THE CAUSES OF TAX EVASIONS AND A LOW LEVEL OF TAX COMPLIANCE IN TANZANIA:

A CASE OF THE TANZANIA REVENUE AUTHORITY

By

Dyness Kisimbo

A Dissertation Submitted in the partial Fulfillment of the Requirements for Award of the Degree of Master in Accounting and Finance (MSc. A&F) of Mzumbe University.

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled "**causes of tax evasion and low level of tax compliance in Tanzania the case study being Tanzania Revenue Authority,** in partial/fulfillment of the requirements for award of the degree of Master of Accounting and Finance (MSc. A&F) of Mzumbe University.

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DEDICATION

…my today and future family

ABBREVIATIONS AND ACRONYMS

TRA	Tanzania Revenue Authority
LTD	Large Taxpayers Department
DRD	Domestic Revenue Department
TIB	Tax Investigation Department
CED	Customs and Excise Department
VAT	Value Added Tax
PAYE	Pay As You Earn
WHT	Withholding Tax

ABSTRACT

Many developing countries including Tanzania have been taking various measures to increase their public revenues through collection of taxes. These efforts have not been very successful and one problem has been tax evasion that significantly reduces government revenues.

This study examined the causes of tax evasion and tax avoidance and how these actions cause a low level of compliance in terms of filing returns and payment of correct taxes on time. The study also marked factors influencing self-compliance of the taxpayers as well as the factors which lead the taxpayers to arrange for tax evasions. Some of these factors were categorized as economic deterrence, fiscal exchange, social influences, comparative treatments and political legitimacy.

To attain this objective, the research was designed as purposive research. Data collection methods such as questionnaires, interviews, and observations were used during the research work. Also, the researcher used random sampling in selecting respondents from a population.

The analysis of collected data helped the researcher to find out that poor interpretation of tax laws by the taxpayers, unsteady economy, lack/ low motivations to compliant taxpayers, complicated tax procedures, low level of enforcements, poor tax collection technology, narrow tax base, outdated tax laws and minimum punishment to evaders are the major reasons for tax evasion in Tanzania.

However, the researcher suggested various solutions which if well implemented; they may reduce evasion practices and tax incompliance. The researcher recommended the government to invest in tax through TRA. Frequent training and awareness programs should be conducted to improve tax and taxation knowledge to TRA staffs and the public at large. Also the government should be keen in spending the tax revenues to bring visible effect so that the taxpayers can see the effect brought by their tax. Furthermore, tax laws should be updated to fill the gaps that would otherwise lead to tax evasion. Lastly, stiff punishment should be charged to all tax evaders.

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CHAPTER ONE

INTRODUCTION

1.1 Background Information acknowledge

Many developing countries including Tanzania have been taking various approaches/measures to increase its public revenues through collection of taxes. In so doing the government has been attracting Investments due to the assumed roles of economic development which include although not restricted to the possibility of increased tax revenue to the government, employment creation, and improved balance of payment by increasing exports and/or reducing imports, technology transfer, improved managerial and entrepreneurial skills, increased competitiveness in the market, and linkage with the rest of the economy.

The subject of this study was to determine various reasons leading into tax avoidance, tax evasion and low compliance to tax among Tanzanians. From this subject a number of areas were covered in detail, which included the complex tax procedures, inefficient tax education, ambiguities in interpretations of the tax laws, minimal information on the usage of the money collected, unfaithful taxpayers, poor or low enforcement, industry complications, poor technology, narrow tax base, outdated tax laws and low punishments to evaders.

The basis of this research report was on the premise that, internal public revenue collections would be increased if the taxpayers complied fully and every one would fill obliged to paying taxes. Tanzanians have an important role to play in today's complex transactions and consequently increase need for broadening the tax base to meet an increased demand in public revenues. These demands are forcing parliament and the government of Tanzania at large to continuously adapt to new situations for enacting the tax laws to broaden the tax base so as to assist in collection of taxes.

The Government of Tanzania through its fiscal policy is determined to enhance the collection of revenues and improve efficiencies in management of the expenditures. This was to be done by adapting various expenditure control measures which had a common objective of constraining deficit on the government fiscal perspective. The government did not only observe the expenditure defaults, but as well proposed measures revenue which included strengthening on the administration of the collected public revenues (tax). This led to the establishment of Tanzania Revenue Authority (TRA), a regulatory body that would enhance not only tax collections, but also the proper administration of taxation in the country.

1.2 Statement of the Problem

Tax avoidance and evasion have become major reasons to tax in compliances in all tax systems. All tax authorities in different countries have been struggling to minimize and or eliminate the problem. The last decade for example, tax avoidance and evasions issues have been growing at a remarkable rate hence influencing tax incompliance practices. Therefore, there is a need to understand tax avoidance and evasion practices and its impacts towards tax compliance in order to properly nurture nation awareness on tax revenues and its contribution on the public revenues.

In Tanzania just like many developing countries, tax evasion and avoidance practices have been macroeconomic problem. A high degree of tax avoidance and low level of tax compliance have resulted into serious government revenue shortfalls leading into non-realization of government revenues as well as stagnant economic and social development programs. These have brought inequality in the tax system which necessitated higher tax rate to compensate for the revenue loss than what the rates would otherwise have been.

Why, despite the efforts done by the government of Tanzania through its agency Tanzania Revenue Authority, still there is low compliance and yet a tax avoidance problem among tax payers in Tanzania and a yet a loophole for tax evasion.

Back in the year 2001, the Government of Tanzania decided to start a sole Agency to deal with revenue collection. The aim of the government was to ensure compliance and the right collection of the Government revenue. Through the agency, the government does administer all Domestic Taxes and Tax on imported and exported goods. Since the time, the government has experienced a progressive increase in tax collection, though not at the optimal point.

In recent years, the country has experienced its tax payers paying less of the required tax liability. Knowing the situation, Tanzania Revenue Authority through its various departments, has been so busy trying to educate the tax payers and their representatives on how they are supposed to comply with the tax laws following massive training of its staffs on the interpretation of the revenue laws. Massive training that is being conducted by the authority involve performing seminars and workshops, putting adverts on various media, locating educative news on its web and distributing bronchus to its clients all over the country through its offices.

This research is interested to know the reasons as to why despite all efforts to promote tax compliance and minimize tax evasion, still the clients are not a hundred percent compliant over the tax laws and regulations thus making the government fail to meet its required budget. The research is focused on Large Tax Payers who are under the Large Tax Payers Department of which majority of them are fully knowledgeable of the Tax Laws in practice at the United Republic of Tanzania.

1.3 Objectives of the Study

Generally the objective of this research was to examine the reasons for and the impacts of minimal tax compliance and increase on tax evasion in Tanzania.

To attain this objective, the researcher set up specific objectives which were;

(i) To examine the causes for tax evasion, tax avoidance and a low compliance to tax payment among Large Tax Payers in Tanzania,

(ii) To determine the impact of tax evasion on government revenue.

(iii) To find ways of reducing tax evasion and improve tax collection.

1.4 Research Questions

Bearing the objectives of this research in mind, the literature search and empirical research, problems which were identified in the study raised some questions for which answers were attempted. The study aimed at providing answers to the questions such as

(i) What were the main causes of tax evasion, tax avoidance and a low compliance to tax in Tanzania?

(ii) What were the impacts of tax evasion and avoidance to the collection of taxes in Tanzania?

(iii) What methods/ ways to be used to improve tax collection in Tanzania?

1.5 Significance of the Study

This study has the following significances:-

The first one is to recognize the taxpayer understanding of the revenue laws and regulations as a major tool for tax compliance in Tanzania which goes hand to hand with minimum level of tax avoidance and evasion.

Secondly, this study will add insights to Tanzanian Revenue policy makers and bring more awareness for tax officers so that they can help nurture the valuable spirit among taxpayers and this possibly, will bring high level of tax compliance among the taxpayers themselves.

Lastly, this study shall serve as partial fulfilment for the requirement of a Master Degree in Accounting and Finance at the Mzumbe University.

1.6 Scope of the Research

The scope of this research was broad and attempted to assess the reasons of low compliance to tax and tax evasion in Tanzania. This research was delimited to one study area, large taxpayers' department in Dar es Salaam. Therefore the research was concentrated only at Tanzania Revenue Authority and the Large Taxpayers Department was considered as a study unit.

During conducting the research, the researcher encountered various limitations. However, she tried her best level to minimize them so as to achieve the research objectives.

The period allocated on data collection was not enough to rotate in all section within the Large Taxpayers Department, as a result, the conclusion was arrived at by rely on limited data obtained from the organization. The researcher was able to conduct a field research on the manufacturing companies and the international taxation unit. This enabled the researcher to obtain data from the taxpayers in the manufacturing sector and ITU only.

Some respondents were reluctant on providing some data which were required by the researcher. Sometimes the responses to questionnaires were negative and some data are accessed by authorized persons only

1.7 Organization of the Study

This study is organized into five chapters each consisting of several sections. Chapter two consists of three section namely theoretical framework, empirical review and conceptual framework. Chapter three presents the methods used in research which involve the study design, study area, sampling design, methods of data collection and data processing procedures.

Chapter four is the presentation of findings. The findings are presented in line with our research questions. Chapter five mark the end with summary, conclusion, recommendations and suggested areas for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter describe what has been written so far relating to tax evasion and compliance. The focus of this study was to assess the causes of tax avoidance and a low level of tax. Because tax incompliance is linked to tax avoidance and tax evasions (and this research uses them interchangeably) the researcher found it necessary to consider these concepts throughout the study. This chapter focused on a number of issues as highlighted by other researchers on tax compliance and link them with Tanzania environment. The first part of the chapter focused on the theoretical position. It mainly expresses what past and existing academicians have learnt and experienced during their time on the topic in hand. The second part tries to look at various approaches used to ensure tax compliance. This study studied each approach together with associated weaknesses and strength. In the third part of the chapter, the research entails on the compliance among developed countries, and main focus was Pakistan. The researcher is interested to know the methodologies that can be adapted from other countries to ensure compliance is adhered in Tanzania.

2.2 Theoretical Framework

This is a review of what is known about tax avoidance, tax evasion and low level of tax compliance. The definitions of tax avoidance, tax evasion and low level of tax compliance with more emphasise on the causes of and their impacts on the country economy.Whatever the country is to perform whether in form of project implementation or services provision it will need material resources. In whatever form it might be, it cannot avoid a need for financial resource. Collection of Pubic Finance particularly on the tax revenues is said to be the 'blood' of any running of the government.

Sylvania et al. (1992) argued that many tax authorities are faced with tax compliance issues. He defined tax compliance as adhering to the laws i.e. taxpayers are willing to fill and submit tax returns on time, pay the right tax at the right time which has been calculated according to the provisions of the tax laws. Also he added that, a goal of all tax authorities is to encourage voluntary tax compliance and hence reduce tax gaps (the difference between taxes paid and owned for all taxes and all taxpayers).

Sylvania et al. (1992) went further to argue that non-compliance is a significant area of concern to any revenue authorities especially for those in the third World Countries (Tanzania inclusive) due to the rampant use of high technology by most of multinational companies. With the growth of globalization, tax planning practices increase focused on minimizing worldwide tax.

He argued that tax authorities are facing numerous challenges due to lack of information on many cross border transactions that could enable them to timely identify, address, and pursue these issues. Understanding this problem, several countries have developed strategies and programs to foster more disclosure and transparency on these international dealings (OECD Model of Tax convention R.E 2010).

In 1995 Tanzania Revenue Authority Act was enacted that established the Authority as Government agency which will be supervised by the Minister for Finance. (Section 4 of TRA Act R.E 2006).

According to section 5 of TRA Act (R.E 2006), the authority has got the following functions; to administer effectively and efficiently all the revenue laws of the central government, to assess, collect and account for all central government revenues, promote voluntary tax compliance, advise the government on all matters related to fiscal policy, counteract fraud and other forms of tax evasion, and to produce trade statistics and publications and improving the quality of services to the taxpayers.

The Authority consists of four Revenue Departments responsible for mobilizing revenue through administration of the respective tax laws. These are;

(i) Domestic Revenue Department (DRD)

This department was established to administer tax to all internal taxpayers whose turnover does not meet the threshold of the Large Taxpayers turnover. The main taxes administered by this department are Income Tax, VAT, P.A.Y.E, SDL, Stamp Duty and WHT.

(ii) Large Taxpayers Department (LTD)

This department was established for the purpose of administering taxes on corporations with a turnover equivalent to and above Tanzanian shillings 4 billion for five consecutive years. Without considering the threshold the department is as well responsible for the administration of taxes in industries such as financial institutions, oil and gas and mining.

This department was establishment as a directorate on 1st October 2001 which was thereafter changed to a full Department (LTD). The main aim of forming the department was to control the Large Tax Payers in Tanzania. This was part of the organization strategy that embarked with a view to improving and modernizing tax administration in the Country.

The most common reasons why many countries implement Large Tax Payers Units/Departments within their territories are: to provide consistent and quality services to large taxpayers, to secure revenue, to improve audit programs, to improve collections and management of the debts and also to act as models or pilots for testing new processes, procedures, structures and systems.

The department is one stop center for all tax affairs relating to domestic taxes namely Value Added Tax (VAT), Exercise Duty, Corporation Tax and other income taxes such as employment taxes, withholding taxes among others. The department has about four hundred and twenty taxpayers who contribute about 46% of total gross revenue collected by TRA.

Under the Department there are about five operational sections. These are Returns and Data Processing, Audit, Debt Management, Technical Unit and International Taxation unit.

Audit is the core function of LTD. The main objectives of the section are: To enhance voluntary compliance and to ensure that taxpayers report accurate income and pay correct amounts of tax and to educate taxpayers during audits on various tax laws and procedures. Taxation is broad and complex, thus it needs a continuous education. It should be noted that mostly, non-compliance is caused by misinterpretation of laws rather than through intentional motives. The main types of audits performed by the section are Comprehensive and Issue-oriented audits.

(iii) Customs and Excise Department (CED)

Customs and Excise Department is responsible for monitoring taxes for all imported and exported items. The taxes include Import Duty, Excise Duty and Value Added Tax (VAT) on imports. Together with this the department controls the type of the items imported and/or exported.

The Revenue Departments are led by Commissioners who are appointed by the Board to lead the departments. These are being assisted by Deputy Commissioners who are responsible for day to day operation of their area of duties.

With the level of technological advancement taking place worldwide, optimum taxation will continue to be a challenge to Tax Authorities for a longer period of time. The impact of these challenges may create noncompliance practices when the application of high technology is used in the transactions like related party cross-border and tax haven dealings not in accordance with the arm's length principle (transfer pricing); complex structures and intra-group transactions associated with generating tax benefits unrelated to the economic substance of the commercial activity; tax avoidance issues (e.g. offshore entities, hybrid entities, foreign tax credit generator, captive insurance); customs including entitlement to exemptions, misclassification of goods, valuation and high value importers.

If the noncompliance issues established are not dealt with quickly, the results are thought to deplete Government tax revenue by reducing direct and indirect taxes (Frank et al 2005). Clearly, the shift from a physically-oriented commercial environment to a knowledge-based electronic environment presents some very serious and substantial issues that must be addressed. Free Encyclopedia Define compliance as confirming to a rule, such as policy, standard or law. Regulatory compliance describes the goal that corporation or public agencies aspire to in their efforts to ensure that personnel are aware of and take steps to comply with relevant laws and regulations. University of Melbourne (2004) in answer to the quest ion ‘What is Compliance’, states:

Compliance is what we do to ensure that we meet the requirements of the law relating to our activities. The University has an obligation to its staff, students and to the community to ensure compliance with the law. Failure to comply with the law can have serious consequences for people, the environment and the University, either through injury, physical or financial damage, or through damage to our reputation. In addition to the University’s duties under the common law, there are hundreds of statutes and regulations that govern its activities. Therefore, the best approach to compliance is to take a proactive stance in meeting our legal obligations on a day-to-day basis.

The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of the society as reflected in tax policy.

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The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of the society as reflected in tax policy. A major concern with such definitions is that they might be taken to indicate a certainty in the measurement of tax compliance that does not exist. Tax law is not always precise. Indeed, although legal definitions are often of the tax gap form, there are sometimes practical difficulties of interpretation. Bergman (1998) suggests that tax compliance ‘is what the state assumes is legally owed by taxpayers, but the state and taxpayers do not necessarily share the same interpretation’.

The extent to which taxpayers dispute the meaning of the tax law can depend on a number of things, including their basic willingness to comply with a tax system. The basic concept of the ‘tax gap’ of non-compliance seems to be inadequate. The ‘tax gap’ definition and measure are far too simplistic for practical policy purposes since successful tax administration requires taxpayers to cooperate in the operation of a tax system rather than to be forced to carry out every aspect of their tax obligations. Tax law cannot cope with every eventuality (see for example James et al, 1995) and therefore has to be supplemented with supporting provisions.

Administrative procedures and decisions as well as appeal arrangements all have a part to play but the tax system cannot work properly without a reasonable degree of willing compliance on the part of taxpayers themselves. There is the question whether ‘compliance’ refers to voluntary or compulsory behavior. If taxpayers ‘comply’ only because of dire threats or harassment or both, this would not appear to be proper compliance even if 100 per cent of the tax were raised in line with the ‘tax gap’ concept of noncompliance. Instead, it might be argued that successful tax administration requires taxpayers to comply willingly, without the need for enquiries, obtrusive investigations, reminders or the threat or application of legal or administrative sanctions. A more appropriate definition could therefore include the degree of compliance with tax law and administration, which can be achieved without the actual application of enforcement activity. This ‘voluntary’ aspect appears in the definition as supplied above and is important. This recognizes a basic difference in terms of compliance between tax paid without direct enforcement activity and tax paid as a result of it. (Andreoni et al,1998)

There is also a difficulty with the idea that there is some fixed tax revenue that would be collected if all taxpayers simply observed 100 per cent obedience to the law. The level of potential tax revenue is determined by the level of economic activity. It is possible that an intrusive tax regime might reduce the willingness of taxpayers to earn more money or engage in commercial activity not only because of the associated tax liability but because that extra liability might involve inconvenient administrative requirements or the risk of a heavy handed official response. This is rather like the 'spite effect' described by Musgrave (1959, p.240). For instance, it might be the case that workers behave differently to changes in wage rates caused by taxes than they do to changes caused by market forces. If taxes were considered to be intrusive or unfair, taxpayers might wish to reduce their tax liability by working less. It is also possible that taxes might be used as an excuse to avoid unwanted overtime or other obligations. It is not known how powerful any spite effects might be but it is clearly possible that, apart from the direct costs of compliance themselves, difficulties in the willingness of taxpayers to comply might affect the revenue potential itself.

The 'tax gap' definition of non-compliance might then have been partly satisfied because there is less to collect. A fuller economic definition of compliance should also take into account other possible economic effects of the tax system and its enforcement. There has been some economic analysis of such possibilities, for example, Cowell (1985) who considered the case where a worker can choose not just between working in the legal or illegal sectors but how much time to spend in work of any sort as opposed to leisure. It has also been specifically shown that uncertainty in tax audits could affect labor supply (Horowitz & Horowitz, 2000).

It seems reasonable to conclude that tax administration could reduce potential tax revenue by discouraging taxable economic activity. Paradoxically, therefore, a severe tax enforcement policy could even claim to have improved tax compliance by the narrow 'tax gap' definition because it would have reduced the amount there was to collect. Timing issues will also affect the value of the potential revenue available. A taxpayer might eventually pay his or her full liability but if it is paid late it cannot be considered to be full compliance or worth as much as tax liability paid on time or even before the due date. In economic terms, money in the future is worth less than the same nominal sum of money now. If the Government does not receive tax payments on time it either increases the amount it has to raise elsewhere or reduces the revenue available for public expenditure. Although late payments of tax fit many of the 'tax gap' measures, they do not represent full compliance. An interesting aspect of the timing issue is where interest is charged on late paid tax. Interest charged at an economic rate would neutralize the problem from the point of view of the revenue, though it may still not fit definitions of compliance. However, in some jurisdictions interest is charged at a higher rate and, particularly when combined with penalties can result in a very high effective rate indeed.

As already indicated in the introduction, tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators see non-compliance only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to inordinate lengths to reduce their liability this could hardly be considered 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfill their obligations as citizens. Even if such activities are within the letter of the law, they are clearly not within the spirit of the law.

Compliance might therefore be better defined in terms of complying with the spirit as well as the letter of the law. Many of the studies of compliance are concerned with intentional non-compliance. There is, however, considerable scope for unintentional non-compliance. Full compliance may require positive actions on the part of the taxpayer to discharge his or her legal duties in full. It may be that taxpayers innocently fail to meet their tax obligations because they fail to complete their tax returns correctly or are unaware of, or misunderstand, various provisions of the tax system, or for similar reasons.

Attempts by different tax authorities to improve tax administration in this respect have often found the problem of assisting taxpayers more difficult than might at first appear (see, for example, James et. al., 1987 and James, Sawyer & Wallschutzky, 1998). A further complication is that some taxes might actually have been imposed in the hope that they would be avoided. For instance, it has been argued that higher taxes on alcoholic drinks (Cook & Moore, 1994; Irving &Sims, 1993) and tobacco (Viscusi, 1994) would reduce the consumption of those products and this would lead to improvements in the health of the population. Any such changes in behavior would constitute tax avoidance but it would be in the spirit as well as the letter of the law. There have also been developments in other forms of "corrective taxation" referred to as environmental taxes (Smith et al, 1992).

Furthermore, although the alcohol and tobacco examples are very clear, the tax system is used by governments as an instrument of policy in all sorts of ways - encouraging some activities and discouraging others. Compliance in this context would appear to indicate compliance with government policy in the wider sense, rather than just compliance with tax law. The tax avoidance/evasion issue may be important with respect to tax compliance for another reason. The two activities are defined the way they are with an implicit assumption that it is always possible to distinguish between the two.

Based on the extent that there is such uncertainty in a tax system, it follows that tax compliance should follow the spirit of the law. It would therefore seem that compliance is a much wider issue than simply the gap between actual revenue and some concept of 100 per cent of revenue collected. A final definition of compliance might therefore be: the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity. There is no measure of such a definition that is both simple and accurate. However, this definition does indicate the main features, which should be considered in judging the compliance of taxpayers with the tax system.

Typically simplicity in a tax system is sought but this gives rise to the dilemma of identifying what is a simple tax system and how it can best be achieved. Structural simplicity (for example) can be improved by measures including minimizing both the number of different taxes and the number of different rates. Structural simplicity can reduce both compliance costs for taxpayers and the costs of tax administration. However, structural simplicity (in spite of its attractiveness) may have a negative impact on vertical equity. In the case of developing economies, Bird and Casanegra de Jantscher set out that, as a rule, an essential precondition for the reform of tax administration is the simplification of the tax system to ensure that it can be applied effectively given the generally 'low compliance' contexts.

The lack of legal simplicity (such as tax law complexity) has been identified as the single greatest problem facing taxpayers and tax administrators and has many causes including drafting style, language, and volume. It is a perennial problem as taxpayers facing self-assessment require greater certainty. It also makes enforcement more difficult. However, tax law complexity does not just arise from the expression of the law but can occur because of the underlying policy in itself is complex. That is, the less complex the policy the greater the likelihood of being able to develop law that can be readily applied. Policy is the fundamental starting point or first stage in having a simple tax system.

Simple policy (or at least as simple as possible) needs to have clearly articulated objectives and be integrated with other aspects of the tax system. In developing policy, the application of the policy must be considered and this will require consultation with its intended users and drafters. Policymakers need to consider the volume of legislation and the rate of change as complicating factors and seek to minimize them (for example, by moving away from 'black letter' law). Simple policy then must then be translated into legislation (second stage), the purpose of which must be transparent and clearly communicated to the drafters. The drafters must then produce legislation that users (including taxpayers, tax administrators and the judiciary) can apply (third stage) efficiently, consistently and with certainty. In doing so, both compliance and administrative costs can be minimized and simplicity best achieved.

In terms of practice, Arnold described the integrated policy of the formulation of tax policy as having three major components – policy development, technical analysis and statutory drafting – and argued that the three functions are so closely interrelated that the entire process would suffer if performed by different parts of the government bureaucracy. However, the tax policy function should be separated from the tax administration and enforcement function (but there needs to be effective communication). Separation of policymakers and tax collectors results in a system of checks and balances which protects the interests of taxpayers and the government. There is a danger that policymakers are often so taken with the theoretical purity of their proposals that they do not pay sufficient attention to the compliance and administrative aspects of the proposals. Approaches to simplify tax law that have failed in developed economies (such as Australia, the United States and the United Kingdom) have done so because they did not adequately develop tax policy in the context of wider economic reforms.

In the case of developing economies undertaking tax reform, Bird and Casanegra de Jantscher argue the need to have a strategy or comprehensive plan that assigns clear priorities to the tasks that must be performed, tailored to the available resources. The scarcity of resources is a common constraint and reform strategies that require substantial additional administrative resources are doomed to failure simply because the resources are unlikely to materialize fully or in a timely fashion. Instead, more efficient alternatives (such as eliminating unproductive tasks or simplifying procedures) need to be pursued. Further, Bird and Casanegra highlight the importance of a robust management information system together with the streamlining of systems and procedures in reforming tax administration.

The guidelines on managing and improving tax compliance released by the OECD in 2004 suggests that effective application of compliance strategies depend on a revenue authority being strong in "three key capabilities: resources, design and execution." Indeed, Bird and Gendr on identify adequate investment in tax administration as a critical ingredient for sustainable success in the reform of tax administration.

Revenue services and a variety of academic disciplines suggest that there are two basic approaches to the problem of compliance. One is to analyze compliance in terms of economic decisions based on the likely economic incentives and costs of complying or not complying. This is based on a relatively narrow concept of economic rationality and developed using economic analysis. The other has been to examine the effects of other factors on compliance decisions, particularly as they relate to taxpayer behavior and sometimes tax agency behavior. This is concerned with wider behavioral issues and draws heavily on concepts and research from disciplines such as psychology and sociology.

It could be argued that these two approaches link in with the narrow and wider concepts of tax compliance respectively. If tax compliance is seen primarily as a problem of evasion, law enforcement seems to be the main issue. Here, the economic approach has particular relevance as it is very suitable for examining the trade-offs between the expected benefits of evading tax with the risk of detection and the application of penalties. If compliance is more widely defined, involving taxpayers' decisions to avoid tax legitimately or the diligence with which they discharge their obligations, the behavioral approach seems to be particularly relevant.

The economic approach is based on a narrow view of economic rationality under which it is assumed that individuals will wish to maximize their personal income and wealth. They will not comply with the tax system unless the benefits of doing so exceed the costs of not doing so in the form of fines and penalties. It has been narrowly defined as a straightforward ‘calculus of pleasure and pain’ in pecuniary terms (Jevons, 1871). As Bernasconi (1998) put it, ‘evading tax is like gambling’. There are gains to be made if the evasion is successful and costs in terms of penalties if it is not. It is just a matter of adding up the expected utility in financial terms of every decision to comply or not to comply with the requirements of the tax system.

This narrow economic view assumes, implicitly or otherwise, that individuals are immoral and operate in some sort of social vacuum. Tax evasion is then explained simply in terms of factors such as the level of tax rates, the probability of being caught evading, the penalties that would be imposed and the degree of risk aversion. An early model on these lines was published by Allingham and Sandmo (1972). Since that time, that approach has dominated the academic literature in economics and many refinements of a technical nature have been made. This has led to research on a whole series of different aspects of economic compliance decisions. Polinsky and Shavell (2000) summarized some of the work on the economic theory of law enforcement and Andreoni etal. (1998) with specific reference to tax compliance. The basic questions addressed, include the level of resources that should be devoted to enforcement, the relative effectiveness of a higher level of auditing or more severe penalties, and the form the penalties should take.

Uncertainty is also a factor in these calculations (for example, Alm, Jackson & McKee, 1992) and can, of course, extend to other participants - such as risk averse tax collectors (Tzur & Kraizberg, 1995). This leads on to the costs of concealment (Cremer & Gahvari, 1994). The chances of getting caught are also obviously important so the probability of being detected comes into it (Fischer, Wartick& Mark, 1992) as do the deterrent effects of auditing non-compliance (Dubin& Wilde, 1989)and the relative effects of different audit schemes (Alm, Bahl& Murray, 1993; Collins & Plumlee, 1991). Tax agents are also important, as are the penalties applying to them (Cuccia, 1994). A further refinement is the willingness of the tax authority to renegotiate penalties (Cho, Linn & Nakibullah, 1996). This ‘cost-benefit’ approach can be extended to the point that compliance can be improved with pecuniary rewards to taxpayers (Falkinger & Walther, 1991).

Turning to administration, the economic approach provides the theoretical underpinning for the huge debate about the effectiveness of auditing and the form it should take. There has been a considerable amount of work examining the effect of detection probability on taxpayer compliance. A survey of some of the literature was published in 1992 by Fischer et al. (1992), and the work do nethen and since has covered many possible angles. For example, Linster (1997) examined the possibility that different groups of taxpayers had different degrees of risk aversion and auditing policy should be designed to take this into account.

There is also little doubt that, with respect to auditing policies, both tax agencies and tax payers‘ interact strategically to achieve their respective ends’. It is not surprising, that experimental evidence, for example by Alm, Cronshaw & McKee (1993) has indicated quite strongly that the strategic selection of tax returns by a revenue service for audit is generally more effective than a random selection in detecting errors. The form the penalties should take has also been raised. Imprisonment is not only costly but prevents the guilty party from contributing to economic output - a double loss - and might therefore, in general terms, be inferior to fines. Possibly the deterrent effect of imprisonment might have a beneficial behavioral effect on others tempted to cheat, but it is a costly option.

There are various aspects of tax administration that might be investigated further, such as mistakes in enforcement activity by revenue agencies. There are obviously two sorts one where a taxpayer is found liable to tax where no genuine liability exists and the opposite situation where a taxpayer with a genuine tax liability is mistakenly not found liable. Once more, there is an economic trade-off. Mistakes have costs, but so does devoting more resources to reducing the risk of their occurring. More generally, there are choices to be made between operating a tax system at a high level of accuracy but at greater administrative cost and one that is more rough and ready but cheaper to operate. Such issues have been raised, for example, with respect to self-assessment (Barr et al., 1977; James, 1995).

This approach based on economic rationality, narrowly defined, has limitations and has been subject to many challenges, such as those of Etzioni (1988) and Mans bridge (1990).Furthermore, in the specific case of compliance, some of the conclusions of the economic approach do not seem to be consistent with taxpayer behavior. Indeed, according to Smith and Kinsey (1987), the analysis predicts that most people evade tax, which does not seem to be generally true. In fact, there is empirical evidence that many taxpayers are inherently honest and will disclose their financial affairs accurately regardless of the incentive to cheat (Erard & Feinstein, 1994b; Gordon, 1989). Indeed, the level of tax compliance appears to be generally quite high in most countries, see for example, Graetz and Wilde (1985) and Skinner and Slemrod (1985). Furthermore, experimental evidence (Baldry, 1986) suggests that some people never evade, even when the risks are favorable to the taxpayer. In addition, those following the economic approach have not normally taken account of equity issues, but there is evidence that tax evasion is adversely affected, for example, by the perceived inequity between the tax paid and public spending benefits (Wallschutzky, 1984) and by the perceived taxe vasion by other taxpayers (Porcano, 1988).

However, an approach that treats human beings as little more than isolated experimental rats in a cage may not provide a full explanation of tax compliance behavior. Despite these limitations and the intuitive appeal of the wider behavioral approach, the economic approach still has a place in tax compliance as it is reasonable to assume that, toa greater or lesser degree, financial considerations do influence taxpayer behavior. For corporations, it might be argued that pecuniary considerations and the maximization of shareholder wealth are likely to take precedence over other possible corporate goals (see, for example, Brealey & Myers, 2000, ch. 2), thus making the economic approach even more appropriate. In contrast, the behavioral approach draws on other academic disciplines in suggesting that there might be additional factors that are important in motivating taxpayers regarding compliance. Sociological studies, for example, have identified a number of possible explanatory factors, such as social support, social influence, attitudes and certain background characteristics such as age, gender, race and culture (see, for example, Meier & Johnson, 1977and Jackson and Milliron, 1986). Psychology has reinforced this approach and even produced the separate branch of ‘fiscal psychology.’ (Schmölders1970; Lewis, 1982). Attitudes towards the state and revenue authorities are important, as are perceptions of equity. Individuals’ roles in society and accepted norms of behavior are also important. The essential thrust of these contributions from sociology and psychology are that individuals are not simply independent, selfish, utility maximizes (though this may be partly true). They also interact with other human beings according to differing attitudes, beliefs, norms and roles. The result is that tax compliance may be viewed, as Schmölders (1970, p.305) suggests, as a ‘behavioral problem ‘and that ‘the success of an income tax depends on co-operation.’

The importance of equity and fairness has been a theme frequently examined, for example, by Bordignon (1993) and Cowell (1992). Other background factors have also been studied such as cultural factors (Coleman & Freeman, 1997) and the implications of different political systems (Pommerehne, Hart & Frey, 1994). Direct psychological factors, including taxpayers' consciences and feelings of guilt and shame, have also been considered (see, for example, Hasseldine & Kaplan,1992; Erard and Feinstein, 1994a). In keeping with this approach, others such as Hite (1989) have suggested more positive help for taxpayers. There are many different possible methods of achieving this - such as incorporating specific messages which have been shown might increase compliance for targeted groups of taxpayers (Hite, 1997) or the use of television to change taxpayers' attitudes towards fairness and compliance (Roberts, 1994). The truth, of course, is likely to be found in some combination of these approaches.

Some people might be amoral and totally materially driven in which case some incentives and penalties might be usefully applied. However, the majority of people seem to exhibit at least some evidence that they respond to social and other values and successful tax compliance policy will take account of these. The danger is that the unnecessary application of penalties might provoke taxpayer resistance and undermine compliance behavior on the part of otherwise responsible citizens. This would seem to be the basic question for tax compliance policy in an era of self-assessment.

The dependent variable of interest in tax compliance is actual tax behavior but often the process of negotiating access to real taxpayers is difficult, as tax agencies must maintain strict confidentiality rules. However confidentiality rules do not mean that experimental research in taxation can not proceed and there are a handful of interesting examples that reflect the closer co-operation that tax agencies are having with academic researchers.

The Minnesota Department of Revenue together with a team of external experts (see Blumenthal, Christian & Slemrod, 2001) conducted an experiment in 1995 using alternative strategies to improve voluntary compliance with the state income tax. These strategies included: increased auditing of returns with prior notice to taxpayers, enhanced services to taxpayers, information messages in letters sent to taxpayers, and a revised simple tax return. Through the use of a strong research design (e.g. use of control groups, between-subjects design), and the use of actual taxpayers (not a convenience sample of adults or students), statistical analyses were used to estimate the effects of the alternative strategies on reported taxes.

Alt's (1983) treatment of the evolution of tax structure stresses the role of administrative and compliance costs. He argues that it has become increasingly easy to collect taxes from organized business rather than from households, and that one explanation for the widespread adoption of the VAT is that it imposes compliance costs without raising administrative costs, through incentives for self-policing. Kau and Rubin (1981) focus on changes in the cost of collecting taxes, and successfully relate growth of the U.S. federal government to reasonable correlates of collection cost, such as the literacy rate, the extent of female labor force participation, and the extent of the agricultural sector. Balke and Gardner (1991) contend that declining marginal collection costs can explain the stepwise growth in the size of government and the changes of taxation observed in the U.S. and U.K. They argue that major wars coincide with permanent improvements in tax instruments and tax collection technology, which facilitated permanent expansions in government size thereafter.

Most economic analysis of taxation presumes that tax liability can be ascertained and collected costlessly. As a description of reality, this is patently untrue. There are costs incurred by the tax authority, which must establish and implement systems to manage all aspects of the taxes ("administrative costs"), the taxpayers who must comply with their obligations, incurring costs (often including professional advice and assistance) as they do, and by third parties to the tax remittance process, such as employers required to remit tax on behalf of their employees ("compliance costs"). Of course, these are not the only resource costs that tax systems incur. Indeed, most of modern economic analysis is concerned with a third category, sometimes called "distortion" costs, that arise because tax systems alter relative prices and induce individuals and companies to make decisions based on tax-distorted relative prices. For this reason, a society's endowment of resources is not put to its best use, certainly a cost. The distortion costs are not independent of the administrative and compliance costs, as we'll see later.

2.2.1 Theories on Tax Compliance, Tax Avoidance and Tax Evasion.

(i) Tax Compliance

Theoretically, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another. This means that tax payers need to provide correct information to the tax authorities at the right time and accurately file return to reflect the correct tax liability

Brown and Mazur (2003) explained tax compliance as a multi-faceted measure and it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. However, Organization for Economic Cooperation and Development (2001) advocates divided compliance into categories in considering definitions of tax compliance. These categories are administrative compliance and technical compliance; where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax. Tax compliance can be measured basing on filing of tax returns, payment of taxes due on due dates, accurate determination of tax liability among others (Brown and Mazur, 2003)

In Tanzania the tax compliance requirements according to the income tax laws relating to businesses are:

(i) Keeping of up to date books of account by businessmen.

(ii) Acquiring of Tax Identification Numbers (TIN) by all potential taxpayers,

(iii) Determining the taxable income according to the stipulated rules and regulation,

(iv) Accurate determination of tax liability,

(v) Filing of returns on income by the prescribed date, and

(vi) Paying of tax dues by the prescribed date.

(ii) Tax Avoidance

Tax avoidance is the practice and technique where by a taxpayer arranges his business affairs such that he pays little or no tax at all but without contravention of the tax laws. It takes advantage of any loopholes and weaknesses, deficiencies and loose or vague clauses in the tax legislation to minimize or eliminate tax liability altogether.

Tax avoidance is not punishable in law. Where the tax authorities detect the practice the only solution is to amend the law in order to plug the loopholes and weaknesses in the laws that allow the possibilities of tax avoidance. It is for this reason the practice of tax avoidance is sometimes considered as legally allowed. However this does not mean that the tax authorities will allow the practice.

Section 35 of Income Tax Act 2010 defines tax avoidance arrangement be arrangements such that;

(i) One of the main purposes of which is the avoidance or reduction of liability to tax of any person for any year of income;

(ii) One of the main purposes of which is prevention or obstruction in collecting tax; or

(iii) Where the main benefit that might be expected to accrue from the arrangement in the three years following completion of the arrangement is

(iv) an avoidance or reduction of liability to tax of any person for any year of income; or

(v) prevention or obstruction in collecting tax, but excludes an arrangement where it may reasonably be considered that the arrangement would not result directly or indirectly in a misuse of the provisions of this Act or an abuse having regard to the provisions of this Act, other than this section.

(iii) Tax evasion

Theoretically, tax evasion can be described as the activity of taxpayers in which they intentionally breach the tax laws for the purpose of escaping tax payments that has been indisputably inflicted by the tax authority. It involves a taxpayer's deliberate contravention of the tax law(s) in order to minimize or eliminate tax liability altogether (pay little or no tax respectively by breaking the law). (*http://www.taxation-tz.com*online 25th July 2013).

2.2.2 Relationship Between tax avoidance/evasion and government revenue

Every patriotic citizen has a desire to strengthen one's society. It is a public duty to make tax payment and they also try to fulfill their desires by making tax payments to the government because taxes are the major sources of income for government and government use this money to provide services to general public such as defense, public utilities, transportation, education, roads etc. But tax avoidance and tax evasion also exist and considered as major problems in the government that create interruption in the working of government to provide the services to general public. These two evil spirits have generated a gap among probable and actual government revenues. Government has protested against these two above mentioned evils for number of times but corporations and all other persons whose income is taxable, they make use of the tax avoidance strategies to get away or curtail the taxes or they willfully employ fake techniques with the support of the tax officials to evade the total tax. (Muhammad Akram etal 2004).

2.2.3 Reasons of Tax Avoidance and Tax Evasion.

Theoretical foundations and coherent analysis is required to shed led on taxpayers' attitudes and the economic and behavioral determinants of tax compliance. Strategies to gather such information need to be embedded in sound theory. An understanding of the compliance literature is an important starting point. Models and theories of taxpayer behavior, including the decision whether or not to pay taxes, tend to reflect one of five 'schools of thought' that can be referred to as economic deterrence, Fiscal exchange, social influences, comparative treatment and political accountability. These are to some extent interconnected and some represent an evolution of others.

(i) Economic deterrence

Economic deterrence, or coercion, is the focus of the classical tax evasion model which assumes that the taxpayer's behavior is influenced by factors such as the tax rate, determining the benefits of evasion, (Allingham and Sandmo, 1972. The economic deterrence model relies upon a wide range of major assumptions that are generally unrealistic for determining behavior. The problem is that one of rational decision making under uncertainty whereby tax evasion either pays off in terms of lower taxes or subjects one to sanctions. This implies that if detection is likely and penalties are severe few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high.

The model then predicts substantial noncompliance. Andreoni et al. (1998). It is assumed that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference (McKerchar and Evans, 2009).

The model has also been criticized by focusing exclusively on the coercive side of compliance, at the expense of the consensual. For instance, empirical data from the US and Scandinavia reveal that taxpayers pay much more tax than what could be accounted for even by the highest feasible levels of auditing, penalties and risk aversion. The question therefore has switched from "why do people not evade taxes" to "why do people pay?" (Alm et al. 1992; Slemrod 1992).

In spite of this, the theoretical principles of economic deterrence have been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught. There is, however, some evidence to support the relevance of deterrence strategies to addressing non-compliance (McKerchar and Evans 2009).

For example, the fear of getting caught, or the probability of detection, has been found in some contexts to be an effective strategy to induce truthful behavior. On the other hand, 'moral' factors have also been found to influence this decision. These results suggest that the economic deterrence models have some relevance to compliance behavior, but that there are other influences also to be considered. Some of these are included in the fiscal exchange framework that we now turn to take closer look at.

(ii) **Fiscal Exchange**

The fiscal exchange theory suggests that the presence of government expenditures may motivate compliance. The proposition is well rooted in economics and political science (e.g. Cowell and Gordon 1988; Levi 1988; Tilly 1992; Slemrod 1992; 2003; Moore 1998; 2004). For instance, Alm et al. (1992) note that compliance increases with (perceptions of) the availability of public goods and services. They suggest that governments can increase compliance by providing goods that citizens prefer in a more efficient and accessible manner, or by more effectively emphasizing that taxes are necessary for the receipt of government services.

Accordingly, the main concern of taxpayers is what they get directly in return for their tax payments in the form of public services (quid pro quo). In this perspective, taxation and the provision of public goods and services are interpreted as a contractual relationship between taxpayers and the government.

Individuals may pay taxes because they value the goods provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute (Fjeldstad and Semboja 2001). A taxpayer may therefore be seen as exchanging purchasing power in the market in return for government services. The existence of positive benefits may increase the probability that taxpayers will comply voluntarily, without direct coercion. Levi (1988) refers to this as quasi-voluntary compliance since compliance is motivated by a willingness to cooperate, but is also backed by coercion.

It requires that citizens and businesses receive something from the government in return for the extractions government takes from them. It also means that compliance is always conditional. It will vary as governments vary in their performance, honesty, attention to due process, and other determinants of government reliability.

Without a material benefit, compliance becomes less assured. Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Richupan 1987).

It is then reasonable to assume that a taxpayer's behaviour is affected by his/her satisfaction or lack of satisfaction with his/her terms of trade with the government.

A main proposition of this analytical approach is that bargaining over taxes is central to building relations of accountability between state and society based on mutual rights and obligations, rather than on patronage and coercion (Braütigam 2008; Moore 2004).

This idea of bargaining and negotiation over taxes is central to the concept of a social fiscal contract. This is essentially about stimulating good governance at the interface between state and society, in response to the demands of citizens.

The fiscal exchange theory has received much attention and is well established theoretically. Empirical evidence to support the theory is, however, ambiguous (D'Arcy 2011). Timmons (2005) find a statistically significant and positive relationship between tax revenues (i.e. compliance) and government expenditures on social welfare in a cross-country analysis.

D'Arcy (2011) offers a possible explanation of the lack of sound evidence on fiscal exchange in the literature by suggesting that the analytical framework applied by researchers is too simplistic. The behavioral literature on tax compliance incorporates social and political motives to explain a sense of morale or social duty to pay taxes (Andreoni et al. (1998: 851)).

(iii) Social Influences

It is reasonable to assume that human behavior in the area of taxation is influenced by social interactions much in the same way as other forms of behavior (Snavely 1990). Compliance behavior and attitudes towards the tax system may therefore be affected by the behavior of an individual's reference group such as relatives, neighbors and friends. Therefore, if a taxpayer knows many people in groups important to him who evade taxes, his/her commitment to comply will be weaker. On the other hand, social relationships may also help deter individuals from engaging in evasion in fear of the social sanctions imposed once discovered and revealed publicly (Grasmick and Green 1980; Grasmick and Scott 1982). They also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection.

One of the most consistent findings about taxpayer attitudes and behavior in Western countries is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (Yankelovich et al. 1984). Evidence suggests that perceptions about the honesty of others may affect compliance behavior.

(iv) Comparative Treatment

Equity theory suggests that individuals are more likely to comply with rules if they perceive the system that determines those rules to be impartial (McKerchar and Evans 2009). Where there are perceived inequities, individuals will adjust their inputs to the exchange until fairness is restored. Based on equity theory, addressing inequities in the exchange relationship between government and taxpayers would result in improved compliance.

Citizens may not consider their relationship with the state in a vacuum where both parties are the only actors. Likewise, they may not think about their fellow citizens without considering their own relationship with the state. They may also consider how the state treats them relative to their fellow citizens. This judgment is likely to affect not only their judgment of the state, but also how they view their fellow citizens (D'Arcy 2011).

If the state treats certain groups preferentially, this may color the citizen's relationship with the state and the group receiving favors. A crucial variable is then not just what a person (or a business) gets from the state, but what the person (or business) gets from the state (and how the state treats the person) relative to those who are in the person's wider national community. This social psychology model highlights the importance of equity theory in the study of compliance and taxpayer behavior.

(v) **Political Legitimacy**

One strand of the literature emphasizes that higher legitimacy for political institutions leads to higher tax compliance (Torgler and Schneider 2007). Tayler (2006) argues that legitimacy makes "people feel that they ought to defer to decisions and rules, following them voluntarily out of obligation". Legitimacy could be described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, proper, just and work for the common good. According to the political legitimacy theory, tax compliance is positively related to perceptions about the government's, in particular the tax authority's trustworthiness (Tayler 2006; Kirchler et al. 2008; Fauvelle-Aymar 1999).

Persson (2008) argues that African countries that upon independence emphasized building national over ethnic identity have been more successful than those who allowed ethnicity to become the main animus of politics. She uses Botswana as an example of a state that succeeded in the construction of a national identity and Uganda as a case that failed to do so.

The lack of legal simplicity (such as tax law complexity) has been identified as the single greatest problem facing taxpayers and tax administrators and has many causes including drafting style, language, and volume. It is a perennial problem as taxpayers facing self-assessment require greater certainty. It also makes enforcement more difficult. However, tax law complexity does not just arise from the expression of the law but can occur because of the underlying policy in itself is complex. That is, the less complex the policy the greater the likelihood of being able to develop law that can be readily applied. Policy is the fundamental starting point or first stage in having a simple tax system.

Simple policy (or at least as simple as possible) needs to have clearly articulated objectives and be integrated with other aspects of the tax system. In developing policy, the application of the policy must be considered and this will require consultation with its intended users and drafters. Policymakers need to consider the volume of legislation and the rate of change as complicating factors and seek to minimize them (for example, by moving away from 'black letter' law). Simple policy then must then be.

Empirical studies conducted in other regions also find evidence that political legitimacy and national pride are important to tax compliance. There was a positive relationship between attitudes towards tax and trust in the government as well as national pride in Russia in the 1990s. Based on a study of 30 developing and developed countries. They found that tax compliance is highest in countries characterized by high control of corruption and low size of bureaucracy. (Alm et al 2005).

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behavior. Those factors which influence tax compliance and/or non-compliance behavior are differing from one country to another and also from one individual taxpayer to another, (Kirchler, 2007).

They include:-

(i) Taxpayers perceptions of the tax system and Revenue Authority (Ambrecht, 1998);

(ii) Peer attitude

(iii) Subjective norms;

(iv) Taxpayers' understanding of the tax system

(v) Tax laws (Silvani, 1992; Le Baube, 1992)

(vi) Motivation such as rewards (Feld, Frey and Targler, 2006) and

(vii) Punishment such as penalties (Allingham and Sandmo,1972); cost of compliance (Slemrod, 1992; Le Baube, 1992);

(viii) Enforcement efforts such as audit (Furnharn, 1983)

2.3 Empirical Review

Views of tax avoidance, evasions and compliance have been mixed in research literature. Evidences on the economics of compliance – especially on tax avoidance are found world-wide particularly in developed counties.

2.3.1 Reasons for Tax Avoidance and Tax Evasion: Reflections from Pakistan

Akram etal, 2004 found that economic development is essential factor for every country in the world and government services and public infrastructure are also required for economic development. Lacking in public service provisions subverts the efforts to increase people living standard especially in developing countries and slow down the economic growth. It has also observed that governments of many developing countries have failed to provide adequate public services due to many reasons. The most important of them is the lack of tax revenue.

(i) Tax revenue in a country serves as life blood for the government:

Whereas; the ratio between average revenue and gross domestic product (GDP) in developed countries was almost 35% in 2005, in developing countries, this ratio was almost 15%, while in third world countries tax revenue ratio was 12% of gross domestic product.

This gross domestic product (GDP) gap can be elucidated to some extent through this fact that demand increases more for public services as compared to the increase of demand for income. This phenomenon also shows that these countries are lacking in the ability to increase the tax revenue at required level to provide the sufficient public services. The political and academic debates have raised many issues regarding development aid and finance. Development aid and finance shows the ability of a country to finance the public sector which may undermine due to tax evasion and avoidance. On the other hand, it is also perceived that both tax avoidance and tax evasion are linked with shadow economy and Schneider and Enste (2000) reported that shadow economy is that economy in which people do not show their real income and taxable income that they have earned through legal activities including barter and monitory activities in order to avoid paying tax. (Akram et al 2004).

Lefebvre et al. (2011) conducted study in Netherlands, France and Belgium (Flanders and Wallonia) while examining the behavior of people. He compared the behavior of people regarding welfare dodging and tax evasion. Results indicated that: people adopt less evaded behavior in tax treatment than in welfare treatment; and people evade more tax in Netherlands and France but tax evasion is more in Flemish than Walloons.

Uadiale et al. (2010) conducted study in Nigeria while examining relationship between personal income tax evasion and cultural factors like religiosity, trust in government, and legal enforcement. Study found positive impact on personal income tax of trust in government and legal enforcement. However, no significant relationship found between religious variables and tax evasion in Nigeria.

Boylan and Sprinkle (2001) conducted study in which he tried to explore the behavioral determinants of tax evasion. He used experiment technique in order to acquire desired objectives such as to identify the factors that motivate the tax compliance and characteristics of taxpayers. Pommerehne et al. (1994) conducted study in order to recognize the determinants of tax evasion. They used the presence of grievance in absolute terms in their study. Results indicated that as the sentiments of grievance increased in absolute terms, the level of tax evasion also increased and the level of tax moral belief decreased. Fisher et al. (1989) also examined the behavior of taxpayers in order to explore the behavioral determinants of tax evasion. He used random survey technique in order to acquire desired objectives like to identify the factors that motivate the tax compliance and characteristics of noncompliant taxpayers.

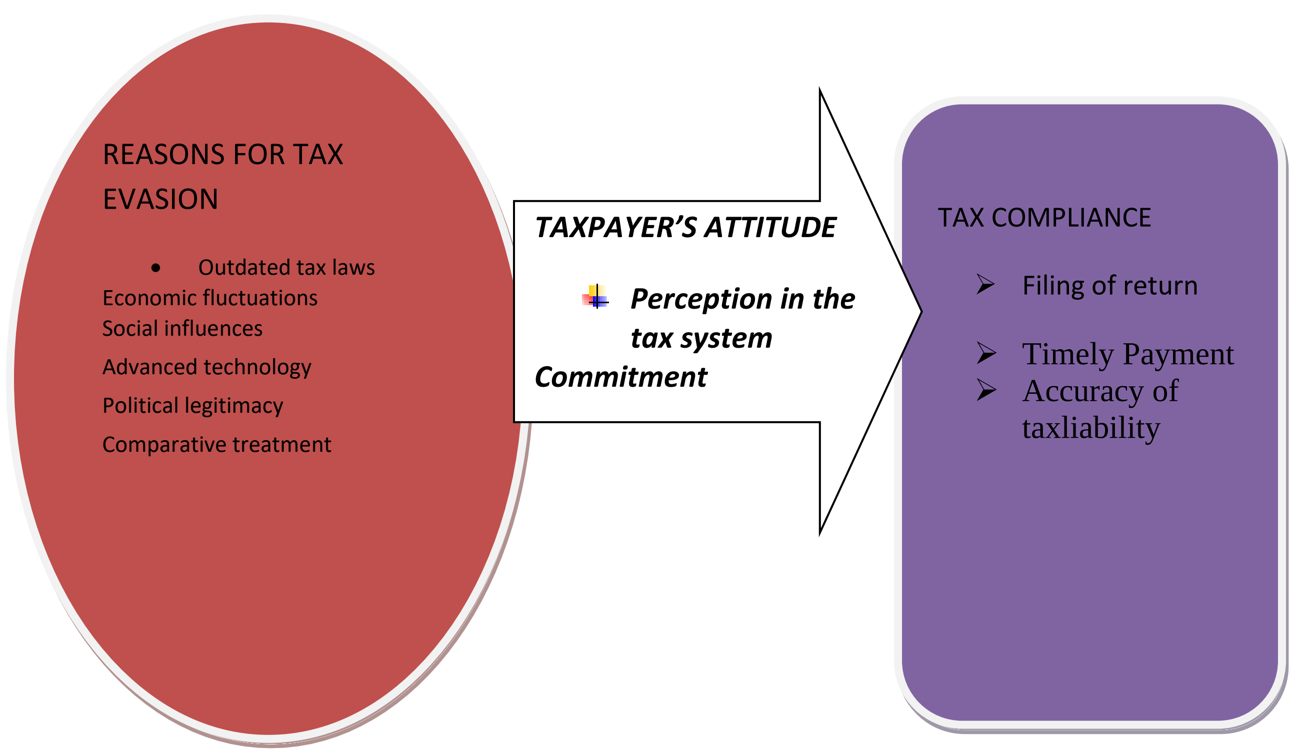
Compliance among Tanzanians firms is a catastrophe which needs a serious and effective look out. Otherwise the government of Tanzania will always lose as much as possible the income that should have been collected from the trading, manufacturing, extraction and other business firms in the country. As regard to the literature viewed above, it is obviously clear that, there is a big gap between what the tax payers are paying and what actually they were supposed to pay. Elites have wrote and talk much about the issue in broad and global perspective, but still governments are facing challenges on how they should improve compliance.

Practice shows that, tax payers are sometimes willing to pay the real amount required by the Government, the challenge behind the curtain is why they aren't paying. It should be taken in mind that, no any business person or firm takes tax as a heaven, rather they do so to ensure that they comply with the law, thus once a loophole happens to occur, they are ready to utilize it effectively. On the other end, the government is eager to collect the maximum possible amount of tax so as to facilitate its day to date functions. What should be done to make the two sides agree, the gap should be covered and this can only be done through serious studies and research findings. Academicians and all others concerned, have to work as hard as possible to find solutions necessary to fill the gap.

2.4 Conceptual Framework

The conceptual Framework is adopted from existing literature. The model explains the relationship between tax evasion (Independent variables) and , tax compliance (dependent variable) as it has been reflected in the works of Lumumba, Migwi and Obara (2010), Bird (2010), Wenzel (2004), Murphy, (2004),Tyler (1997), Vogel (1994), Baurer (2005) .

However the researcher's own modification has been put to make it clearly understood to meet the taxation system of Tanzania done by TRA. The following conceptual Framework was used to guide the study on and easiness to attain a clear illustration of the study on the conceptual framework.



Source; Researcher's own design (2013)

This design was for descripti

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This section discusses the method and procedure that were employed in carrying out the research and it also discuss the research design, study population, sample size and sampling design, research instrument, reliability of the instrument, method that will be employed for data analysis. It expresses the modality and the means and ways with which data is going to be collected and analyzed. 'Research methodology is a way of systematically solving the research problem' (Kothari, 2004).

3.1 Research Design

The study will use a cross sectional design. In addition descriptive research design which is analytical in nature will be used to establish whether the changes in the independent variables affect the dependent variable. Correlation and Regression approaches will be used to investigate the relationships between the variables of study. This is because the objective is to examine the relationship between these variables.

3.2 Study Population

The researcher involved a list of all 432 large taxpayers who were randomly sampled. It has been a success that the group of the selected Large taxpayers helped to identify the real reasons which hinder tax compliance in the country, as it reflected professional staffs that provided realizable data rather than complex and unreliable information. Nevertheless, the research considered a potential groups of the multinationals companies, thus they have ideas and concepts from other tax territories which has helped to provide a concise research solution.

3.3 Sample Size

Sampling is the act, process, or technique of selecting a suitable sample, or a representative part of a population for the purpose of determining parameters or characteristics of the whole population.

A researcher selected a sample of 60 large taxpayers from a population of 432 taxpayers. Stratified random sampling which is a probability sampling technique in nature (whereby the decision on which element should be included or excluded in the sample is not under control of the researcher)was used to select taxpayers to be included in a sample.

Selection of sample involved the general idea on how data was collected, analyzed and interpreted in relation to the aim of conducting the study. The researcher used case study design where the answers to the research questions were obtained through observation and questionnaire for all activities involved in assessing tax compliance in Tanzania. The study helped the researcher to come up with solutions, which can be used by the revenue collection authority in the country to modify and update the tax laws and procedures to make revenue collection targets achievable.

The researcher selected respondents from within authority and outside authority who have a taxation or accounts/ economics knowledge to make up a sample rather than considering a whole population. It was cheaper to monitor a sample rather than a whole population. The researcher believed that a selected sample was a true representative of the population therefore the data collected reflects characteristics of all taxpayers.
The sampling technique also simplified data collection and enabled the researcher to get reliable information.

3.4 Sampling Technique

The study used stratified random sample technique. As said earlier, this is a probability sampling technique in which item to be included in a sample is out control of the researcher. This technique was appropriate because the LTD department does not constitute a perfect homogeneous group. Taxpayers are enrolled whom are of different activities and operating not on the same region varying from manufacturing of edible and non-edibles, mining, gases and construction, financial institutions and pension funds as well as other categories that falls not on any of the mentioned ranges. Knowing the importance of including all categories in a sample, a researcher paid a personal visit to some taxpayers in each category and within LTD to obtain her sample

3.5 Types and Sources of Data

3.5.1 Primary Data

Primary data is a type of data which is collected in a first insight. The sources of primary data are questionnaires, interviews and observations.

(i) Questionnaires

The researcher used questionnaires (closed and open ended) that were administered to the selected sample in order to obtain required information. Close-ended questions were prepared in the form of multiple choices and in open-ended questions the respondents were required to fill in the vacant space by giving their views. The researcher employed this method due to its time conservative nature, less costs and easy to administer. For example during research work, the questionnaires were distributed and after 10minutes they were all returned to the researcher.

(ii) Observation

This method involves a physical presence of the researcher on field. It mainly involved sight or field visit to gather data. The researcher was able to conduct field work to some taxpayers in manufacturing industry so as to get first-hand information on compliance issues. During research, the researcher was looking at the procedures being performed by the tax officers in large taxpayers such as computing the taxable income and the tax liability thereon as per the existing regulations. Also she was able to observe how interests and/ or penalties were imposed to those who failed to comply with the laws such as understating of the tax amount. The researcher used both participatory observations where she participated in the activities being performed and non-participatory observation where she didn't participate in the activities being performed, rather she just watched. The researcher for example observed how the taxpayer and their tax consultants calculate the tax liability and compare with the way tax auditors do and come up with the idea of where the gap between the same occurred and why.

The researcher decided to use this data collection method because some important information cannot be obtained in papers; they need to be explored from field and experience.

(iii) Interviews

This is conversation, direct interactions and contacts between the researcher and respondents for definite purpose other than satisfying in the conversation itself. This method gives flexibility as it has the opportunity to restructure question. Also the use of interview was highly successful due to high response rate. More clarifications were given to the respondents in case they didn't understand the study under investigation therefore, increase perfection.

Thus the use of this technique helped the researcher to secure the detail information and the problems under investigation. This technique was very crucial in getting answers to questions, which needs more explanation, in which might not be given in case of using questionnaire.

3.5.2 Secondary Data

The secondary data were obtained from LTD Department. Data which involve the number of auditors working in the department and who have the experience of at least two years Furthermore, research reports, journals, newspapers, and information from the internet were useful to second the primary data in this study.

3.5.3 Data analysis techniques

After collecting the data, they were edited, coded and checked to have the required quality, accuracy and completeness. Then data were analyzed and presented. Correlation analysis tools including cross tabulation and chi-square tests were carried out to establish the strength of the relationship between variables. Multiple Regression analysis was used to determine how the predictor variables could explain the dependent variable. The data were presented in Liker scales ranging from 5 – strongly agree to 1 - strongly disagree.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1 Overview

In this chapter, the findings of the study are presented in line with the study objectives. The main purpose of this chapter is to provide detailed information on the respondents who are of tax compliance and avoidance. Their awareness was studied. The chapter is divided into three sections. Section one is the demographic and socio-economic characteristic of respondents. Section two is basically for the presentation of the findings, while Section three will specifically major on the discussion of the presented findings.

The research was guided with the following questions in achieving the objectives of research.

The causes for tax evasion, tax avoidance and a low compliance to tax in Tanzania, the impacts of tax evasion for the tax collections in Tanzania and, ways to be used so as to improve tax collection in Tanzania

4.2 Demographic and Economic Characteristics of respondents

The study majored on the educated and experienced auditors within the department in relation with their age. It based on this class due to its essentiality in determination of the problem of the research. Most of them are those who are directly connected to the problem in question.

4.2.1 Age

The study was interested in knowing age of the respondents as it has an impact on the decision of the respondents. Majority of respondents were young men while only few were of the older age as indicated under Table 4.1 and Figure 4.1.

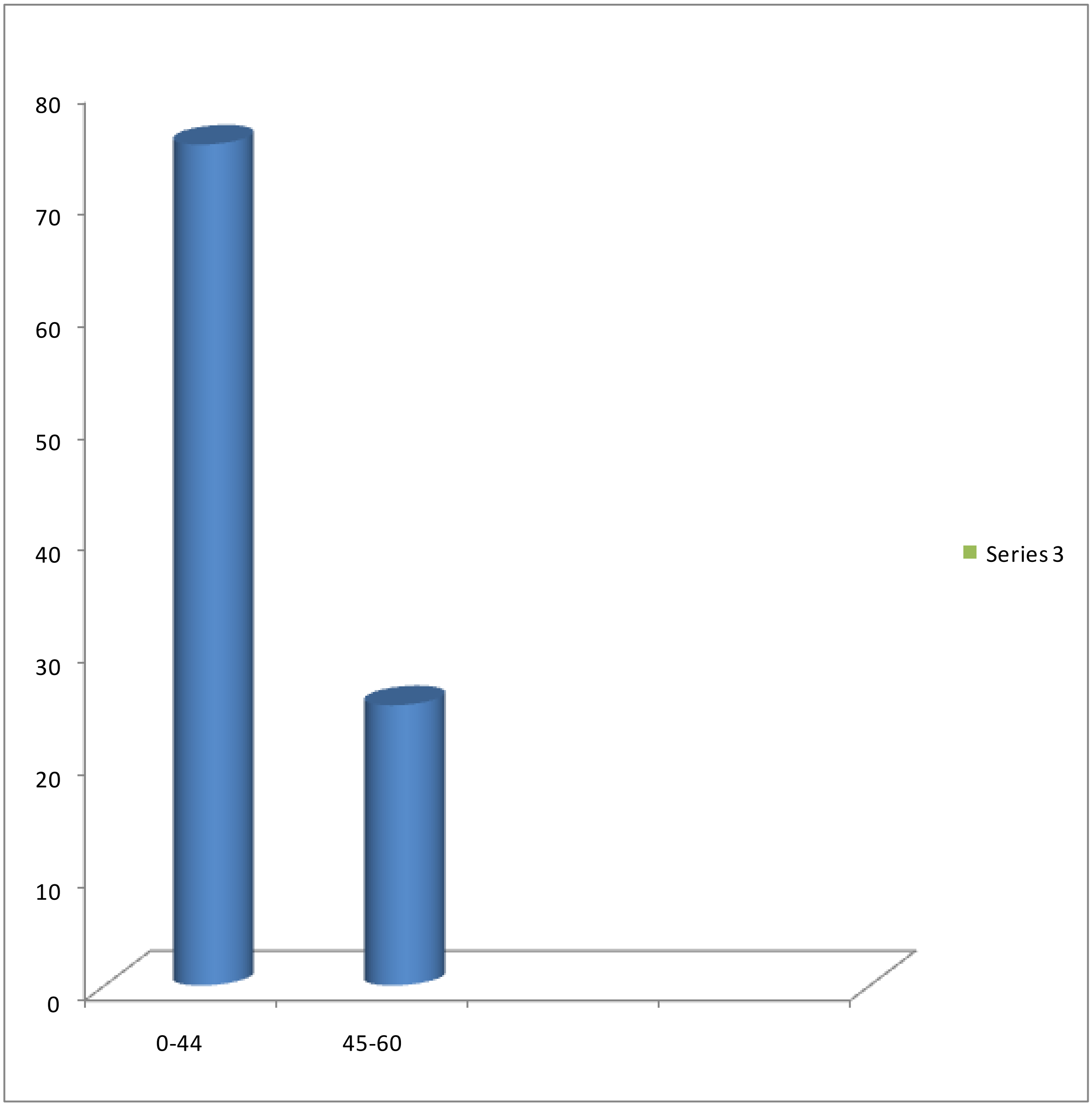
Table 4.1: Summary of age of respondents

Age Group (Years)	Frequency	Percentage (%)
18-44	45	75
45-60	15	15
Total	60	100

Source: Field work, 2012

The Figure 4.1 shows that majority of the respondents were the young people. This is an indication that the young people are eager to understanding of the tax issues of the country compared to the older class.

Figure 4.1: Percentage of response age wise



Source: Field work, 2013

4.2.2 Sex

Sex is a crucial factor in considering the decision of the responses. In the collected questionnaires and the focus group discussion, the research realized that, majority of men replied in contrast to women. About 80% of the respondents were men leaving the other sex to be only 20% as summarized under Table 4.2 and Figure 4.2 below.

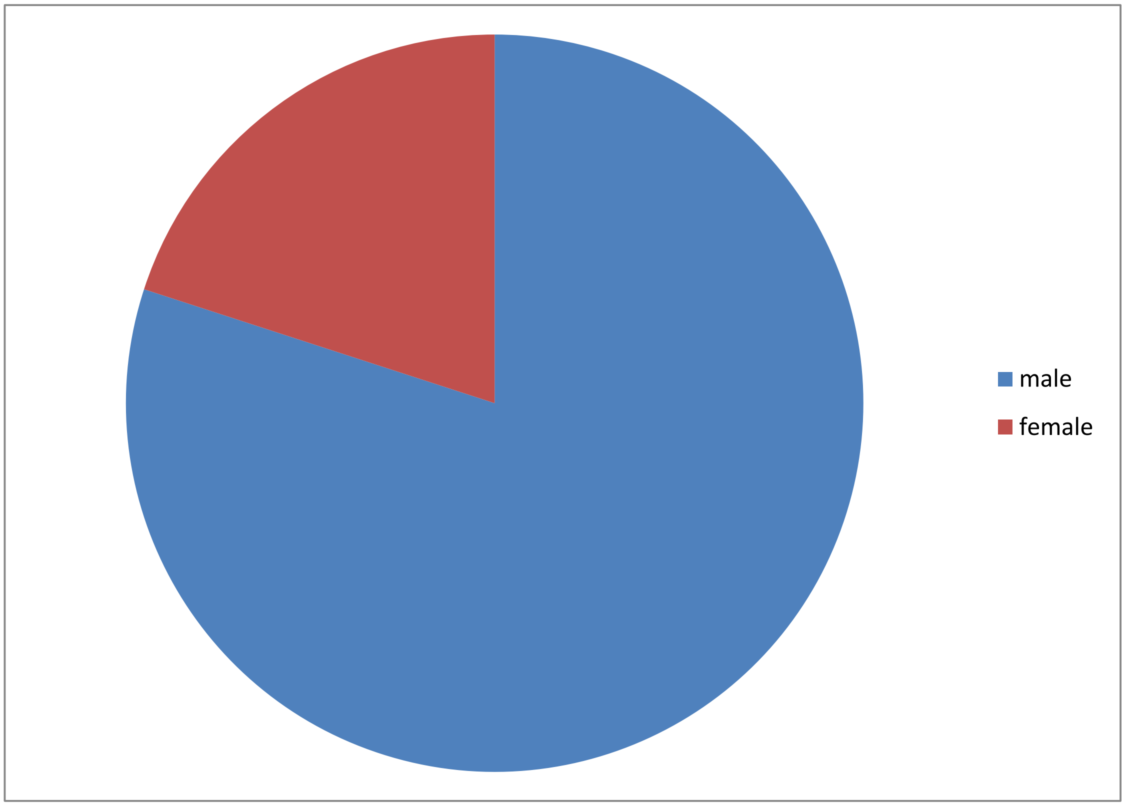
Table 4.2: Summary of responses sex-wise

Sex	Frequency	Percentage (%)
Male	48	80
Female	12	20
Total	60	100

Source: Field work, 2013

The analyzed data when plotted on the Pie chat showed that male response was higher compared to ladies. This is an indication that, male are more affected with tax implication in their income.

Figure 4.2: Percentage of responses sex-wise



Source: Field work, 2013

4.2.3 Education Level

As indicated above, the target groups were in mostly one degree holders. In their collected responses, majority of them indicated to be first degree holders with professional certification such as Certified Public Accountants (CPA's) while others are above that qualification as shown under Table 4.3 below and Figure 4.3.

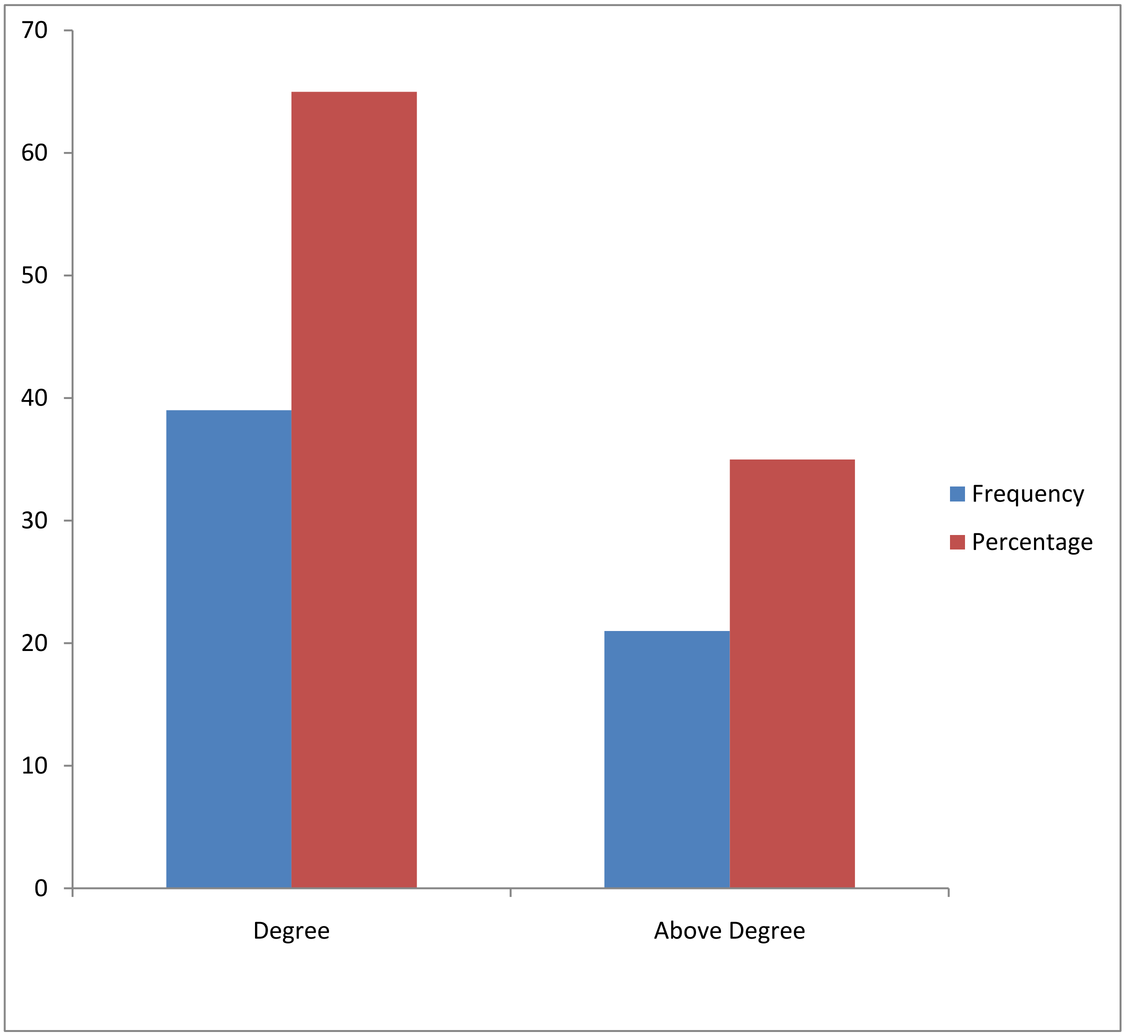
Table 4.3: Summary of education level of respondents

Education Level	Frequency	Percentage (%)
First Degree/Advance Diploma	39	65%
Above First Degree	21	35%

Source: Field work, 2013

Graphical presentation of the conducted respondents shows that, majority of them had at least a degree or above. According to the analysis done and plotted on the bar chat below; the research revealed that, degree holders were aware of one or two issues on minimal tax compliance.

Figure 4.3: Education level of respondents



Source: Field work, 2013

4.3 Findings

The research aimed to determine reasons for large taxpayers not to fully comply with the existing laws and regulations in Tanzania, despite all the efforts employed by the Tanzania Revenue Authority to ensure that they comply. It came to the researcher's understanding that, among other reasons, below are the main causes.

(i) Poor Law Interpretations

Most of the tax payers have low understanding in interpreting and applying the existing laws. The research revealed that, the taxpayers do just read the tax laws and apply them the way they are, this keeps them out of the spirit of the law hence fail to comply appropriately. By interviewing them the researcher learnt that, majority of them do need more skills on how to interpret and apply the tax laws. Respondents argued that, most of the accountants and tax advisors used by the taxpayers in computation of the tax liability have only the basic tax laws skills which are not sufficient to meet the requirements of the law. Others argued that the law is complicated to fully comply.

In most cases, taxpayers fail to comply with the law, simply because they do not know what should be included in the tax base and what should not be. A good example highlighted during the focus group discussion, was the computation of the income tax and employment tax. Taxpayers do read line by line, which in real fact does not exactly express what to include where and how to include it. Many are unaware of what constitute the cooperate tax, Pay As You Earn (PAYE) and other taxes. In some cases, they do feel that they are right but when the tax assessors come, is when they understand that they are out of the law concept or sprit.

(ii) Economic Fluctuations

After a group discussion between the taxpayer and the researcher on the issue of economic fluctuations, it came to the researcher understanding that, some tax payers just fail to meet the tax authority requirements due to their economic position at the assessment date. They happen to not comply with the provisions of the tax laws regarding the due dates for the payment of the assessed amount. The respondents informed the researcher that some taxpayer do not pay taxes in time for they happen to use that amount to keep running their business , in so doing they do not meet the due dates hence fail comply with the tax authority procedures.

(iii) Lack of Motivation

During group discussion, some taxpayers argue to lack motivation from the government. They argue to have been complying but nothing has been done by the government to ensure that it encourage them to self-compliance. Some extend to mention that, they are de-motivated by the way their hard earned money is poorly spent.

(iv) Unfaithful Taxpayers Staffs

The analysis of administered questionnaires revealed that, some of the staffs employed by the taxpayers are not faithful; instead they do contrary to the law so as to impress their shareholders and the owners of the company by declaring higher dividends and reporting higher profits. When interviewed, the same argued that, doing so will help them to be promoted and offered bonuses by their heads.

(iv) Complicated Tax Procedures

The interview conducted revealed that tax payers are annoyed with the existing tax procedures in practice. Some claimed that, it takes time and extra money to meet the TRA requirements, from submission of expected income to income tax payment. They proposed the procedures to be minimized as they lead to low compliance. Issues on tax audit was also raised, responses shows that taxpayers are annoyed with the fact that tax audit do always raise a liability, a fact which makes them to believe that they will never comply.

(v) Lack of awareness

The researcher conducted an interview aiming at studying the awareness of taxpayers in meeting their tax obligation. The interview conducted revealed that most of the taxpayers are not fully aware of their position in meeting their obligation of paying the right tax at the right time. Responses showed that, despite the fact that they are aware of the tax laws and its application, the taxpayers are still on the black side of the shilling on how and why to pay the tax. They just count it as normal laws that are there to be complied or not comply with, but unaware of its importance and significance.

(vi) Low enforcement

During the focus group discussion, most of the respondents revealed that, the authority has not shown enough efforts to enforce compliance especially in special sectors such as oil and gas, mining, telecommunication and banking industries. Speakers argued that, the government has not fully employed serious measures and sanctions to enforce compliance.

(vii) Low Technology

When conducting a research, the researcher observed that the technology used by the tax collectors in enforcing the laws is still poor. The research revealed that, the technology used by the tax authority in most cases is not updated to cope with the fast growing of the same used by the taxpayers and their consultants. The computers and programs applied by the tax collectors are too remote that in some cases they fail to track the real tax revenue that they are supposed to collect.

(viii) Industry Complication

Interviewing some tax collectors, it was revealed that some industries are so complicated to determine the taxation point. Industries such as oil and gas, Mining and Banking has been argued to be very complicated to know the taxing point hence posing a challenge to tax collectors who are low skilled in the area, hence making the tax collection poor. Interviewers revealed that, maximum tax collection can be attained if the tax collectors are given more training on how to tax the complicated industries.

(ix) Low Tax Base

Compliance could be attained if the tax base is broadened. Respondents of the questionnaires are optimistic that, if the tax base is widened to include some other areas which are not covered, the revenue collection will rise. Areas such as property tax collection is not fully covered a situation which makes the tax collection too poor and hence low compliance. Tax payers aired a view that, if this area and others are well covered, tax compliance in our country could be high and hence higher collection.

(x) Outdated Tax Laws

Respondents of the questionnaires highlighted out that, the existing tax laws are no longer competent enough to cope with today's environment. Technology and other developments make our law unable to fully cater all the income generated by the taxpayers. In the telecommunication industry, it seems that there are day to date developments which our law does not cover.

(xi) Minimum Punishment to Defaulters

During interviews, respondents showed fear on the suction and other punishments conferred by the government to non-complying people. The interest and penalty rates are so minimal that some taxpayers do not feel the pinch of it, hence un-afraid of its consequences. Responses indicated that, some tax payers prefer not to pay the exact amount of the required tax on time, hoping that the tax people will not identify the error and even if they do, they will pay the penalty and interest associated to it as it is minimal to affect their operations.

4.4 Discussion of Findings

This part will focus on analyzing and discussing the findings attained during the field work. The research digs deep through the findings and compare them with the real life and literature point of view.

(i) Capacity Building

The research identified that more capacity building has to be done by the Government through the TRA. A number of responses showed that, tax officers in one way or another, lack enough skills in dealing with multinational and corporate organizations, Oil and Gas Companies and Mining Companies. These companies needs special attention as most of them needs special skills and knowledge to determine the income to be taxed. The staffs are supposed to be equipped with extra knowledge and skill to enable them to tax the companies at the right income and right moment. Studies show that, these are special industries that most countries have been able to collect a significant amount of tax revenue. If the revenue from these industries is fully explored and collected, the nation will have abundant amount of revenue to allow self-budget financing.

However, the research noted some efforts which are being employed to accommodate the same. Large Taxpayers Department has organized a special team which specialized on the above mentioned industries to ensure that it accommodate the loosed tax revenue. This may rise the compliance level.

The research also revealed that, there are some staffs from the revenue authority that lack the appropriate skills in some of the accounting packages employed by some corporate tax payers. Accounting packages and other software employed by the tax payers are so current and modern that the tax collectors need to update themselves so as to be able to examine the right and appropriate tax payable by the tax payer. Accounting packages such as paste land tally among others do come in different version, which in some cases are more updated compared to the former versions. For this case the tax authority is liable of updating its staff on the same. Failure of which the tax payer may knowingly use the loophole to hide some of her revenues hence minimizing his/her tax base which results to low tax, hence low compliance.

On the other hand the tax people unknowingly may over or underestimate the tax payable by the tax payer, hence minimizing compliance. The study revealed that the tax people are obliged to make sure that they are doing frequent update on the systems either at their own cost or by the tax authority's expense. Further on, the research revealed that the tax authority is implementing the same through its tax institute (Institute of Tax Administration) and various short courses and trainings in and outside the country, though not satisfactory to maximize compliance.

The research does see the necessity of the TRA to enact some rules and guidelines on the changing of the accounting package by corporate companies. It's the research sprit that, the government cannot move at the same pace as done by the private sector in adopting the technological changes, hence it should set a time frame to study the specific systems that a particular company wish or is intending to apply before it allows it to apply. It came to my understanding that the Revenue authority has set out a number of plans through its corporate plans and one in place is to empower its employees through in and outdoor trainings. The authority has and is also trying to employ fresh college leavers, whom it believes are young, easily trainable and flexible to cope with the technological changes.

The authority through its various departments has been organizing indoor expertise and skill sharing among tax staff. A good example has been viewed in the large tax payers department where a morning sort of skill sharing has been implemented. Newly recruited and other staffs get a chance to share their skills and experience in tax collection. The department has also been adjusting its internal budget to allow training to some of its staffs outside and inside Tanzania. Taking in mind that this is the spearhead department and is the one dealing with multinational companies, it is the research sprit that the efforts will be effective and improve tax compliance in the country as a whole.

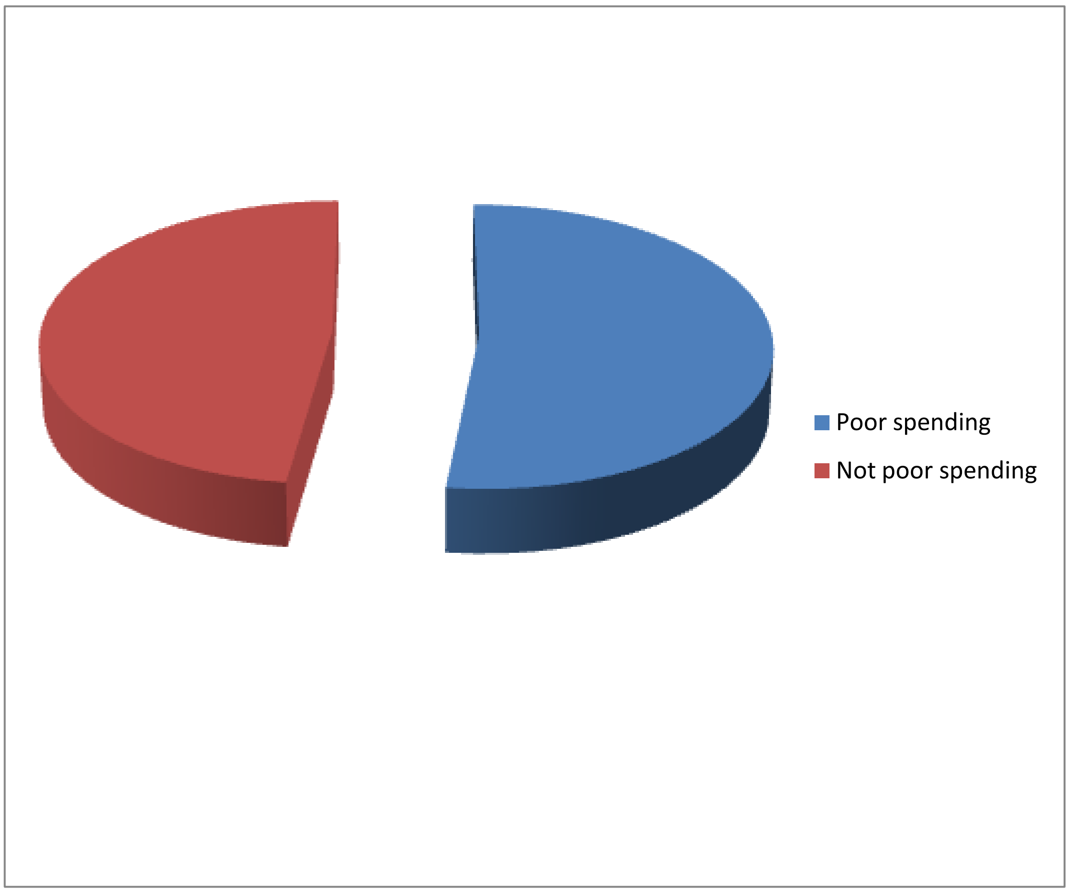
(ii) Poor Government Spending

Another factor found to be a catastrophe is poor government spending. It has come to the research attention that some of the tax payers do ignore paying taxes for various reasons. Among the respondents interviewed, some showed that the spirit of willingness to pay taxes without harassment cannot be avoided given the nature of our economy and the government itself. Most argued that the collected taxes are not serving them as required, a situation which make it difficult to comply. They went further to claim that, they struggle to earn the little they can attain but government people collect and spent them unpleasantly. About 55% of the respondent as shown in Figure 4.6 below claimed that, the government spending of their funds is unclear making it hard to release their hardly earned cash to the same easily. They argued to be paying the tax but unaware where the funds end, issues like poor infrastructure, poor education and health services among others were incorporated.

The research do indicate the importance of spending the tax money in visible projects such as Infrastructure, Good education and sanitation programs, so as to impact the spirit of self-compliance. It should also enact a concise and appropriate punishment to those who are seen to willingly evade the law. It should be taken in mind that, however the law, be it favorable or unfavorable, it should always be respected and implemented unless otherwise directed by the concerned body. People are always against the law, as the law is a command and nobody likes to be commanded.

Figure 4.4 indicates that, majority of the respondents are of view that government poor spending leads to low compliance. It indicates that compliance can be improved if the government spending is direct and admitted by the public.

Figure 4.4: Percentage of respondents who explained poor government spending of their funds as a cause for low compliance



Source: Field work, 2012

(i) Frequent Training and Awareness Programs

The study revealed that some companies and their employees are not fully aware of the existing laws and procedures, especially in applying them. Responses analyzed showed that majority of the tax payers do understand the law theoretically rather than practically. They know what the Law states but they do not understand its sprit. It is the government obligation to elaborate the spirit of the law to taxpayers and their employees or representatives through group discussions and interviews. It came to the research understanding that, there is a gap between what the taxman is saying compared to what the taxpayers are saying and this has been one of the causes of incompliance among the taxpayers.

The idea might be expressed as ignorance though it isn't, rather is the interpretation and applicability of the law. Instances like obligations and sometimes court cases revealed the truth. There are instances whereby taxpayers do object to the TRA assessments and either won or lost or even extend to the court of law. This is a clear indication that the two do differ in law interpretation and application, a situation which can only be solved by the government through the TRA who in one way or another are the tax law owners.

The government can do so by organizing seminars and workshops with the taxpayers or their representatives. This can help to improve and concise the taxpayers and taxman tax law interpretation, hence attain self-compliances towards the laws and its interpretation. It should be taken into account that the law is not static and since its first initiation, it has undergone various minor changes through the so called the finance act. These are new changes, which the taxpayers are not aware and even if they are, then to a low extend.

The taxpayers on their part are obliged to make sure that they update their staffs on new law changes and their application. These can be done by sending them to short courses at different institutions such as the Institute of Tax Administration (ITA) owned by the TRA and facilitated by people in tax practice. Other programs of skill improvements can be invitation of the taxmen to make elaboration and interpretation of some facts that the taxpayer may feel unaware. Taxpayers and their representatives should also be aggressive to know the changes that are taking place by frequently visiting the TRA and the Ministry of Finance websites.

Awareness programs are inevitable as tax payers are like kids who always demand to be reminded. It is true that every company would like to minimize or reduce the cash that moves out of their premises for tax purposes, but if the same are frequently reminded of their obligations to pay tax including the benefits they accrue from paying taxes, then they could voluntarily pay. Some governments have gone further to employ the Comedy people, who move from door to door of those who haven’t met their tax obligations. The situation embarrasses much, and forces the tax payers to ensure they pay the right amount of tax at the right moment to avoid the embarrassment, hence improving compliance.

Other modes that could be used are, Television Programs, Advertising through the media and Internet. The same should not only be on tax laws, but also advertising the best taxpayers and awarding them could in one way or another improve self-compliance.

Tanzania is a developing nation which has less or low experience on some specialized firms and multinational companies. The TRA staffs are well educated, but the skills and experience they possess is insufficient enough to properly administer international and specialized companies like oil and gas extracting companies.

Being the case, TRA has to incur more expense by attaching its staffs to developed countries out and inside Africa, especially those that have already exhausted the industry and are fully knowledgeable. The action will help the TRA staff to be more experienced in the industry and hence tax it accordingly.

Literature reveals that, apart from normal class skills, there is a need for experience in any field. For such a case, TRA staffs cannot avoid to seek extra practical skills at any cost. The Tax Authority should ensure that its staffs are acquiring the required skills at any cost, so as to boost the revenue generation, and hence meet the nation’s expectations.

(ii) Working Tools and Environment

The Government through TRA should ensure that it provides its staffs with the most current working tools such as computers and laptops with the most current possible programs which can accommodate the fast growing technology. It should be taken in mind that, different packages used by many tax payers are so complicated that, if the tax collectors haven't the most current technology and programs to assess them, then they may wrongly assess them.

The same should also motivate its staffs in many ways possible including provision of good salary and other packages. The authority staffs are meeting with taxpayer's representatives, who in some cases are well paid, for such a case, the same should also be highly paid to make them confident and ready to defend their nation's interest and avoid personal interest.

(iii) Revision of the Tax Laws

The existing tax laws are of a long time. The income tax so far in place was last issued in 2004, about nine years ago. This is a long period of time, taking into account the fast changes taking place all over the world in all sectors. The mining, manufacturing, agriculture, banking and telecommunication industries are growing at a high speed that the existing laws looks centuries back.

The government through the ministry of finance has been making a number of changes through the finance act which is presented almost every year. The same makes minor amendments to the existing laws, although it can't fully cover the gap. More changes should be done to ensure that the law covers all areas, in order to cater the whole amount of tax that should be collected by the government.

(iv) Sanctions and Punishments

Tanzania Revenue authority should revise the existing punishments on low or poor compliance of the tax law. If the sanctions are revised to be higher than they are, those taxpayers who are willingly not complying will stop their tricks. The same should extend to affect not only the taxpayer but also the taxpayers advisors.

The research shows that some of the taxpayer's advisors are poorly advising their clients so as to gain reputation. The main task of the tax advisors is solely to reduce the tax liability of his/her client; hence they do all things possible to ensure that the amount of tax declared is minimal. In some instances it works better to their side though in some cases it does not. For this case, if the government extends its punishment to the same, compliance will increase to a higher level.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

This study was assessing the causes of tax evasions and a low level of tax compliance in developing countries. It was inspecting the Tanzania's tax laws whether they offers a room for self-compliance among taxpayers. It went further investigating at which levels these tax laws have stimulate the taxpayers to comply. It was found that, our tax laws in one area or another do provide rooms for the taxpayers not to comply. This is to say, even if our tax laws do offer a room for taxpayers self-compliance, still their provisions are not imparted to its fullest to the point of cherishing taxpayers' self-compliance intention.

Also the study was assessing other environments that might have influenced taxpayers towards self-compliance and examining the confidence they have in facing business risks.

In addition, the study assessed the relationship that exists between tax evasion, avoidance and tax compliance to the taxpayers.

5.2 Conclusion

This study has found the majority of taxpayers in developing countries like Tanzania do not have self-compliance intention. The major reasons which contribute to incompliance are a tax evasion. The researcher went further to assess factors which causes taxpayers to evade from paying taxes. Some of these factors are such as economic deterrence, fiscal exchange, social influences, comparative treatment and political legitimacy.

In addition, the researcher assessed how the avoidance and evasion affects the government revenue as the targeted collection differs from the actual and hence affects various government projects and provision of social welfare.

Also the responses from various respondents pinpoint the following as the reasons to why taxpayers do not comply with the tax laws.

(i) Poor interpretation of law among taxpayers
(ii) Economic fluctuations
(iii) Lack of motivation to the compliant taxpayer
(iv) Unfaithful taxpayers' staffs
(v) Complicated tax procedures
(vi) Lack of awareness in respect to tax laws
(vii) Low enforcement
(viii) Law technology
(ix) Industry complications
(x) Low tax base
(xi) Out dated tax laws and
(xii) Low punishment (penalties and interests) to evaders

5.3 Recommendations and Policy Implications

This study aimed at assessing how tax evasion affects the taxpayers' compliance. Therefore the study recommends the following:

(i) In order to have full tax compliant there shall the taxpayers need to have a perfect knowledge in respect to tax laws. Therefore, the government through TRA shall conduct special programs in relation to taxpayers. This can be through television programs, seminars, trainings etc.
(ii) Also there shall be a stable economic in the country that will help taxpayers to be certain in their finance projections and tax estimates.
(iii) Motivations to the compliant taxpayers shall be provided to make other taxpayers see the importance of complying..

(iv) The government shall easy the tax procedure so that taxpayers will not feel wastage when they try to comply. There shall be a steady and easy way of filing returns and paying taxes by the taxpayers

(v) The government through TRA shall conduct strong enforcement programs to all taxpayers to determine their compliance in terms of filing and paying correct taxes. This may help to rise a compliance level

(vi) Lastly, there shall be stiff punishments to all evaders and non- compliant so as to discourage the behaviour.

6.4 Limitation and Areas for Further Studies

The findings presented in this study are a result of a case study conducted in one department of Tanzania Revenue Authority (Large taxpayers department). The major limitation of this kind of study is that they cannot be representative of the total population of the taxpayers administered by the TRA. In this case, there is a need for more studies in the country on the subject in other departments to enable generalization of the observations

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APPENDICES

Appendix I:

STAFF QUESTIONNAIRE

TANZANIA REVENUE AUTHORITY

STAFF QUESTIONNAIRE

I am conducting a research on causes of tax evasion and low level of tax compliance in developing countries- The Tanzania Revenue Authority case study and any information provided is solely for academic purpose and will remain confidential. I am grateful that you will cooperate with me by answering a set of questions designed to accomplish this research. Thank you for your time and eagerly hope for your cooperation.

SECTION A: IDENTIFICATION

Questionnaire Number………………… Name of Student……………………………

Date of interview………………………..Place/Venue………………………………

SECTION B: STAFF CHARACTERISTICS (enter the appropriate number)

1: What is your sex?

1. Male 2. Female

2: What is your age? Years.

3: what is your current position?

1. Assistant Tax officer 2. Tax officer 3. Senior tax officer 4. Principal tax officer 5. Tax assessor

4: Number of months/years in a current position ………………………………………

SECTION C: MAIN RESEARCH QUESTIONNAIRES (please fill as instructed)

1: Which reasons do you think cause large taxpayers not fully comply to the tax laws? (Please mention)

……………………………………………………………………………….

2: Do you think large taxpayers have enough understanding on the tax laws and procedures that do exist in Tanzania?

1. Yes 2. No

3: Do you think the existing tax laws and procedures are so complicated to the extent that taxpayers opt to evade or not complying?

1. Yes 2. No 3. I don't know

4: Do you think TRA (specifically Large taxpayers department) has done enough efforts to meet the skills and knowledge required by the taxpayers to comply with the tax laws?

1. Yes 2. No 3. I don’t know

Thank you for Your Time