

**THE ROLE OF POST CLEARANCE AUDIT ON  
ENHANCEMENT OF TAX COMPLIANCE AND REVENUE  
COLLECTION IN TANZANIA:  
THE CASE OF DAR-ES-SALAAM REGION**



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THE CASE OF DAR-ES-SALAAM REGION**

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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 Science in Accounting and Finance (MSc.A&F) of Mzumbe  
University**

**2013**



**CERTIFICATION**

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **The role of post clearance audit on enhancement of tax compliance and revenue collection in Tanzania : The case of Dar-es-salaam Region**, in partial/fulfilment of the requirements for award of the degree of Master of Science in Accounting and Finance (MSc.A&F) of Mzumbe University

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## **DEDICATION**

I'm dedicating this research study to my lovely wife Gloria Samweli Edward, My daughter Faustina Sikazwe, my son Kimaraunga Sikazwe my parents, my brothers and sisters for their concern to my endeavours morally and financially.



## **ABBREVIATIONS AND ACRONYMS**

B/L	-	Bill of Lading
DSM	-	Dar es Salaam
EAC	-	East African Community
PCA	-	Post Clearance Audit
RKC	-	Revised Kyoto Conversion
SMEs	-	Small & Medium Enterprises
SPSS	-	Statistical Package of Social Sciences
TRA	-	Tanzania Revenue Authority
TSHS	-	Tanzanian Shillings
US\$	-	United States of America Dollar
WTO	-	World Trade Organization
WCO	-	World Customs Organization

## **ABSTRACT**

The study is about the role of Post Clearance Audit to the improvement of revenue collection and voluntary compliance. It is based on both theoretical and empirical literature on taxation. In addition to that the study has involved review of official documents, discussion and consultation with selected taxpayers, and a brief interview among customs officials to obtain their views on the role of Post Clearance Audit on enhancement of tax compliance and revenue collection. Both qualitative and quantitative research design were used.

On one hand findings reveal that PCA has enhanced tax compliance. Before PCA taxpayers were not bothering on the accuracy of custom declaration while now the contrary is the case because they know that TRA is monitoring and in case there is short levy additional assessment will be raised. Most of Taxpayers would prefer to pay the correct duties and taxes on their importation to avoid future additional assessments and penalties in case of evasion.

On the other hand findings revealed that PCA has enhanced tax revenue collection. Before, taxpayers were sure that once assessment has been raised and duties and taxes paid, there was no more payment in regard to that particular import. It is therefore recommended that PCA should be strengthened to ensure continuous tax compliance which will result into rise in revenue collection.

This research concluded that PCA has enhanced tax compliance and tax revenue collection in the country. Most of taxpayers have opted to comply rather than to wait for PCA to come for audit which may attract penalties and fines. Through PCA taxpayers are declaring properly at customs which in turn increases revenue collection. Also additional assessment which is issued by PCA unit contributes substantial amount to the aggregate revenue collection by TRA.

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## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background Information**

In the recent decades revenue collection has become an important agenda especially for less developed countries including Tanzania. Tax revenue collection is an important source of national income, the engine of all development plans and financier of all activities (Economic Survey, 2005). According to Kihimbi (2005) achievement of management's expectation is increased revenue collection and improved quality of services to the taxpayers. Moreover, revenue collection has not been important on its own merit but has also been used as benchmark for support offered by Development Partners (DP) to Tanzania. The benchmarks indicate specific areas for performance modification in order to qualify for donor support. Given its due importance then, establishment of efficient and effective revenue collection system is pertinent.

Tanzania Revenue Authority (TRA) is a government agency established in 1995 under the Act of Parliament No 11. Its main functions include assessment, collection and accounting for Government revenue, to advise the Government in matters of fiscal policy and to produce trade statistics. TRA has the duty of administering, among other, taxes laws, (The East African Community Customs Management Act 2004), the administration of which is managed by the Customs and Excise Department of TRA. The latter is responsible for, among other things, collection of international trade taxes including import duties, Value added Tax and Excise duties on imports and other related duties.

All countries have in place some customs controls for revenue generation, domestic economic interests, and national security purposes. While there are similarities between countries (like the universal need for shipment documentation, including commercial invoices and B/L) there are local, specific requirements that have to be addressed. Broadly, customs clearance is defined as the set of functions undertaken

by a national customs authority, which include, but are not limited to; Processing of import, export, and transit declarations, assessment of origin, value, and classification of goods , collection and processing of duties and fees, physical inspection, examination, and release of cargo, Conduct of post-clearance audits and processing of urgent consignments , administration of waivers and exemption schemes and drawback (re-exportation) schemes (McLinden 2005).

Customs clearance in the developing world is in rapid evolution. In “Rolling Back the Frontiers: The Customs Clearance Revolution,” Ton Appels and Henry Struye de Swielande describe three stages of development in customs. In the first, the customs authority concentrates on physical inspection and paperwork, in the second, the customs authority works to reduce fraud and maximize revenues, and in the third, the customs authority works to facilitate trade through internal checks, process management and the development of electronic data exchange (Appels 1998). All the countries considered here are somewhere between stages two and three of this evolution, and most have installed electronic systems for lodging customs declarations, some have more functions than others.

The growth in international trade, coupled with declining resources for Customs administrations worldwide relative to the increase in volume of international trade and the need for trade facilitation, has necessitated the adoption of risk management and audit-based controls. These permit Customs authorities to release the vast majority of shipments and retain only consignments matching the risk profiles. Non-selected cargo will be released immediately but may be subjected to Post Clearance Audit later.

Border controls still have a part to play in a modern Customs service; however, excessive and time-consuming checks at the point of clearance can be counterproductive. Modern international commerce works to tight deadlines and national economic benefits can be derived as the result of the smooth and timely clearance of goods. Furthermore, the majority of international trade involves large corporations with global networks and complex business systems and supply chains.

The limited documentation required to be produced at the time of importation does not provide the whole picture and context of a commercial transaction, which is necessary to properly determine, inter alia, the correct Customs value, classification and entitlement to preferential origin.

By application of a post-clearance, risk-based approach, Customs are able to target their resources more effectively and work in partnership with the business community to improve compliance levels and facilitate trade.

Post-clearance audit means audit-based Customs control performed subsequent to the release of the cargo from Customs' custody. The purpose of such audits is to verify the accuracy and authenticity of declarations and covers the control of traders' commercial data, business systems, records and books. Such an audit can take place at the premises of the trader, and may take into account individual transactions, so-called "transaction-based" audit, or cover imports and/or exports undertaken over a certain period of time, so-called "company based" audit.

Post-clearance audits can be conducted on a case-by-case basis, focusing on targeted operators, selected on the grounds of risk analysis of the commodity and the trader, or in a planned, regular way, set out in an annual audit programme. Furthermore, the audit could also be used as criteria to offer special treatment to certain economic operators.

Chapter 6 of the General Annex of the Revised Kyoto Convention (RKC) sets out a large number of recommended standards relating to all aspects of Customs control, including the use of audit-based controls- (Standard 6.6. and 6.10). The implementation of Customs reforms adopted by TRA has significant contributions to the implementation of the EAC Customs Union Protocols including a new EAC Customs Management Act, 2004. National and regional stakeholders were represented in the consultative process before changes were proposed and submitted to EAC Secretariat for consideration and approval. The main changes on administrative policies which resulted from these reforms were; TRA administrative

structure was reviewed to incorporate a Project and Modernization programme unit whereas in the Customs administration, units such as Modernization and Quality assurance, Risk Management, Trade Facilitation and Post Clearance Audit (PCA) were introduced to enhance coordination of reforms and efficiency ( Mbunda, 2011).

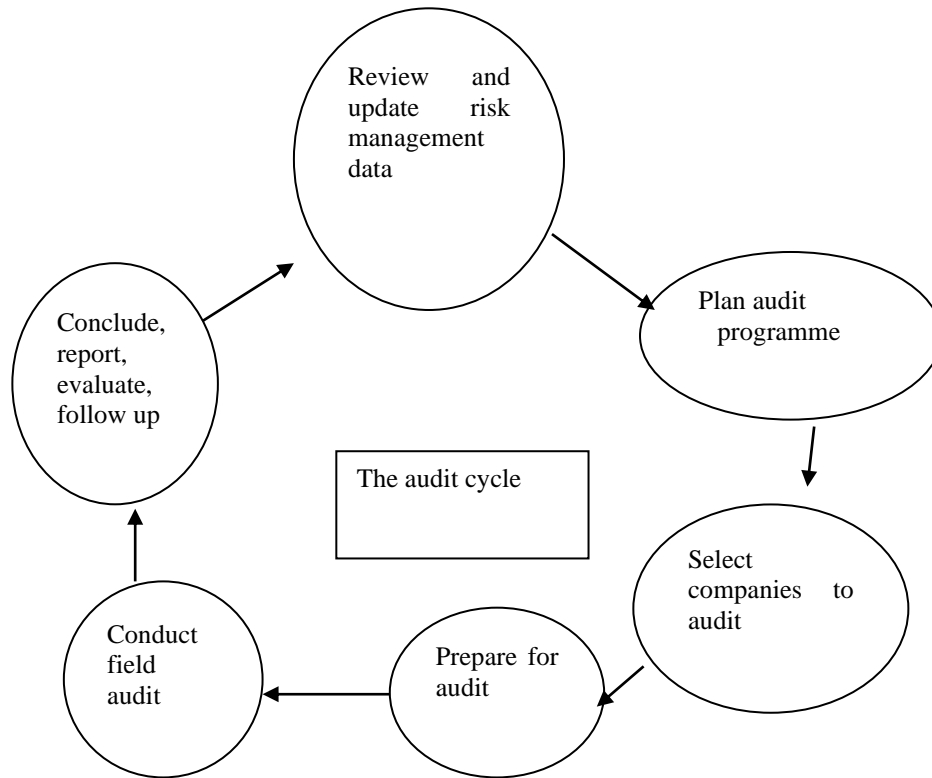
The purpose of introducing post-clearance was to contribute to more effective and simplified Customs procedures leading to a better compliance in the first instance, thus the amount of duty and taxes collected by means of an audit will also increase government revenue. In particular, PCA is regarded as one of the most effective measures for compliance verification with Customs laws, regulations, procedures and trade facilitation through fast clearance. (East African Community, secretariat, 2012). This research has identified and documented the role of Post Clearance Audit on enhancement of tax compliance and revenue collection in Tanzania.

There are number of benefits derived from post clearance audit process and includes  
The followings

- (i) Compliant trade if facilitated at the point of Customs clearance as border controls can be reduced
- (ii) Enables Customs to gain better information on and understanding of clients' business
- (iii) Risk levels can be more easily assessed and reviewed: a premise visit provides the opportunity to identify risk and weaknesses in traders' systems
- (iv) Facilitate client education, long term and comprehensive compliance management focus.
- (v) Customs administrations' resources are more effectively deployed.
- (vi) Customs can promote the concept of voluntary compliance and self assessment
- (vii) Suspected fraudulent activities may be identified and referred to enforcement unit for appropriate action.
- (viii) Provides a platform for evaluating continued entitlement to authorized economic Operator Status, where applicable

### 1.1.1 Overview of the Post Clearance Audit Process

**Figure 1.1: Outlines a recommended cycle for planning a system based audit Programme**



Source; Guidelines for post clearance audit volume 1 world customs organization June 2012

### 1.1.2 Type of audit verification

#### 1.1.2.1 Post –importation transaction verification

This involves introducing checks on individual transactions. this can work in two ways , first referral from the port/border post when an officer has doubts concerning a particular declaration at the time of clearance. If it is considered that significant duty may be at stake, an inquiry is then referred to the appropriate Customs office to further examine the declaration, normally in consultation with importer. the goods in equation may be released or other action may be taken as appropriate. Secondly is when the targeting team scrutinizes individual Customs declaration after clearance and select those where doubts arise regarding their accuracy. These declarations are

then verified as above, normally in consultation with the importer, and action is taken as appropriate. In each case, it is highly recommended that risk-based selection criteria are used to determine which Customs declarations will be verified

#### **1.1.2.2 office/desk audit or verification**

This is when the audit is conducted by correspondence or by telephone, typically where straightforward or single issue is involved. An office audit may be deemed appropriate as a result of the pre-audit survey. Although it is not as thorough as field audit, it uses fewer resources and acts as a reminder to business that Customs are monitoring their activities. It should also be noted that a desk audit may subsequently involve a field audit, if considered necessary, in order to examine an issue in more detail.

#### **1.1.2.3 Field/ On-site audit**

This type of audit is conducted at the premises of the auditee. The amount of information to be examined by auditors is potentially large and will depend on the length of time since the previous audit of the business in equation. A complete picture of the business can be captured during the audit, including details of business systems, trading methods and partners.

### **1.2 Statement of the Problem**

The question facing TRA particularly Customs and Excise Department is whether Post Clearance Audit Unit has played significant role on future voluntary compliance, i.e., after an audit, will a firm change its self-declaration to report higher Values than it would without the audit?

Tax professionals have supported answers to this question. Some say that Post Clearance audit has enhanced tax compliance and revenue collection. They argue that after an audit, especially when an audit results in additional tax liabilities, a firm may think that the tax authorities are closely monitoring its activities and may feel that it will be caught again if it attempts to conceal declarations. For this reason, the

firm may declare higher values than it would have otherwise reported had it not been audited by Post Clearance Audit.

Other tax professionals argue the opposite. They say that after an audit, a firm may think that it is less likely to be selected for re-audit in the future, which may provide the firm with incentives to cheat hence less revenue collection.

Both arguments have merit and both sides can provide evidence to support their stance based on the examination of individual firms. However, we would like to know the overall role of Post Clearance Audit on enhancement of Tax compliance and revenue collection, not the impact on a particular firm.

This research therefore has investigated more on the role of Post Clearance Audit on enhancement of tax compliance and revenues collection in Tanzania.

### **1.3 Research Objectives**

#### **1.3.1 Main Objective**

The main objective of this research study was to analyze the contribution of Customs Post Clearance Audit on enhancement of Tax revenue collection and compliance to Customs Laws and procedures in Tanzania

#### **1.3.2 Specific Objectives**

- (i) To find out the extent to which Post Clearance Audit has enhanced tax revenue collection
- (ii) To find out the extent to which Post Clearance Audit has enhanced voluntary tax compliance
- (iii) To determine the extent to which tax revenue legally due are identified and paid
- (iv) To identify weaknesses in customs laws that hinder Post Clearance Audit operations.

## **1.4 Research Questions**

### **1.4.1 Main Question**

The main question of the research was to analyse to what extent Post clearance Audit has enhanced tax revenue collection and voluntary tax compliance to Customs Laws and procedure in Tanzania?

### **1.4.2 Specific Questions**

- (i) To what extent Post Clearance Audit has enhanced tax revenue collection?
- (ii) To what extent Post Clearance Audit has enhanced voluntary tax compliance?
- (iii) How tax revenue are identified and paid?
- (iv) Which customs law hinders Post Clearance Audit operations?

## **1.5 Significance of the Study**

The findings from this study are expected to contribute towards the body of knowledge of understanding the effectiveness of Post Clearance audit on tax compliance and revenue collection. In the process of the study is also going to provide useful theoretical and practical knowledge on how Post Clearance audit can enhance tax compliance in Tanzania hence increased revenue collection.

The result of this study is expected to be beneficial to other researchers, taxpayers, investors, policy makers and tax officials who intend to improve voluntary tax compliance and revenue collection in the country. Then it will establish the relationship and strength between Post Clearance audits, tax compliance and revenue collection in Tanzania.

This research tested the hypothesis that Post Clearance audit has enhanced tax compliance and revenue collection in Tanzania.

## **1.6 Scope and Delimitations of the Study**

The study centered in Dar es salaam city as many tax payer who imports goods and the auditors themselves have their establishment in the city and can be easily accessed due to the time available



### **1.7 Limitations of the Study**

Financial constrain is the main limitation where money needed to facilitate data collection and analysis process is inadequate. Since the budget is very small then the study opted to concentrate in the Dar es Salaam Region.

Time constrain is another limitation where the researcher has no control of time to be involved in research.

The data collection are confined in DSM due to distance constrain. Apart from Dar es salaam there is Arusha, Mwanza, Dodoma, Mbeya, Kilimanjaro, Morogoro region to mention but a few. Reaching taxpayers who are scattered in these regions would have involved travelling from one point to the other hence time consuming and money.

### **1.8 Delimitation of the Study**

The conclusion drawn is based and limited to findings which were obtained from the sample of tax payers, customs officers based in Dare s salaam region and the performance management report of PCA section.

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.1 Introduction

Literature review is a detailed survey/ assessment and relevant discussion in a given area of study. It is a brief outline of what has been studied, argued and established about a topic and it is usually organized in a sequentially (chronologically) or thematically manner. However, literature review uses, as its database, reports of primary or original scholarship and does not report new primary scholarship itself (Cooper, 1988).

The review of relevant literature is critical for any study because it gives a guideline for the studier to provide the background to and justification for the study embarked on. Bourner (1996) provides some good reasons for spending time and effort on a review of the literature before embarking on a study project. According to him, literature review helps to avoid reinventing the wheel (that is at the very least this will save time and it can stop one from making the same mistakes as others), identify other people working in the same fields (a studyer network is a valuable resource), provide the intellectual context for ones own work, enabling one to position his/her project relative to other work, to put ones work into perspective to identify methods that could be relevant to ones project and more importantly, to identify gaps in the literature

This chapter reviews various literatures on tax audit and tax compliance by highlighting the concept and brings into perspective the history of tax audit and tax compliance. The chapter also reviews the previous studies on tax audit and tax compliance in Tanzania and develops the gap from the previous studies.

## **2.2 Definition of Key Concepts**

### **Import**

Import means to bring or cause goods to be brought to Tanzania from a foreign country. Import procedures have to be followed in order to clear goods from Customs control as per section 2 (1) in the EACCMA, 2004' (East African Customs Management Act 2004 (Rev 2009))

### **Import Duty**

According to the East African Customs Management Act 2004 (Rev 2009) import duties means any customs duties and other charges of equivalent effect levied on imported goods. It is therefore a tax collected on imports and some exports by the customs authorities of a country. This tax is used to raise state revenue. It is based on the value of goods called ad valorem duty or the weight, dimensions, or other criteria of the item such as its size. Also referred to as customs duty, tariff, import tax and import tariff

### **Trade Facilitation**

Sohn (2001) defined trade facilitation as “all activities or policies that reduce transaction costs arising from eliminating or simplifying excessive and complex procedures, practices and processes related to trade, thus increasing efficiency, which results in increased trade” (Sohn and Yoon, 2001). The most intuitive definition may be that given by Staples (2002), who stated that “trade facilitation involves reducing all the transactions cost associated with the enforcement, regulation, and administration of trade policies. It has been referred to as ‘plumbing’ of international trade”. In the end, the objective of trade facilitation is to reduce the cost of doing business.

Understanding and use of the term “trade facilitation” varies in the literature and amongst practitioners. "Trade facilitation" is largely used by institutions which seek to improve the regulatory interface between government bodies and traders at national borders. The WTO, in an online training package, once defined trade facilitation as: “The simplification and harmonisation of international trade

procedures” where trade procedures are the “activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade” (Staples,2002).

### **Trade Liberalization**

Sohn and Yim (1998) made the point that while trade liberalization dealt with increasing market access for goods and services and opening the economy to foreign investment, trade facilitation was a much wider concept. They noted that this was because the latter dealt with eliminating or reducing inefficient administrative, technical, and physical restrictions to trade, while establishing or striving for cooperation and more harmonization between trading partners (Sohn and Yim, 1998).

It involves the removal or reduction of restrictions or barriers on the free exchange of goods between nations. This includes the removal or reduction of both tariff (duties and surcharges) and non-tariff obstacles (like licensing rules, quotas and other requirements). The easing or eradication of these restrictions is often referred to as promoting "free trade."

### **Post Clearance Audit**

“post-clearance audit” means an audit conducted subsequent to the release of cargo from Customs control, to verify the accuracy and authenticity of declarations, the person’s commercial data, business system, records and books (*East African Community Customs Management (Compliance and Enforcement) Regulations, 2012*)

### **Clearance of Goods**

“Clearance of goods” means the process of accomplishment of Customs formalities under the Act, which is subjected to any goods under customs control (*East African Community Customs Management (Compliance and Enforcement) Regulations, 2012*)

## **Tax Evasion**

Tax evasion is one form of tax noncompliance which refers to the failure to pay taxes that are legally due and is a criminal offense (Allingham and Sandmo 1972). Tax evasion is a common problem in most countries, particularly in developing countries including Tanzania where the information systems are weak. Tax evasion is contrasted to tax avoidance which refers to changing behaviour in such a way as to reduce tax liability (Chipeta 2002), hence, tax avoidance is legal and tax aversion is illegal. Tax evasion may result from deliberate actions, carelessness, errors, misunderstanding of the law and regulations and requirement relating to record keeping and filing tax returns.

Due to low income levels and rampant tax evasion in most developing countries including Tanzania, governments have been facing difficulties to expand their tax base to meet the revenue needed to finance service delivery.

## **2.3 Theoretical Ground**

### **2.3.1 Theories**

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities. For our purposes in this essay, these differences are of secondary importance, and one would not go far wrong in thinking of the social planner as a classic “linear” utilitarian (Werning 2007).

To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes

this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. The social planner's goal is to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides. In some studies of taxation, assuming a representative consumer may be a useful simplification. However, as we will see, drawing policy conclusions from a model with a representative consumer can also in some cases lead to trouble. After determining an objective function, the next step is to specify the constraints that the social planner faces in setting up a tax system. In a major early contribution, Frank Ramsey (1927) suggested one line of attack: suppose the planner must raise a given amount of tax revenue through taxes on commodities only. Ramsey showed that such taxes should be imposed in inverse proportion to the representative consumer's elasticity of demand for the good, so that commodities which experience inelastic demand are taxed more heavily. Ramsey's efforts have had a profound impact on tax theory as well as other fields such as public goods pricing and regulation.

However, from the standpoint of the optimal taxation literature, in which the goal is to derive the best tax system, it is obviously problematic to rule out some conceivable tax systems by assumption. Why not allow the social planner to consider all possible tax schemes, including nonlinear and interdependent taxes on goods, income from various sources, and even non-economic personal characteristics? But if the social planner is allowed to be unconstrained in choosing a tax system, then the problem of optimal taxation becomes too easy: the optimal tax is simply a lump-sum tax. After all, if the economy is described by a representative consumer, that consumer is going to pay the entire tax bill of the government in one form or another. Absent any market imperfection such as a preexisting externality, it is best not to distort the choices of that consumer at all. A lump-sum tax accomplishes exactly what the social planner wants. In the world, there are good reasons why lump-sum taxes are rarely used. Most important, this tax falls equally on the rich and poor, placing a greater relative burden on the latter. The social planner has to come to grips with heterogeneity in taxpayers' ability to pay. If the planner could observe differences among taxpayers in inherent ability, the planner could again rely on

lump-sum taxes, but now those lump-sum taxes would be contingent on ability. These taxes would not depend on any choice an individual makes, so it would not distort incentives, and the planner could achieve equality with no efficiency costs. (Frank Ramsey 1927)

James Mirrlees (1971) launched the second wave of optimal tax models by suggesting a way to formalize the planner's problem that deals explicitly with unobserved heterogeneity among taxpayers. In the most basic version of the model, individuals differ in their innate ability to earn income. The planner can observe income, which depends on both ability and effort, but the planner can observe neither ability nor effort directly. If the planner taxes income in an attempt to tax those of high ability, individuals will be discouraged from exerting as much effort to earn that income. By recognizing unobserved heterogeneity, diminishing marginal utility of consumption, and incentive effects, the Mirrlees approach formalizes the classic tradeoff between equality and efficiency that real governments face, and it has become the dominant approach for tax theorists.

In the Mirrlees framework, the optimal tax problem becomes a game of imperfect information between taxpayers and the social planner. The planner would like to tax those of high ability and give transfers to those of low ability, but the social planner needs to make sure that the tax system does not induce those of high ability to feign being of low ability. Indeed, modern Mirrleesian analysis often relies on the "revelation principle." According to this classic game theoretic result, any optimal allocation of resources can be achieved through a policy under which individuals voluntarily reveal their types in response to the incentives provided. Mirrlees (1971)

In other words, the social planner has to make sure the tax system provides sufficient incentive for high ability taxpayers to keep producing at the high levels that correspond to their ability, even though the social planner would like to target this group with higher taxes. The strength of the Mirrlees framework is that it allows the social planner to consider all feasible tax systems. The weakness of the Mirrlees approach is its high level of complexity. Keeping track of the incentive-compatibility

constraints required so that individuals do not produce as if they had lower levels of ability makes the optimal tax problem much harder. Since the initial Mirrlees contribution, however, much progress has been made using this approach. General treatments of the Mirrlees approach are found in Tuomala (1990), Salanie(2003), and Kaplow (2008a).

### **2.3.2 Principle of Taxation**

James and Nobes (2009) and Nightingale (2002), while citing (Adam Smith 1776), posit that a good tax should have the qualities of Equitability, Efficiency, Neutrality, flexibility, and simple. These principles still holds today and even act as a guide for policy formulation. However, the ability to achieve all in a single tax policy is practically impossible; hence Nightingale (2002) stated that there is no good tax. This is because an efficient tax might be inequitable. According to Lamb et al (2005) *“An efficient tax may not necessarily be considered fair and one that is considered equitable may not be efficient”*.

If taxation is for public expenditure, public goods ought to have been consumed equally. The elites in the society have retinue of security men attached to them for protection especially in emergency cases but not the common man whose safety is just by implication even when they represent a higher percentage of the taxpaying population. Since the use of most of the facilities for which the general tax revenue is raised as a right for some compared to others, tax therefore remain a punitive levy on the deprived of these services. This is even worsening with the definition by Nightingale (2002) *“...imposed by government while taxpayers may receive nothing identifiable in return for their contribution....”* Osunkoya (2009) on his part warned, *“Payment of tax does not mean that government must do something within the locality of the taxpayer”*. These respected tax experts seems to forget that evidence of taxation seen in public goods encourage the taxpayer. This may account for the high evasion rate as tax is assumed exploitative instead of development. Popoola (2009) observed that people do not pay tax because of the *“culture of give and take”*.



The epileptic services of some of the social amenities financed with tax revenue in developing and underdeveloped countries left much to be desired. Popoola (2009) asserts that electric supply and social infrastructure need to be financed with taxpayer's money. Ordinarily, nobody would want to make "compulsory payment" for substandard goods or bad services.

Gordon (2010) argued that corporate and personal income taxes create distortion. High tax rate distort the demand and supply of labour hence productivity is impaired. Some countries tax system is structured purely towards revenue generation and that has negative effect on the economy. Very low tax may impact on education as a larger population will prefer to work than school but a very high tax might reduce productivity as people would prefer longer leisure hours. This does not enhance economic development. Laffer (2009) cautioned that "A government simply cannot tax a country into prosperity". As important as tax revenue is to a nation, many people still find it difficult to comply with their tax obligation. According to Nightingale (2002:6), "*No one really likes paying taxes yet they are inevitable for the provision of social welfare*".

Ordinarily, people abhor tax payment due to its effect on their income. Owens (2006) noted that only a few people are enthusiastic about paying tax. Tax policy must be generally accepted by the people if it must gain compliance (Nightingale (2002). It therefore means that a good tax system must be in consonance with (Adam Smith 1776) canon of taxation cited in Nightingale (2002): Equitability, Neutrality, efficiency, flexibility and simplicity.

### **2.3.2.1 Canon of Equity**

The principle aims at providing economic and social justice to the people. According to this principle, every person should pay to the government depending upon his ability to pay. The rich class people should pay higher taxes to the government, because without the protection of the government authorities (Police, Defence, etc.) they could not have earned and enjoyed their income. Adam Smith argued that the taxes should be proportional to income, i.e., *citizens should pay the taxes in*

*proportion to the revenue which they respectively enjoy under the protection of the state.*

#### **2.3.2.2 Canon of Certainty**

According to Adam Smith, the tax which an individual has to pay should be certain, not arbitrary. The tax payer should know in advance how much tax he has to pay, at what time he has to pay the tax, and in what form the tax is to be paid to the government. In other words, every tax should satisfy the canon of certainty. At the same time a good tax system also ensures that the government is also certain about the amount that will be collected by way of tax.

#### **2.3.2.3 Canon of Convenience**

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

#### **2.3.2.4 Canon of Economy**

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

#### **2.3.3 Tax Compliance**

Silvani and Baer (1997) define “voluntary compliance” as “the timely filing and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action”.

Operating an efficient, professional tax administration is not a simple task in any country, whether developed or developing. Also tax compliance refers to fulfilling all tax obligations as specified by the law freely and completely (Marti, 2010)

Tanzania is one of the least developing countries (LDCs) in which non-compliance on tax payments which includes tax evasion and tax avoidance will deter the provision of public service and infrastructure to its citizens (Riedel and Fuest 2009). Different scholars argue that tax evasion and tax avoidance are the main factors that lag behind revenue collection for any country hence underdevelopment. McLaren (1996) asserted that among other factors that contribute to economic difficulties in most LDCs is tax evasion. He argued that corruption through illegal transactions leads to tax evasion. Furthermore, some scholars argued that there are some other factors that lead to tax evasion apart from corruption, for example lack of enough information to business people from tax authority, tax structure in place and efficiency administration (Baker and Kiser 1994).

Van Hoorn, (1978) asserted that tax evasion can be understood as social behaviour which is influenced by political, social and legal attitudes; therefore there is a need to have special strategies in place for concerned tax authority and government in general in order to change this phenomenon. However, it is noted that those people with high income especially business men and women tend to evade more compared to less income earners. Since government revenue is based on tax collection which in turn is used for social development like schools, hospitals, universities, infrastructures and of the like there is danger for government especially in less developed countries to fail to deliver social service to its citizens.

It is argued that tax compliance achievement is of great importance though expensive especially to tax authorities as it needs close follow up to the business people. Nevertheless, business people might evade tax intentionally or unintentionally for example a businessman might hide some records or lack of proper record keeping of which both lead to failure to collect the stipulated amount.

The way people comply to tax payment might be influenced by the tax system in country and the way government treat their citizen (Ali et al 2001). Where corruption is rampant citizens lose trust to their government and try to find loopholes to evade taxes. The Transparency International corruption watchdogs ranked Tanzania

twelfth (12<sup>th</sup>) corrupt country in the world and seventh (7<sup>th</sup>) in Africa. The report by the World Bank 1980 argued that most of transactions in Tanzanian government organizations are full of bribery. From this point it is most likely that Tanzanian citizens will not comply as required by law.

Bird and Wallace, (2003) argue that the challenges of offering quality services to SME`S Taxpayers, especially in developing countries, are significant;

These Taxpayers are numerous and diverse, they typically have poor knowledge of Tax laws and obligations. Furthermore, they tend to be less sophisticated and often have limited knowledge of IT access and thus require costly face to face services and more extensive support through printed brochures and leaf lets and they are `revolving clientele` because their short business life cycle demands on going effort to educate new comers. Apart from the fact that taxpayers need to be aware that the most obvious reason for paying taxes is to support the government in the provision of public utilities (URT 2009), they also need assistance particularly in the area of knowledge of tax law, tax computation, rate for taxes and procedure for submission of their tax returns. This can be achieved through marketing and the provision of education to taxpayers. For instance TRA is now providing education to employers as agents of the employment tax (URT, 2009). Different studies conducted in different countries such as United States of America and New Zealand show that there is no clear link between education level and tax compliance (Hite, 1995, Lin and Carrol, 2000). However, education is important for the provision of knowledge to taxpayers on the implication of non tax compliance to the government.

Tax payment is backbone of any country economy, so what has to be done in promoting voluntary Tax compliance in the small and medium size enterprises should be addressed accordingly. Kotler et al (2002) argued that marketing communication consists of advertising, personal selling, promotion, public relation and direct marketing. Duncan (2002) asserts that marketing communication is the totality of all term for communication functions used in marketing a product or service. However, Fill (2006) argued that marketing communications is a

management process through which an organization engaged with its various audiences. Each marketing communication function has unique strengths so companies are using more and better ways of these functions strategically (Duncan 2002). Promotional decisions need to be made about advertising, direct marketing, interactive marketing, sales promotion, publicity and public relations. However, Tax being categorized as service not all the tools mentioned that can be used to create awareness among taxpayers.

However, as Bird (2003) indicates, it is; “particularly difficult in developing countries with large informal sectors, low levels of literacy and public morality, poor salary structure for public servants, poor communications, malfunctioning judicial systems, and entrenched interests against radical reform. Despite such handicaps, the experience of several countries in recent years shows that substantial improvement can be achieved with determined effort and an appropriately designed strategy. What a tax administration can do, however, and how it can best be reformed *depends largely upon the environment in which it operates*” (emphasis added).

Along similar lines Mikesell and Birskyte (2007) state that; “What lawmakers and researchers do not understand about taxpayer compliance gnaws at the fiscal foundation of government by threatening equity, efficiency, effectiveness, and yield of the tax system and there is no unified approach to making the necessary repairs.” Just how sensitive tax compliance is to the political environment, can be highlighted with a few examples at the local government level. South Africa’s recent property tax reforms were championed by a senior parliamentarian who was the driving force behind the policy reforms and the eventual enactment of the new law (Franzsen, 2005). In a recent study of property taxes in metropolitan cities in the developing world, the common factor in four of the most successful cities (as regards their property tax) was strong political leadership (McCluskey and Franzsen, forthcoming). However, the non-payment of property taxes was propagated in the presidential election campaign in Uganda in 2006.

As Bird (2003) remarks, “the widespread reluctance to collect taxes efficiently and effectively without fear or favor may be understandable in countries, many of which are somewhat fragile politically, but without major changes in this respect, no viable long-term tax system can possibly be put into place.” As Mikesell and Birskyte (2007) correctly point out, complexity of tax legislation reduces compliance.

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

In her qualitative research on tax compliance in South Africa, Wang (2010) state the following: “In their research, Alm and Torgler (2004) argues that *“difference in tax compliance behavior and tax morale can be explained by difference in fairness of tax administration, in the perceived equity of the fiscal exchange, and in the overall attitude towards the respective governments across the countries”*. They found that trustworthiness in different countries has different connotation. For example, in the United States, trustworthiness is driven by reciprocity, while in South Africa trustworthiness is related to kindness. The culture difference leads to different level of perception of fairness and attitude which in turn relates to different level of tax morale, hence different compliance level.”

Mikesell and Birskyte (2007) state that; “compliance improves when taxpayers believe the tax system is fair, they believe that they receive something valuable for their payments and when society shows no tolerance for tax evasion. This finding is explained by a broad concept of ‘the tax culture’.”

According to Smulders *et al* (2012), the “taxpayer compliance burden” includes the time and money spent (i.e., the costs incurred) by taxpayers in order to comply with all aspects of the tax system. This burden includes activities such as record keeping, gathering relevant tax documentation, the completion and submission of tax returns, tax planning, using the revenue authorities’ services (offices, help desks, on-line assistance), and/or using the services of tax practitioners. As stated, the compliance burden increases with the complexity of the tax system. Regular amendments effected to tax laws which are often unavoidable further increases complexity.

*Psychological costs* include the stress, anxiety, frustration and dissatisfaction suffered by taxpayers as a result of trying to comply with their tax obligations (Evans, 2008). The impact of psychological costs on tax compliance should not be underestimated.

Discouraging non-compliance is only one aspect of improving compliance (Bird, 2003). Treating taxpayers in a professional manner, in other words, more like customers rather than like suspects or thieves, may do much more to promote and improve compliance (Bird, 2003; Mikesell and Birskyte, 2007; Wang, 2010). Providing taxpayers with various payment options (e.g. banks, supermarkets, internet, ward offices), easy filing, and assistance (e.g. on-line or at shopping malls and sports stadiums) not only reduces actual compliance costs, but can reduce unintentional non-compliance. A professional and effective service-oriented tax administration is crucial for improving tax compliance. The revenue authorities in a number of African countries have already been successful in this regard and improved service levels through training and knowledge exchanges should result in further gains in future.

#### **2.3.4 Tax Revenue Collection**

Bird and Zolt (2003) correctly state that tax design (i.e., tax policy) in developing countries is strongly influenced by economic structure. For example, developing countries often have large traditional agricultural sectors that are difficult to tax. Many developing countries have a significant informal economy that also is largely

outside the formal tax structure. This presents its own unique challenges in the design of tax policy and to the tax administration; given that the potential tax base is a relatively small portion of total economic activity. This may pressure governments to increase tax rates, which creates further incentives for tax evasion Ali-Nakyea ( 2008).

It is evident that most of the world's governments levy taxes to generate revenue to finance public spending and to influence savings, investment and development. Other objectives of taxation are to create equity, protect and promote investment. Taxes may be raised for other reasons but the rationale remains the same that is to finance public spending. The level of revenue collection is taken as an indicator of a country's ability to finance the public sector capital formation, maintain its infrastructure and provide equitable provision of essential services- such as health; education and water services.

Taxation is one of the major sources of government revenue. A tax is a compulsory contribution to the government in the form of money (and in very rare case in kind) that does not claim or receive direct reward. Governments levy taxes to provide for collective wants. The taxation system is used for creating social equity for those who are needy, stabilizing prices employment creation, and equity for all tax payers, sound planning of public expenditure and sustainable development.

The past three decades witnessed a series of tax reforms in the world. In the developed countries the reforms have included increased reduction of personal income tax rates, while in the developing countries there has been a shift towards more comprehensive indirect taxes levied at rates, which are much more uniform than the previous taxes.

It is well documented that taxation is part of public finance and public finance is part of economic theory which deals with economic function of the government. Wenzel (2003) defines tax as the compulsory contribution imposed on the individuals and business organization to meet the expenses, which are incurred by government. Tax



may be of several types such as income tax, corporation tax, value added tax property tax, sales tax, excise tax and custom duties.

Researches in different countries have indicated that there exist factors that lead to poor performance of the Tax system. Younger et al (1999) in their article-Tax incidence in Madagascar reveal that one of the most crucial factors that lead to poor performance to the Tax system is government in ability to collect different taxes effectively. Many tax reforms in Africa (Madagascar included) are very distortionary. That they concentrate on trade taxes while neglecting direct taxes and broad based indirect taxes such as value added tax (VAT). Younger et al, further argue that, tax handles for broad are limited in economies with small formal sectors that are dominated by the public sector. Formal sector enterprises and workers are often politically powerfully and thus able to lobby against their own taxation.

Skinner et al (1985) observes that most countries that collect tax revenue from the agricultural sector through export taxes have distorting policies and that they need to replace these distortionary taxes with land tax which would not depress output prices or discourage foreign exchange earnings. Skinner gives specific example of Bangladesh, Argentina and Uruguay. In this study he concludes that land tax is not necessarily more efficient than other types of taxes and that progressive tax rates based on land holdings are nearly impossible to administer; that land taxes have been ineffective at promoting non-revenue goals and political support by farmers is necessary to implement the tax. (Skinner et al, 1985), Shah and Whaley (1991) when discussing tax incidence of developing countries reveal that bribery by officials encourages non-compliance to the tax system and therefore low performance, that if the bribe rate is high, and tax compliance is low and thus, the redistributive impacts of the bribe system will dominate the direct redistributive effect of the income tax. Hence due to high bribe rate it is difficult to determine the extent of tax evasion in many countries.

However, study by Romanov (2003) asserts that most of small scale enterprises do not pay tax due to several reasons such as: Complexity of tax systems (tax systems

are more geared to large enterprises), existence of different tax administrations, incomprehensible language of tax laws, including incomprehensible forms, short and inflexible deadlines for tax payments (resulting in cash flow problems) and registration procedures.

Is tax evasion or cheating a habit? It is argued that tax cheating is habit forming and that once people become accustomed to evading taxation; they continue to do so, even if marginal taxes are lowered in the future. There are also fears that growth of the underground economy forces some people into cheating. For example, if evasion is predominant in the sectors of the economy dominated by small business whose activities are particularly difficult to monitor, then firms that avoid cheating will be at a competitive disadvantage because of higher costs. The only choice left for these firms is to cheat or go out of business.

A study by Alluy (2003) on factors influencing collection of Taxation from SME`s indicates that poor performance in Tanzania is attributed to a number of factors:

- (i) Illiteracy of the taxpayers – which most of the taxpayers are illiterate and lack tax education and thus most of them hardly keep proper records of their transactions. In such a situation it becomes difficult to determine the tax payable.
- (ii) Professional accounting firms and other accountants' act as mediators between tax administration and taxpayers.
- (iii) The government hiring expert advisors to handle tax matters makes it difficult for tax administration to detect non-compliance.
- (iv) Because of the large number of taxpayers and given the tax work force it becomes difficult to visit and verify the credibility of the declared returns in a given period. Such a situation encourages many firms not to pay taxes.

According to McCarten (2004) each size group of taxpayers has different characteristics and tax compliance behaviours and, consequently, each presents different risks to the revenue base. According to this management philosophy, maximizing voluntary compliance for each taxpayer segment requires delivering a

set of strategies that are appropriate to the unique characteristics and compliance issues posed by each group. Maximizing voluntary compliance for each taxpayer segment requires delivering a set of strategies that are appropriate to the unique characteristics and compliance issues posed by each group. But, the question is, what are the forms of tax payment compliance?

When people decide to evade or avoid tax these lead to decrease of public revenue as argued by (Robert et al 1999). He asserted that whilst tax evasion is criminal conduct that does not give room for proper tax assessment, tax avoidance on other hand is termed as lawful conduct. Bird (2003) states that “due attention [must be] given to the extent to which revenue is attributable to ‘enforcement’ (the active intervention of the administration) rather than ‘compliance’ (the relatively passive role of the administration as the recipient of revenues generated by other features of the system)”. Distinguishing between enforcement and harassment seems to be an issue in some jurisdictions.

As Bird (2003) correctly points out, “assessing the relation between administrative effort and revenue outcome is by no means a simple task”. Maximizing revenue is only one dimension of the task of tax administration. How that revenue is raised, in other words the effect and impact of the revenue-raising task in equity, the level of economic welfare as well as the political fortunes of governments, may be as important. Rather than simply looking at the amount of revenue raised, that is the level of collection, to measure the effectiveness or success of a tax administration, a more accurate measure would be to measure the so-called “compliance gap” which constitutes the gap between actual and potential revenues (Casanegra de Jantscher and Bird, 1992).

### **2.3.5 Legal and Operational Framework for Post clearance audit**

According to WCO guidelines for PCA volume 1 Implementation of legislation which provides Customs with the legal basis to conduct an audit and also sets the rights and obligations of the auditee. Each Customs administration will develop laws and regulations based on national requirements or, in cases where a Customs union

exists, at a regional level the customs laws and regulations should provide the following: Definition of post clearance audit coverage, Authority and power of customs officials/auditors, conducting post clearance audit obligation and rights of auditees, penalty scheme and Right of appeal

#### **2.3.5.1 Post clearance audit scope and coverage**

This specify which persons may be subject to an audit, it should be clearly defined in customs laws and regulations. Potentially all business involved in the import and /or export of goods or in receipt, storage, manufacture and delivery of goods subject to Customs control may be audited. This may include; importers, declarants, consignees of imported goods, subsequent acquirers of imported goods, Customs clearing agents of imported goods, storage agents of imported goods, transporter of the imported goods and other persons directly or indirectly involved in the transaction of the imported goods.

#### **2.3.5.2 Obligation and rights of auditees**

The east African customs Management Act 2004 set out the right and obligation Of persons/company involved in international trade. The provisions include; a requirement to maintain specified documentation, information and records, the duration for retaining such records not less than five years after importation, a requirement to make such documentation, information and records available n a timely manner, a right to appeal (revised Kyoto convention, chapter 10 and WTO valuation agreement, article 11), a right to an explanation from customs concerning determination of customs value (WTO Valuation Agreement ,Article 16), a right to expect confidential treatment of business documentation and a right to clearance of goods at the frontier with provision of security (WTO Valuation Agreement ,Article 13). However when the scope of auditees is expanded to a person other than declarant and importers, it will come into question whether a legal obligation for keeping records can be imposed on all persons designated as complementary auditees. The problem is whether it is reasonable to impose a legal obligation for keeping records on person other than those who have close relation to import transactions and customs clearances such as the importer, a Customs clearing agent,

a transporter etc. under the customs laws and regulations. Other national legislation regarding the business activities, such as income tax law, may stipulate their obligation. The adequacy of powers available to Customs administrations under national law needs to be kept under review and powers should be modified where necessary to respond to new national and international commitments. Other non – Customs legislation may be of relevant and interest to customs in the course of conducting a PCA. For example : regulation of business entities and their activities, such as commercial law, company law, income tax law etc. import /export licencing requirements, foreign currency control and obligation deriving from binding UN security Resolutions; chapter VII UN charter e.g. export control

### **2.3.5.3 Authority and Power of Customs Officer**

Customs laws and regulation (The east African Customs management Act 2004 and it's regulation) provide the officer conducting PCA with the authority to conduct an audit at the premises of the auditee . necessary power include; the right to access auditee's premises, the right to examine business records, business system and commercial data relevant to customs declarations, the right to inspect auditee's premises, the right to uplift and retain documents and business records and the right to inspect and take sample of goods.

### **2.3.6 Ethical Standards for auditors**

Auditor must maintain high professional standard when conducting PCA. The ethical standard that should be maintained by Auditor include.

#### **2.3.6.1 Integrity**

The WCO has developed a model code of ethics and conduct that sets out the minimum required attitude and behavior expected of all customs officers. The code of conduct should be respected in the context of conducting PCA. Therefore auditor should be fair and honest in all his/her dealings with taxpayers and other stakeholders. People of integrity, however, are plausibly thought to be generally honest and genuine in their dealings with others. Professional integrity then becomes

a matter of the extent to which a person displays personal integrity in professional life Halfon (1989),

### **2.3.6.2 Confidentiality**

The Concise Oxford Dictionary defines confidentiality as: ‘spoken or written in confidence; charged with secrets’ In the ethics literature, confidentiality is commonly viewed as akin to the principle of privacy Oliver, (2003). Therefore in the cause of audit Auditors shall Sustain the confidentiality of information received during the audit, Be prudent in the use and protection of information acquired in the course of their duties, Not use audit information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organization, Take all reasonable steps to protect the confidentiality of the audit results, data collected and the anonymity of interviewees.

### **2.3.6.3 Professional Competence, Due Care and Diligence**

Coll, Zegward & Hodges (2002) define a competent individual as “one who has skills and attributes relevant to tasks undertaken”. They used Birkett’s distinction between “cognitive skills which are the technical knowledge, skills and abilities, whilst behavioural skills and personal skills such as principles, attitudes, values and motives”. These terms could also be related to “employability skills” (Hind et al., 2007). Auditor should act diligent and in accordance with applicable technical and professional standard which include

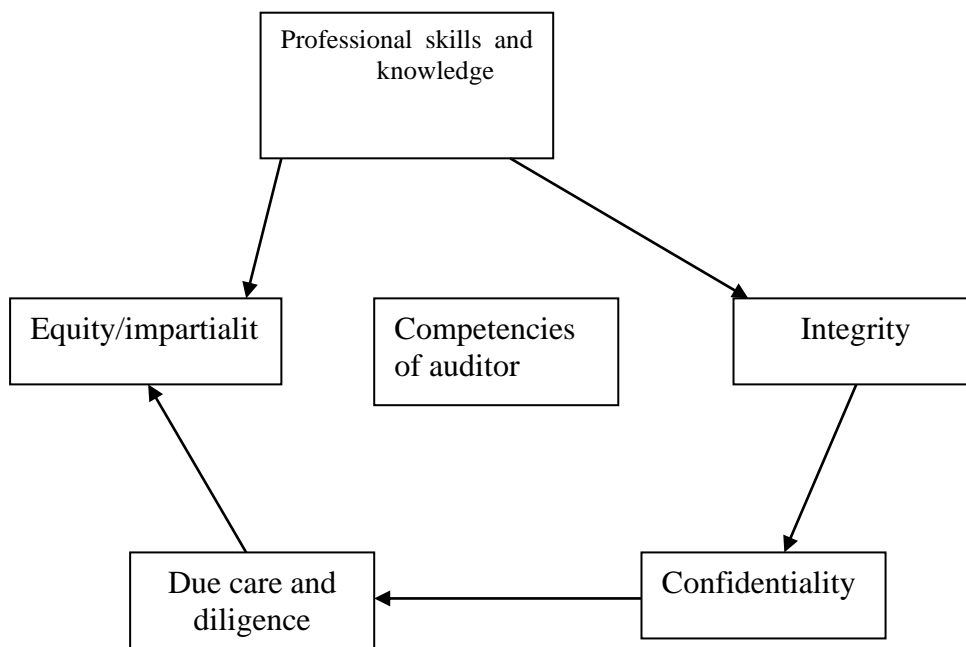
- (i) Engage only in those services for which they have the necessary knowledge, skills, and experience, and not assign or subcontract any obligation of the audit program;
- (ii) Continually improve their proficiency and the effectiveness and quality of their skills;
- (iii) Be consistent and accurate in their evaluations of data obtained through documentation, interviews and observation;
- (iv) Strive to be complete in their evaluations and avoid any omissions;
- (v) Separate fact from opinion clearly and concisely in their evaluations. Support for auditor opinions must be derived from quantitative, measurable data;

- (vi) Serve the client in a conscientious, diligent, respectful and efficient manner;
- (vii) Assist clients with any post audit questions, such as recommendations or explanations of results;
- (viii) Commit to honest, thorough and straightforward communication in the performance of audit activities;
- (ix) Willingly and openly share their collective knowledge and always be in the pursuit of the truth and enhancement of health and safety in the construction sector.

#### 2.3.6.4 Equity/Impartiality

Auditors are required to be objective, maintain fair and just judgment over similar cases and not to treat them arbitrarily or allow bias, conflicts of interest or undue influence of others to override professional or business judgments. They should not misuse their authority over the auditee

**Figure 2.1: The summarized ethical standard for auditors**



Source; WCO guideline for PCA

## **2.4 Empirical Studies**

### **2.4.1 World related Studies**

Tax audits are key characteristics of the voluntary compliance mechanism in the SAS regime because higher audit rates are thought to increase tax compliance (Allingham and Sandmo, 1972). Tax audits have a specific deterrent effect on those audited taxpayers, and more importantly, audits also have a general deterrent effect on taxpayers not actually audited (Hasseldine, 1993).

Moreover, tax audits allow tax auditors to educate taxpayers on the application of tax laws, to identify improvements required for record-keeping, and to identify areas of tax laws that taxpayers need clarification (Organization for Economic Cooperation and Development, 2006b). However, a survey among business taxpayers in Malaysia shows that more than 50 percent of their respondents seem to have a misconception that tax audits are either aimed to detect tax, to recover more tax or to penalize noncompliance (Choong and Ling, 2008).

In Korea, Post Audit Teams detected violations such as tax evasions or false declarations, bringing in about US\$100 million in additional revenues in 2001, and approximately US\$480 million in 2004, which in return motivated importers to more carefully and accurately declare their goods (WTO, 2005).

The system of China Customs post clearance audit hasn't a long history, but such an advanced mode of Customs control has exerted great impact and showed enormous potential. It has made great achievements in regulating the import and export behavior of enterprises, preventing and striking the illegal smuggling activities, also protecting the national taxation hence enhancing tax compliance.

Tax compliance and collection of revenue legally due are the main objectives of Post Clearance Audit. Post Clearance Audit provides an opportunity for Customs to encourage commercial operators to comply with Customs requirements through self-assessment and to provide advice accordingly. Customs administrations should



actively promote the benefits of compliance to the business community and provide information and advice via telephone enquiry lines, internet or other publicity.

Post Clearance Audit is the most effective means of ensuring compliance with Customs requirements. Particularly in such areas as Customs valuation, effective verification requires access to the importer's records and accounting system which is not possible at the time of clearance. Customs administrations should therefore continually strive to implement PCA to the greatest extent possible.

Wang (2010) states that; "Although South African taxpayers, including business taxpayers, generally hold the view that it is reasonable to pay one's fair share of tax, they also feel especially in the case of SMEs, that the tax system in the country is too complex, tax rates are too high and there are too many taxes, which all contribute to high compliance costs."

In an environment where taxpayers generally trust government, voluntary tax compliance is more apparent Fjeldstad (2006).

#### **2.4.2 Tanzania Related Studies/Report**

According to post clearance audit unit performance management report for 2013 the performance rate from the period 2008/2009 to 2011/2012 kept on increasing as indicated on the table no 2.1 and figure no 2.1 , the report showed that the role of post clearance audit on identification of revenue to be collected against targets set increased from one period to another.

**Table 2.1: Shows Comparative Revenue Target, Identified and Collected from 2008/2009 to 2011/2012**

Source	Period			
	2008/2009 Amount in Billion Tshs.	2009/2010 Amount in Billion Tshs.	2010/2011 Amount in Billion Tshs.	2011/2012 Amount in Billion Tshs.
Target	21.000	25.000	25.200	32.376
Identified from Audits	23.221	8.782	12.467	15.859
Compliance Verification	38.029	27.317	29.160	24.013
Total Revenue Identified	61.250	36.099	41.627	39.872
Recovered Revenue	21.822	25.415	33.286	32.569
Performance against Target	104%	102%	132%	101%

Source; Post clearance audit unit annual management performance report (2012)

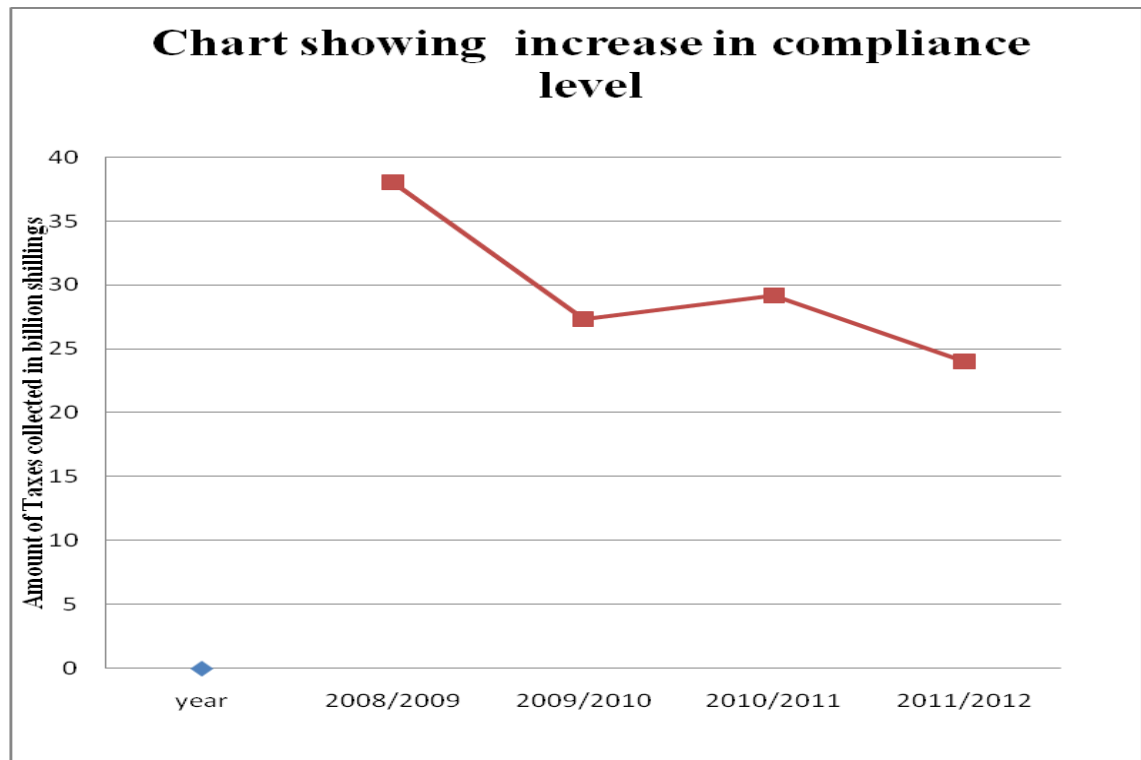
Post clearance management performance report also shows that, the amount of taxes collected as a result of compliant verification audit decreased from 38 billion Tshs to 24.023 billion from financial year 2008/2009 to financial year 2012. The report pointed out that the compliance level among importers increases since the amount of taxes identified as a result of compliance verification decreases as time goes. The trend for increase in compliance level can be seen from the figure 2.1

**Table 2.2: Shows Revenue Collected as a Result of Compliance Verification from 2008/2009 to 2012/2012**

Period	2008/2009 Amount in Billion Tshs.	2009/2010 Amount in Billion Tshs.	2010/2011 Amount in Billion Tshs.	2011/2012 Amount in Billion Tshs.
Target	21.000	25.000	25.200	32.376
Identified from Audits	23.221	8.782	12.467	15.859
Compliance Verification	38.029	27.317	29.160	24.013

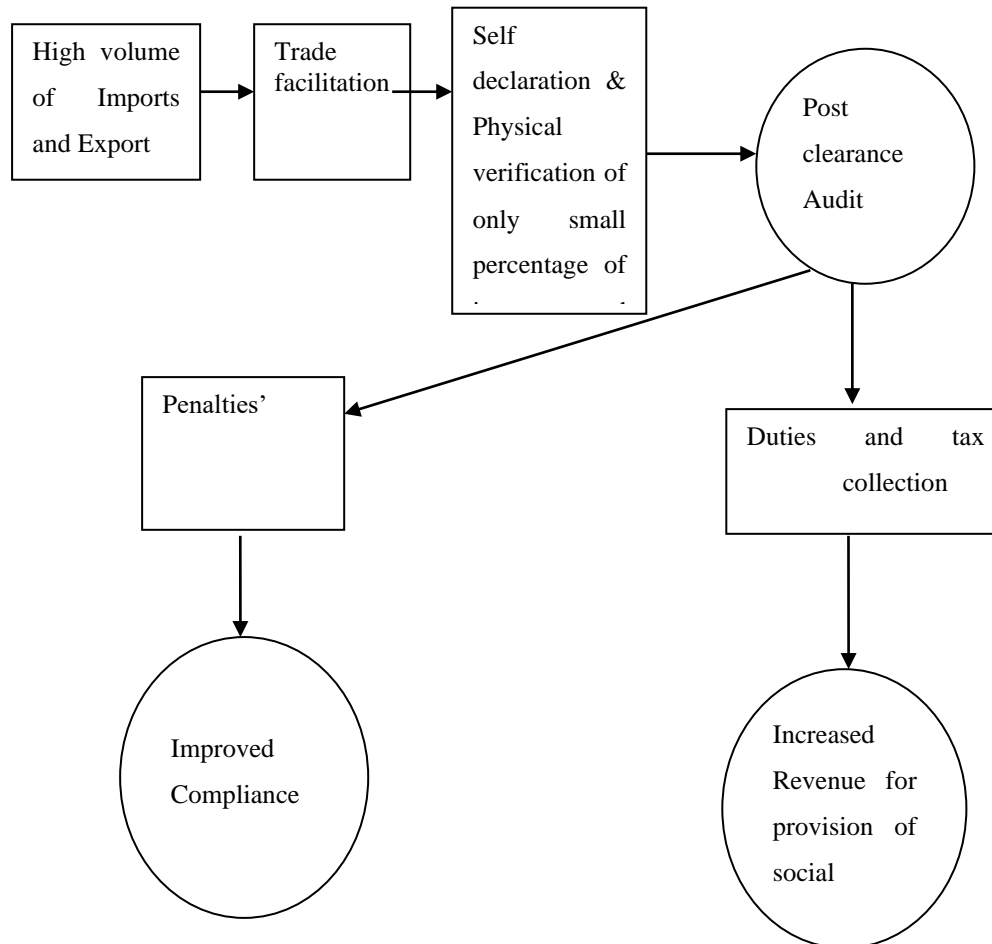
Source; Post clearance audit unit annual management performance report

**Figure 2.2 Shows Increase in Compliance Level as the Revenue Collections From Compliance Verification Decreases**



Source; Post clearance audit unit annual management performance report

## 2.5 Conceptual framework for the study



Source; Researcher's own developed Mode

Due to the globalization and adoption of liberalization policy there is now a free movement of goods and services across borders, this has led to the high volume of imports which need to be facilitated through self declaration, physical verification of only small percentage of imports etc. all these necessitate the presence of Post clearance audit which is the independent variable. Post clearance audit can result into collection of addition taxes and penalties . Addition taxes result into revenue increase. Likewise the imposition of penalty improves compliance to customs laws and regulations. Therefore post clearance audit is an independent (input) variable while tax compliance and revenue collection are dependent (out put) variables. Therefore increase of revenue collection and tax compliance is influenced by the conducting of post clearance audit.

## **2.6 Synthesis and Research Gap**

Based on empirical evidence on one hand, after audit, a firm may think that it is less likely to be selected for re-audit in the future, which may provide the firm with incentives to cheat thus non-compliance. Without compliance revenue collection will not rise or increase. On the other hand, after audit, a firm may think that the tax authorities are closely monitoring its activities and may feel that it will be caught again if it attempts improper declaration of its importation/exportation.

Furthermore Post Clearance Audit is a new phenomenon in Tanzania. It was introduced in 2002 with the objective of enhancing tax compliance hence to increase revenue collection. It is the interest of the policy makers, Authority, taxpayer and world organization to know the overall role of Post Clearance audit on enhancement of tax compliance and revenue collection in Tanzania, not the impact on a particular firm. Since no much work has been done on identifying and documenting the role of Post Clearance Audit on enhancement of tax compliance and revenue collection in Tanzania, this research has attempted to bridge this knowledge gap.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

The methodology which has been adopted for this research work was the case study method and collection of data for the study through primary and secondary sources. 50 questionnaires were administered to the selected individuals taxpayers and corporate bodies. The population of the study was the entire taxpayers of Dar es Salaam. Purposive sampling technique was used to select a sample of taxpayers. This is due to the fact that the units which are investigated are based on the judgment of the researcher and are known. In this regard, the 50 questionnaires were distributed to the taxpayers who are based in the Dar-es-salaam City.

#### **3.2 Area of Study**

The Dar es Salaam region, on the East Cost of Tanzania, includes the municipalities of Ilala, Temeke and Kinondoni, and the same are tax regions which constitute the city of Dar es Salaam and a few outlying areas (see the map in the appendix 3). It borders on the Indian Ocean to the east and, on all other sides, the coast region. In 1988, the estimated population of Dar es salaam, according to a national census was 1,360,865. But the city grew rapidly during the 1990s' and the current population of Dar es Salaam is estimated to be 4.5 million.(2012 Census)

Dar es Salaam is at sea level, and the site lies between latitudes 6.82° and 6.89°S and longitudes 39.24° and 39.30°E. The climate is typically tropical, with hot weather throughout the year (range, about 26° – 35°C) and two rainy seasons: short rains in November – December and long rains in March – May.

Dar es Salaam has been attractive to most of Large Taxpayers, compliant traders and other taxpayers due to its geographical location, infrastructures, business opportunities and trade facilities. That's why Dar es Salaam has been picked as the case study for this research. See Appendix 3.

### **3.3 Research Design**

According to Kothari (2004) “a research design is the blueprint that guides the researcher in undertaking various stages of research. In other words research purpose is to be co related with the research desire (Eriksson & Wiersma – Paul 1997). The researcher adopted a case study, Robson(2002) in Mark Saunders 2009) define case study as strategy for doing research which involves an empirical investigation of particular contemporary phenomenon within its real life context using multiple sources of evidence. Zumdahl (1994) as argued that nature of the problem affects whether the research is going to be exploratory, descriptive or casual. The descriptive approach has been employed in this study. This was used because the objective of the research was to portray an accurate profile of events or situations (Saunders et. Al.2000).

### **3.4 Research Approach(es)**

There basically three types of research approach namely qualitative, quantitative and mixed or pragmatic research approach.

Qualitative research is the approach usually associated with the social constructivist paradigm which emphasises the socially constructed nature of reality. It is about recording, analysing and attempting to uncover the deeper meaning and significance of human behaviour and experience, including contradictory beliefs, behaviours and emotions. For our case the researcher was interested in gaining a rich and complex understanding of the role of post clearance audit on enhancement of tax compliance and revenue collection at large rather than a specific firm.

Quantitative research is generally associated with the positivist/postpositivist paradigm. It usually involves collecting and converting data into numerical form so that statistical calculations can be made and conclusions drawn.

The pragmatic or mixed approach was used in this study due to two reasons; firstly, it granted the researcher freedom to use any of the methods, techniques and procedures typically associated with quantitative or qualitative research. Secondly, the researcher recognized that every method has its limitations and that the different approaches can be complementary.

### **3.5 Population**

A research population is generally a large collection of individuals or objects that is the main focus of a scientific query. It is for the benefit of the population that researches are done. However, due to the large sizes of populations, researchers often cannot test every individual in the population because it is too expensive and time-consuming. This is the reason why researcher has relied on sampling techniques.

Usually, the description of the population and the common binding characteristic of its members are the same. For the purpose of this study "Taxpayers" is a well-defined group of individuals which was considered as a population and all the members of this population are indeed taxpayers of Dar es Salaam. So the sample was drawn from the population of importers located in Dar es Salaam and who have been audited by the Post Clearance Audit Unit.

### **3.6 Sample, Sampling Techniques and Procedure**

#### **3.6.1 Sample**

The study aims at contributing to increased awareness about the contribution of Post Clearance Audit to the economic development of Tanzania. It was appropriate therefore to have a sample that conforms to the aim of the study. Thus this has catered for the selected firm TRA as a base for the study. The population of this study has covered audited importers from the year 2008 to 2012.

In order to effect generalizability of the study results, the sample was drawn from the population in question. The sampling procedure and style of this study depended on the type and source of data. Since taxpayers and TRA departments have unique information and experiences about Post Clearance Audit (PCA), The researcher sampled and visited for secondary data collection and interviews. A stratified purposive sample of the population deems adequate for purposes of this study. This has ensured a representation of all categories of taxpayers who are the focus of the study.



The sample drawn is a representative of the population, and therefore it has been used to assess the role of Post Clearance Audit in enhancing tax compliance and revenue collection in Tanzania. In addition, it has obtained opinion concerning other factors stimulating tax compliance and revenue collection in Tanzania.

### **3.6.2 Sample Size**

The sample size is influenced by a number of factors, including the purpose of the study, population size, the risk of selecting a "bad" sample, and the allowable sampling error. In addition to the purpose of the study and population size, three criteria needed to be specified to determine the appropriate sample size: the level of precision, the level of confidence or risk and the degree of variability in the attributes being measured (Miaoulis and Michener, 1976). Since the population of taxpayers is known (through Tanzania Revenue Authority (TRA) statistics bureau, a sample of 50 taxpayers was selected. This sample size was selected to achieve the limited time available.

### **3.6.3 Sampling Procedures**

It is the selection of some part of an aggregate or totality on the basis of which a judgment or inference about the aggregate or totality is made (Kothari, 1990). Sampling procedure is the process of selecting observation. So sample gave a representative selection of the total population. Purposive sampling technique was used to select a sample of taxpayers. This is due to the fact that the units which are investigated are based on the judgment of the researcher and are known. The sample therefore is true representative of the population.

## **3.7 Data Collection Methods**

The main data collection instrument used in the study is a questionnaire which was designed to address the research problems identified and all research questions and the research results. Check lists has also been used when making personal interviews with the respondents regarding the subjective measures of performance. Therefore Questionnaire, Interview and documentary review were used as the main data collection methods.

### **3.7.1 Questionnaire**

In collection of data for the research questionnaires were used. A questionnaire is self-report instrument used for gathering information about variable of interest to a researcher. It consist of a number of questions of items on paper that a respondent reads and answers. Pre designed both structured and semi structured questionnaires were administered to the respondents.

### **3.7.2 Interview**

This is one of the tool that was used in data collection. Personal interview was used because of the advantages indicated by Miller (1983). Miller shows that interviews yield better results because practically everyone can be reached and can respond to this approach, the information they obtain is more reliable than that obtained by other techniques since the interviewer can clear up seemingly inaccurate answers by explaining the question to the interviewee's personal characteristics and environment. This information is valuable in interpreting results and evaluating the representatives of the persons surveyed. Through the use of interviews the opinions of the organizations was obtained as well as to know what challenges face these organizations. This approach was used when the researcher was asking pre designed questions to the respondents in order to get their opinions on pertinent factors on post clearance audit and tax compliance in Tanzania.

### **3.7.3 Documentary Review**

A document is an artifact which has as its central feature in an inscribed text (Scott 1990). Simply put, a document is a written text. Documents are produced by individuals and groups in the course of their everyday practices and are geared exclusively for their own immediate practical needs. A document, unlike a speech, can have an independent existence beyond the writer and beyond the context of its production (Jary and Jary 1991).

There are two types of documents that are used in documentary study, namely primary documents and secondary documents. Primary documents refer to eye-witness accounts produced by people who experienced the particular event or the

behavior we want to study. On the other hand secondary documents are documents produced by people who were not present at the scene but who received eye-witness accounts to compile the documents, or have read eye-witness accounts (Bailey 1994: 194).

Documents range from public through private to personal documents. The list of public document sources include government publications such as Acts of Parliament, policy statements, census reports, statistical bulletins, reports of commissions of inquiry, ministerial or departmental annual reports, consultancy reports, etc. Private documents often emanate from civil society organizations such as private sector businesses, trade unions and non-governmental organizations, as well of course from private individuals.

For the purpose of this research public documents and private documents forming the Secondary data were collected and used.

#### **3.7.4 Validity and Reliability**

Reliability of measure refers to consistency with which repeated measures produce the same results across time and across observers. In this study, reliability was improved by employing triangular method evidence as suggested by Kirk and Miller (1986). The methods employed includes interviews, documentation and slightly observation. These methods will help to picture how multiple but different measures were used to collect data were simultaneous giving the same outcome. However, the major approach was achieved through questionnaire and interview as many respondents as possible with different calibre through pre-testing the study to ensure that all respondents understood questions.

Regarding the respondent validation, the analysis was taken back to Tanzania Revenue Authority (TRA) to obtain feedback of what was reported. The management of the TRA was in position to agree or to disagree on what was reported.

### **3.8 Data Management**

Data is collected by various means following a strict procedure and prepared for statistical analysis. Nowadays, this is carried out with the aid of sophisticated statistical computer packages. The analysis enabled the researcher to determine to what extent there is a relationship between two or more variables.

The Merriam-Webster Dictionary (2005) defines data as "factual information (as measurements or statistics) used as a basis for reasoning, discussion, or calculation." Data collection refers not only to what information is recorded and how it is recorded, but also to how a particular research project is designed.

Data management is the development and execution of architectures, policies, practices and procedures in order to manage the information lifecycle needs of an enterprise in an effective manner.

Therefore data management for this study ensured reliability and validity of the data is equally important during data collection.

The following issues related to data management was also be observed before the start of research.

- (i) Ensure research integrity and replication.
- (ii) Ensure research data and records are accurate, complete, authentic and reliable.
- (iii) Save time and resources in the long run.
- (iv) Enhance data security and minimise the risk of data loss.
- (v) Prevent duplication of effort by enabling others to use your data.
- (vi) Comply with practices conducted in industry and commerce.

### **3.9 Data Analysis Techniques**

All the collected data were summarized and analyzed by SPSS (Statistical Package of Social Sciences) software. Cross tabulations, trend analysis and measures of central tendency were computed to allow for meaningful analysis of the data. In

analyzing the findings, means and standard deviations for the variables was investigated within the context of the study.

Data analysis was done by both quantitative as well as qualitatively. Quantitative data analysis involved the use of tables, frequencies, percentage and graphs. Qualitative data analysis on the other side was done using summary sheets, comparison, matching of data and information as well as explanation building in trying to build arguments towards propositions.

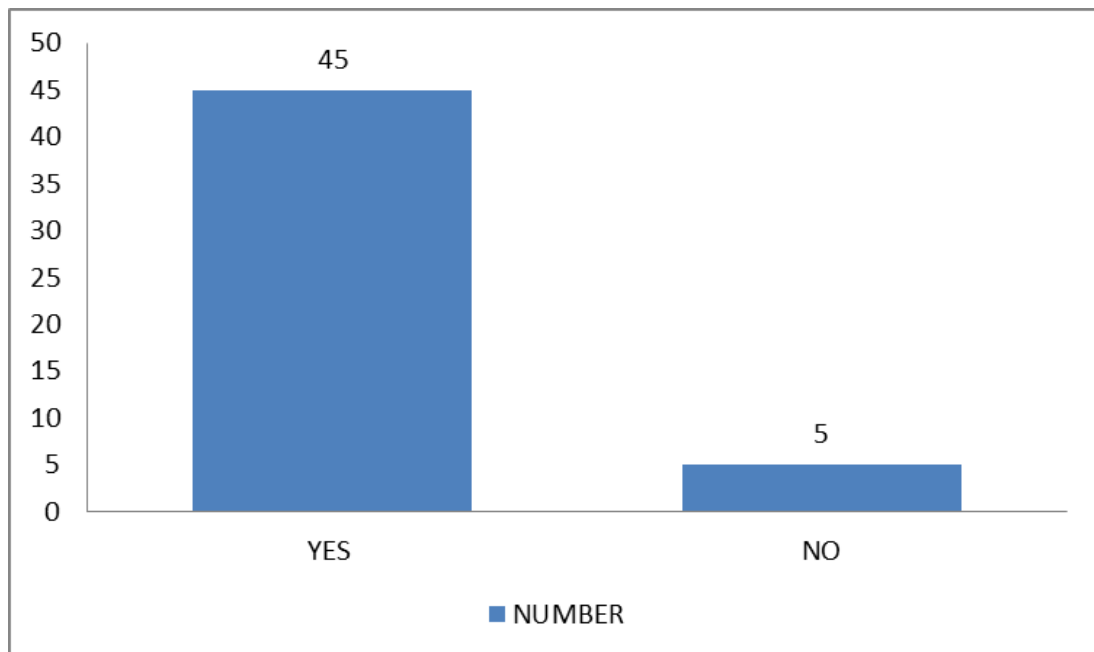
## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

#### 4.1 Assessing the Extent to which Post Clearance Audit has Enhanced Tax Revenue Collection

The response to question 5 of the questionnaire, which wanted the respondent (taxpayer) to answer on whether after post clearance audit there was any additional duties and taxes established showed that 45 out of 50 of the total respondents agreed to the question while the rest 5 respondents disagreed in that there was no additional duties and taxes established see Figure 4.1

**Figure 4.1 Number Of Companies (Taxpayers) Audited**



Source: Field data, 2013

Findings revealed that 90 percent of the respondents agree with the view that Post Clearance Audit has enhanced tax revenue collection. Therefore, there is a need to strengthen the Post clearance audit capacity so as to broaden its ability to identify additional duties and taxes, and improve revenue collection. On the other hand 10

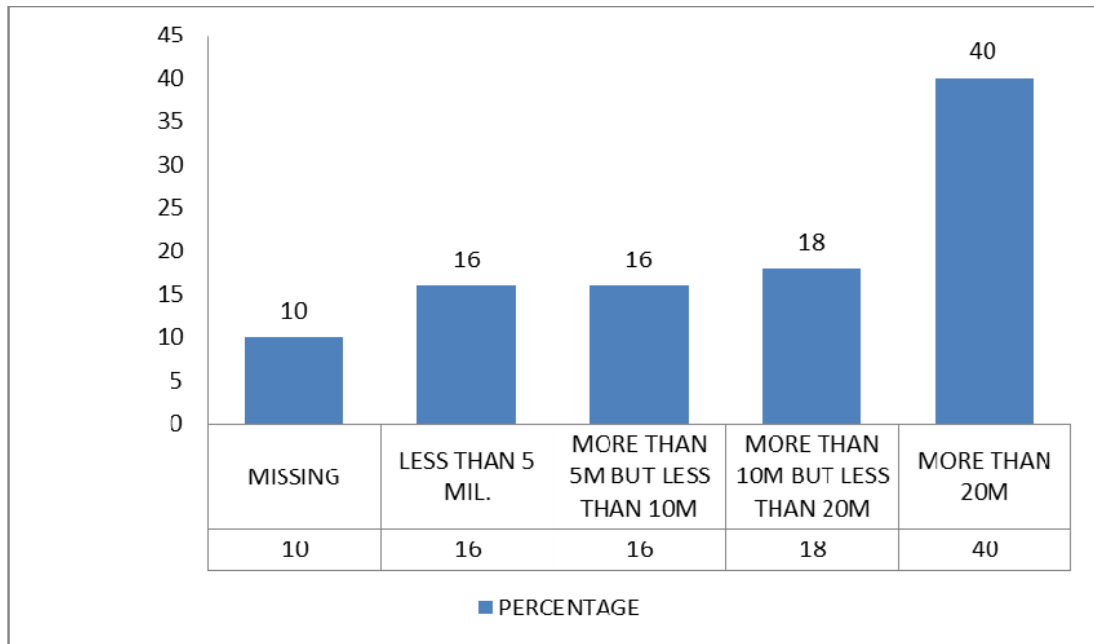
percent of respondents pointed out that there is no additional duties and taxes established after Post clearance audit. Regardless the fact that they form only 10 percent of the overall respondents responded to this question and that their number is smaller as compared to the 90 percent of those who said YES to the question, they need not to be ignored. Their views and the reason why various respondents said NO might be essential to contribute to the improvement of the performance of the Post clearance unit efficiency.

Furthermore, 40% of the respondents said that there was establishment as additional duties and taxes amounting to more than Tshs 20 Million, while 16% said there was collection of less than Tshs 5 Million, other 16% said there was collection more than Tshs 5 Million but less than Tshs 10 Million and 10% of the respondents said there was no additional duties and taxes Figure 4.2.

The main purpose of post-clearance audit is to contribute to more effective and simplified Customs procedures leading to a better compliance in the first instance and thus the amount of duty and taxes collected by means of an audit will also increase government revenue.

So through this research there is empirical evidence that post clearance has enhanced tax revenue collection. this can also be evidenced by the the post clearance audit management report (2012)

**Figure 4.2: The Extent Post clearance has Enhanced Tax Revenue Collection**



Source: Field data, 2013

#### **4.2 To Analyse the Extent at Which Post Clearance Audit has Enhanced Voluntary Tax Compliance**

Post Clearance Audit is regarded as one of the most effective measures for compliance verification with Customs laws, regulations, procedures and trade facilitation through fast clearance.

During research 50 respondents were asked on whether post clearance audit has enhanced tax compliance. 50 respondents out of 50 agreed that Post Clearance Audit has enhanced tax compliance Table 4.1

50 respondents who agreed that post clearance audit has enhanced tax compliance had various reasons to support their arguments. Some said post clearance audit has been part of learning process since some of taxpayers were not very conversant with customs rules and procedures. Some said through Post Clearance Audit taxpayers have managed to properly keeping their business related records. But the bottom line is that taxpayers are expected to be audited after clearance of the goods, this pushes respondents or taxpayers to voluntarily comply to customs rules and procedures.



**Table 4.1: The Response on Whether Post Clearance Audit Has Enhanced Voluntary Tax Compliance**

RESPONSE	NUMBER	PERCENTAGE
YES	50	100
NO	0	0
TOTAL	50	100

Source: Field data, 2013

Table 4.1 depict that 100 percent of the respondents agree with the view that Post Clearance Audit has enhanced voluntary tax compliance. Findings revealed that majority of respondents view post clearance audit as an important tool through which customers learn various customs rules and procedures. This finding supports various authors views that, tax audits allow tax auditors to educate taxpayers on the application of tax laws, to identify improvements required for record-keeping, and to identify areas of tax laws that taxpayers need clarification (Organization for Economic Cooperation and Development, 2006b, pp.8-9).

Likewise, through Post Clearance Audit, taxpayers have been able to properly keep and manage their records. This is essential because, through proper record keeping, revenue can effectively be forecasted. This view is centrally to the result of survey conducted among business taxpayers in Malaysia which shows that more than 50 percent of their respondents seem to have a misconception that tax audits are either aimed to detect tax, to recover more tax or to penalize noncompliance (Choong and Ling, 2008).

Furthermore, the outcome of the Post Clearance audit particularly the punishment (penalties) given to those who do not comply has improved compliance level. Findings shows that, majority of Taxpayers do not like tax (Bird, 2003). However, Tax payers do not like penalties as well. This is due to the fact that penalties consume a lot of their profits generated in their business financial year. In order to

minimize the level of loss resulted from various penalties as a result of the Post clearance audit, majority of Taxpayers have been found to improve their voluntary compliance to customs rules and procedures.

Looking at 100 percent supporting the view that Post Clearance Audit has improved voluntary compliance, one would argue that Post Clearance Audit is essential tool for revenue collection. This support WTO (2005) report in Korea that Post Audit Teams detected violations such as tax evasions or false declarations, bringing in about US\$100 million in additional revenues in 2001, and approximately US\$480 million in 2004, which in return motivated importers to more carefully and accurately declare their goods. According to Silvani and Baer (1997) “the timely filing and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action refers to voluntary to compliance

#### **4.3 To Assess the Extent to Which Tax Revenue legally Due are Identified and Paid**

During research 45 out of 50 respondents agreed that post clearance audit resulted into additional duties and taxes. Furthermore 40% of the respondents said that there was establishment of additional duties and taxes amounting to more than Tshs 20 Million.

Research went further to ask respondents if they have ever filed the objection to the Commissioner in regard to duties and taxes established after post clearance audit. 6% have agreed that they have filed the objection to the commissioner against the assessment while 94% has disagreed that they have never filed objection to the commissioner Table 4.2. Mikesell and Birskyte (2007) state that; “compliance improves when taxpayers believe the tax system is fair, they believe that they receive something valuable for their payments and when society shows no tolerance for tax evasion. This finding is explained by a broad concept of ‘the tax culture’

**Table 4.2: Responses to Whether the Respondents have Filed Objection**

RESPONSE	NUMBER	PERCENTAGE
YES	3	6
NO	47	94
TOTAL	50	100

Source: Field data, 2013

From this research there is empirical evidence that taxpayers prefer not to object because they believe that additional duties and taxes established is legal and genuine, therefore tax revenue legally due are identified and paid.

However, 3 respondents who filed objection to the Commissioner against the additional assessment, 2 respondents lost the case. 48 respondents did not respond to whether they won or lost a case, this is due the fact that most of the respondents did not file objection to the Commissioner and therefore identified duties and taxes were paid see table 3 below.

**Table 4.3: Responses to Whether Respondents Won or Lost the Case**

	NUMBER	PERCENTAGE
MISSING	48	96
LOST	2	4
TOTAL	50	100

Source: Field data, 2013

The findings reveal that 90 percent of total respondents support the view that post clearance has resulted into additional duties and taxes. Likewise 94 percent of respondents who were assessed agreed that all taxes that were legally due were paid without filing objection to the commissioner. However, centrally to that, 6 percent of respondents did not pay and they further filed the objection to the commissioner.

This indicates that PCA has to the greater extent achieved the objectives of improving revenue collection particularly from additional assessment.

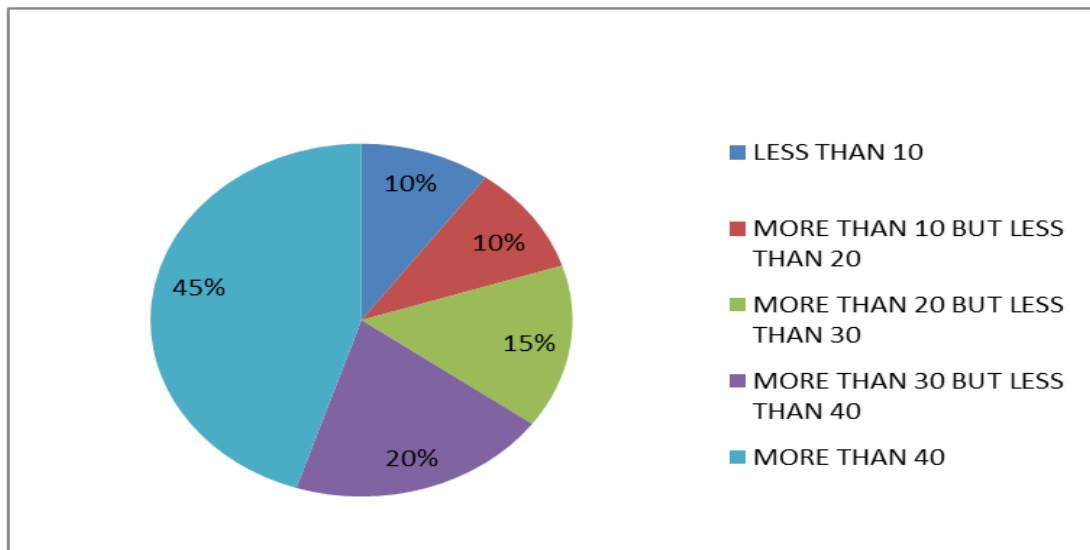
The findings supports what was reported by WTO (2005) that Post Audit Teams detects violations such as tax evasions or false declarations. Like in Tanzania, in Korea PCA collected about US\$100 million additional revenues in 2001, and approximately US\$480 million in 2004, which in return motivated importers to be more carefully and accurately declare their goods. Researcher is in the opinion that PCA as an important tool for improving revenue collection and compliance to the tax laws, regulations and procedures.

#### **4.4 To Analyse Weaknesses in Customs Laws That Hinder Post Clearance Audit Operations**

Weakness in customs laws that hinder post clearance audit operations were analyzed based on the response from the customs officials and higher management of customs and excise department within the Tanzania Revenue Authority.

Based on interview, 10% shows that less than 10 companies have been audited. 10% of respondents audited more than 10 companies but less than 20 companies. 15% of the respondents audited more than 20 companies but less than 30 companies. 20% of the respondents audited more than 30 but less than 40 companies, while 45% shows that more than 40 companies have been audited for the period between 2010 and 2012. The analysis shows that more companies have been audited see Figure 4.3

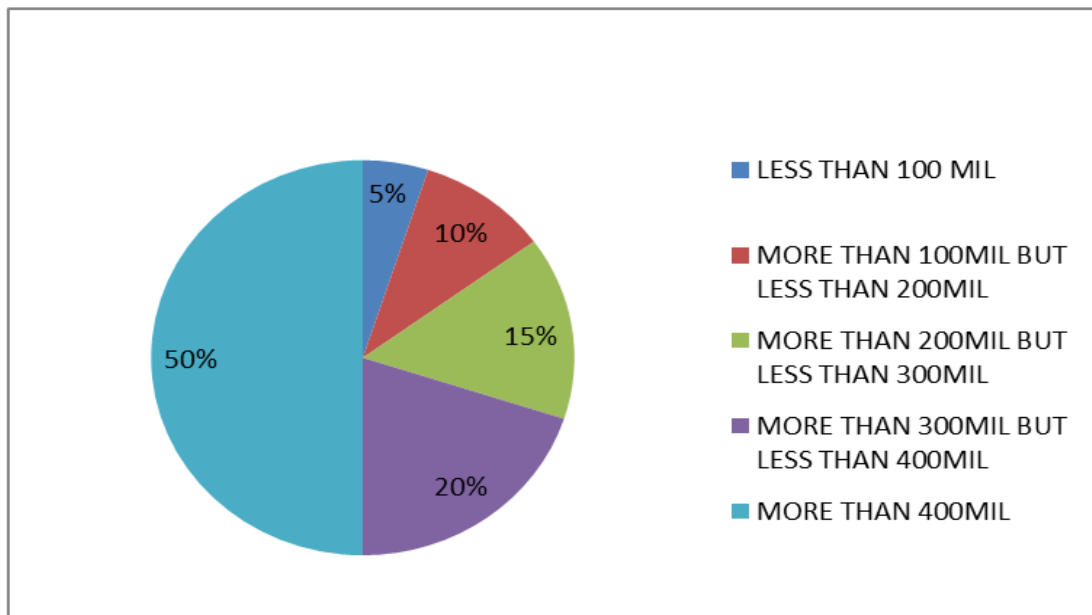
**Figure 4.3: Number of Companies which Have Been Audited**



Source: Field data, 2013

On the other hand, 5% of the respondents collected less than Tshs 100 Million. 10% of the respondents collected more than Tshs 100 million but less than Tshs 200 million. 15% of the respondents have collected more than Tshs 200 Million but less than Tshs 300 million. 20% of respondents collected more than Tshs 300 million but less than Tshs 400 million and 50% collected more than Tshs 400 million. This shows that much has been collected Figure 4.5

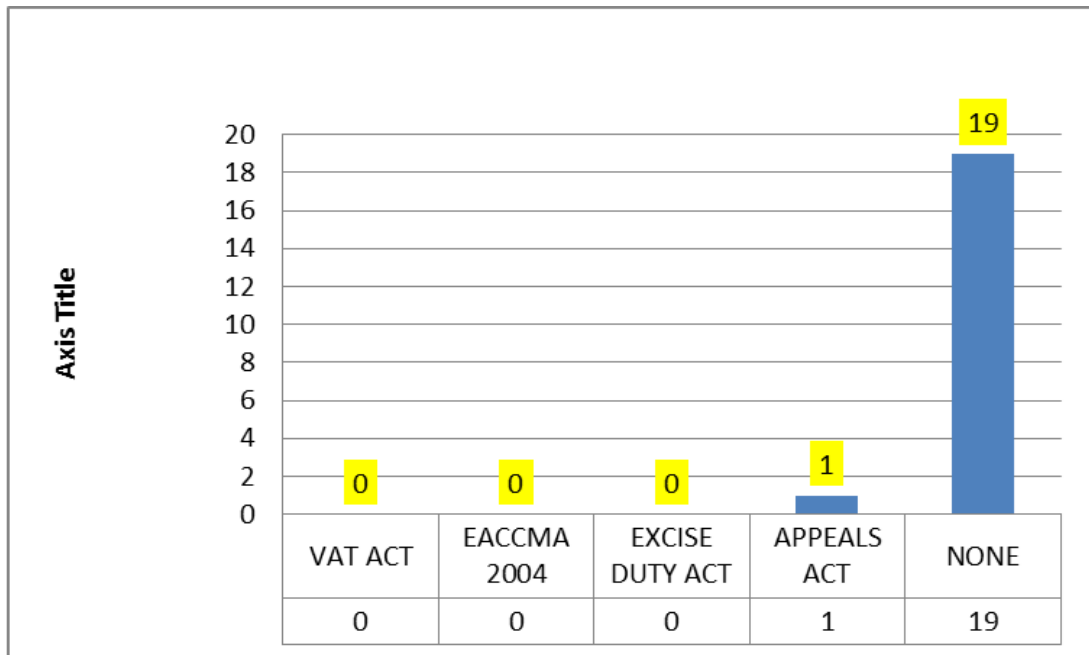
**Figure 4.4: Amount Collected from Audit**



Source: Field data, 2013

Furthermore, during interview 20 customs officers were asked on whether there are customs laws which hinder post clearance audit operations. One (1) said Appeals Act hinder post clearance audit operations while the rest 19 respondents said none of the customs laws hinder post clearance audit operations. This provides empirical evidence that customs laws facilitate post clearance audit operations. See figure 4.6 below

**Figure 4.5: Customs Law Which Hinders PCA Operations**



Source: Field data, 2013

There are a number of identified weaknesses in customs laws that hinder post clearance audit operations. The interview result with the customs officials and higher management of customs and excise department of the Tanzania Revenue Authority respondents reveals that apart from the fact that respondents have indicated that majority of companies have been audited, there are various companies that were not audited during the period from 2010 to 2012. The various reasons for that were identified includes the capacity of the Post clearance Audit unit in terms of staff.

Tanzanian business sector comprises of both formal and informal sector and that there is wide diversity of companies trading in different industrial sectors. Experience shows that, apart from effort made by the TRA to improve the capacity of the Post Clearing Audit unit, still the unit capacity has not been able to audit all companies, and therefore, some companies are left unaudited. This is a challenge because; various unfaithful companies might take advantage not to make the correct declaration knowing that they are not going to be audited. Furthermore, the practice might create an opportunity for unfaithfully staff to collude with the customers by

not including them in the sample of the list of companies to be audited in the auditing period. The question whether, TRA has the capacity to ensure that the Post Clearance Audit unit is well equipped to undertake the auditing exercise of all companies in business every year is important. However, it is beyond the scope of this study.

The researcher also noted that there are limitations confronting PCA which includes the following;

(i) It is recognized that PCA is the most effective means of ensuring compliance with Customs requirements. Particularly in such areas as Customs valuation, effective verification requires access to the importer's records and accounting system which is not possible at the time of clearance. Customs administrations should therefore continually strive to implement PCA to the greatest extent possible.

(ii) There is significant levels of informal trade, characterized by poor or nonexistent accounting systems, cash-based trading and lack of permanent premises. In such cases, PCA is not the most practical tool; there may be problems locating the trader and, once located, there is often a lack of a structured accounting system and supporting books and records, etc.

Therefore, border controls are the only realistic opportunity to conduct controls, which should be targeted via risk management techniques. Notwithstanding this, Customs should continue to encourage greater compliance and ensure that those operating in the informal sector are given opportunity and incentive to formalize their procedures in line with Customs requirements

Another area of concern is regarding the issues of customs laws that facilitate the post clearance audit operations. A total number of 20 respondents were interviewed. It was found that there are customs laws which hinder post clearance audit operations. For instance 1 respondent, equivalent to 5 percent of respondents who were interviewed pointed the Tax Appeals Act and Tanzania investment Act to be one of the laws having some weakness that hinder post clearance audit operations. For instance the companies (tour operator ) that enjoy exemptions that are provided



by Tanzania Investment Center and they are approved by Tanzania Revenue Authority are required to comply with the requirement and conditions of the commissioner for Customs and Excise such as : all motor vehicle imported and under exemption through Tanzania Investment Center should be permanent marked on both sides with the name and logo of the Tour operator company ,but if tour operator company violate the requirement and conditions of the commissioner for Customs and Excise on motor vehicle acquired through such exemption ,the commissioner for Customs shall have no legal back up to demand amount of duties and taxes exempted through Tanzania investment Center, therefore this is the weakness in the laws governing such exemption facilities. However, most of the respondents appreciate that VAT Act, Exercise duty Act, and EACCMA 2004 have no impact to the hindrance of the performance of the Post Clearance Audit operations.

Furthermore, 19 respondents which is equivalent to 95 percent indicated that there is no any law that has hindrance impact to the performance of the Post Clarence Audit. Based on the fact that majority of respondents view the law to have no hindrance impact to the post clearance audit functions and the fact that only few respondents perceive the law to have an hindrance impact, researcher is in the view that the law has less hindrance impact to the performance of the post clearance audit operations. this can also be evidenced by the East African Management act 2004 which facilitate post clearance audit performance by providing to a customs officer conducting post clearance audit authority and powers such as the right to access auditee's premises, the right to examine business records, business system and commercial data relevant to customs declarations, the right to inspect auditee's premises, the right to uplift and retain documents and business records and the right to inspect and take sample of goods.

Various scholars and practitioners in taxation have argued on the roles of PCA that it effectively contributes to revenue collection and simplifies Customs procedures leading to a better compliance to tax laws and procedures. It is through this role, PCA is contributing directly and indirect the amount of duty and taxes collected by

means of audit to the government. Likewise, according to East African Community Secretariat report (2012), PCA is taken as one among the most effective measures for compliance verification with Customs laws, regulations, procedures and trade facilitation through fast clearance.

## **CHAPTER FIVE**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Conclusion**

##### **5.1.1 General Conclusion**

Many researches have revealed that tax audit including Post clearance audit have enhanced tax compliance because taxpayers are aware that any false declaration are likely to be detected when auditors come for audit. Developing countries were not paying attention on the significances of PCA, till when World Customs Organization directed some of these countries including Tanzania to introduce PCA unit within Customs and Excise Department.

Countries which started earlier with the PCA have improved in tax compliance compare to those who have no PCA or it is at infancy stage.

##### **5.1.2 Specific Conclusion**

On one hand findings reveal that PCA has enhanced tax compliance. Before PCA taxpayers were not bothering on the accuracy of clearing documents while now the contrary is the case because they know that TRA is monitoring and in case there is short levy additional assessment will be raised. So Most of Taxpayers would prefer to pay the correct duties and taxes on their importation to avoid future additional assessments. Most of taxpayers I discussed with said that PCA has helped them to be aware with the customs laws and procedures hence they are voluntarily willing to comply to avoid penalties and fines.

On the other hand findings revealed that PCA has enhanced tax revenue collection. Before, taxpayers were sure that once assessment has been raised and duties and taxes there on paid, there was no more payment in regard to that particular import. After PCA there is empirical evidence that additional assessments have been raised and duties and taxes paid. Now PCA has collection target amounting to Tanzanian Shillings 3 Billion per month.

The capacity of the Post Clearance Audit is less as compared to the wide spread of and expansion of business sector. In order to ensure that all companies are audited, Post Clearance Audit department need to be strengthened in terms of staffing and facilitation.

Tax laws have no major hindrance impact to the performance of the Post Clearance Auditor operation. This is due to the fact that that the function of the Post Clearance Audit is to ensure that taxpayers comply with the underlined tax laws and procedures. It ensures that taxpayers properly keep their revenue and expenditure records and makes their voluntary declaration and compliance to the tax laws.

## **5.2 Recommendations**

### **5.2.1 Recommendations for Management**

However there are factors which need to be taken into account in order for PCA to be effective; including proper training to PCA staff, this is because a combination of skills, knowledge and experience is required to carry out PCA effectively. With the increased use of electronic recordkeeping and the complexity and diversity of global trade, the need for higher standards of training becomes increasingly important. Customs administrations should be committed to providing auditors with the levels of training necessary to equip them to perform their duties. Training departments have an important part to play in ensuring that officers acquire the required skills to conduct an audit. Also availability of facilities such as laptops , transport, awards and motivation to best performers in the unit to mention but few. Also the top management of customs department should recognize the contribution of PCA and support the unit to ensure the objective of the unit is met. The auditor should also seek legal advice from the Customs' legal department if during the course of the audit, issues arise which require further legal interpretation. In addition to that there is a need for TRA to review the laws governing exemption under Tanzania investment center and forward recommendation to the relevant authority for proper actions.

### **5.2.2 . Recommendations for Further Research**

Despite answering the research questions, research efforts on the role of Post Clearance audit on enhancement of tax compliance and revenue collection in Tanzania needs to be continued. For instance, this research alone has left or generated questions, which remain unanswered. Consequently, some areas needing further research are proposed and discussed in contribution to the role of Post Clearance audit on enhancement of tax compliance and revenue collection in Tanzania by other TRA department or section such as tax payers services and education, board secretariat and legal services , Flexible anti smuggling team and post clearance audit section autonomy. The researcher propose that future studies concentrate on these variables since all the four variables working together can result into enhancement of tax compliance and revenue collection.

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**APPENDICES**

**Appendix 1: Questionnaire for the Taxpayer**

**QUESTIONNAIRE ON THE ROLE OF POST CLEARANCE AUDIT ON ENHANCEMENT OF TAX COMPLIANCE AND REVENUE COLLECTION IN TANZANIA; A CASE OF DAR-ES-SALAAM REGION.**

Dear respondent,

You have been selected to answer this questionnaire. This is purely an academic study that sets out to identify the role of post clearance audit on enhancement of Tax compliance and Revenue collection in Tanzania. Your participation is entirely voluntary and all data will be dealt with in the most confidential manner.

**PARTICULARS OF THE FIRM**

- 1. Type of the firm (e.g. Manufacturing, Mining, Merchandizing etc.)  
.....  
.....
- 2. Tax payer category( Large tax payer or other ).....
- 3. Location/Area of business.....
- 4. Year of establishment.....

**OTHER COMPANIES' INFORMATION**

- 1. Have you ever heard about Post Clearance Audit?
  - (i) Yes ( )
  - (ii) No ( )
  
- 2. If yes, where did you hear it for the first time? Please explain  
.....  
.....  
.....

3. Have you ever been audited by Post Clearance Auditors?
- (i) Yes ( )
- (ii) No ( )
4. If Yes, How many times have you been audited?
- (i) Once ( )
- (ii) Twice ( )
- (iii) Thrice ( )
- (iv) more than three times ( )
1. During these audits (from question 4), was there any additional duties and taxes established?
- (i) Yes ( )
- (ii) No ( )
2. If Yes (from question 5 above) show the range of duties and taxes established and collected by Post Clearance Audit unit in the first year of the audit.
- (i) Less than 5 Million ( )
- (ii) More than 5 million but less than 10 million ( )
- (iii) More than 10 Million but less than 20 Million ( )
- (iv) More than 20 Million ( )
3. If Yes (from question 5 above) show the range of duties and taxes established and collected by Post Clearance Audit unit in the second year of the audit.
- (i) Less than 5 Million ( )
- (ii) More than 5 million but less than 10 million ( )
- (iii) More than 10 Million but less than 20 Million ( )
- (iv) More than 20 Million ( )

4. If Yes (from question 5 above) show the range of duties and taxes established and collected by Post Clearance Audit unit in the third year of the audit.
- (i) Less than 5 Million ( )
  - (ii) More than 5 million but less than 10 million ( )
  - (iii) More than 10 Million but less than 20 Million ( )
  - (iv) More than 20 Million ( )
5. Have you ever filed the objection to the Commissioner in regard to duties and taxes established by Post Clearance Auditors?
- (i) Yes ( )
  - (ii) No ( )
6. If yes, (from question 9 above) what were your grounds or reasons?  
Please explain
- .....
- .....
- .....
7. If Yes, (From question 10 above) what was the result of your objection? Did you win the case or lost it?
- (i) Won ( )
  - (ii) Lost ( )
9. Have you ever been penalized by the Tanzania Revenue authority for non-compliance to customs laws and procedures?
- (i) Yes ( )
  - (ii) No ( )
10. If Yes (from question 12 above) what were the reasons for non-compliance?  
please explain
- .....
- .....

11. Do you think Penalty is a deterrent measure of non-compliance?

(i) Yes ( )

(ii) No ( )

12 From question 14 above, why do you think so? Please explain

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

13 Do you think Post clearance audit has enhanced tax compliance?

(i) Yes ( )

(ii) No ( )

14 From question 16 above, why do you think so? Please explain

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

15. What are your comments in regard to Post Clearance Audit?

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

**Appendix 2: For Post Clearance Auditors (Customs Officers**

**INTERVIEW QUESTIONNAIRE ON THE ROLE OF POST CLEARANCE  
AUDIT ON ENHANCEMENT OF TAX COMPLIANCE AND REVENUE  
COLLECTION IN TANZANIA; A CASE OF DAR-ES-SALAAM REGION**

Dear respondent,

You have been selected to answer this questionnaire. This is purely an academic study that sets out to identify the role of post clearance audit on enhancement of Tax compliance and Revenue collection in Tanzania. Your participation is entirely voluntary and all data will be dealt with in the most confidential manner.

For Post Clearance Auditors (Customs Officers) Only

1. What are the challenges you are facing during performing Post Clearance Audit?

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

2. What should be done by the Authority to ensure smooth operation of Post Clearance Audit?

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

3. How many firms have you audited from 2010 to 2012 (Tick the correct)

- (i) Less than 10 ( )
- (ii) More than 10 but less than 20 ( )
- (iii) More than 20 but less than 30 ( )
- (iv) More than 30 but less than 40 ( )
- (v) More than 40 ( )



4. How much have you collected for the period between 2010 to 2012.

- (i) Less than 100 Million ( )
- (ii) More than 100 million but less than 200 Million ( )
- (iii) More than 200 Million but less than 300 million ( )
- (iv) More than 300 Million but less than 400 Million ( )
- (v) More than 400 Million ( )

5. What can be done by either the Government or the authority to ensure tax compliance among taxpayers?

.....  
.....

6. Do you think severe punishments can deter non-compliance?

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

7. What should be done by the Authority to ensure smooth operation of Post Clearance Audit?

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

8. How many firms have you audited from 2010 to 2012 (Tick the correct)

- (i) Less than 10 ( )
- (ii) More than 10 but less than 20 ( )
- (iii) More than 20 but less than 30 ( )
- (iv) More than 30 but less than 40 ( )
- (v) More than 40 ( )

9. How much have you collected for the period between 2010 to 2012.

- (i) Less than 100 Million ( )
- (ii) More than 100 million but less than 200 Million ( )
- (iii) More than 200 Million but less than 300 million ( )
- (iv) More than 300 Million but less than 400 Million ( )
- (v) More than 400 Million ( )

10. What can be done by either the Government or the authority to ensure tax compliance among taxpayers?

.....  
.....

11. Do you think severe punishments can deter non-compliance?

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

12. Where are additional duties and taxes resulting from (mostly)?

- (i) Misclassification ( )
- (ii) Undervaluation ( )
- (iii) Exemption ( )
- (iv) Under-declaration of quantity(ies) ( )

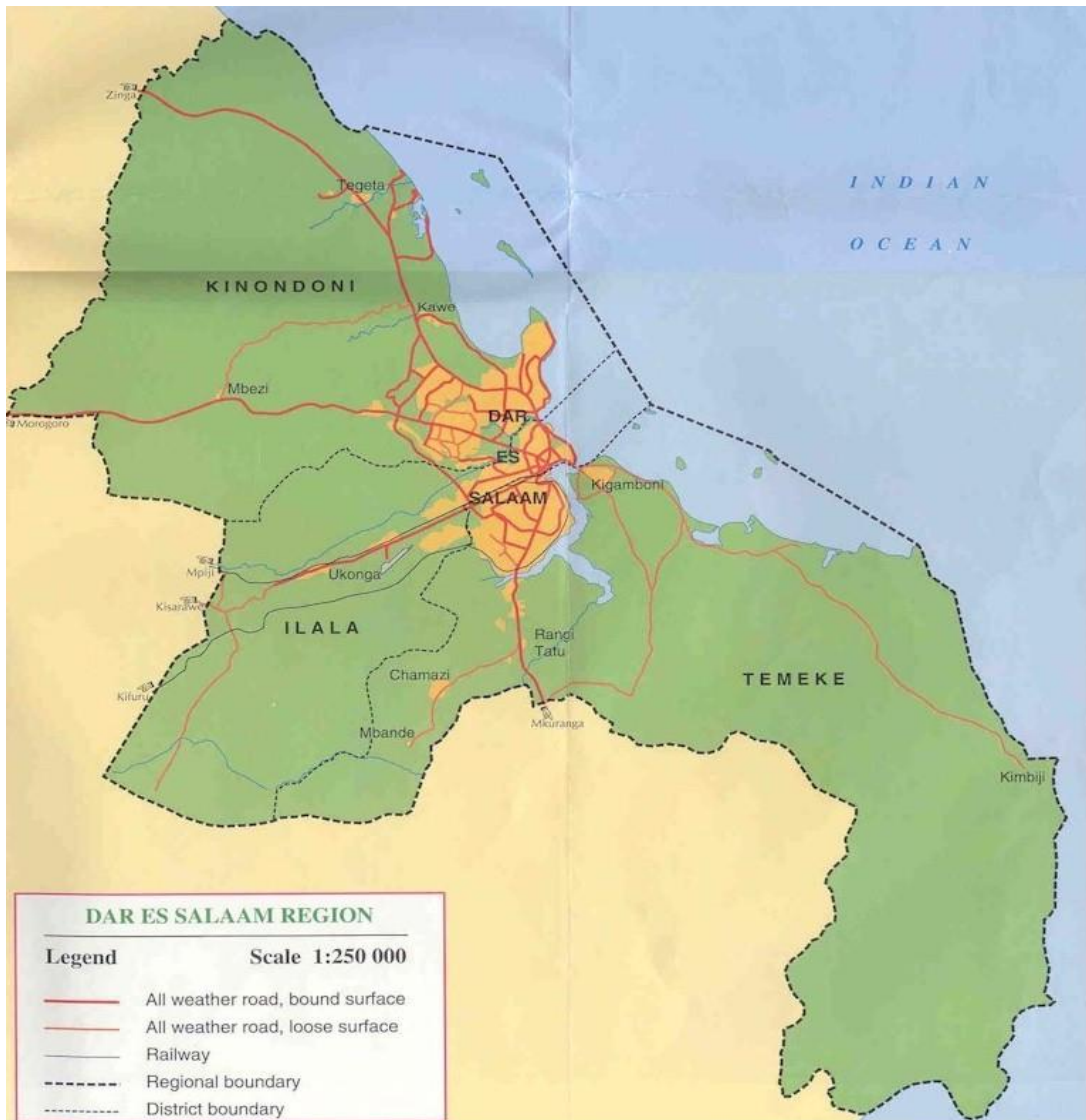
13. Why do you think (from question 7 above) additional duties and taxes habitually are resulting from there?

- (i) It is easy to cheat ( )
- (ii) Complexity of items imported ( )
- (iii) Ignorance of the customs officials ( )

14. Have the customs laws hinder the post clearance audit operations?

- (i) Yes ( )
- (ii) No ( )

### Appendix 3: Three Tax Region in Dar es Salaam



Source: Dar Facts