii) Supermarkets [ ]
   (iii) Financial Institutions [ ]
   (iv) Telecommunication companies [ ]
   (v) Mining Companies [ ]

10. Does your company use the EFD machines from TRA?
    (i) Yes [ ]
    (ii) No [ ]

    If No, please explain why
    ________________________________________________________________
    ________________________________________________________________
11. Circle more than one corresponding numbers that best represent your response.

<table>
<thead>
<tr>
<th></th>
<th>Excellent</th>
<th>Very good</th>
<th>Good</th>
<th>Poor</th>
<th>Very poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Distribution and training on the use of the machines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EFD has assisted ease reports of day to day sales of the business</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Performance of the machines</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank You for Your Cooperation

PART 2: To be answered by TRA employees
The Taxpayers’ Perception on Electronic Fiscal Device (EFD) System Compliance on Revenue Collection In Tanzania

Category A:
1. Sex
   (i) Male [   ]
   (ii) Female [   ]
2. Age of Employees
    (i) 18-25 [ ]
    (ii) 26-35 [ ]
    (iii) 36-45 [ ]
    (iv) 50 and above [ ]

3. Marital Status
    (i) Single [ ]
    (ii) Married [ ]
    (iii) Separated [ ]
    (iv) Widower/Widow [ ]

4. Education
    (i) University/College [ ]
    (ii) Secondary [ ]
    (iii) Primary [ ]
    (iv) None [ ]

Department/Region

Category B:
1. Do you think is EFD effective as far as revenue collection is concerned?
   (i) Yes [ ]
   (ii) No [ ]

2. What is the response of traders during introduction of EFD machine in the country?
   (i) Good [ ]
3. Is there any improvement in revenue after starting using EFDs as far as revenue collection is concerned?
   (i) Yes [   ]
   (ii) No [   ]

4. Do traders registered for VAT comply with EFD regulations and other tax laws?
   (i) Yes [   ]
   (ii) No [   ]

5. Is there any training schedule in the EFD machines?
   (i) Yes [   ]
   (ii) No [   ]

6. What is your opinion about machines to trader?
   ________________________________________________________________
   ________________________________________________________________

7. Any other comments?
   ________________________________________________________________
   ________________________________________________________________

8. EFD is a waste of fund and has not assisted TRA in anyway?
   (i) Yes [   ]
   (ii) No [   ]

9. Circle more than one corresponding numbers that best represent your response.
   1. Excellent. 2. Very good. 3. Good 4. Poor. 5. Very poor
   | Excellent | Very good | Good | Poor | Very poor |
| EFD has assisted ease the work of administrating revenue collection |  |  |  |
| Impact of EFD on revenue collection |  |  |  |
| Monitoring the evasion on the use of EFD |  |  |  |
| Performance of the machines |  |  |  |

10. Do you think EFDs has any impact on efficiency in service delivery?
   (i) Yes [  ]
   (ii) No [  ]

11. Are you satisfied with the system used by TRA to supply EFDs to Business owners?
   (i) Yes [  ]
   (ii) No [  ]

*Thank You for Your Cooperation*