

**TAXATION AND LOCAL GOVERNMENT PERFORMANCE
IN DAR ES SALAAM: A CASE STUDY OF KINONDONI
MUNICIPAL COUNCIL DAR ES SALAAM**

**By
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**A Dissertation Submitted to the School of Business In Partial fulfillment of the
Requirement for the Award of Masters of Science in Accounting and Finance of
Mzumbe University**

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation/thesis entitled **Taxation and Local Government Performance in Dar Es Salaam: a Case Study of Kinondoni Municipal Council Dar Es Salaam** in partial fulfillment of the requirement for the award of Masters of Science in Accounting and Finance of Mzumbe University

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DEDICATION

I dedicate this dissertation to my wife-Hellen Kessy Simba, my son-Victor Junior Simba, my Daughter Vivian Simba and to all my family members.

LIST OF ABBREVIATIONS AND ACCRONYMS

DANIDA-Danish International Development Agency

EFCC

FM Financial Memorandum

FOCJ Functional, Overlapping and Competing Jurisdiction

GDP Gross Domestic Product

IbidAs introduced earlier

KMCKinondoni Municipal Council

MOPMethod of Procedure-

OECDOrganization for Economic Cooperation Development

PAYE Pay As You Earn

PTProperty Tax

REPOAReport on Poverty Alleviation

SCG-SubCentral Government

SIDASwedish International Development Cooperation Agency

SOPStandard of Procedure

UNDPUnited Nation Development Program

URTUnited Republic of Tanzania

USUnited States

USA United-United States of America

VATValue Added Tax

ABSTRACT

The study examines the influence of taxation in local government performance. The three objectives examined include the factors affecting government performance, the relationship between taxation and local government performance together with the reason to why taxation and local government performance are related to each other. The information was collected by administering 60 questionnaires to the investors, Kinondoni Municipal staffs, tax collectors and tax payers. The data collected from the questionnaire were coded using the SPSS software package and the information was analyzed by using descriptive statistics and the regression analysis. The findings from this study were as follows. First, the findings revealed that taxation was the major factor affecting local government performance as compared to other variables. Secondly, the findings revealed that local government performance has significant relationship with taxation. Thirdly, the findings demonstrate in order for taxation to have the impact in the local government performance there should be a well managed tax collection system to enhance collection of more revenue.

The study recommends that KMC should create a coordinated taxation system that will enhance proper planning and implementation of various projects with spillover effects to the local community found in the area.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.0 Introduction

This chapter was covering the background of the study, the statement of the problem, the objectives of the study, research questions, scope of the study, and the significance of the study.

1.1 Background of the Study

The process of tax collection is one of the most powerful lenses in political economy to assess the distribution of power and the legitimacy of the state and of powerful interest groups in civil society Douglass (1981), for instance, defines the state in terms of taxation powers: ‘an organization with a comparative advantage in violence, extending over a geographic area whose boundaries determined by its power to tax constituents’. Long before that Burke remarked: ‘Revenue is the chief preoccupation of the state. Nay more it is the state’ (quoted in O’Brien 2001).

Recent statistics (OECD, 2009a) show that the average shares of sub-central governments

(SCG) tax revenue in the OECD countries, in 2005, is 11.6 percent of GDP, covering just above 33 percent of the general government tax revenue. Compared with the figures of a decade earlier (1995), there has been an increase of 2.1 percent of GDP and 1.8 percent of total tax revenue. For many countries, the changes have been negligible, with the most notable exceptions being Japan (+6.9 percent of GDP), Spain (+6.8 percent of GDP), Korea (+4.6 percent of GDP), and Poland (+3.8 percent of GDP). This slight increase of SCG tax revenue has been only a partial answer to the increase of the degree of expenditure decentralization.

Taxation is inherently political. In the early twentieth century Schumpeter (1918:1954) wrote: ‘Taxes not only helped create the state; they helped form it’. He also famously observed: ‘The fiscal history of a people is above all an essential part

of its general history'. Indeed, there is a long history of thinking in political economy and history that links the process of state building with the capacity of rulers to collect taxation (Tilly, 1990: Brewer, 1990). Moreover, the collection of tax not only requires substantial coercive power, but more importantly requires a state to be legitimate, since the vast majority of tax is collected when there is a high level of voluntary compliance (Levi, 1988). Thus, the manner in which a state collects tax is as, if not more, important than the levels of tax collected. High levels of coercion or even predation in tax collection are often signs of the illegitimacy of the state. Tax collection reflects basic core capacities of states to collect vast amounts of information, which is essential for the formulation of informed policy decisions

The administrative apparatus required to collect and monitor the information required to develop a tax base is one of the most challenging technical and political functions a state can undertake. Thus taxation has always acted as a key incentive for states to create competent bureaucracies in both local and central authorities (Levi, 1988)

In East Africa taxation was introduced by the colonial government following the establishment of East African High Commission in 1942. In the same year the colonial government created an autonomous East African Income Tax Department. Few years later the colonial government introduced the first East African Income Tax Management Act of 1958 and in 1962 a tax on employment emoluments under the system of Pay As You Earn (PAYE) was introduced to ease the assessment and collection of income tax on employment income.

However, taxation in Tanzania traces its roots in the Hut Tax that was introduced in the 20th century and was later transformed into Poll Tax in 1905 which was meant to raise revenue for the administration structure imposed by the colonial government on the natives. The first tax legislation in Tanzania was introduced in 1919 under the Local Authorities Ordinances and subsequently in 1939 Income Tax was introduced and was collected jointly with the tax from the governments of Kenya, Zanzibar and Uganda. The tax was mainly paid by the European and Asian residents who were in

business or were employed while the majority of natives remained tax-exempt since they were peasants (URT, 2002).

Tax collection in many countries including Tanzania helps local authorities be responsible in delivering public services, including primary education, healthcare services, local roads, water and sanitation systems, as well as agricultural extension services. It has been observed that these authorities depend on the power of central government seeking for grants and Aids to supply services to its people. However, councils also collect various taxes, fees and charges, and these locally-generated revenues are applied to the operational costs of councils and the allowances of elected councilors (REPOA, 2008)

Before 2003, the local tax system was characterized by numerous and complex taxes. Taxes were seen as unfair, with little transparency in revenue collection or disbursement. The flat-rate development levy (a poll tax) was regressive, while other taxes, such as market fees and dues, were variable and distorted the relative prices of goods (REPOA, 2008). Collection costs were high, tax evasion was widespread, and persistent public resistance to pay taxes threatened to undermine the legitimacy of local authorities. Recognizing these issues, the Tanzanian government rationalized the local tax system in 2003 and 2004. Principal reforms included abolition of the development levy and several 'nuisance taxes, as well removal of business license fees for enterprises below a certain size. This brief examines changes in citizen's perceptions about local taxation following these reforms (REPOA, 2008)

Therefore the reform which took place in 2003 and 2004 had enable Tanzania to follow a relatively "permissive" approach to local government taxation, meaning that local governments were given substantial latitude in coming up with their own local revenue structure. This open approach to local revenues was a major contributing factor to a highly fragmented local tax system. It was broadly felt that the fragmented local tax structure imposed an excessively high burden on local taxpayers (through high cumulative rates and high administrative costs) and caused an environment not conducive to economic growth. In addition to the collection and taxpayer compliance

problems caused by the lack of a uniform local revenue system, the absence of a uniform local revenue system also has hindered the systematic collection of data on local government revenues (REPOA, 2008)

Tax collection provides a useful (but neglected) lens to assess state authority and capacity to mobilize resources. It also provides a useful objective indicator of governance and legitimacy in the sense that tax collection requires a large degree of voluntary compliance (Levi 1988). In turn tax-collection capacity and the manner in which taxes are collected can give us important clues as to where polities lie on the spectrum between fragility and resilience

1.2 The history of Local Government in Tanzania/ Establishment of Kinondoni Municipal

The mainland Tanzania has a long history of functioning local government, starting with the Native Authorities Ordinance in 1926. There was a ten year break, as in 1972 the local government was abolished and replaced with a direct central government rule. The reintroduction of the local government occurred in the beginning of the 1980s (1982) when the rural councils and rural authorities were re-established. Local government Elections took place in 1983 and the establishment of functioning councils in 1984. In 1993 the one-party political system was abandoned and replaced with a multi-party system of government, the first multi-party elections taking place in 1995. Following the liberalization of the political field, was a major public sector reform, which included a Local government Reform Program me (LGRP). The LGRP covered four areas: political decentralization, financial decentralization, administrative decentralization and changed central-local relations, with the mainland government having over-riding powers within the framework of the Constitution (Shadrack, 2010).

This process of local government reform is still on-going. It aims to promote democratic, accountable and autonomous local government authorities, with wide discretionary powers and a strong financial base implemented by 2011(Shadrack, 2010).

Local Government (Urban Authorities) Act of 1982 [Act Number 8 of 1982] provides for the establishment, composition, functions and legislative powers of the urban based local government authorities (urban councils) in Tanzania. The urban council is comprised of the governing bodies for townships, municipalities and City Council (Commission).

Composition of a town council is provided for under section 24 of Act 8 of 1982. Township councils cannot have more than three members appointed by the local minister of government affairs. The council is comprised of members elected from the ward within the town and members of parliament representing constituents within the town [Section 24(1)]. The elected members then elect a chairman and vice-chairman for each town council.

A Municipal Council is made up of members elected from wards within the municipality; member of the parliament representing the constituencies within the municipality; not more than three (3) members appointed by the minister responsible for the local government affairs from among the residents of the municipality [Section 24(2)].

Section 8 and 25 (3) of Act No. 8 of 1982 provides for the establishment of City Councils. City councils are composed of one member elected from each wards within the city; the members of the Parliament representing constituencies within the area of the city council; and not more than three (3) members appointed from the residents of the city [section 24 (4)].

Each town council, municipal or city council has a Chairman, vice-chairman, Mayor and a Deputy Mayor respectively [Section 20]. The chairman and vice-chairman of a town council, and the Mayor and the Deputy Mayor of a municipal council and a city council, are elected by members of the councils from amongst the elected members of the urban authorities.

Section 47 of Act number 8 of 1982 provides for the establishment of the urban authorities committees who are in charge of finance and administration; economic affairs, health and education; and urban planning and environment. The city council shall establish such committees as may be determined by the minister in the order establishing it.

Kinondoni Municipal Council (KMC) was established as a Municipal Council by the local Government (urban authorities) act 1982 which merged & amended the municipalities' ordinance cap105 local Government ordinance cap 333 and urban council act no 11 of 1978. It was later established as an autonomous body by the Government Notice No. 4 of the year 2000, thus giving it the mandate to improve the quality of services provided to the people

The Municipality is bordered by the Indian Ocean to the North East, Ilala Municipal to the South, Bagamoyo District to the North, Kibaha District to the West and Kisarawe District to the South West.

According to the 2012 population census, the Kinondoni Municipality has a population of 1,775,049 people which includes 860,802 males; and 914,247 females with a growth rate of 4.1% per annum. Therefore it is estimated that KMC has a total population of 1,306,115, in the year 2007 with 624,872 female populations while 636,802 are males. The current average of house hold size is 4.0. The population density is 2,825 persons per square km influenced by natural causes and migration (birth rate and net migration rates respectively). The migrants are usually upcountry migrants seeking for employment opportunities in the city.

.As part of the Local Government Reform Program, KMC has been among the first 38 Local Authorities that participated in the phase one of the Local Government Reform Program (LGRP). The major purpose of the LGRP in Tanzania is to improve quality of services delivery to the public with focus to good governance, restructuring of the local government authorities, financial management, human resources planning and management as well as legal services through the

decentralization process. However, due to lack of proper taxation mechanisms has led to poor service delivery, inefficiency and ineffectiveness.

Therefore due to these reforms the importance of taxation towards local government performance is of importance hence it helps municipal such as KMC to provide and distribute needful software and hardware (physical and non physical) infrastructures to its constituency. Hence it is the subject which has been analyzed by the researcher of this study.

1.3 Statement of the Problem

The history of the modern state is the history of its revenue raising capabilities (Levi, 1988). Viable democratic institutions first evolved when state and society entered into contractual arrangements with each other over revenue through taxation. A major obstacle for accountable and responsive government in African countries is that states are relatively independent of their citizens for revenue.

The role of taxation in the public sector is more than maximizing revenue yield. If structured appropriately, local taxation empowers communities, enhances accountability, helps improve vertical imbalance problems, and overall, it improves the efficiency of the public sector. (REPOA, 2008)

The feasibility of own revenue generation at the rural local government level depends on local fiscal efforts and fiscal and non-fiscal supports of the national government. According to Iben Nathan (in Blair, ed., 1989)“local resources mobilization is the efforts of local administration to raise finances from a locality in order to fund activities within that area”. The size and freedom of the local government are considered crucial aspects that determine the structures and generation of revenue and adequacy of local finance.

In theory, it is argued that sizeable local governments in terms of human settlements and productive land area have better prospects of more revenue generation (Hye, 1985). But rural local government revenue generation in developing countries is

always a great challenge and the mechanisms by which local financial resources can be mobilized have raised some pertinent issues, like revenue raising ability, effects on economic efficiency, equity implications and administrative feasibility (Bahl, 1984).

Before 2003, the local tax system was characterized by numerous and complex taxes. Taxes were seen as unfair, with little transparency in revenue collection or disbursement. The flat-rate development levy (a poll tax) was regressive, while other taxes, such as market fees and dues, were variable and distorted the relative prices of goods (REPOA, 2008). Collection costs were high, tax evasion was widespread, and persistent public resistance to pay taxes threatened to undermine the legitimacy of local authorities. Recognizing these issues, the Tanzanian government rationalized the local tax system in 2003 and 2004. Principal reforms included abolition of the development levy and several 'nuisance taxes, as well removal of business license fees for enterprises below a certain size. This brief examines changes in citizen's perceptions about local taxation following these reforms (REPOA, 2008)

Despite the taxation reforms in 2003 and 2004 on local government revenue collection yet there is no research in Tanzania which has been conducted to see the influence of taxation towards local government performance. Therefore it is the duty of this study to find out about the influence of taxation towards local government performance and come out with strong recommendation on how taxation will result to increment in the provision of public services which are coming from the local government authorities.

Jansen (2007) revealed that the local government system of financing currently obstructs a visible link between public services and taxes. Taxes were found not to be an exchange for anything much except the administration cost. Citizen taxpayer's incentives to pay for these taxes are thus extremely weak. The lack of a hard budget constraint, weak incentives to collect taxes, and to pay for them, may lead aid and intergovernmental transfers to substitute for revenue collection. Since foreign aid is, as intended, mostly spent on public services.

Other literature sees that weak revenue administration, inadequate adjustments and assignments of local revenue sources including lack of union functionaries training become impediments on local revenue enhancement. It was also suggested that in the absence of valuation based tax assessment system, households housing pattern and literacy rate can be significant determinants in ascertaining annual average holding tax revenue while per capital household holding tax, remittances, agricultural land ownership, households having electricity connections can be used as significant variables to determine the taxpayers' ability to pay holding tax.

1.4 Objectives of the Study

1.4.1 General objective

The main purpose of this research is to determine the influence of taxation in local government performance.

1.4.2 Specific Objectives

- i.** To determine factor affecting local Government performance
- ii.** To establish the relationship between taxation and local government performances
- iii.** To find out the reason for the relationship established in objective (ii) above

1.5 Research Questions

- i.** What are the factor affecting local Government performances?
- ii.** What is the relationship between taxation and local government performance?
- iii.** What is the reason for the relationship established in objective (ii) above?

1.6 Scope of the Study

The study was carried in Kinondoni Municipal Dar es Salaam, Region. The reason for choosing the mentioned area was ample due to time limitation, limited budget for conducting the study, few year ago the researcher used to reside in Kinondoni since was familiar with social economic growth rate of Kinondoni Municipal thus, awareness about the area of the study. Easy to reach as many people who were randomly inclusive in the study. Furthermore, Kinondoni has been among the major municipal found in Tanzania with fluctuating growth rate and expansion of many immigrants from rural Tanzania. It was also preferred due to nature of the study and availability of enterprises such as manufacturing, telecommunication, fishing, and agricultural enterprises among others. Some of this institution has offices in Kinondoni see also figure 1.1

Figure 1.1 Sketch of Kinondoni Municipal Location



Source <https://www.google.co.tz/kinondoni>

1.7 Significance of the Study

The study is useful to policy makers helping them to effectively make good policies affecting the taxation system enhancing the development of local government performance by increasing and improving significant development infrastructure facilities such as roads, education facilities, health services and water services.

To tax payers if the system will be well established and individual would be impacted much education on the importance of tax payment this will eventually lead to expected development goals and resolve the problem of tax waivers.

Stakeholders will finally make good proposal on the taxation system and establish partnership program resulting into coordinated system of tax collection.

Future research also will have to review some of the important inputs to their study as a reference. Since the availability and increment of taxation research works in near future.

The public will be aware on the importance of tax payment to affect the performance of local government authorities in the provision and distribution of education and healthcare services, water and sanitary system services, built of good transport infrastructure altogether enhances the economic development of municipal councils.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents literature review which has been established with other scholars in different environmental context relatively to the subject matter of this study. Since the chapter presents definition of concepts, theoretical patterns, empirical factors, conceptual framework as well as the knowledge gap.

2.1 Definitions of Concepts

2.1.1 Local Government

Shadrack (2010) defines Local government as collectively to administrative authorities over areas that are smaller than a state. The term is used to contrast with offices at nation-state level, which are referred to as the central government, national government, or (where appropriate) federal government. "Local government" only acts within powers delegated to it by legislation or directives of the higher level of government. In Tanzania common names for local government entities include state, province, region, department, county, prefecture, district, city, township, town, borough, parish, municipality, shire and village.

However, the study passed through to review literature related to local government responsibilities effecting to its performance and the following are some review

The feasibility of own revenue generation at the rural local government level depends on local fiscal efforts and fiscal and non-fiscal supports of the national government. According to Iben Nathan (in Blair, ed., 1989), "local resources mobilization is the efforts of local administration to raise finances from a locality in order to fund activities within that area". The size and freedom of the local government are considered crucial aspects that determine the structures and generation of revenue and adequacy of local finance.

In theory, it is contended that a sizeable local government in terms of human settlements and productive land area have better prospects of more revenue

generation (Hye, 1985). But rural local government revenue generation in developing countries is always a great challenge and the mechanisms by which local financial resources can be mobilized

have raised some pertinent issues, like revenue raising ability, effects on economic efficiency, equity implications and administrative feasibility (Bahl, 1984).

Oates (1993) contends that “there are surely reasons, in principle to believe that policies formulated for the provision of infrastructure and even human capital that are sensitive to regional or local conditions are likely to be more effective in encouraging economic development than centrally determined policies that ignore these geographical differences” There is a great relationship between decentralization and economic growth and behaviour for economic fundamentals within the decentralized jurisdiction is a matter that remains an empirical issue and discussions must be country specific.

Kim (1995) quoted in Oates (1996) has shown that in his mode of explaining rates of economic growth, revenue decentralization that there are positive and statistically significant change, using a sample of countries. His results also shows that, other things being equal, more public revenue decentralization was associated with more rapid growth in GDP per capita during 1974-1989 period.

Prud’homme (1995) on the other hand, argues that decentralization can increase disparities jeopardize stability, undermine efficiency and encourage corruption. He maintains that local authorities, for example, have few incentives to undertake economic stabilization policies. The instrument of monetary and public revenue policies are better handled by the central government.

Oates (1993) opines a contrary view that the principles of centralization is costly because it leads the government to provide public goods that diverge from the preferences of the citizens in particular areas (regions, provinces, states, local governments). He also argues that “when these preferences vary among geographical

area, a uniform package chosen by a nation's government is likely to force some localities to consume more or less than they would like to consume.

According to Tanzi (1995) the interpretation of both Oates and Prud'homme assumes that subnational government levels already exist, hence the crucial problem becomes which of the existing government levels ought to be responsible for particular forms of spending.

The function of government can be divided into three-allocation, distribution and stabilization function (Musgrave 1959). Using this stratification, stabilization and distribution functions are expected to be under the periphery of the central government while lower government undertakes allocative functions. Hence, any spending and taxing decisions that will affect the rate of inflation, level of unemployment, and others are better handled at the centre, while other activities that will affect social welfare are more efficient if undertaken by sub national governments.

Local Government (Urban Authorities) Act of 1982 [Act Number 8 of 1982] provides for the establishment, composition, functions and legislative powers of the urban based local government authorities (urban councils) in Tanzania. The urban council is comprised of the governing bodies for townships, municipalities and City Council (Commission).

Composition of a town council is provided for under section 24 of Act 8 of 1982. Township councils cannot have more than three members appointed by the local minister of government affairs. The council is comprised of members elected from the ward within the town and members of parliament representing constituents within the town [Section 24(1)]. The elected members then elect a chairman and vice-chairman for each town council.

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The Municipality is bordered by the Indian Ocean to the North East, Ilala Municipal to the South, Bagamoyo District to the North, Kibaha District to the West and Kisarawe District to the South West.

According to the 2012 population census, the Kinondoni Municipality has a population of 1,775,049 people which includes 860,802 males; and 914,247 females with a growth rate of 4.1% per annum. Therefore it is estimated that KMC has a total population of 1,306,115, in the year 2007 with 624,872 female populations while 636,802 are males. The current average of house hold size is 4.0. The population density is 2,825 persons per square km influenced by natural causes and migration (birth rate and net migration rates respectively). The migrants are usually upcountry migrants seeking for employment opportunities in the city.

.As part of the Local Government Reform Program, KMC has been among the first 38 Local Authorities that participated in the phase one of the Local Government Reform Program (LGRP). The major purpose of the LGRP in Tanzania is to improve quality of services delivery to the public with focus to good governance, restructuring of the local government authorities, financial management, human resources planning and management as well as legal services through the decentralization process. However, due to lack of proper taxation mechanisms has led to poor service delivery, inefficiency and ineffectiveness.

According to (www.tanzania.go.tz) Local Government refers to authorities existing for the purpose of consolidating and giving more power to the people to competently participate in the planning and implementation of development programmes within their respective areas and generally throughout the country. These authorities are both urban municipality and rural township or districts.

Local government refers to specific institutions or entities created by national constitutions (Brazil, Denmark, France, India, Italy, Japan, Sweden), by state constitutions (Australia, the United States), by ordinary legislation of a higher level of central government (New Zealand, the United Kingdom, most countries), by provincial or state legislation (Canada, Pakistan), or by executive order (China) to deliver a range of specified services to a relatively small geographically delineated area (Shah and Shah, 2006)

Therefore due to the nature of this study local government is defined as urban or district authorities influencing people to competently participate in the planning and implementation of development programs within respective area and generally throughout the country also refer ((www.tanzania.go.tz))

2.1.2 Taxation

According to (<http://www.businessdictionary.com>) taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions. For example, reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results in greater construction activity, and generates more jobs.

Savy (2004) define taxation as a payment to support the cost of government. Taxation differs from a fine or penalty imposed by a government because a tax is not intended to deter or punish unacceptable behavior. Taxes are compulsory rather than voluntary on the part of the payer.

Tayebwa (2005) defined taxation as a legally compulsory transfer of money from the public to the government mainly as a source of government revenue enhancing the distribution and provision of healthcare, infrastructure development, water and sanitary service among others.

Samuelson & Nordhib (1999) defined taxation as a compulsory payment to the state by individuals and business enterprises like companies and cooperation.

Cooley (2010) defines taxation as the process or means by which the sovereign, through its law-making body, raises income to defray the necessary expenses of government. Expressed in another way, it is a method of apportioning the cost of government among those who in some measure are privileged to enjoy its benefits and must, therefore, bear its burdens.

Malcolm (2010) explains that taxation is the power vested in the legislature to impose burdens or charges upon persons and property for the purpose of raising revenue for public purposes.

Taxation is inherently political. In the early twentieth century Schumpeter (1918:1954) wrote: 'Taxes not only helped create the state; they helped form it'. He also famously observed:

'The fiscal history of a people is above all an essential part of its general history'. Indeed, there is a long history of thinking in political economy and history that links the process of state building with the capacity of rulers to collect taxation (Tilly, 1990: Brewer, 1990). Moreover, the collection of tax not only requires substantial coercive power, but more importantly requires a state to be legitimate, since the vast majority of tax is collected when there is a high level of voluntary compliance (Levi, 1988). Thus, the manner in which a state collects tax is as, if not more, important than the levels of tax collected. High levels of coercion or even predation in tax collection are often signs of the illegitimacy of the state. Tax collection reflects basic core capacities of states to collect vast amounts of information, which is essential for the formulation of informed policy decisions

The administrative apparatus required to collect and monitor the information required to develop a tax base is one of the most challenging technical and political functions a state can undertake. Thus taxation has always acted as a key incentive for states to create competent bureaucracies in both local and central authorities (Levi, 1988)

In East Africa taxation was introduced by the colonial government following the establishment of East African High Commission in 1942. In the same year the colonial government created an autonomous East African Income Tax Department. Few years later in the colonial government introduced the first East African Income Tax Management Act of 1958 and in 1962 a tax on employment emoluments under the system of Pay As You Earn (PAYE) was introduced to ease the assessment and collection of income tax on employment income.

However, taxation in Tanzania traces its roots in the Hut Tax that was introduced in the 20th century and was later transformed into Poll Tax in 1905 which was meant to raise revenue for the administration structure imposed by the colonial government on the natives. The first tax legislation in Tanzania was introduced in 1919 under the Local Authorities Ordinances and subsequently in 1939 Income Tax was introduced and was collected jointly with the tax from the governments of Kenya, Zanzibar and Uganda. The tax was mainly paid by the European and Asian residents who were in business or were employed while the majority of natives remained tax-exempt since they were peasants (URT, 2002).

Tax collection in many countries including Tanzania helps local authorities be responsible in delivering public services, including primary education, healthcare services, local roads, water and sanitation systems, as well as agricultural extension services. It has been observed that these authorities depend on the power of central government seeking for grants and Aids to supply services to its people. However, councils also collect various taxes, fees and charges, and these locally-generated revenues are applied to the operational costs of councils and the allowances of elected councilors (REPOA, 2008)

Before 2003, the local tax system was characterized by numerous and complex taxes. Taxes were seen as unfair, with little transparency in revenue collection or disbursement. The flat-rate development levy (a poll tax) was regressive, while other taxes, such as market fees and dues, were variable and distorted the relative prices of goods (REPOA, 2008). Collection costs were high, tax evasion was widespread, and persistent public resistance to pay taxes threatened to undermine the legitimacy of local authorities. Recognizing these issues, the Tanzanian government rationalized the local tax system in 2003 and 2004. Principal reforms included abolition of the development levy and several 'nuisance taxes, as well removal of business license fees for enterprises below a certain size. This brief examines changes in citizen's perceptions about local taxation following these reforms (REPOA, 2008)

Therefore the reform which took place in 2003 and 2004 had enable Tanzania to follow a relatively “permissive” approach to local government taxation, meaning that local governments were given substantial latitude in coming up with their own local revenue structure. This open approach to local revenues was a major contributing factor to a highly fragmented local tax system. It was broadly felt that the fragmented local tax structure imposed an excessively high burden on local taxpayers (through high cumulative rates and high administrative costs) and caused an environment not conducive to economic growth. In addition to the collection and taxpayer compliance problems caused by the lack of a uniform local revenue system, the absence of a uniform local revenue system also has hindered the systematic collection of data on local government revenues (REPOA, 2008)

Tax collection provides a useful (but neglected) lens to assess state authority and capacity to mobilize resources. It also provides a useful objective indicator of governance and legitimacy in the sense that tax collection requires a large degree of voluntary compliance (Levi 1988). In turn tax-collection capacity and the manner in which taxes are collected can give us important clues as to where polities lie on the spectrum between fragility and resilience

Therefore for the purpose of this study taxation is defined as a legally compulsory transfer of money from the public to the government mainly as a source of government revenue enhancing the distribution and provision of healthcare, infrastructure development, water and sanitary service among others see also (Tayebwa, 2005).

2.1.3 Grants

Grants are non-repayable funds disbursed by one party (grant makers), often a government department, corporation, foundation or trust, to a recipient, often (but not always) a nonprofit entity, educational institution, business or an individual. In order to receive a grant, some form of "Grant Writing" often referred to as either a proposal or an application is usually required.

Most grants are made to fund a specific project and require some level of compliance and reporting. The grant writing process involves an applicant submitting a proposal (or submission) to a potential funder, either on the applicant's own initiative or in response to a Request for Proposal from the funder. Other grants can be given to individuals, such as victims of natural disasters or individuals who seek to open a small business. Sometimes grant makers require grant seekers to have some form of tax-exempt status, be a registered nonprofit organization or a local government.

For example, tiered funding for a freeway are very large grants negotiated at government policy level. However smaller grants may be provided by a government agency (e.g. municipal government). Project-related funding involving governments, business, communities, and individuals is often arranged by application either in writing or online.

2.1.4 AIDS

Aid from the perspective of governments – a voluntary transfer of resources from one country to another.¹ Humanitarianism and altruism are at least partly an objective for the giving of aid. It may have other functions as well: it may be given as a signal of diplomatic approval, or to strengthen a military ally, to reward a government for behaviour desired by the donor, to extend the donor's cultural influence, to provide infrastructure needed by the donor for resource extraction from the recipient country, or to gain other kinds of commercial access.

Aid may be given by individuals, private organizations, or governments. Standards delimiting exactly the kinds of transfers that count as aid vary.

2.1.4 Policy

A **policy** is a principle or protocol to guide decisions and achieve rational outcomes. A policy is a statement of intent, and is implemented as a procedure¹ or protocol. Policies are generally adopted by the Board of or senior governance body within an organization whereas procedures or protocols would be developed and adopted by senior executive officers. Policies can assist in both **subjective** and **objective** decision making. Policies to assist in subjective decision making would usually assist

senior management with decisions that must consider the relative merits of a number of factors before making decisions and as a result are often hard to objectively test e.g. work-life balance policy. In contrast policies to assist in objective decision making are usually operational in nature and can be objectively tested e.g. password policy.

The term may apply to government, private sector organizations and groups, and individuals. Presidential executive orders, corporate privacy policies and parliamentary rules of order are all examples of policy. Policy differs from rules or law. While law can compel or prohibit behaviors (e.g. a law requiring the payment of taxes on income), policy merely guides actions toward those that are most likely to achieve a desired outcome.

Policy or policy study may also refer to the process of making important organizational decisions, including the identification of different alternatives such as programs or spending priorities, and choosing among them on the basis of the impact they will have. Policies can be understood as political, management, financial, and administrative mechanisms arranged to reach explicit goals. In public corporate finance, a critical accounting policy is a policy for a firm/company or an industry which is considered to have a notably high subjective element, and that has a material impact on the financial statements.

2.1.5 Procedure

A **procedure** is a document written to support a "Policy Directive". A Procedure is designed to describe Who, What, Where, When, and Why by means of establishing corporate accountability in support of the implementation of a "policy". The "How" is further documented by each organizational unit in the form of "Work Instructions" which aims to further support a procedure by providing greater detail. For example, a manufacturing facility established a policy that all overtime shall be approved. A procedure can be created to establish "Who" can approve overtime (ranks, roles & responsibilities), "What" forms/systems need to be used, "Where" they are located,

"When" overtime is applicable. And the "Why" refers to the management directive established via a "Policy". The output of a procedure becomes input into a work instruction which is a set of actions or operations which have to be executed in the same manner in order to achieve intended results under the same circumstances. (for example, in the latter example, the "what" [output of procedure] could be further broken down into a work instruction to describe "how" a manager/employee accesses the systems for approving/reviewing overtime, i.e. click on this hyperlink, on this button, and choose these fields, and click approve/reject. In telecommunications, this is the premise under which a SOP (Standard Operating Procedure) is generated.

A SOP is specifically designed to describe and guide multiple iterations of the same procedure over a broad number of locations, on multiple occasions, and over an open period of time until such SOP is updated for whatever reason, or discontinued. Used heavily in the telecommunications industry, a MOP (Method of Procedure) differs from a SOP in that it contains specific directives for that particular activity, on that particular date, for that specific location or piece of equipment. In today's business model, wherein telecom providers can be both "provider" and "user", most "user" organizations require a MOP from the service provider whenever an activity has the potential to cause a traffic-affecting outage. The industry standard is <50ms of traffic interruption. If a "switch hit" or traffic interruption is 50 ms or less, it is "transparent" to the bit stream carrying the traffic, and is therefore considered "hitless" and non-traffic affecting. (<http://en.wikipedia.org/wiki/>)

2.1.6 Human Resources

Human resources is the set of individuals who make up the workforce of an organization, business sector, or economy. "Human capital" is sometimes used synonymously with human resources, although human capital typically refers to a more narrow view (i.e., the knowledge the individuals embody and can contribute to an organization). Likewise, other terms sometimes used include "manpower", "talent", "labor", or simply "people" (<http://en.wikipedia.org/wiki/>)

2.1.7 Performance

Performance (includes activities which ensure that goals are consistently being met in an effective and efficient manner. Performance management can focus on the performance of an organization, a department, employee, or even the processes to build a product or service, as well as many other areas.

is also known as a process by which organizations align their resources, systems and employees to strategic objectives and priorities. (<http://en.wikipedia.org/wiki/>)

Daniels A (1970) describe a technology (i.e. science imbedded in applications methods) for managing both behavior and results, two critical elements of what is known as performance

2.1.8 Corruption

The World Bank uses a straight forward definition on corruption as 'the abuse of public office for private gain'.

Transparency International defines corruption as 'the abuse of entrusted power for private gain.' Read more

Danish International Development Agency (DANIDA) defines corruption as the 'misuse of entrusted power for private gain'.

Swedish International Development Cooperation Agency (SIDA) defines corruption in development co-operations as 'when institutions, organizations, companies or individuals profit inappropriately from their position in the operations and thereby cause damage or loss. This includes giving and receiving bribes, extortion, favoritism and nepotism, embezzlement, fraud, conflict of interest, and illegal monetary contributions to political parties.

Oluwatobi (1969) Corruption involves the giving and taking of bribe, or illegal acquisition of wealth using the resources, of a public office, including the exercise of discretion. In this regard, it is those who have business to do with government who are compelled somehow to provide inducement to public officials to

make them do what they had to do or grant undeserved favour. It is therefore defined as official taking advantage of their offices to acquire wealth or other personal benefit.

Corruption is the greatest bane of local government administration. At the grassroots level, corruption has been canonically accommodated, entertained, and celebrated within the system. In the local government setting corruption is misnomer labeled Corruption has been described as a major cause of comatose state of local government administration, and a major hindrance to good government (Onwuemenyi, 2008). It has been identified as one of the problems confronting effective local government administration, also nonadherence to provisions of the financial memorandum (FM), conspicuous consumption of the part of the local officials, lifestyles that are not commensurate

Farida Waziri the EFCC boss in Onwuemenyi (2008) lamented Waziri went further to emphasize that the disconnection between the government of the people and the grassroots was happening at a time huge volumes of public funds were allocated to local government councils. According to her, the old argument that services cannot be delivered to the grassroots because of shortage of funds does not hold water anymore, in the face of so much subvention from center (Onwuemenyi, 2008).

However, contrarily, Omoigui-Okavio, the chairman of Federal Inland Revenue Service in (Onwuemenyi, 2008) observed that: local government administration has abused the weak tax regulatory system for personal gains, a situation which had complicated the tax system and led to cases of multiple taxation in the economy (Onwuemenyi, Ibid). Omoigui-Okavio also condemned some local government officials for instituting personal and unofficial revenue generation machinery thereby encouraging multiple taxation and placing heavy burden on tax payer, she noted that, many local chairmen generate personal taxes for personal gain using the so called levy collectors who themselves have multiple receipts (Onwuemenyi, Ibid). Also along this line, Arowolo (2008) opined that, hard earned and limited resources accrued to and raised by local government are always mismanaged.

Priorities are misplaced; projects are done not according to or as demanded by the people but regrettable in tune with the selfish end and aggrandizement of the political leadership in collaboration with senior bureaucrats at the local government level of administration. Generally, wide-scale embezzlement by officials of the grassroots has made the needed development of grassroots a tall dream and has rendered them financially incapable to discharge their constitutionally assigned responsibility (Arowolo, 2008). Corruption has remained an issue militating against local governments' performance. Oviasuyi, et al (2010) in this regard observed that "as in all levels of government, corruption is predominately widespread, undiluted and unambiguous in the local government".

It is a statement of fact that in the local government system, corruption has become all pervading, unabashed, uncontrolled and persistent. This perhaps explains the inefficiency and ineffectiveness in local government administration. The system has virtually become superfluous and redundant (Oviasuyi, et al, Ibid). Some of the areas where corruption thrives in local government to include the following:

- a. Inflation of prices of bought items;
 - b. Over estimation of cost of projects;
 - c. The ghost worker syndrome;
 - d. Award of contracts and subsequent abandonment ; and
 - e. Outright payment of huge sums of money to political godfathers
- (Oviasuyi, et al (ibid).

However, the effect of corruption on the polity is serious. Lawal and Oladunjoye (2010:233) state the effects as follows: Firstly, destruction of democratic values, corruption tends to destroy democratic ethos in the local government system. All the values of democracy, such as

responsiveness, accountability, participation and human development, are either subdued or neglected where corruption thrives. Secondly, development is

hindered in a regime of corruption. Rather than utilizing the available resources for the upliftment and development of the council, they are diverted to private use. Thirdly, rule of law is also subverted and replaced by muscle power. In order to successfully steal government resources, the officials in the local government system undermine the rules and regulations that guide their activities and ensure that whatever is stolen by them cannot be traced or tracked within their tenure in office. This has serious implication for service delivery as developmental projects may be abandoned without any necessary action. Also, in this ugly capacity, contracts are bound to be inflated, bribes and kickbacks are bound to be taken and contracts are also bound to be awarded to non-existent companies (i.e. companies that exist on paper alone). Finally, manpower development and capacity building becomes sluggish and discouraged in the arena of corruption. The Chief Executive of the council is not thinking about the need to train and re-train the staffers, but how to steal the money meant for manpower development and capacity building into his own pocket for selfish purpose. The effect of corruption in the local government council is somehow negative in the sense that democratic values are destroyed and development at grass root is hindered.

2.2 Theoretical Literature Review

2.2.1 Taxation Theories

2.2.1.1 The Theory of Optimal Taxation

The standard theory of optimal taxation posits that a tax system should be chosen to maximize a social welfare function subject to a set of constraints. The literature on optimal taxation typically treats the social planner as a utilitarian: that is, the social welfare function is based on the utilities of individuals in the society. In its most general analyses, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, for example, more equal distributions of utility. However, some studies in this literature assume that the social planner cares solely about average utility, implying a social welfare function that is linear in individual utilities.

To simplify the problem facing the social planner, it is often assumed that everyone in society has the same preferences over, say, consumption and leisure. Sometimes this homogeneity assumption is taken one step further by assuming the economy is populated by completely identical individuals. The social planner's goal is to choose the tax system that maximizes the representative consumer's welfare, knowing that the consumer will respond to whatever incentives the tax system provides. In some studies of taxation, assuming a representative consumer may be a useful simplification.

This theory is related to the problem at hand due to the fact that the local government in Tanzania influence minor development goals which are geared to simplify government operation and facilitation through provision of a good education, hospital and water service while building up of a quality transport and communication networks to enhance equal distribution of social welfare.

2.2.1.2 The Principle of Taxation Theory

Sorensen (2010) explains that the principle of taxation holds that individuals should be taxed in proportion to the benefits they receive from the government. Taxes should be paid by those people who receive the direct benefit of the government programs and projects out of the taxes paid. It is also propounded that taxes should relate with the people's income or the ability to pay that is people with greater income or wealth and can afford to pay more taxes should be taxed at a higher rate than people with less wealth excluding individual income tax. It is further argued that income, wealth, and transaction should be taxed at a fixed percentage; that is, people who earn more and buy more should pay more taxes, but will not pay a higher rate of taxes.

Taxation is an enforced contribution. Its payment is not voluntary nature, and the imposition is not dependent upon the will of the person taxed. It is generally payable in cash. This means that payment by checks, promissory notes, or in kind is not accepted.

It is proportionate in character. Payment of taxes should be based on the ability to pay principle; the higher income of the tax payer the bigger amount of the tax paid. It is levied (to impose; collect) on person or property. There are taxes that are imposed or levied on acts, rights or privileges excluding Documentary tax.

This principle is certainly binding the Tanzania environment especially the local government performance due to the fact that the higher the benefit individual receive from the government will eventually stimulate the will to pay tax and the lesser the development attained to individual will also lead to less will of paying tax. Thus, if Kinondoni Municipal will highly respond to the planned development goals due to taxation people who participate in the planning and implementation of various municipal projects will also be willing to pay tax since the tangible value of taxation will be seen directly from the provision of public services.

2.2.1.3 Benefit-received Principle

In return for his contribution, the taxpayer receives the general advantages and protection which the government affords the taxpayer and his property. One is compensation or consideration for the other; protection for support and support for protection. However, it does not mean that only those who are able to and do pay taxes can enjoy the privileges and protection given to a citizen by the government. In fact, from the contribution received, the government renders no special or commensurate benefit to any particular property or person.

The only benefit to which the taxpayer is entitled is that derived from the enjoyment of the privileges of living in an organized society established and safeguarded by the devotion of taxes to public purpose. The government promises nothing to the person taxed beyond what may be anticipated from an administration of the laws for the general good. [*Lorenzo v. Posadas*]. Taxes are essential to the existence of the government. The obligation to pay taxes rests not upon the privileges enjoyed by or the protection afforded to the citizen by the government, but upon the necessity of money for the support of the State. For this reason, no one is allowed to object to or

resist payment of taxes solely because no personal benefit to him can be pointed out as arising from the tax. [*Lorenzo v. Posadas*]

Adam Smith's Principles of Taxation

Adam Smith (1776) in the book titled "The Wealth of Nations" developed four basic maxims to explain the pattern of taxation within a nation these are Equity, Certainty, Convenience and Efficiency. Their explanation is as follows:-

In the first principle it is argued that every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state.

Secondly, Smith reveal that tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person.

Third argument posits that every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it.

Finally the assumption are every tax ought to be contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

Therefore basing on these principles it is expected that every individual within given setting is bounded to taxation principles and in turn also expect to get social welfare discharged by the authorities.

2.2.4 Reflection of theories to the research problem

Taxation in Tanzania helps local to provide better public services such as quality basic education, healthcare, water and sanitary service, construction of a quality transport and communication networks among others. In the principle of benefit the

study also believe in the similar argument that the higher the benefit received from the government the better the will of constituency to pay tax the opposite of expectation people will waive to pay tax as a result inadequate of local government to provide software and hardware infrastructures. It is also believed that size of collected revenue from the local authority such as municipal helps to determine the level of decision making towards the provision of public services. Good taxation system suits the performance of local government in fulfilling their duties to people who shares common interests in a given boundary.

2.3 Empirical Literature Review

Jansen (2007) conducted a study in Tanzania to analyze financial data of 115 local governments from 2002-2006 and examine whether different sources of revenue (central government transfers coming mainly from foreign aid, non-governmental transfers and local government taxes) influence the patterns of expenditures of local governments. By using a two-way fixed effects panel data model to remove any omitted variable bias. The study showed that from 2002-2006 the full sample of local governments, amongst other things, did not provide an explicit exchange of tax revenues for public services. Not providing sufficient exchanges for taxes leads to 'negative reciprocity' between citizen taxpayers and local governments which have severe consequences for local governance.

The local government system of financing currently obstructs a visible link between public services and taxes. The study also found out that foreign aid is, as intended, mostly spent on public services. Taxes are not exchanged for anything much except administration costs. Citizen taxpayer's incentives to pay for these taxes are thus extremely weak. The lack of a hard budget constraint, weak incentives to collect taxes, and to pay for them, may lead aid and intergovernmental transfers to substitute for revenue collection. There are indications of this in rural and disadvantaged areas.

In a study conducted in Bangladesh 2003-2007 Pongquan and Ullah (2010) found out that weak revenue administration, inadequate adjustments and assignments of local revenue sources including lack of union functionaries training become

impediments on local revenue enhancement. It was also suggested that in the absence of valuation based tax assessment system, households housing pattern and literacy rate can be significant determinants in ascertaining annual average holding tax revenue while per capital household holding tax, remittances, agricultural land ownership, households having electricity connections can be used as significant variables to determine the taxpayers' ability to pay holding tax.

Other literature established that devolution of taxing and spending powers to lower levels of government – has become an important theme of governance in many developing countries in recent years (Fukasaku and de Mello, 1999; Manor, 1999; World Bank, 1999; Shah, 1998; Crook and Manor, 1998; Devas, 1997). As a consequence of much dissatisfaction with the results of centralized economic planning, reformers have turned to decentralization to break the grip of central government and induce broader participation in democratic governance (Olowu, 2000; Smoke, 1994; Wunsch and Olowu, 1990). Being closer to the people, it is claimed; local authorities can more easily identify people's needs, and thus supply the appropriate form and level of public services (Enemu, 2000; Rondinelli *et al.*, 1989; Oates, 1972). In turn, it is argued, communities are likely to be willing to pay local taxes where the amounts they contribute can be related more directly to services received (Livingstone and Charlton, 1998; Westergaard and Alam, 1995). As a result, it is expected that the level of tax revenue may be increased without excessive public dissatisfaction. Local authorities help individual participant to have a formalized system of taxation since the better the provision of public services influences the payment of taxation.

It is further argued by (Putnam 1993, Wallis and Oates 1988, World Bank 1994, UNDP 1993) that decentralization can make government more responsive to the governed by increasing "citizen participation and governmental accountability while improving allocative efficiency and equity in service distribution" (Kubal 2006). Pessimists (such as Crook and Sverrisson 1999, Prud'homme 1995, Samoff 1990, Smith 1985, Tanzi 1995) dispute this, arguing that local governments are too susceptible to elite capture, and too lacking in technical, human and financial

resources, to produce a heterogeneous range of public services that are both reasonably efficient and responsive to local demand. The study is subject to the problem at hand due to the fact that without a good taxation system as one of the financing factors to the local government performance the authorities will have inadequate sources of fund to pay its councilors, failure to initiate and establish good public services.

The government of Tanzania started to decentralize and reform local government framework both aim at improving services delivery (URT, 1996) this was done to increase the fiscal autonomy of local authorities. This policy encouraged and partly initiated by the donor community. A key element in this process is the provision of conditional block grants from the centre to local authorities. Additional reforms include measures to strengthen local governments' revenue raising and measures of revenue sharing between local and central government. Therefore this literature is relative to the subject due to the fact that establishment of transparent taxation system help the local government to perform better have enough fund to facilitate the distribution and provision of public services such as transport infrastructure, healthcare, water and sanitary services basic education services among others.

2.3.1 Local Government Finances and Revenue Utilization

Public revenue mobilization is one of the most keenly contested issues in Africa. A comprehensive review of the reports of the various commissions and government policies from the 1946 Philipsons commission to the activities of the National Revenue Mobilization, allocation and fiscal commission established in 1989 could be found in Kayode (1993), Emenuga (1993) and Ekpo (1994).

Local governments in Africa receive statutory allocations from the two higher tiers of government (federal and states). At the present, revenue sharing formula, local governments receive 20 per cent from the federation account. They are also statutorily entitled to 10 per cent of states' internally generated revenue. As regards to Value Added Tax, local governments receive 30 percent in 1998. This was shared

to local governments, on the following basis: equality (50 per cent): population (30 per cent) and derivation (20 per cent). In 1999, local governments received 35 per cent of the VAT proceeds.

The federal government controls all the major sources of revenue like import and excise duties, mining rents and royalties, goods sales tax, goods profit tax and companies income tax among other revenues sources. Local Government taxes are minimal hence this limits their ability to raise independent revenue and so they depend solely on allocation from the federation account.

Much of the revenue collected by the federal government and distributed among the different tiers of government using the vertical revenue over its distribution. So many deductions are made from the total revenue collected before the rest is distributed according to the sharing formula

2.3.2 The Role and Importance of Local Government

The role of local government is viewed in the context of the overall role of government per se. A particular advantage of local government lies in its ability to arrange for the provision of local public goods in line with local tastes and preferences. A number of arguments suggest that local governments should be assigned adequate powers of local taxation to finance their expenditure responsibilities rather than having to rely on central government grant Watt (2006).

Briffault's (1996) revealed that local government boundaries play an important role in the governance of metropolitan areas by defining local electorates and tax bases and the scope of local regulatory powers and service responsibilities. Yet, the close association of local powers with local boundaries generates spillovers, fiscal disparities, and inter-local conflicts.

The major advantage of local government is that it allows the local public goods and services it provides to be adjusted to suit the tastes and the preferences of local residents. As pointed out by Alex de Tocqueville, this variation in local provision

contrasts with the uniformity likely to arise from centralized provision. 'In great centralized nations the legislator is obliged to give a character of uniformity to the laws, which does not always suit the diversity of customs and of districts' (Tocqueville, [1838] 1945, cited in Oates, 1972). Mill (1970) argued: 'The very object of having local representation is in order that those who have any interest in common, which they do not share with the general body of their countrymen, may manage that joint interest by themselves'

2.3.3 Problems of Local Governments Tax Mobilization and utilization in Africa

There is shortage of well trained and qualified personnel which suppose to serve as tool for collection of taxes and rates at the local level, even the few available are not properly trained in efficient budgetary and financial management systems. Also most of the local government\ are short staffed to carry out their duties.

Local governments lack the capacity to attract and retain the right caliber of staff to articulate plans and execute programmers' and projects in order to transform the lives of

the grassroots people in a short period. For instance, out of 750 respondent local governments in the UNDP – presidency survey, only 541 prepared rolling plans in 1995, 1996 and 1997. of this number still, only 151 had planning boards (Composed largely of educators and community health do officers).

There were no professionals like economic planners, medical doctors, engineers and so on. NO doubt, the basic educational background of members of the planning boards across the local governments is very disturbing.

Despite the fact that there are constitutional provisions for statutory allocations and internally generated revenues, Local governments are tightly controlled and subordinated by state governors through sundry mechanisms, including manipulation of the disbursement of financial transfers to them.

Local governments in Africa mobilize their funds solely from external sources. The external sources include federal and state governments financial transfers like grants, statutory allocations, share of value added tax (VAT), receipts and loans. These external sources introduce a dependence syndrome in local government revenue mobilization effort. Any setback from the external sources would have adverse effect on the administrative machinery and execution of some viable projects. This also has weakened their internal revenue mobilization capacity.

Another constraint is imposed on local government revenue mobilization capacity through state control over local government budget, which is made to pass through many levels of approval in the hands of the state government. Even after approval, post-budget controls still impose further restrictions on what local governments can do (Roberts, 1998).

The delay in the passage of annual budget for local governments poses a great problem in the sense that budget sometimes take 3 months before approval. Invariably, this will cause delay in execution of local government functions including payment of the staff salaries and hinder infrastructural facilities to be put in place. In 1996, some newly elected Chairmen of Local Governments in Africa condemned in its entirety the horizontal sharing formula of the local government's allocation from the federation account which was equality (40 per cent) population (30 per cent), land mass/terrain (10 per cent) social development factor (10 per cent) and internally generated revenue (10 percent).

This formula will continue to yield less revenue for many local governments especially when more local governments are created. In addition, insincerity of council staff on field assignment poses greater problem because most of them usually divert collected council fund for their perusal usage thereby denying the council of the needed funds for its operations. Some local governments Chairmen deposited local governments subventions into savings and loans companies in which the local governments had no account. Some local governments see this as an avenue to divert councils funds for personal use.

2.3.4 Prospects of Local Governments Revenue Mobilization and Utilization in Africa.

The increase in revenue from local government statutory allocations definitely enhanced their economic fortunes and service delivery ability. No doubt, the institution of statutory allocation as a local revenue mobilization mechanisms, the increase of the allocation form 10 – 20 per cent of the federation account, the direct

disbursement of federal revenues to local governments and the removal of some political bottlenecks and abolition of other administrative hindrances have boosted the revenue profile of local governments in Africa.

Local governments in Africa are no longer there to discharge administrative functions they are deeply involved in collective participation in governance, encourage physical and economic development, create the conditions for employment within their localities and provide social services that will improve the well-being of their people.

The 1976 Reform has given local governments in Africa a short of radical transformation form being an appendage of state governments to a very important and autonomous third tier of government. With this reform, local government became a legal and constitutional entity with properly defined functions as well as guaranteed sources of revenue.

However, for the local governments to function effectively in Africa, the revenue allocation formula should be changed. Larger percentage (%) of the revenue allocation should go to the local government in order to enhance grassroots development. The percentage should be changed from the present percentage (15% in 2006 to about 52% to allow for the development of the rural areas which would prevent the rural shift to urban centre.

2.3.5 Relationship between Taxation and Local Government

Colander (2004) argues that in order for a public institution such as a local government to discharge its duties efficiently and effectively, a good taxation system must be in place. If the amount of taxes that the local government receives from the public is insufficient, if there exist loopholes within the tax law, if there is corruption in the tax collection system it will lead to unsatisfactory service delivery on the part of the local government. Hence, a good taxation mechanism plays a significant role in determining the level of local government service delivery.

Fjeldstad (2004) revealed that there is an existing relationship between taxation and local government performance due to the fact that not only foreign Aids and Grants coming from the central government were the major source of local government revenues but also taxation plays a greater role. It is due to clear and formalized system of collecting tax which influence the provision of public services in turn of tax payment of business enterprise, private organizations, and the human resources found in given municipal or districts. Thus the better the provision of public services lead to the higher the willingness of the people to pay tax the failure to do so result to poor performance of the local government.

The study also revealed that it was a major challenge to provide better linkages between payment and service delivery. Taxes, however, may not be the best mechanism to obtain a better relationship between the demand and supply of public services. Better links can be achieved through cost-recovery charging systems. Not only taxation can be source of local government revenue but also other factors helps to enhance revenue collection in local authorities boundaries.

Fjeldstad (2004) further, suggested that local governments may employ user charges as taxes to fund general expenses, and thereby undermine the link between the demand and supply of public services. However, he underlined the reason and scope for innovation, including greater use of mechanisms based on realistic pricing and other cost-recovery methods.

2.3.6 Impact of Taxation

According to (www.lawgiants.com) the nature of the state power to tax is two-fold. It is both an inherent power and a legislative power. It is inherent in nature being an attribute of sovereignty. It has been argued that it is literally impossible for the state to run its affairs without taxes. Its existence and operations are dependent primarily from the revenues and charges imposed from various sources. It is a legislative power because it involves promulgation and implementation of rules. Taxation is a set of rules, how much is the tax to be paid, who pays the tax to whom and when it should be paid.

Government financial operations are well-nigh impossible without taxation. Apart from this, taxation can be a powerful means in order to achieve the goals of social progress and the objectives of economic development. It serves as a device to encourage the growth certain activities by way of giving exemptions, discourage use of certain products by way of imposing heavier charges like those sin taxes which are imposed upon tobacco products, or strengthen anaemic enterprises, also by way of tax exemptions. Local industries may be protected through taxation by imposing high customs duties to foreign goods. Moreover, taxation can also be used to reduce inequities or inequalities in wealth and income by progressively higher taxes as in the case of estate and income tax (www.lawgiants.com)

Tayebwa (2007) observed that taxation enables any government institution including the local government to get revenue for expenditure. There are different kinds of tax imposed to business enterprises, organization and human resources through which the local government benefits to fulfill its duties to a given boundary. The imposed taxes are including income taxes that are levied from personal or organizational income earnings such as the state income tax and local income taxes based on government adjusted gross income. The local government uses the local income taxes as revenue to run its various operations including provision of better public service.

Ddumba (2001) taxation can increase effort on the part of the local government only if there is an existence of a proper taxation mechanism to enable the local government to promote citizen prosperity. A good taxation mechanism enables local government to collect considerable amount of revenue in facilitating the discharge of public duties. A good taxation system helps local government to distribute and provide healthcare, basic primary education, transport and communication networks, and security services among others.

Colander (2004) agree that when the local government uses a good taxation mechanism it was be able to develop bureaucratic apparatuses and information sources to collect taxes effectively from the public. This has resulted in the taxpayers not to resist taxes and to monitor the mode of taxation and the way the local government uses the tax revenue.

So based on the foregoing premises, it is clear that taxation is indeed the lifeblood of the state together its local authorities without which the existence of the state will be put to jeopardy.

2.3.7 Types of Taxes Levied by the Local Government

In order for local government to be self-financing and achieve local accountability, the true costs of local government have to be reflected in the local taxes. These taxes include:

2.3.7.1 Income Taxes/ Services Levy

Colander (2004) defined income taxes as taxes levied basing on the income earnings. The government income tax and the local income taxes are based on government adjusted gross income. Local nonresident income taxes are based on earnings from within the taxing cities. In general, only the state government and cities are authorized to levy income taxes in a given area. In US income taxes have never played a large role in local government financing. Since they came into being over the course of the century, but have never accounted for more than 2 per cent of local

revenues. In a cross section study conducted in Columbia including 50 states it was found out that local income taxation accounted for less than 6% of local revenue (Wallace *et al.*, 2004)

The advantage of income taxes has its downside. One appealing feature of the local property tax is the stability of the revenues that it provides for local government. Property tax receipts, since they depend on assessed values that are revised only periodically, are not very responsive to cyclical changes in income. If the economy slides into recession and incomes fall, the local public sector is largely shielded from the recessionary pressures through stable property tax liabilities. Under an income tax, of course, local revenues fluctuate with the state of the economy. Thus what is good for taxpayers in terms of matching tax bills with income is not good for them in terms of maintaining a stable flow of revenues for their local governments (Youngman, 1994)

2.3.7.2 Business Privilege Taxes

Colander (2004) also define business privilege taxes as a tax levied to people who do business in a given area or city or in some cases engaged in a specific line of business. Business taxes are levied on the rate able value of commercial property and they are normally set by the central government. The proceeds from business taxes are paid into a national pool and distributed amongst the Local Authorities on the basis of population.

2.3.7.3 Sales Related Taxes

Ddumba (2001) explain that sales taxes are those taxes which are levied on several forms. The sales and use taxes are levied on the retail sale or use of tangible personal properties. Only the state government is authorized to use and levy taxes in a particular area. Excise taxes are levied like sale and use taxes on the purchase of individuals' products and services.

2.3.7.4 Property Taxes

Ddumba (2001) also explain that property taxes these taxes are levied basing on the value of the property. In addition to the taxation of real and personal property that typically falls under the local general property tax, local government are authorized to levy four ad valorem taxes, this include state education tax, utility property tax, state real estate transfer tax and motor vehicle registration tax

. Property tax has long been the primary source. of-tax revenues for local government in the United StatesWallis (2001). In the USA, the tax has a long and rich history, dating back; to the origins of our nation. In fact, in the 18th and 19th centuries, the tax was used, at various junctures, by all the various levels of government, but, over the course of the 20th century, its use became associated nearly exclusively with local government.

At the same time, local property taxation has long been a contentious issue. The tax has been the source of continuing dissatisfaction from many quarters. During the latter part of the 20th century, for example, a forceful judicial attack called into question the constitutionality of local property taxation as a source of finance for public schools. The basic charge has been that the tax base is distributed unequally among local jurisdictions, giving rise to unjustifiable fiscal disparities in the funding of public education. This has led several states to restructure their systems of school finance so as to place less reliance on property taxation (Wallace *et al.*, 2004)

Property taxes have always accounted for the lion's share of local tax revenues, and they continue to do so. It is true that the share of property tax revenues in total local revenues has fallen significantly over the past century, from about two-thirds of local revenues in 1902 to around one quarter of local revenues in 1996. But property tax receipts continue to constitute over two-thirds of local tax revenues (Wallace *et al.*, 2004)

Property taxation involves a whole separate administrative apparatus that requires the definition and 'discovery' of the tax base and the assessment of property values.

Substantial progress and improvements have been made through the years in the administration of the tax, especially in assessment procedures, but it continues to be a source of taxpayer discontent, with a host of associated legal issues (Youngman, 1994).

Mieszkowski (1972) explained that the average rate of property taxation across all localities is seen as a general tax on capital. From this perspective, the tax becomes quite progressive, since ownership of the nation's stock of capital is strongly skewed in favor of high-income households. Thus, according to the 'new view' (which is not so 'new' now), the property tax is a progressive, not a regressive, tax.

The property tax has long been a cornerstone of the US system of school finance. Local governments provide roughly one-half of the resources devoted to public education in the USA, and they raise nearly two-thirds of those funds through the property tax. The property tax is virtually the only source of tax revenue for independent school districts (that is, school districts that are not part of a municipality or county government). This reliance on the property tax lies at the heart of a long string of court cases that have challenged the constitutionality of local funding of public schools (Wallace *et al.*, 2004)

Local property taxes (PT) are the second main local own source and this is particularly true for relatively smaller government levels within countries. The reason can be traced back to the principles of tax assignment formulated by Musgrave (1983) and King (1984) by which property taxes is a good source of local taxation for a number of reasons, including the fact that they secure enough tax revenue to local governments without fears of tax competition. Indeed, the tax base cannot migrate in response to tax rate changes (at least in the short run), there is usually no ambiguity about which authority is entitled to tax, and the tax base is relatively stable and predictable over economic cycles. Moreover, the property tax typically poses no significant problem of tax base competition with the central government, basically because this is not a tax that central governments tend to cover

(Martinez-Vazquez, 2008), and, because it approximates the benefit principle of taxation, which is a desirable principle of local taxation

2.3.7.5 Transportation Taxes

Colander (2004) transportation taxes are sales related and property taxes levied on items used for transportation purposes. Each of these taxes is earmarked specifically to transportation infrastructure.

2.4 Principles of an Effective Taxation Mechanism

In imposing tax the local and state authority should laid the four canons of tax (Tayebwa, 2007) These canons explain the four aspects of taxation and act as signposts in the economy which should guide the taxation process and therefore they punctuate a good tax system. These canons are:

2.4.1 Equality/Equity

This is the most important principle in taxation. It should be both vertical and horizontal equity. According to Tayebwa (2007) the people of the country should contribute towards the support of the government as nearly as possible in proportion to their respective abilities. This principle calls for equality of sacrifice or ability to pay tax in proportion with income received. This means that the rich should pay more taxes than the poor.

2.4.2 Economy

This principle requires the administration cost of collecting taxes to be as low as possible for both the tax authority and the tax payer. To the tax authority the administration costs should not exceed 5% of the tax revenue. To the tax payer, the compliance costs should be as low as possible and the tax payer should be left with enough disposable income Tayebwa (2007).

2.4.3 Certainty

A tax system should always ensure that both the taxpayer and the tax collector are clear on each other's expectations. The tax payer should know how much, what tax, when, why and where the tax should be paid. This was enhancing proper tax planning on the part of the taxpayer and up-to-date budgeting on the side of the state.

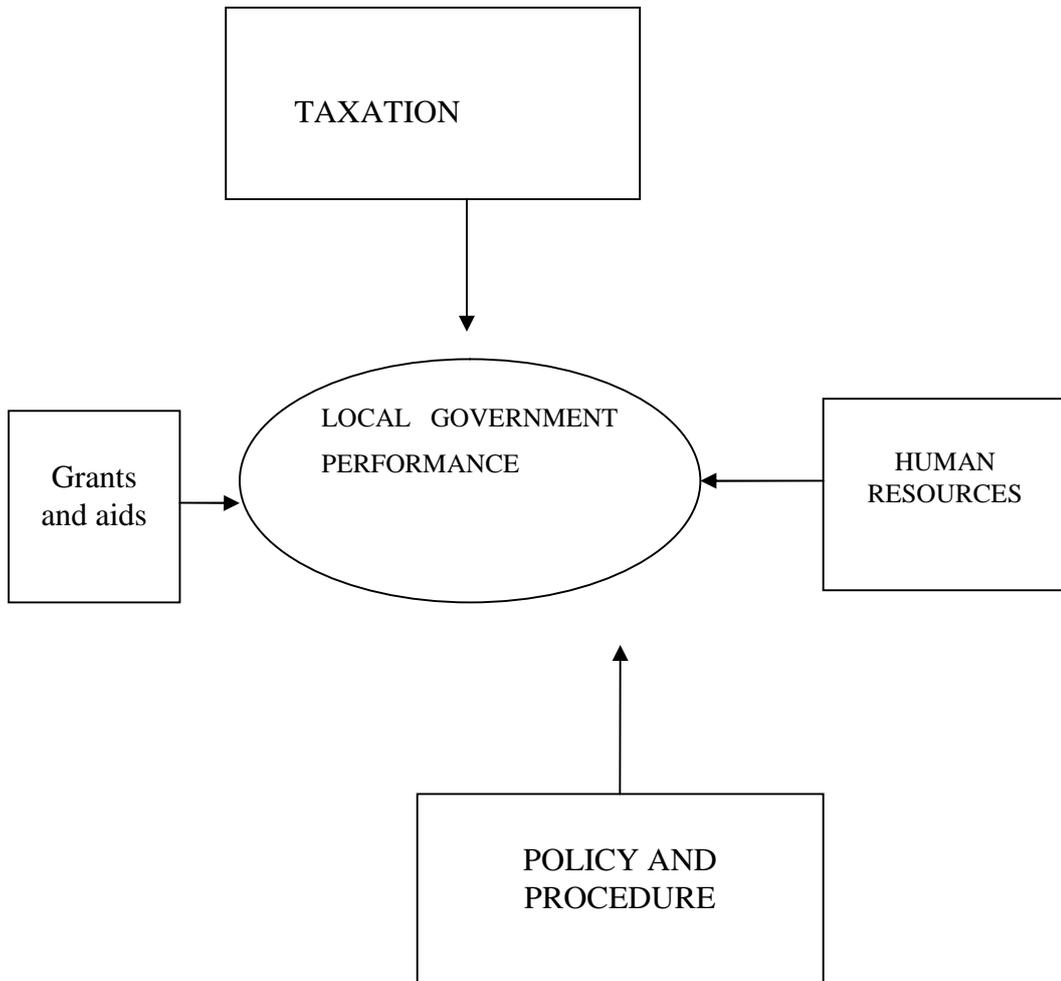
It also reduces corruption and unfair assessment since the tax payer is not subject to arbitrariness and the discretion of the tax officials Tayebwa (2007).

2.4.4 Convenience

This principle requires that the tax regime should cause as little inconvenience as possible to the taxpayer. What to pay, how much to pay and where to pay should be convenient to the taxpayer Tayebwa (2007)

2.5 CONCEPTUAL FRAMEWORK

Figure 2.1 Conceptual Framework



Source: Researcher's Conceptualization

2.6 Knowledge Gap

The reviewed literatures believe that taxation can increase local government performance only if there is an existence of a proper taxation mechanism to enable the local government to promote citizen prosperity. It has been a major device to encourage growth of certain activities by way of giving exemptions, discourage use of certain products by way of imposing heavier charges like those sin taxes which are

imposed upon tobacco products, or strengthen anaemic enterprises, also by way of tax exemptions) thus weak revenue administration, inadequate adjustments and assignments of local revenue sources including lack of union functionaries training become impediments on local revenue enhancement. Despite the contribution of taxation in local government this research is different in methodology especially the sample used is smaller, the environment only covers one municipal while the early studies covered more than five municipal or districts both in Tanzania and outside boundaries.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This chapter presents the research methodology including the research design, area of the study, types of data to be collected, data collection technique, study population, sample and sampling technique, procedure for data collection, data analysis and presentation.

3.1 Research Design

This is the plan in which data are collected and analyzed in order to obtain the required information (Orodho, 2003). It is also an arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purposes in an economy (Kothari, 2004). The study consisted quantitative and qualitative elements in which the regression analysis was used for assessing the relationship that existed between tax and local government performance.

3.2 Study Area

The area of study was Kinondoni Municipal Council in Dar es Salaam Region. The area was preferred due to availability of many respondents but also timing of conducting research as well as researchers experience living in the same area. The researcher decided to interview investors, KMC staffs, tax Payer's and tax collectors both found along Kinondoni area as a representative of other constituents within mentioned area of the study

3.3 Research Population

A population is the complete collection (or universe) of all the elements or units that are of interest in a particular investigation. A population is the aggregate or totally of objects, items, things or individuals, having one or more characteristics in common

that of interest to the researcher and where inferences are to be made. For the purpose of this study the research used a total of 200 people as a population from which 30 per cent of people were used as a sample.

3.4. Sample Design

A sample design is a definite plan for obtaining a sample from a given population (Kothari, 2003). It refers to the technique or the procedures the researcher would adopt in selecting items for the sample. The study used non probability sampling technique to get participant involved in the study. This was due to researcher's belief that the respondents to be involved in the study were familiar on how the problem affected their individual life, enterprise business operation, human resources management strategies.

3.4.1 Sampling technique

This study used purposive sampling technique due to nature of the problem. Purposive sampling represents a group of different non-probability sampling techniques. This technique allowed the researcher to administer small number of respondents. According to Kothari (2003) purposive sampling technique is the technique used to investigate researcher units of interest based on his judgment.

3.4.2 Sample Size

The study used a total of 200 people from which a total of 60 respondents were studied. This was done in order to get accurate information that researcher sought to get.

3.5: Instrument of data collection

The study used structured questionnaire to obtain detailed information on the concerned research problem. The questionnaires usually are cost effective for large area and they minimize bias (Kothari, 2004). The study also used Likert Scale question and closed ended questions. Likert scale is defined as a psychometric response scale primarily used in questionnaires to obtain participant's preferences or degree of agreement with a statement or set of statements (Uebersax, 2006).

3.5.1 Type of data to be collected

The study employed primary data from the field. The primary data were essential to this subject due to fact that respondents provided unique information which was useful to this study. Kothari (2004) defines primary data as those which are collected afresh and for the first time, and thus happen to be original in character. There are several methods of collecting primary data including observation, interview, questionnaires, schedules and many others. For the purpose of this research only questionnaire method was used during data collection.

The study used primary data from the field

3.5.2 Documentary review

The researcher extensively read various documents, books, publication and website which were useful to get more informational insights in the mentioned subject. Literature was reviewed in order to get empirical evidence on the similar topics so that to encounter knowledge gap on the underlined subject.

3.6 Data Processing And Analysis

The data gathered from the field study were edited, coded and summarized prior to analysis using the statistical package for social sciences (SPSS) version 16. in this statistical package descriptive statistics namely frequency and percentage and tables were used in order to validate the study findings. In this study the data were collected using primary data in a structured questionnaire form, also the secondary data were reviewed to get more information about the factors and the relationship between taxation and local government performance.

3.6.1 Data Collection

Data was collected from the field using both primary and secondary techniques of data collection

3.6.2 Editing

Editing is the process whereby the completed questionnaires are analyzed in the hope of amending recording errors or at least deleting data that are obviously erroneous. This is aimed at improving the quality of information from respondents. The researcher fills out few unanswered questions. However, answers filed are deducted from the proceeding answers or questions.

3.6.3 Coding

The purpose of coding in research is to classify the answers to questionnaires into meaningful categories so as to bring out their essential patterns. Coding was used in this research in order to summarize data by classifying different responses given into categories for easy interpretation. For each question, a list of probable answers was prepared.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

4.0 Introduction

The data was collected using both quantitative and qualitative methods, which was then analyzed and processed to make it useful and understandable. Data was collected, tabulated and then analyzed.

4.1 Social Demographic Characteristics

This study characterizes respondents in terms of age of respondents, marital status, sex of respondents, level of education as discussed below.

4.1.1 Age of the respondents

Respondents were asked questions related to their age and the results are shown in the table below show that 7% of the respondents were below 24 years, 27% were between 25-29 years of age, 20% were between 30-39 years of age, 37% were between 40-49 years and 10% were above 50 years of age. This implies that the aged group understand the need to pay the tax and in turn hope to get the reciprocal benefit from the taxes being paid.

Table 4. 1: Age Distribution of respondent

Age group	Frequency	Percentage
Below 24	14	7
25 - 29	16	27
30 – 39	12	20
40 – 49	22	37
50 – above	6	10
TOTAL	60	100

Source: Primary data

4.1.2 Marital Status of the respondents

Another variable which was important in respect to the situation of the people in the area was marital status. Information regarding marital status of the respondents was obtained by asking them whether they were married, single, widowed or widowers, the results show that 50% of the respondents were married, 13% were single, 27% were widows and 10% were widower. And this shows that majority of the people are married.

Table 4.2: Marital status of the respondents

Marital Status	Frequency	Percentage (%)
Married	30	50
Single	8	13
Widow	16	27
Widowers	6	10
TOTAL	60	100

Source: *Primary data*

4.1.3 Sex of the respondents

Sex was also another factor which was considered during the study. This is because the researcher was interested in finding out the number of females and males in the whole of the population, and compares the percentage composition of the two. The results revealed that 40% of the respondents were females and 60% were males. This implies that the owners of taxable entities are males.

Table 4. 3:Sex of the respondents

Sex	Frequency	Percentage (%)
Female	20	40
Male	40	60
Total	60	100

Source: Primary data

4.1.4 Educational status of the respondents

Respondents were asked questions related to their educational status and their responses the results revealed that 37% of the respondents were uneducated, 27% were of primary level, 13% had secondary education, 7% received university education, 10% had tertiary education and 7% fell under other levels of education. This implies uneducated people as the most owners of business participate fully in paying taxes.

Table 4.4: Education levels of the respondents

Education levels	Frequency	Percentage
Uneducated	22	37
Primary	14	27
Secondary	8	13
University	4	7
Tertiary	6	10
Others	4	7
Total	60	100

Source: Primary data

4.1.5: The types of taxes levied by the local government

As regards to the type of taxes being paid the results revealed that a total of 14 (23.3%) surveyed respondent used to pay sales related taxes, 18 (30%) of the respondents paid property taxes, 10 people accounting 16.6% paid income taxes, 10 respondent account for 16.6% due transportation taxes and the remaining 8 people account for 13.3% used to pay business privileged taxes as shown in table 4.5 below. This implies that the dominant taxes paid were related to property.

Table 4 .5: The types of taxes levied by the local government

Responses	Frequency	Percentage
Sales Related Taxes	14	23.3
Property Taxes	18	30
Income Taxes/ Services levy	10	16.6
Business Privilege Taxes	8	13.3
Transportation Taxes	10	16.6
Total	60	100

Source: Primary data

4.1.5.1 Sales Related Taxes

Over 23.3% of the respondents noted that sales related taxes one of the types of taxes levied in Kinondoni Municipal council. The sales related taxes are levied on the retail sale or use of tangible personal properties in Kinondoni Municipal council. Excise taxes are levied like sale and use taxes on the purchase of individuals' products and services in the sense that the council charges all individuals who purchase products. The respondents stressed that this is one of the major sources of local government taxes in Kinondoni Municipal council. These taxes are important in developing local authority revenue hence they are recommended by earlie studies such as (Dhumba, 2001).

4.1.5.2 Property Taxes

Property tax was also form of tax taxes are levied in Kinondoni Municipal council with over 30% of the total percentage of the respondents. The respondents noted that that this type of tax is levied basing on the value of the property. It was further noted that in addition to the taxation of real and personal property that typically falls under the local general property tax, local government in Kinondoni also levy four ad valorem taxes, this include state education tax, utility property tax, state real estate transfer tax and motor vehicle registration tax and this is how the council raises taxes. This type of tax in more influential to many states in the world including US as suggested by Wallis (2001). Property tax also seem to have impotance in the contribution of revenue collection used a source of fund for public education in US despite some disparities in their provision (Wallace *et al.*, 2004)

4.1.5.3 Income Taxes/ Services levy

In addition to the other type of taxes levied in Kinondoni Municipal council, another 16.6% of the respondents noted that income taxes are also other types of taxes levied in the council and it is only levied basing on the income earnings. The local government levies income taxes in Kinondoni Municipal council and this type of tax is paid by the people as they earn within the municipality and mainly those who are employed within the municipality.

4.1.5.4 Business Privilege Taxes

Another 13.3% of the respondents noted that business privilege tax is yet another type of tax collated by the local government in Kinondoni Municipal council. The respondents here noted that business taxes are levied on the ratable value of commercial property and they are normally set by the central government. The business privilege tax is levied on ratable value of commercial property like on commercial buildings and it also one of taxes paid in Kinondoni Municipal council municipal council.

4.1.5.5 Transportation Taxes

Over 16.6% of the respondents stated that transportation taxes are also charged in Kinondoni Municipal council. The respondents also reported that transportation taxes are sales related and property taxes levied on items used for transportation purposes. These taxes are levied on companies that deal on transportation services in Kinondoni like trailers that are hired for ferrying goods from one destination to another as a registered business.

4.2 Taxation and local government performance

This part examines the influence of taxation in the local government performance in doing this three objectives were examined that included to determine the factors affecting local government performance, to establish the relationship between taxation and local government performance and to establish the reasons for the relationship in objective 2 above.

4.2.1 Factors affecting local government performance

The factors affecting the local government performance were examined by asking the respondents to mention the factors they thought affect the performance of the local government and the results are revealed that taxation was the main influencing factor to local government performance as it had 30%, followed by grants and Aids 23.3% , while corruption% and the remaining factors such as policy and procedure together with human resources had 13.3% respectively.

Table 4.6: Factor affecting local Government performances

Answer	Frequency	Percentage
Grants and Aids	14	23.3
Corruption	12	20
Policy and procedure	8	13.3
Fund from Taxation	18	30
Human resource	8	13.3
Total	60	100

Source: primary data

4.2.1.1 Grants and Aids

The findings showed that grants and Aids occupy a total of 23.3% as factors influencing the performance of local government in Kinondoni Municipal Council. This was asked in order to know if the factor mentioned helped local government to attain its goals especially in providing public services. Thus, grants and Aids become a major source in facilitating the Millennium Development Goals (MDG), and United Nations Agency for International Development (USAIDS) funds which supplement the taxes. These funds have been used to finance education, hospital and others project in Kinondoni Municipal Council although not effective in this research.

4.2.1.2 Corruption

The study revealed that corruption account for 20% as the major factor affecting the local government performance since it discourages the local government to perform better and attain its goals. This implies that KMC councilors' are among leaders who misuse their power to distort planned projects and hence hinder its implementation.

4.2.1.3 Policy and procedure

The result shows that policy and procedure accounted for 13.3% as one of the factor affecting local government performance in KMC. The respondents revealed that policy and procedure affected their daily lives since people were free to do anything at a given time due to poor law enforcements. This implies that when tax payers avoid paying taxes no one is making a follow up to ensure that they pay. It is from the policy and procedure's that individual can proportionally contribute revenue to KMC only if there are suitable source of collecting tax as proposed by Colander (2004). Through this even the four principles of taxation within KMC can effectively be applied to encounter tax nuisance, avoidance and waiving see also (REPOA, 2008)

4.2.4 Fund from Taxation

Fund from Taxation appeared as the major factor affecting local government performance in KMC as the results reveal that 30% of the respondents mentioned it. The respondents said that the local government survival is only on local taxes mobilized on Advertisement board levy, Service levy, property and Taxi among others. The respondents remarked that taxation is the life of the local government just as food is to the life of a human being. The findings are in line with principle of taxation which holds that individuals should be taxed in proportion to the benefits they receive from the government. Taxes should be paid by those people who receive the direct benefit of the government programs and projects out of the taxes paid (Sorensen (2010). This implies that increase in tax collection by KMC as a source of revenue from its people should also determine the increment in service provision especially education, water and sanitary, transport infrastructure as well as healthcare services.

Human resources

The research also found that Human resource is the key factor to the local government performance in KMC as 13.3% of the respondents marked it as the factor influencing the local government performance. The respondents said that without good human resources none of the above can be well performed. Kinondoni Municipal Council has well educated and enough human resource but the researcher notice that politics is interfering the performance of human resource in the Municipal.

4.2.2 The relationship between taxation and local government performance

This section examined the relationship taxation and local government performance, the relationship was drawn by taking the dependent being the overall performance of the local government and the taxation as the independent variable under which education, water and sanitary services, healthcare and transport infrastructure were examined.

The results shown in table 4.7 indicate that the R is 0.741 which demonstrates that there exists the strong and positive relationship between the variables. The R square is found to be 0.548 while the adjusted R square was 0.500 indicating that the independent variables were able to explain the dependent variable by more than half.

Table 4.7: Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.741(a)	.548	.500	.475

Source: Primary data

According to table 4.22, the F test is statistically significant at 95% confidence given that the p-value is less than 0.05 and thus the relationship exists between the variables; and the independent variables are able to explain the variation in the dependent variable.

Table 4.8: ANOVA (b)

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	15.321	6	2.553	11.334	.000(a)
Residual	12.616	56	.225		
Total	27.937	62			

Source: Primary data

4.2.2.1 Coefficients

The variable education service is positively related to the overall performance of local government. The variable has the positive coefficient of 0.207 and is significant at the 95% with the p-value less than 0.05. Therefore, with the increase taxes, the local government tends to increase and provide better education facilities such as school desks, books, stationeries and teaching aids.

As regards to the relationship between local government performance in KMC and the share of taxes used to construct roads (transport infrastructure) around the area the results revealed that there is the positive relationship between transport infrastructure and overall performance of the KMC and it is significant at the 95% significant level with the coefficient of 0.343. Thus, with enough taxes collected more will be invested in the provision and construction of transport infrastructure within an area.

The water and sanitary services availability have the positive relationship with the overall performance of the KMC and it is significant at the 95% significant level with the coefficient of 0.282 and therefore when the taxes are dully paid will enhance the KMC revenue collection as the result more investment in the distribution of water and sanitary services will increase.

The share of tax revenue going to health care has the negative relationship with the performance of KMC although it is significant at the 95% significant level, the tax revenue collected was not enough to sufficiently provide health care to recap the increase in population rate in the Municipal.

Therefore, the analysis shows that variables such as education, health care, transport infrastructure, water and sanitary services affect the overall performance of KMC with regard to tax collection. This implies that tax as one of the major factors affecting the performance of KMC plays a greater role in the provision of public services.

Table 4.9: Coefficients (a)

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.127	.305		6.968	.000
Education services provision	.207	.057	.357	3.610	.001
Water and sanitary services	.282	.069	.262	2.839	.006
Health care services	-.193	.078	-.335	2.467	.017
Transport infrastructure	.343	.086	.525	3.972	.000

\Source: primary data

Most of the tested variables are in line with research findings observed by (REPOA, 2008) where revealed that tax collection in African countries such as Tanzania helps local authorities be responsible in delivering public services, including primary education, healthcare services, local roads, water and sanitation systems, as well as agricultural extension services. Therefore to reflect the current situation of revenue collection coming from tax the KMC is able to discharge fully its duties once there is an increase in tax collection.

But also the findings differs on the same with study by Jansen (2007) who revealed that the local government system of financing currently obstruct a visible link between public services and taxes. This situation differs with current research findings due to different in time when his study was actually conducted. It is further supported by the theory of optimal taxation that tax system should be chosen to maximize a social welfare function subject to a set of constraints (Sorensen, 2010)

4.2.3 Reasons for the relationship established in objective 4.2.2 above

The respondents noted that the local government cannot perform to its full potential unless there is a good taxation system that will lead to increased revenue from taxes within a given period of time. The results are in line with study by Colander (2004) who revealed that in order for the public institutions like local government to discharge its duties efficiently and effectively there are must be a good taxation system in place. It is further revealed by the respondents that if the amount of taxes that the local government receives from the public is insufficient, poor or avoided, if there is corruption in the tax collection system it will lead to unsatisfactory service delivery on the part of the local government which was in turn affect the general operation of the whole local government institution. This means that as the amount of local taxes increase also increase the capacity of Local Government to provide services to its people and vice versa is tru.

On the other hand Fjelstad (2004) revealed that there is an existing relationship between taxation and local government performance due to the fact that not only foreign Aids and Grants coming from the central government were the major source of local government revenues but also taxation plays a greater role. It is due to clear and formalized system of collecting tax which influence the provision of public services in turn of tax payment of business enterprise, private organizations, and the human resources found in given municipal or districts. Thus the better the provision of public services lead to the higher the willingness of the people to pay tax the failure to do so result to poor performance of the local government.

CHAPTER FIVE

SUMMARY OF THE MAJOR FINDINGS, RECOMMENDATIONS, AND CONCLUSIONS

5.0 Introduction

This chapter presents the summary of the study, conclusion, recommendations, study limitation and areas for further research

5.1 Summary of the study

This section summarizes the findings of the study in line with the main objectives. The summary focuses on the taxation and local government performance.

In the factors affecting the performance of local government the study found out that taxation was the major factor enhancing the collection of local government revenue used to provide and distribute public services. It was further revealed that sales related taxes was the most type of tax levied by KMC implying that there was an existence of many investors offering products and services which were subjective to taxes.

Further, in the relationship between taxation and local government performance using a regression analysis the finding shows that the share of tax revenue with the provision and distribution of education, water and sanitary, transport infrastructure and health care have a positive relationship both at significant of 95%. This implying that the services provided by KMC to the public found in the region were at least satisfactorily with regard to the amount collected from various types of taxes.

Finally the study explained as to why the relationship between the established variables existed. The result revealed that only the existence of a good taxation system influenced the local government performance like KMC. This was believed by the most of the surveyed respondent who in turn paid the needful taxes to KMC.

5.2 Conclusion

The study concludes that although taxation revealed to be the major factor affecting local government performance it is only positive if the KMC will establish a good and transparent taxation system to encounter the problem of corruption which leads to poor implementation in the provision of various services public services. This is also in line with established theories and literature such as (Dhumba, 2001: Tayebwa, 2007 and Colander, 2004) depending on the nature of a good and transparent taxation system. It is also concluded that there should be powerful enforcement system to encounter the problem of tax avoidance.

It is further concluded that KMC needs to introduce organized taxation system around its wards, streets, and villages to enhance its dwellers to pay tax in turn the collected revenue will enable them in the process of planning before the implementation of targeted public services.

Moreover, the study conclude there should be an availability of stronger and enforceable institution that deal with leaders who are corrupt to enhance better implementation of underlined planned from the KMC. In so doing leaders will become accountable for, good participant of planned project, initiators of public programs to enhance good governance and people centered development.

5.3 Limitations of the Study

During data collection process the researcher encountered the problem of unwillingness of the respondents to effectively participate in the study and the situation was resolved through provision of rewards such as soft drinks.

The researchers also encounter the problem of insufficient fund for conducting a research. Costs related to transport was high since the researcher decided to conduct a study within an area closer to his working and residential place. Adherence to research budget helped the researcher to meet the targeted objectives.

Hostility was among the critical challenge during data collection because other respondent who were at first involved in the study eventually with drawn unreasonably. The situation was resolved through good speaking manner which create intimacy with the respondents.

5.4 Recommendations

It is recommended that the KMC should establish a good system to enhance the collection of more revenue coming from taxation so that to enable the facilitation and implementation in the provision of public services.

It is recommended that although taxation has the relationship with local government performance thus the KMC should overlook the role of grants and Aids, formulation and reformulation of a good policy and procedure which are enforceable, together with abandonment of corruption may result into economic growth rate hence improvement in the well being of the people within an area.

The study also recommends that there should be coordination of various institutions dealing with tax collection together with municipal staff in order to encounter the problem of tax avoidance.

5.5 Areas for further research

The research study was conducted to see the influence of taxation and local government performance in Kinondoni Municipal Council therefore future studies can do research on the same problem looking into procedure and policy formulated and reformulated by KMC if they affect taxation. Further research also needs to be done on taxation and local government performance.

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APPENDIX I

QUESTIONNAIRE

I am the student of Mzumbe University Business School conducting research on **“Taxation and Local Government Performance”**. The information being gathered will be confidential and used solely for academic purpose. Please assist by responding the following questions to enable the researcher to attain the intended objectives.

SECTION A

To Determine Factor Affecting Local Government Performance

1. What types of taxes does the Kinondoni municipal Council collect from the public?

a) Direct b) Indirect

2. What other types of taxes does the Kinondoni municipal Council collect from the public?

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.....

.....

3. What are the uses of those fund getting from taxation and levy.....

.....

4. Do you think the public is getting enough service from the amount paid as tax to Kinondoni municipal council? Yes No

5. Do you think the amount of revenue collected by the Kinondoni municipal Council in form of taxes is sufficient to enable it to deliver services to the public?

a) Yes b) No

If **NO**, Please give your reason(s):

.....

.....

...

6. What are the challenges that the Kinondoni municipal Council faces in its taxation process?

a) Tax evasion

b) Tax avoidance

c) Others (specify).....
.....

7. What are some of the solutions to the challenges in question (6) above?

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

8. What are the factor affecting local Government performances?.....

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

SECTION B

To Establish The Relationship Between Taxation And Local Government Performances

9. What is the impact of taxation on the service delivery by the local government?

.....
.....

.....10. What is the relationship between taxation and local government performance?

.....
.....

SECTION C

To Establish The Reasons For The Relationship Established In Objective 10 Above

11. What are the reasons for relationship established above?

.....

.....

THANK YOU

APPENDIX II

TIME FRAMEWORK

Proposal writing	January to February 2013
Data collection	March to June 2013
Report writing	July to September 2013
Submitting	October 2013

APPENDIX III

RESEARCH BUDGET

Item	Amount in US Dollars \$
Typing and Printing	700
Literature collection	300
Data collection	700
Transport	1000
Miscellaneous	300
TOTAL	3000