FACTORS HINDERING TAX COMPLIANCE OF TRADERS IN TANZANIA:

A CASE OF MWANZA CITY COUNCIL

By

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A Dissertation Submitted in Partial Fulfillment of the Requirements for Award of Degree of Master of Business Administration (MBA-CM) in Corporate Management of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled ***Factors Hindering Tax Compliance of Traders in Tanzania: A Case of Mwanza City Council,*** in partial fulfillment of the requirements for the award of the degree of Master of Business Administration (MBA-CM) in Corporate Management of Mzumbe University.

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I, *Julius R. Mafuru*, do hereby declare that this dissertation is my own original work and that it has not and will not be presented to any other university for the award of the said qualification or any other similar degree award.

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

DEDICATION

This dissertation report is dedicated to my mother Debora Nyaganya Mafuru and my beloved wife Magreth and our lovely children Junior Julius and Grace/Debora Mafuru.

LIST OF ABBREVIATIONS

ABA	American Bar Association
DRD	Domestic Revenue Department
EAC	East African Community
EFDM	Electronic Fiscal Device Management System
EFD	Electronic Fiscal Device
ETR	Electronic Tax Register
EFP	Electronic Fiscal Printer
ESD	Electronic Signature Device
EC	European Communities
FIRS	Federal Internal Revenue System
ITEFDR	Income Tax (Electronic Fiscal Devices Regulations)
IMF	International Monetary Fund
IT	Information Technology
LTD	Large Taxpayers Department
MDGs	Millennium Development Goals
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umaskini Tanzania
NSGRP	National Strategy for Growth and Reduction of Poverty
OECD	Organisation for Economic Co-operation and Development
TGCVPN	Taxpayer’s Guide Complied VAT Public Notice
TRA	Tanzania Revenue Authority
URT	United Republic of Tanzania
TTCP	TRA Third Corporate Plan
VAT	Value Added Tax
WB	World Bank

ABSTRACT

This study aimed at assessing the ***Factors Hindering Tax Compliance of Traders in Tanzania*** with reference to Mwanza City Council. The main objective was achieved with the following specific objectives which were to identify tax challenges facing Traders to register themselves with tax laws, To examine the obstacles facing Traders in collecting 18% as VAT from their customers, determination of factors making Traders to become reluctant in using EFD Machines, and also to investigate whether all eligible traders are actually registered in tax system.

However, the study also examined the issue of tax evasion and tax avoidance for traders as well as the possible solution to control tax evasion and tax avoidance so as to create voluntary tax compliance for small and medium entrepreneurs.

The study used questionnaire, interviews and relevant documents in collecting primary and secondary data. The study found that tax compliance in Mwanza City Council of Mwanza Region has been facing a combination of challenges (problems) such as: misunderstanding of the public in general and the business community in particular regarding the tax laws. It was further noted that there was resistance against registrations for VAT and other taxes by some traders. Moreover, it was found that some traders provide understated financial statements, while others do not issue electronic tax invoices or issue illegal invoices. It is thus concluded that there are various problems in the administration of tax laws in Mwanza City. On the basis of these findings, the study recommends that the authority should train the taxpayers about the rules and regulations of tax laws continuously and recruit new employees

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CHAPTER ONE

1.0 Background Information

This study aimed at examining factors hindering tax compliance of traders in Tanzania.

In Tanzania the genesis of taxation can be traced way back when Tanganyika was under colonialism. The colonizer used taxation as a tool for obtaining cheap labor. *Hut* and *poll* taxes were introduced in Tanganyika by German in 1912. The poll tax was a personal tax payable by a male native person who did not own a hut.

Tax administration has been facing a combination of Problem in Tanzania, which makes the amount of tax collected to be lower compared to the actual amounts that could have been realized. Despite various policy measures implemented by the Government of Tanzania and TRA officials such as increasing educational awareness campaign among traders, increasing tax audit and amending some tax laws such as the New VAT Act, 2014 instead of the former VAT Act, 1997, reducing VAT rate from 20 percent to the current 18 percent, yet tax administration continue to be of major problems in Tanzania taxation system and the whole economy, which has resulted into frequent conflicts among traders, TRA officials and Government on the other hand (URT, 2012).

The tax issues led to the formation of the TRA in 1995 by an Act of Parliament No.11. It was established so as to bring the function of government under a single umbrella; impart some extent of self-government to the function with the anticipation of increasing revenue collection, improving voluntary conformity, diminishing collection costs, broadening the tax base and scheming evasion and fraud.

In 1998/1999 Tanzania joined more than (90) countries in the world which were operating the Value Added Tax (VAT) system. In mainland Tanzania, the VAT system was administered under the Value Added Tax Act No. 24 of 1997, but currently the VAT system is administered under the New Value Added Tax Act, 2014 as a result of the introduction of VAT in mainland Tanzania, the sales Tax Act, 1976 was repealed while Hotel Levy Act 1972, the Stamp Duty Act, 1972 were amended so as to exclude registered VAT traders from paying the hotel levy and stamp duty on receipt.

The main reason for introducing VAT was to broaden the tax base. Another reason was to attain economic neutrality, to promote exports, and to attain its administrative advantage (TGCVPN, 2000).

VAT was mainly established to substitute the sales tax, which was incapable to create adequate revenue as it was narrowly based. As food merchandised are commonly zero-rated and most agricultural inputs are exempted, VAT has not brought numerous new groups into the tax net Fjeldstad (2003). In order to smooth the progress of the collection procedure, the VAT threshold was doubled, with a corresponding modification in the presumptive tax, on 1 July 2004 (IMF, 2004).

By 2004 Income Tax Act was launched required VAT taxpayers to keep proper records of their business and TRA operations was integrated with the aim of improving effectiveness and efficacy by providing service from one office for all types of taxes at one visit by taxpayers (TRA, 2008). The hallmark of this objective was the incorporation of VAT and Income Tax Operations. This has been achieved through the introduction of the Large Taxpayers Department (LTD) and the Domestic Revenue Department (DRD). TRA has decided to introduce the EFD as predetermined in the Value Added Tax (Electronic Fiscal Devices) Regulations 2010, as a gauge to improve VAT compliance and control revenue leakage. The tax identification number was introduced in 2009 with the objective of Successful implementation and management of a VAT.

In the year 2011/12 the Government continued with reforms in the system for collecting domestic revenues from VAT tax by taking administrative and policy procedures, together with changing tax rates and amending tax laws. On the other hand, despite widespread changes the VAT tax systems in Tanzania remains difficult and not clear (WB, 2012).

This is reflected by the cumulative challenge encountered by TRA official in administration of tax in Mwanza City that each financial year the challenge are increasing, of which is not a good indicator in tax administration because they may increase cost of tax administration. Compared to its neighboring countries, the revenue performance of Tanzania's tax system remains poor due to a big difference between the government's huge expenditure and dormant revenue.

Tax administration in Mwanza City is under the Tanzania Revenue Authority as the central government and respective Local Government Authorities. Also with the matters of VAT administration, there is also collaboration with taxpayer's education departments whereby the taxpayer service department disseminates important educational services about VAT and other taxes to the businessmen and general public in Mwanza City and other parts of Mwanza Region.

Performance of VAT collection in Mwanza City has not been good due to the problem of administration facing VAT. Most developing countries, including Tanzania face substantial fiscal challenges: spend more; spend better; takes more the income or profit arising from such transaction as the sale of land or other property; tax better.

The development community expects them to meet up such challenges while at the same time paying close concentration to the implications of the fiscal policies adopted for many issues of interest the list varies from time with changing intellectual fashion, but would likely today include such issues as the effects on informality, poverty relief and gender balance.

UN Millennium Project (2005) has set the tax bar high, signifying that most developing countries should mobilize up to an additional 4 percent of GDP through domestic revenue mobilization efforts in the near future, presumably in a sustainable fashion. Of course, there is nothing new about setting such targets.

Unfortunately, as now many developing countries (Tanzania being among) have failed to meet such targets, no matter how often they are assured that such "… expansion is not only the necessary strengthening tax collection… (UN Millennium

Project 2005, 245).” There is more to understanding how countries may improve their tax effort than a simple exhortation to try harder.

In Tanzania both the Central government level via Tanzania Revenue Authority impose consumption taxes and income taxes as necessary for revenue purpose. No one talked about local taxes imposed by respective Local Authorities, since all the action or the impact relies on the similar taxable person who are small and medium entrepreneurs.

1.1 Statement of the problem

The tax system was introduced in Tanganyika by German in 1912 to boost the income of the country. This means that the national budget of Tanzania depends much on tax as the main source of income. The aim of taxation was to enable the country to raise its own sources of income rather than depending too much on donor support for her development.

(Fjeldstad, (2006). In Tanzania tax system is administered by the Tanzania Revenue Authority (TRA) for the Central Government while for the local government, there are bylaws that empowered each local authority to collect some levies and duties. Some of the tax laws include Business Income Tax system and the Value Added Tax system. Recently the country has been experiencing riots and strikes between the government against small and medium entrepreneurs.

At this aspect some concerns occur which are still unanswered and thus cause the researcher to perform a study which tries to deal with the following questions; why small business owners of Tanzania are not fascinated to participate in the tax system? Are the tax rules very complex? Are the tax rates high? Is the administration low? What about the conformity cost of taxpayers in Tanzania? Are conformity expenses of investors very high?”

Why tax evasion and noncompliance are greater in Tanzania? Why small business owners of Tanzania are not fascinated with EFD Machine?

In other words, the Business income tax is chargeable to Traders of Tanzania whose total taxable income is more than four million per annum. Traders whose business income is below four million per annum have been exempted from paying tax. We have witnessed the efforts of the government of the United Republic of Tanzania tries to reduce the tax burden to his people, and on May first, 2016 during the workers' day, the president of the United Republic of Tanzania his excellence Dr. John Pombe Magufuri reduced the tax rate to single digit for smaller wage earners to be 9% from the previous rate of 11% (The Income Tax Act, 2004) Revised Edition 2016).

Therefore the main objective of this study was to find out and analyze the possible factors hindering tax compliance for traders of Tanzania. The study tells us as to why in Tanzania currently the country has been experiencing riots and strikes between the government against small and medium entrepreneurs.

Failure to register voluntarily under tax laws denies that government of significant revenue to the extent it may fail to achieve the Millennium Development Goals by 2015 and the set National Vision 2025.

It is not clear why business traders are reluctant to voluntarily register with tax laws. A Survey study of entrepreneurs from Mwanza City Council represents other entrepreneurs in Tanzania as in most cases they all face almost similar factors.

1.1.1 Objectives of the study

1.1.2 General objective

The overall general objective of this study was to investigate the possible factors that influence the tax compliance of traders in Tanzania focusing on entrepreneurs of Mwanza City Council.

1.1.3. Specific objectives

The study was striving to meet the following specific objectives.

1. To identify tax challenges facing traders to register themselves with tax laws.
2. To examine the obstacles facing traders in collecting 18% as VAT from their customers.
3. To determine factors making traders to become reluctant in using EFD Machines.

4. To investigate whether all eligible traders are actually registered in Tax system.

1.2 Research questions

1. What are the tax challenges facing traders to register themselves voluntary with the tax law system?
2. What hindrance encountered by traders in collecting 18% from their customers.
3. Which factors cause the traders to be reluctant in using EFD machine?
4. Does all eligible traders are actually registered in the tax system?

1.3 Scope of the study

Mwanza City is the center of Mwanza Region and its economy is dominated by small and medium scale business such as hotels, groceries, bars, shops, manufacturing industries, service sectors such as health, education and security. These businesses form the major tax administration component in Mwanza City. The study has covered different areas within the Mwanza Municipality. Therefore the researcher confined him at Mwanza City Centre.

1.4 Significance of the study

The findings of this study on factors hindering tax compliance in Mwanza region is not only of academic interest, It is also important for policy makers in broadening the tax base and reduce cost of enforcement, hence revenue growth that will enable the government to eradicate extreme poverty and hunger and first attribute of National Vision 2025.

The society at large may benefit from this study because it gives an understanding of their responsibilities or obligation for paying tax, factors influencing tax compliance for traders as well as both positive and negative effects of paying tax to the government.

Also the study is beneficial for the government and its agencies such as the Tanzania Revenue Authority represents the Central government and the Local Government upon imposition and institutionalizing tax laws to small and medium entrepreneurs.

However the possible solution to control tax evasion and tax avoidance is said to be a more useful tool need to be addressed not only by the government but also small and medium Entrepreneurs.

However the study also is beneficial to other scholars for consulting it as the literature review of the factors hindering tax compliance of entrepreneurs. Thus the study is used as a design to guide existing entrepreneurs as well as prospecting entrepreneurs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The literature review covered definition of the key concepts, i.e. the factors hindering tax compliance of traders of Tanzania, the Business Income Tax, the Value Added Tax (VAT), and determinant factors and motivation. Furthermore, it covers theoretical review, empirical review and conceptual framework.

2.2 Definitions of Key Concepts

Key Terms: Factors hindering tax compliance of micro – enterprises of Tanzania, Taxpayers Service, Tax compliance, Non Compliance, Compliance Cost, the Business Income Tax, Value Added Tax (VAT), and the Electronic Fiscal Device Machine (EFD).

2.2.1 Factors hindering tax compliance of traders in Tanzania.

A large body of literature suggests that taxation affects the opportunities and behavior of corporations (Crocker and Slemrod 2005; and Goolsbee 2004). The importances of the legal system to micro-enterprises are induced together with three variables. The primary two square measures are pretty normal, whether or not tax rates, square measure looked as if it would be perceived to be high, and whether or not there’s uncertainty concerning tax policies. The third variable discussed here in this group is more country-specific, reflecting the very fact that Tanzania established a semi-autonomous tax authority in 1996 that is the Tanzania Revenue Authority (TRA). Studies indicate that the initial success of this model might have been reversed later (Fjeldstad 2033; Taliercio 2002). It’s therefore of interest to ascertain how taxpayers like micro-enterprises, concurred during this evaluation or takes a district view about legal policies.

2.2.2 Taxpayer service

Taxpayer services are set of measure undertaken by the tax administrations that are designed to support taxpayers in complying with the tax law.

2.2.3 Compliance

Compliance is "the judicious filing and reporting of necessary tax information, the accurate self-assessment of taxes owed, and the timely payment of those taxes with no enforcement action" (ABA, 1987).

2.2.4 Noncompliance

Noncompliance is the failure to file return, report income, compute deductions appropriately as well as pay correctly and on time (Casanegra de Jantscher, 1982).

2.2.5 Compliance Cost

Compliance cost, thus refers to "the value of the time spent on task related to filing tax return, as well as to any expenses on goods and services for that same reason" (Blumenthal and Slemrod, 1992).

2.2.6 Business Income Tax

In virtual of chapter 332 of the income tax Act, 2004, revised edition 2012 section 3 "business" includes a trade, concern in the nature of trade, manufacture, profession, vocation or isolated arrangement with a business character; and a past, present or prospective business, but excludes employment and any activity that, having regard to its nature and the principal occupation of its owners or underlying owners, is not carried on with a view to deriving profits.

According to Section 6 (1) of the Income Tax Act, 2004, the chargeable income of a person for a year of income from any employment, business or investment shall be:-

(a) In the case of resident person, the person's income from employment, *business* or *investment* for the year of income irrespective of the source of the income; and

(b) In the case of a non-resident person, the person's income from the employment, business or investment for the year of income, but only to the extent that the income has a source in the United Republic.

Under section 8-(1) A person's income from a business for a year of income is the person's gain or profits from conducting the business for the year of income (The Income Tax Act, 2004, RE 2012). This constitutes services fees, incomings for trading stock, gains from the realization of business assets, amounts derived as consideration for accepting a restriction on the capacity to conduct the business; gifts and other *ex gratia* payments received by the person in respect of the business, amounts derived that are effectively connected with the business and that would otherwise be included in calculating the person's income from an investment.

2.2.7 Value Added Tax (VAT)

The key features of the VAT are that it is a broad-based tax levied at several stages of production, with – crucially – taxes on inputs credited against taxes on output. That is, while sellers are required to charge the tax on all their sales, they can also claim a credit for taxes that they have been charged on their inputs. The advantages of this is that revenue is secured by being collected throughout the process of production (unlike a retail sales tax) but without distorting production decisions (as turnover tax does)

Value Added Tax (VAT) is of a variety of types of indirect taxes, which has "tax credit" value. Eventually, VAT is imposed on general consumption expenditure and is paid by the customer (end user). It should be noted that VAT is not paid by entrepreneurs or producers (Sujjapongse, 2005). The difference between the value of merchandise and presented services with a value of purchased or collected goods and services in a specific period (Ya'ghoubnejad, 2008).

Value Added Tax (VAT) in several countries has been applied as a new income source with the aim of increasing government revenue. Due to vastness of goods and services transacted and exchanged in each country and for value added at each step will be subject to value added tax, it is obvious that tax basics have vast application than any other tax (Boskim et al, 1980).

2.2.8 Electronic Fiscal Devices (EFDs)

Electronic Fiscal Device (EFD) means a "machine intended for use in business for proficient management controls in areas of sales analysis and stock control system and which conforms to the requirements specified by the laws which include Electronic Tax Register, electronic fiscal printer and electronic signature device" (ITEFDR, 2012).

EFDs are of different types such as Electronic Tax Register (ETR) that is used by retail business that issues receipts manually; Electronic Fiscal Printer (EFP) that is used by computerized retail outlets.

It is connected to a computer network and stores every sale transaction or details made in its fiscal memory; Electronic Signature Device (ESD) that is designed to authenticate by signing any personal computer (PC) produced financial document such as a tax invoice.

2.3 Empirical Literature Review

2.3.1 Types of VAT

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

2.3.1.1 Consumption VAT

In consumption VAT, the corporation is allowed to subtract from the gross value of its product not only the non-capital input purchases from other firms but also the capital equipment purchased. Thus, in consumption type VAT, tax base, is the difference between gross value and total value of inputs purchased that is capital and non-capital (VAT, 2014).

2.3.1.2 Production VAT

In the production VAT, the value of the inputs purchased by the firm from other firms is not deduced in full. Only the value of non-capital purchase is deducted. Furthermore, no depreciation is permitted for the purchase of capital goods, even in subsequent years. Thus, the tax base in production type VAT is equal to gross value less value of non-capital goods purchased.

2.3.1.3 Income VAT

In income VAT, the firm is allowed to take away the depreciation on the capital goods (during the year) apart from the full value of its non-capital purchases. Here, firms can't deduct the entire value of the capital goods purchased during the year, but they can deduct the respective amount of depreciation attributable to that year (VAT, 2014).

2.3.1.4 Wage VAT

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

Principal Components of VAT

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

Input VAT

Input VAT is the VAT payable by a taxable person on goods and services supplied to him and on goods which he imports for the purpose of a business carried on by him and for which registered for VAT. Viewing the concept from the other angle, it is the VAT payable on purchase of taxable supplies, including capital goods and operating and administrative expenditures. For a VAT registered person (taxable person) input VAT is not a component of the cost of purchase / import rather the registered person is entitled to take the input VAT deduction against the VAT charge on sales or is recoverable from the Tax Authority. Hence, input VAT is a receivable for a registered person (VAT, 2014).

Output VAT

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

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

2.3.2 Introduction of Compliance

The subject of tax compliance is the focus of a considerable body of theoretical and practical analysis. Many monographs, commentaries and tax reports have dwelled not only on the tax structure of countries contemplating implementing tax reform strategies, but also on the most efficient ways of improving tax compliance.

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

Such evidence demonstrates the need for a correlation between tax policy formulation and implementation (Surrey, 1967; Jenkins, 1993).

2.3.2.1 The Concept of Voluntary Compliance

“No body prefers taxes. Community does not prefer to pay them. Governments do not prefer to enforce them. However, taxes are necessary mutual to finance desired public payments during a non-inflationary approach as well as to make sure that the burden of paying for such payment is fairly distributed. At the same time, taxes impose real costs on society. The smart tax program seeks to diminish if not to reduce those costs (Bird, 2003).

That's why, stronger punishment of council staff and counselors whose misconduct is detected is perceived to be a key measure for improving the present system."

Both income and VAT system, the tax authorities have tended to manage tax regime in a manner that encourages and expects taxpayers to self-assess their tax liability and then pay the appropriate amount of tax to the government.

This is an abstract sound approach since the taxpayer has better information about his basis, earnings and it is comparatively expensive for the government to assess every taxpayer's return.

On the other hand, self-assessment must be accompanied by mechanisms that ensure high levels of conformity. This measure such as taxpayer service and enforcement, must concentrate on the behavioral factors that establish the level of tax conformity in a population.

Self-assessment combined with high level of taxpayer service. This approach proposed

that voluntary conformity by the taxpayer would be further successful and efficient (that is, would have lesser managerial and compliance costs) if the tax administration put greater weight on supporting taxpayers in meeting their responsibilities.

2.3.2.2 Tax Compliance Determinants

Tax compliance is conformity with report constraint tool terms and condition in a way that all payments of taxpayers require submitting tax statements in appropriate time. Also, tax declaration should report tax liability accurately according to total internal earnings, court rules and decisions that are executable at the time of registering statements. The prime goal of a revenue authority is to collect the taxes and duties due in accordance with the law and to do this in such way that will maintain self-confidence in the tax system and its administration (Rametse et al., 2002).

The measures of taxpayers whether due to unawareness, carelessness, irresponsibility, or intentional evasion as well as weaknesses in a tax administration mean that the instances of failure to comply with the law are foreseeable. Therefore, tax administration should have in place strategies and structure to ensure that non-compliance with tax law is kept to a minimum (OECD, 2004).

Revenue authorities have an innermost role (and vested interest) in ensuring that taxpayers and other parties comprehend their obligations under the revenue laws.
For their part, taxpayers and others have a significant part to play in meeting their obligations that comply with the law. Conformity will fundamentally relate to the extent to which a taxpayer meets these obligations. These wide categories of taxpayer's responsibilities are: registered in the system, timely filing or lodgment of requisite taxation information, reporting of absolute and precise information (incorporating good record keeping); and Payment of taxation obligations on time (OECD, 2004).

However, the concept of voluntary compliance cannot be adequately examined without sufficient prior understanding of the general framework of taxpayer compliance.
Mikesell and Birskyte (2007) have delineated four doctrinal strands: economic models, uncertainty model, norms of compliance and inertia model.

Economic Models

Allingham and Sandmo (1972) factor out that the logical taxpayers, priority objectives are to improve their financial position. Consequently, they will constantly try to avoid taxation whenever the settlement from criminal behavior exceeds the possibility of recognition and penalties. Becker (1968) highlighted that, in general certain person engaged in banned conduct not because their basic inspirations are different from those of "honest" public, but because their cost and advantage vary. The economic analyst concludes that since conformity decisions are based on an evaluation of cost and advantage, high probabilities of recognition for non-compliance and large charges for locating violators would encourage greater conformity, hence increasing tax revenue sources.

Uncertainty Model

These models are an expansion of the economic model reasoning. While maitaining the postulation that logical taxpayers seek to improve their economical interest, sticking to this model factor out that in the real life information about charge supply and the possibility of review is partial. As a result, present or potential taxpayers have to depend more on the recognized, rather than the actual, chance of recognition and charge (Friedland et al., 1982).

Norms of Compliance

These are standards of taxpayer of behavior that re prejudiced by the tax culture. There is a reason to believe that societal evasion might be considered wrong and immoral in some societies, it may be regarded as socially acceptable in order society (Warneryd and Walerud 1982).

In countries with a tradition of high compliance with the tax law, a small number of taxpayers would attempt tax evasion strategies. But, the empirical evidence seems to propose that taxpayer compliance with the law is influenced by their perception about whether or not other taxpayers are complied (Lewis, 1982). Particularly when they feel that the taxes they pay are intended worth purpose (Kirchler, 2007).

The Inertial model

After in individual routinely participates in a given practice, he has slight motivation to change. By the same token, taxpayers who have history of compliance with the law do not be inclined to evade their responsibilities. This is not due to high risk of detection or some overarching more imperative, but rather because they have nurtured a habit of compliance (Spicer, 1986). The psychological underpinnings of the inertial theory are rooted in Festinger's theory of cognitive dissonance (Festinger, 1957), which states that "When a person holds contradictory beliefs or ac t in a way inconsistence with his beliefs, disagreeable feeling arise. In turn, these feeling push the person to change either his belief or his behavior, so that one is consistent with the other" (Mikesell and Birskyte (2007). The implication is that once a taxpayer begins to engage in no-compliant behavior, his commitment to obey the law declines and his sense of the impropriety of the act fades. The result is that inertial sets it and it becomes more and harder for him to change his way of life (Spicer, 1986).

These theories have enormous practical implication for both policymakers and tax administrators. Those aspects of the theories compliance are very significant because they challenge normative assumptions about taxpayer behavior, and are, therefore, central to the design of new policy initiatives that address compliance problem directly. At various points of the discussion of these theories are drawn on in order to address the problem that they highlight and to suggest some practical solution relating to the improvement of voluntary compliance by taxpayers.

Inflationary Effects

An often-voiced apprehension in countries without a VAT is that the introduction of the tax would set in motion a carved in which the tax, prices and wages would nourish on each other, that is, a VAT would be inflationary. This view often confuses on one occasion-price increase, with a continual increase in prices. In a general study about the potential collision on prices by introducing a VAT or altering its rate structure,

Tait (1990) found that in 22 out of 35 cases evaluated, the preamble of the VAT had slight or no consequences on the consumer price index. In 8 cases the introduction of A VAT was related with a once-and-for-all upward shift in the consumer price index. In only one of these cases could this shift be said to contribute to a speeding up in the rate of increase of the consumer price index. Whether prices increase or not depends on whether the tax is passed forward or passed back in the form of lesser factor payments.

What happens will depend on the reaction of the Central Bank. An accommodating monetary policy would allow consumer prices to rise by same rate of the tax while a tight policy would force factor payments to drop. Price controls have also been used successfully to dampen the prospective price-wage acceleration of inflation subsequent to the VAT introduction in, for instance, Austria, France, South Korea, the Netherlands and Norway (Tait, 1990).

2.3.3 An Appropriate Environment for Tax Compliance and Revenue Enhancement.

Irrespective of how superior tax strategy is (in theory), or how good tax supervision is (in practice), high-quality results are merely potential in a suitable atmosphere (Bird, 2003). Consequently, as a first step it is important to appreciate the atmosphere within the relevant authority to be considered. In this situation, there are a range of relevant "environments" or factors, namely the political environment, prevailing economic environment, existing fiscal policies, the constitutional and legal (i.e. Rule of law) environment, the tax administration, taxpayers, as well as or possibly collectively in country realities, that may impact on tax conformity.

These factors are normally interconnected and mutually dependent. For instance, political or economic welfare changes of citizens will impact on how taxpayers respond.

2.3.3.1 Tax Policy Environment

Good tax policy is valued very little if it cannot be implemented efficiently. Thus, the administrative aspect of taxation merely cannot be ignored in good tax policy plan. A review of the present circumstances must take into account what can logically be done in future. For instance, how possible is it politically that alter to institutions, or amendments to current laws (including the Constitution) and practices will be exaggerated, even if these would compose a good quality policy (Bird and Zolt, 2003).

2.3.3.2 Legal Environment – Complexity of the Tax Laws

As Mikesell and Birskyte (2007:1067 – 1068) appropriately pointed out, difficulty of tax legislation reduces compliance. In their study, which focuses on the United States, they ended that there is a general assent that American income tax preparation is troublesome and even devastating.

"The regulation which is known only by little class of lawyers and accountants is questionable and doubt" By discouragement popular support, complexity undermines the self-assessment in which economical compliance depends".

Tax laws of their technical nature are complex. But, these laws can form additional complexity in a variety of ways. For instance, recordkeeping requirements, tax concessions, multiple tax rates, rebates, etc., all add to the complications.

2.3.3.3 Institutional and Administrative Environment

In all ideal world, tax administration should have the autonomy to collect the tax due in terms of the laws. But, as indicated above, political and policy pressures often impact on the collection role.

2.3.3.4 Tax Culture

Tax system management of a country cannot achieve its objectives without acknowledgement of the prevailing tax system. Since the study of tax culture in some states has rather long practice. The most excellent tax rules, facilities, methods, resources and other means will turn useless and wasteful without bearing in mind belief, values norms of society and commonly tax culture of the country. The elements and players make a specific tax culture of the country.

The elements and players make a specific tax culture and comprise cultural norms and the institutions that have been developed in the course of history.

Tax culture constitutes a concept more than culture of tax collection and culture of tax payment as well (Ali et.al, 2013) attributes the term “tax culture” which means a particular society at a particular time and place for voluntary tax compliance increase of taxpayers. In Iran, some provisions of government has been formulated in such a way that tax evasive is encouraged and the said issued has caused culture of payment of tax by taxpayers and tax policy-setting by governmental body as well as the unresponsiveness of reference groups.

2.3.4 Facilitating Compliance

As Bird and Zolt (2003) state, “the first task of any tax administration is to smooth the progress of compliance. This requires making sure that those who are supposed to be in the system are in the system and that they act in accordance with the rules.” In this regard they list four important steps.

Firstly is to make sure that taxpayers' treatment is as comprehensive as possible. If taxpayers are obligatory to be registered, the registration process should be as straightforward as possible under the circumstances. Systems must be in place to discover and follow up on those who do not register willingly. Tax authorities should take up an appropriate distinctive taxpayer identification system to make easy compliance and enforcement.

Secondly, tax authorities require an appropriate procedure for determining tax liabilities.

This could be done administratively (as with most property taxes) or by some self-assessment procedure (as with most income taxes and VATs).

Thirdly taxes that are outstanding must be collected in a proficient and appropriate manner. In many countries, this is the most excellent done through the banking system. It is rarely appropriate for tax administration officials hold money directly.

Finally, tax authorities must endow with sufficient taxpayer service to make taxpayer compliance with the applicable laws and regulations as easy as possible. It can be completed in a number of ways, including the stipulation of adequate information, pamphlets, forms, advice kiosks, extending payment facilities and options, likewise electronic filing of tax returns.

Even tax bills can be used efficiently to converse information. This strategy rests on treating the taxpayer as a client (albeit not a wiling one) to be served and not a robber to be trapped (Bird and Zolt, 2003).

2.3.4.1 Taxpayer Service Concept

Spending resources to conduct an administrative assessment of tax liability or to mitigate taxpayer noncompliance exclusively through auditing and penalty is ultimately very costly. We propose that taxpayer services, such as electronic filing, tax simplification, continuous withholding, and taxpayer education, would foster voluntary compliance by reducing the taxpayer's cost (Silvan et al., 1997). Taxpayer education is especially crucial because the size of information gap in the tax system is inversely to the level of voluntary compliance.

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

Using taxpayer service to reduce the costs incurred by taxpayers in their effort to understand the law or to complete their self- assessment and make payment may be a cost-effective way to increase the overall level of compliance. Although the self-assessment function facilitate the voluntary compliance process, the amount of compliance cost borne by taxpayers is likely to be an important factor in determining the overall success of this approach.
At the core of taxpayer model is the proposition that a higher level of service help to reduce both financial and psychological levels of compliance cost, which in turn leads to increase the level of voluntary compliance.

2.3.4.2 The Central Role of Automation and Information System

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

Besides helping to track and identify potential taxpayers who have not been reached previously (whether because they are non-filers or stop – filers), modern computerization and electronic filing facilitate in helping significantly in improving compliance behavior.

For instance, modern technology permit the use of a unique taxpayer identification numbering system which allows for extensive cross –referencing, including VAT and customer duties.

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

2.3.5 Electronic Fiscal Devices (EFDs)

Electronic Fiscal Device (EFD) refers to a machine designed for use in business for efficient management controls in areas of sales analysis and stock control system and which conforms to the requirements specified by the laws (IFEFDR, 2012). EFDs are of different types such as Electronic Tax Register (ETR) that is used by retail business that issue receipts manually; Electronic Fiscal Printer (EFP) that is used by computerized retail outlets. It is connected to a computer network and stores every sale transaction or details made in its fiscal memory; Electronic Signature Device (ESD) that is designed to authenticate by signing any personal computer (PC) produced financial documents such as a tax invoice. The device uses a special computer program to generate a unique number which is appended to and printed to every invoice issued by the user’s system.

2.3.6 Concept of Tax Evasion

The term “tax evasion” relates to illegal and purposeful activities taken by individuals or organization to decrease their lawfully due tax responsibilities (Alm, 2012). Persons can avoid taxation by underreporting of earnings; by overstating reductions, exemptions, or credits; by failing to file proper tax returns or even by attracting in negotiate.

In the case of VAT, investors cannot be able to register for the tax, they may under-report revenues or, where different products are subject to tax at different rates, they may trim down their tax expenses by misclassifying revenue into the class subject to a lesser rate (or zero rate) of tax or avoid VAT by destroying the credit and return procedure (Keen, 2007). In exacting, the regular cumulating of the tax at every point of the series of manufacturing and allocation might lower the amount of tax at share at each point, and therefore the benefits to be made from making untaxed revenue. Corporations can present fake invoices that permit them to minimize their tax responsibilities, or sometimes individuals, try to find to register a company to camouflage their own personal utilization as bought inputs.

Tax evasion is a customary put into practice and regularly used in all nations. It reduces complete tax collections and creates mis-allotment in resource use when individuals change their behavior to deceive on their taxes, such as in their choices of hours to work, occupations to enter and investments to undertake (Alm, 2012).

Tax evasion has been studied by researchers from many social sciences disciplines, most typically economics and sociology. Economists presume that tax behavior is produced by underlying self-interest through the analysis of the consequences of behavior.

Sociologists tend to center on individually and socially constructed interpretations, values and norms. Nevertheless, over the last forty years, a considerable body of literature has developed in the area of tax evasion.

Why does community evade taxes? The mainly common answer would be “for greed”. But Economists assumption is that the public will commit a crime to take full advantage of their utility (Webley et al., 1991). Becker (1968) argues that people become criminals, not because their motivations are different from others’ but because their cost and benefits differ. Applied to this tax state of affairs, these treats people as rational a moral decision maker whose aim, in this as in all other areas, is simply to make best use of the utility.

The classical models of Allingham and Sandmo (1972); Cowell (1985) assume that behavior is predisposed by factors such as tax rate (which determines the benefits of evasion) and the penalties for fraud and the probability of discovery (which determines the cost.

Individuals have an option of how much earnings to affirm and how much should not. On the other hand, the main purpose is to maximize the efficacy of the taxpayer. Allingham and Sandmo (1972) model predicts that both probability of discovery and the brutality of penalties will affect evasion; if detection is likely and penalties are harsh to people. Allingham and Sandmo argued that, the tax authority can manage evasion by two alternate enforcement strategies that is, increasing either the penalty rate or the possibility of being detected.

2.3.7 Administrative of Tax Laws in United Kingdom

Based on research conducted in UK, there was a scientific proof which suggests that complying expenses, as far as VAT concerns are relatively high load with small business owners (Cnossen, 1994; Rametse and Pope, 2002). From Sandford et al (1981) to Coolidge (2012), numerous researches about tax complying expenses have eleveted general attentions, particularly from the government and the company industry.

Hence, the significant factor that convince complying costs research of VAT (in financial term) are-the problem of tax framework, trade size, the nature of the company, the variety of dealings conducted, the kind of and variety of groups used to information and results, the time period the company has been in service and also authorized for the tax, level of education and book maintaining training of business owners and staff preparing profits, bookkeeping system involved and socio market factors (Pope, 2003); Yesegat, 2008). These experiential results suggest that complying costs show a vast difference among different kind of taxes.

2.3.8 Administration of Tax Laws in Developing Countries including Tanzania

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

In developing countries like Tanzania the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration.

Concerning the latter, noted that developing and transitional countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. In these countries, thus, simply adopting a successful a good tax design attributes of developed courtiers would not make the tax successful (Bird and Gendron, 2005). The design ought to consider the tax administration dimension and the Socio-economic realities of the developing country in question.

In discussing the importance of tax administration in general, Bird (2004) noted that tax administration dimension ought to be placed at the center, not the periphery, of tax reform Jantscher (1990;179) also stated that "…in developing the country's tax administration is tax policy".

The study conducted by Gray (1987) noted that in developing countries, there is a big gap between what the tax systems appears to be on the surface and what it is in reality Bird (1989). Typically in low income countries there is usually a gap between the effective tax system and what is legislated in the relevant tax law (IMF, 1989) Administrative problems, in turn, may be partly caused by administrative resource constraint.

2.3.9 Administration of Tax Laws in Tanzania

In Tanzania study conducted on Tax compliance. According to Ongwamhana (2011), the taxpayers' compliance level in Tanzania is poor. Existing tax laws do not facilities, or encourage voluntary compliance.

They are more titled towards enforcement, with audit and sanction standing out as preeminent element. This situation, coupled with negative perceptions of government and the tax system, create the tax resistance which feeds tax evasion and tax avoidance.

Furthermore the study found that as the case for other countries, taxpayers' compliance is poor because legislation in Tanzania is generally not understood by taxpayers because it is too complex. The study concluded that voluntary taxpayer compliance has not been achieved at a sufficiently high level and the modernization of the tax administration undertaken in the mid-1990s, has done little to change the negative taxpayer perception on tax system at large (Ongwamhana, 2011).

2.4 Theoretical Literature Review

The Value Added Tax was mentioned as the primary source of tax compliance costs in 8 out of 11 OECD states that were interviewed Pope (2001). According to the study conducted by Pope in 2001 USA revealed that VAT complying expenses, opportunity mainly documentation for VAT purposes only, preparation and filing of VAT returns, verifying accounts, acquiring details about new techniques for filing VAT returns, changes in the law and other appropriate details (Cleroux, 1992; Klun 2004; O'Keefe and O' Hare, 2008).

2.4.1 Expectancy Theory of Motivation

Vroom's theory might be a useful theory to Traders registered person as a collection agency to TRA in the sense that there will be the agency by commission, and whatever they collect on the behalf of the government certain percentage retain with them as a reward. This reward will lead them to comply with tax law.

But care should be taken in balancing between enforcement cost and commission rewards. The theory is about the associations people make towards expected outcomes and the contribution they feel they can make towards those outcomes (Bowen, 1991).

2.4.2 The Benefit Theory

According to the benefit theory, the tax burden should be split up according to the benefit gained from the government expenditures that are funded by taxation. The persons who receive benefits from the government should pay the amount as taxes, which are equivalent to the benefits received. Therefore, those who receive greater benefits should pay more as taxes than those receiving less benefit. The government should not impose taxes, greater than the benefits received by the taxpayer. If the taxes are greater than the benefits received, then the tax system would not be equitable one.

Under the benefit principle, therefore, taxes are seen as serving a function similar to that of prices in the private transactions; that is, they help to determine what activities the government will undertake and who will pay for them.

If this principle could be implemented, the allocation of resources through the public sector would respond directly to consumer wishes (Adam and Browne, (2009).

2.4.3 The Ability to Pay Theory

The "ability to pay" principle suggests **that people with higher incomes should pay more than those with lower incomes.** However the principle does not answer the question of how much more. Its policy implications are based on the diminishing marginal benefit of a dollar assumption: **the widely–accepted belief that the value of an additional dollar of income falls, as income rises,** i.e. a rich man values an additional dollar less than a poor.

The ability-to-pay approach treats government revenue and expenditures separately. Taxes are based on taxpayers' ability to pay; there is no quid pro quo. Taxes paid are seen as a sacrifice by taxpayers, which raise the issues of what the sacrifice of each taxpayer should be and how it should be measured. Potential measures of "equal sacrifice" include equal absolute sacrifice (each person's welfare declines by the same amount), and equal marginal sacrifice (each person's displeasure" from taking away an additional dollar is the same).

Equal absolute sacrifice would suggest proportional taxation if the marginal benefits of a dollar of income fell proportionally with income.

If the marginal benefit of a dollar diminishes, but at a fairly slow rate, a regressive tax system could also be consistent with the principle, while if it diminishes at a faster rate, a progressive tax would be appropriate.

An alternative measure of sacrifice is **equal proportional sacrifice.** This method is much more likely to justify a progressive tax system, but it too depends on how fast the value of an additional dollar declines with income. There are many reasonable functional forms that do not support progressivity (Adam and Browne, 2009)

The equal marginal sacrifice principle suggests steeply progressive taxes that will collect the least valued dollars in the economy. The result also uses the assumption that the value of a dollar falls as income rises. Under this principle, in contrast with the previous two cases, the progressive does not depend on the rate with which the value declines.

Thus, without further information on the nature of welfare and the exact standard to be used, the ability to pay criterion does not justify regressive, proportional, or progressive taxes. The equal marginal sacrifice principle suggests an extreme degree of progression (Adam and Browne, 2009).

2.4.4 The Sacrifice Theory

This theory emerged from a discussion of "ability to pay" theory in which taxes paid are seen as sacrifice by taxpayers. Although it is now decidedly going out of fashion, the many variants of the "sacrifice" approach are similar to a subjective version of the "ability to pay" principle (Keen and Smith, 2007).

Under this doctrine, ability to pay is assumed to increase as income increases, and the objective is to impose taxes on a basis that would involve "equal sacrifice" in some sense. Taxpayers should make equal sacrifices in contributing to the cost of the government activity. However, there is a disagreement about whether there should be an equal absolute sacrifice, where the rich and the poor should suffer the same absolute

decline in utility; Equal proportional sacrifice where the proportional loss of utility as a result of taxation should be equal for all taxpayers; or equal marginal sacrifice where the immediate loss of utility as a result of taxation should be equal for all taxpayers. This will entail the least aggregate sacrifice (the total sacrifice will be the least).

The traditional justification for progressive taxation is that it causes all the taxpayers to sacrifice equally. The equal sacrifice doctrine can be traced back to Adam Smith, who argued for it as a principle of distributive justice. A government ought to make no distinctions of persons or classes in the strength of their claims on it.

Whatever sacrifices it requires from them should be made to bear as nearly as possible with the same pressure upon all (Keen and Smith, 2007).

Equality of taxation means equality of sacrifice. However, equality of sacrifice by itself does not necessarily imply progressive taxation. If the marginal utility of income or wealth decreases the richer one is, then a given amount of tax falls more lightly on richer than on the poor. Equal loss of utility therefore; implies that the rich should pay more in tax than the poor. But that is the extent of the matter; it does not require that the rich pay a higher proportion of their income / wealth in taxes (Keen and Smith, 2007).

Importance of tax

Revenue generated from taxation plays the following important roles in the economic development of a nation or tax jurisdiction.

Generation of revenue for government expenditure. This is a traditional objective of any tax. Therefore, tax policy is considered to be a substantial source of funding for most government operations. This means that taxation serves a major source of government revenue like to finance spending programs, maintaining law and order, protection of lives and property and financing infrastructure, development and projects of the government such as construction of roads, dams and school buildings.

Enable the government to provide and support social development by ensuring appropriate distribution of income (redistribution of wealth): the distributional role of tax policy is very critical especially in developing courtiers like Tanzania due to large disparities in income between people. Disparities in income can block development and increase demand for the government social spending. Existence of numerous exemptions and government favors to the high income earners/the rich make the rich pay less.

Device or reduction of income disparities among geographical regions with different factor endowments: tax policy may direct the government acting as the central revenue collection and planning authority to undertake particular programmes for the direct benefit of some less favorable group of citizens such as destitute or lowliest paid or zero income earners. The revenue may also be used to subsidize social and economic development of geographical areas that may not be naturally well favorable.

To enhance economic stability and growth: tax policy enables to ensure elasticity with respect to changes in value for money and income levels. If tax yields rise when national income rises the government has less need to rely on deficit financing to maintain and expand the level of public sector activity in the growing economy.

Other importance’s includes:- Restrain consumption of harmful goods such as alcohol and tobacco which are not good for our health and morality as well, protection of infant local industries, Control of certain aspects of the local economy such as, balance of payment, fiscal tool to control inflation, narrowing budget deficit and reduce.

Although all the above objectives of taxation are incorporated into tax policies, taxation measures which seek to stimulate economic growth and to redistribute wealth have not been the driving force behind tax policy.

These objectives tend to be overshadowed by the pursuit of revenue to fund government expenditure. As a result even where these objectives are incorporated into fiscal policy or written into tax statutes, tax administrators tend to find ways not to give full effect to these objectives as reflected in cases of tax incentives and reliefs.

2.5 Research Gap

Recently the country of Tanzania has been experiencing riots and strikes between the government against small and medium entrepreneurs.

At this point some questions arise which are still unanswered and thus cause the researcher to conduct a research study on the factors hindering tax compliance of traders of Tanzania. The questions to be asked are: - why traders of Tanzania are not interested to join the tax system, are the tax laws very complex? Are the tax rates very high to afford? Is the enforcement of tax low? How about the compliance costs of taxpayers in Tanzania? Are compliance costs of traders very high? Is there any issue of tax evasion and tax avoidance? Do traders of Tanzania interesting with EFDs machine?.

All these failed to be answered by different researchers which caused existence of Research Gap that need to be covered or closed by this study on factors hindering tax compliance of traders in Tanzania.

2.6 Conceptual Framework

A conceptual framework is a systematic conceptual structure of interrelated elements in some schematic form (Black, 1976:68). Such as narrative statements or Mathematical equation. It describes the relationships between and among concepts and variables.

The reason for using conceptual framework, this will enable researcher to identify and concentrate on important and relevant variables and attributes; instead of getting lost in irrelevant and unimportant details.

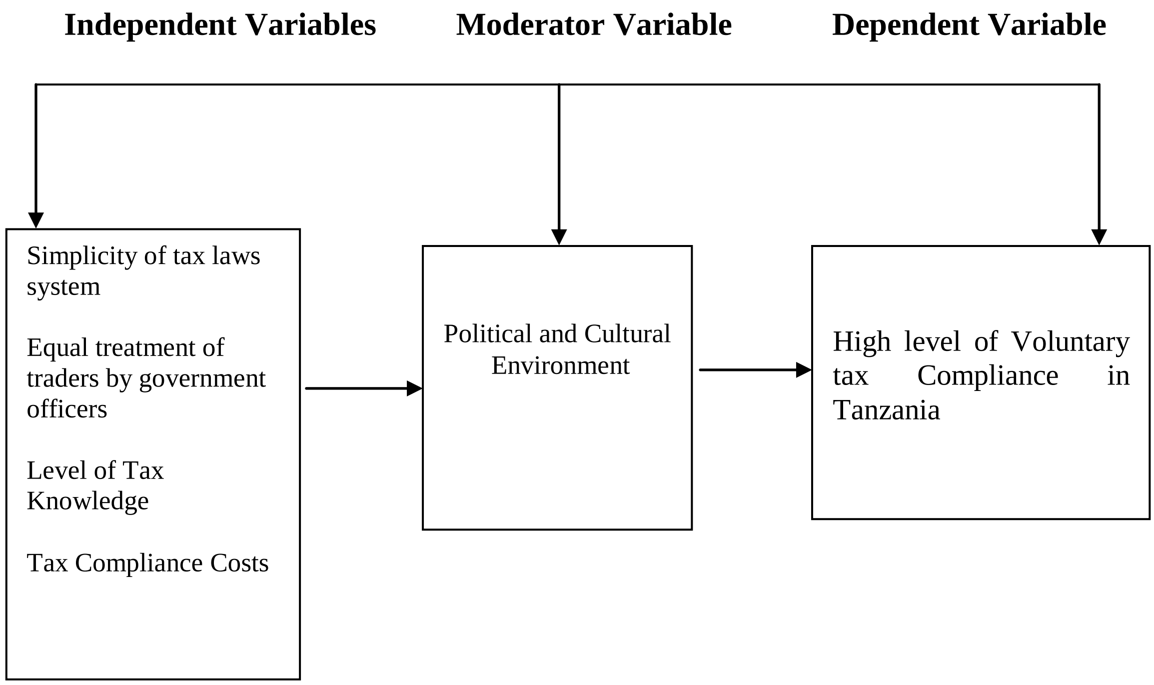
It also represents pictures of theories. As such, it enables the researcher to group more quickly and comprehensively the sorts of relations among variables postulated by theories (Krishnaswami, 2002:21).

The study assumes that the cost associated with tax laws such as penalties, offense for failure to issue tax invoice, to keep records cause low level for registration.

It is also assumed that unequal treatment of taxpayers by TRA causes the traders to be reluctant in collecting 18% of VAT from customers. Furthermore, it assumed that complexity in using EFDs Machine makes the traders to be reluctant to acquire the EFDs Machine. The study assumes that a high level of tax knowledge result into a high level of voluntary compliance.

The study has conceptualized that in any taxation system, there is a low Tax compliance cost, high level of tax knowledge, simplicity of the Tax law system and equal treatment of traders by responsible government staff officers under supportive political and cultural environment when other factors remain constant, the level of tax compliance will be enhanced, tax challenges will be mitigated, and rising contribution of government revenue to GDP ratio.

Figure 1: Conceptual Frameworks



Source: Author's Own Construct, 2017

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research method, which used to investigate the research questions, it explains more about areas of study, research design, population of the study, unit of inquiry, sample size and sampling procedure, sampling design, as well as data collection tools and analysis techniques that have been used in the study.

3.2 Study Area

The study was conducted at Mwanza tax regional specifically Mwanza City Council. The reason for selecting this area is that the region has many traders' transactions and their level of non-compliance is large. Another reason for selecting the area is the available of other secondary relevant data that is related to the study.

3.3 Research Design

Research design is an arrangement of condition for collection and analysis of data in such a way that aims at combining the research purpose with the economy, or is a plan for doing a research Chamwali (2007).

According to Chamwali (2007), a case study is used to explain a unit in detail (when, how, and why questions are being imposed when the examination has no control over the actions and when the center of attention is on a modern phenomenon within some real life context). Another type includes survey design and experimental design. The Research design adopted in this study was a **Survey study**. The design was chosen due to its flexibility in terms of data collection and analysis, also due to its deepness and breadths of the study variables. Moreover the survey study was chosen due to the number of respondents who were expected to be large to some extent i.e. at least 150 respondents.

3.4 Population of the Study

This is the total of all cases that establish or strengthen as with new evidence or facts to designate set of specification (Le, 2003). Adam et al. (2008) define population in research as the totality of the objects under investigation.

The population of this study consisted a total of 239 respondents which was categorized in the following subgroup: 20 TRA staffs of Mwanza City, 12 Local government officers of Mwanza City 110 traders who are tax registered and deals with taxable supplies and non taxable supplies subjected to VAT at Mwanza City, 60 Unregistered traders who are not tax registered *(Machinga)* in an approximation figure. 5 leaders of *Sokokuu,* 4 suppliers of EFD machines, 28 general public in Mwanza City of Mwanza Region (Source: TRA Office Mwanza City and TCCIA Mwanza City).

3.5 Unit of Inquiry

The unit of inquiry was obtained from three categories of respondents which were tax officers (Head of blocks), traders Covered at the level of 5 blocks and other stakeholders. Specifically, the units of inquiry were: TRA staffs of Mwanza City, small and medium traders who are registered by TRA as taxpayers, unregistered trades famous as *Machinga*. Leaders of Sokokuu area, suppliers of EFD machines, and general public in Mwanza City of Mwanza Region.

The respondents comprised of:

(i) TRA Staff
(ii) Tax registered traders
(iii) Unregistered traders
(iv) Leaders of Sokokuu area (Market)
(v) Suppliers of EFD Machines
(vi) General Public in Mwanza city.

3.6 Sample Size and Sampling Procedures

The size of the sample of the study was 150 respondents which included **10** TRA staff of Mwanza city, **10** Local government officers of Mwanza City, **90** traders who are tax registered an deals with taxable supplies and nontaxable supplier subjected to VAT at Mwanza City, **10** Unregistered traders who are not tax registered (*Machinga*), **3** leaders of “Sokokuu” market, **4** suppliers of EFD Machine and **23** general public in Mwanza City. All these respondents were selected by using non probability sampling, i.e. Purposive or judgmental sampling.

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

Where

n = Sample size

N = Population size

e = desired precision (5-10%)

Using a population of 239 respondents (from TRA Mwanza Regional Office Records) who are stakeholders in Mwanza City Council, a sample size of 150 respondents will be obtained as follows:

Where Population Size (N) = 239

e = 5%, thus

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

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

n= approximately **150 respondents**

3.7 Sampling Procedure

A sample design is a definite plan for obtaining information from the sample frame. It refers to the techniques and the procedures the researcher would adopt in selecting some sampling units from which inferences about the population (sampling frame) are drawn. This study used a **non probability sampling method known as purposive sampling** whereby items for analysis were selected according to knowledge, experience and to researcher view. The second method of sampling that the study employed was stratified sampling method whereby similar items with the same characteristics were put in the same group to facilitate the study.

The major reasons why the study employed non probability sampling was that it produces more representative and accurate sample where a population comprises a district group. The procedure gives a smaller sampling error. All respondents were covered during the exercise of data collections.

3.8 Data Collection Tools

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

3.8.1 Primary Data

Primary data were collected through a questionnaire and interview. The questionnaire used is attached as appendices (1) and (2) while the in-depth interview has been conducted through the interview guide.

3.8.2 Interview

This was done by presenting oral questions to the targeted respondents of which the researcher collected information about the behavior and the altitudes of the respondents as it provides facts to a researcher.

This method involved direct communication between the researcher and registered, unregistered traders, TRA Staff, etc. The method was more reliable simply because the researcher obtained accurate information.

3.8.3 Questionnaire

This consists the list of questions prepared by the researcher in a printed paperwork and were distributed to an appropriate respondents such as small and medical entrepreneurs of Mwanza City Council, TRA staff of Mwanza Regional office, general public in Mwanza City, etc.

The major aim here was to get an accurate answers and feedback of the questions as there are some respondents who can provide accurate and reliable information via written means rather than oral means.

3.8.4 Observation

Under this method the researcher examines the day to day operating business activities carried down by traders of Mwanza City Council so as to collect information about the study.

This method is reliable and assisted the researcher to come up with the appropriate answers to the Research Gap.

3.8.5 Secondary Data

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

3.9 Data Analysis Methods

The collected data were edited, coded and analyzed descriptively.

Analysis was done descriptively using Software Package for Statistical Sciences (SPSS) based on both closed-ended and open-cum-coded questions of the constructs. The package was preferred because of its extensive analytical capability and ease of administering; it also provides a wide range of choices in selecting variables at various stages of the analysis and testing various relationships. Presentation of data is made using percentage, tables, pie-charts, etc.

3.10 Pilot Study (Trial Study)

The study conducted a pilot study which involved five (5) respondents. This helped to test the instrument before administering them in actual study (Kothari, 1990). The trial study was expected to have similar characteristics with intended group.

3.11 Data triangulation

Validity, in qualitative research, shows whether or not the results of a study are accurate and confident. By true, it implies, if it accurately reflects the situation, and by certain shows if its findings are supported by the evidence. Triangulation is a technique used by qualitative researchers to verify and institute legitimacy in their studies by analyzing a research questions from multiple perspectives (Pope, 2001).

It involves using dissimilar sources of information in order to increase the validity of a study. In this study, these sources were from TRA staffs of Mwanza City, Local government officers of Mwanza City, traders who are tax registered and deals with taxable supplies and nontaxable supplies subjected to VAT at Mwanza City, unregistered traders who are not tax registered trader *(Machinga*). Leaders of "*Sokokuu*" market, suppliers of EFD Machines and general public in Mwanza City.

CHAPTER FOUR

PRESENTATION OF FINDINGS AND DISCUSSION

4.1 Introduction

This chapter describes the presentation of findings and discussion. It contains six parts which are general characteristics of the respondents, the distribution of age of respondents, sex of respondents, education of respondents, experience of respondents and discussion of the specific objectives of the study. The specific objectives of the study were to identify tax challenges facing traders in registering themselves with tax laws, to examine the obstacles facing traders in collecting 18% as VAT from their customers, to determine factors making traders to become reluctant in using EFD Machine, and to investigate whether all eligible traders are actually registered in Tax system.

However, the study also examined the issue of tax evasion and tax avoidance for traders as well as the possible solution to control tax evasion and tax avoidance so that to create voluntary tax compliance for small and medium entrepreneurs. The study used questionnaires, interviews and relevant documents to collect primary and secondary data.

4.2 General Characteristics of the Respondents

4.2.1: Age

Age is important for the respondents since plays a great role in giving meaningful answers. Mature age is in a good position to give meaningful answers than younger age. Thus age was one of the important variables related to the respondents that were considered in this research. The ages of respondents were grouped in the groups of 18 – 25 years, 26- 32 years, 33 -42, 43-64 years, and 65+years. Table 4.1 presents the results.

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

Age	Frequency	Percentage (%)
18-25	20	13
26-32	45	30
33-42	40	27
43-65	35	23
65+	10	7
Total	**150**	**100**

Source: Study Findings, 2017

From Table 4.1, it can be deduced that, most respondents covered by the study were in the age group of 26-32 years who accounted 30 percent of all total 150 respondents, followed by those in the group of 33-42 years who accounted for about 27 percent, those in the group of 43-65 years accounted for 23 percent while those in the age group of 18-25 years accounted for 13 percent and those in 65+ years counted 7 percent.

This is because most respondents were from the group of businessmen (Tax registered and Unregistered tax traders) who mostly are in the age group of 26-32 years, while ages of other group varied since anyone who is full grown men is entitled to that position e.g. Leader of market or general public. The age groups were important in order to enable the author to obtain the meaningful answers from matured persons and not children whose thinking ability is still low.

Since the author started with the age group of mature persons of 18-25 years, it can be concluded that the answers which were obtained by the researchers are relevant.

4.2.2: Sex

Sex shows equality of gender in undertaking various social-economic activities in the society while also shows the gender equality in involving in the decision making process. The sex compositions of the respondents were examined from different groups. These include; TRA staffs of Mwanza City, small trader who are tax registered and, unregistered tax traders *(Machinga*), leaders of a market (*Sokokuu*), suppliers of EFD machines, and general public in Mwanza City. Table 4.2 shows the overall results.

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

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

Source: Study Findings, 2017

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

4.2.3: Education

Education is important to analyze issues and offer meaningful suggestions. A person with higher formal education is likely to effectively implement various policy recommendations than a person with no or with lower formal education. Thus education was also considered as an important variable of the respondents covered in this study. With regards to education of respondents, education was divided into three categories, namely; primary education, Secondary Education, and Tertiary education (Certificates, Diplomas and Bachelors, Masters and PhDs). Table 4.3 shows the results.

Table 4.3 Education background of the respondents (n=150)

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

Source: Study Findings, 2017

The same information is presented using the pie – chart as shown in Figure 4.3 below.

From the Table 4.3, it can be deduced that most respondents (46%) had primary education, followed by a secondary school education group who accounted for 31 percent and the least group was of a tertiary education which consist 23 percent. In this group the most respondents were those in the primary education group who accounted 46 percent. This is because most respondents in this study were businessmen. In Mwanza Region most businessmen are those who have not attended University, diploma and above education level. Most of them have primary education and secondary education; while a few of them have a University level education.

The inclusion of all various groups of education implies that the study obtains relevant answers on factors hindering tax compliance for traders in Tanzania, particularly of Mwanza region and hence be in a position to obtain relevant findings and offer relevant recommendations aimed at solving the problems facing taxpayers in Mwanza region and other parts of Tanzania.

4.2.4 Experience

With regards to experience of respondents on factors hindering tax compliance of traders in Tanzania, particularly in Mwanza Region, the experience was considered in terms of non – experience (0-5) years, partially experience (5-10) years and fully experience (10+) years. Table 4.4 shows the results.

Table 4.4 Experience of Respondents (n=150)

Respondent	Frequency	Percentage (%)
Non experience (0-5) years	15	10
Partial experience (5-10) years	61	41
Fully experience (10+) years	74	49
Total	**150**	**100**

Source: Study Findings, 2017

From Table 4.4, it can be deduced that most respondents (49%) were in the group of fully experienced (10+ years) years, followed by a group with partial experience (5-10) years who accounted for 41 percent, while non-experience (0-5) years account for 10 percent. This is because most tax laws such as the Income Tax Act were introduced in the year 2004 while the VAT Act were enacted in the year 1999 and most businessmen who are the majority of the respondents of this study had experience with tax administrations in one way to another. Thus, with regard to the experience, the study obtained relevant information with regards to factors hindering tax compliance of traders in Tanzania particularly of Mwanza Region and other parts of Tanzania.

4.3 Challenges Facing Business Traders to register themselves with Tax system

In assessing administration of tax laws in Mwanza City, the study specifically identified the challenge facing business traders to register them voluntarily with the tax system. The study was asking the question on "What are the challenges facing traders to register themselves voluntarily in the tax system in Mwanza City" (Appendix 3). Interviewers were required to reply by indicating the extent of their knowledge. Consider the table below.

Table 4.5 Challenges Facing Traders to Register themselves voluntary in Tax system (n=150).

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

Source: Study Findings, 2017

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

In answering what are the challenges facing traders to register themselves voluntarily in the tax system in Mwanza City (Appendix iii), out of the sampled 150 respondents, the study found that the degree discrepancy in percentage answered were not so much. However, fear of traders to lose customers, which accounted for 14.7 percent of all respondents scored number one, followed by imitation from other traders which accounted for 14 percent. This had the same percentage as administrative cost.

Thirdly, Fear of losing business because of tax evasion at Kariakoo, an Influential group leader in tax and low level of tax knowledge was counted for 11.3 percentages for each respondent. Lack of political will was counted for by 7.3 percent, followed by dissatisfaction with tax authority which accounted for 6 percent.

In their further explanations why do they fear of losing customer were the main challenge they said “When you are registered for tax such as VAT system you have to charge 18% on your selling price, therefore customers will not opt to buy from you but from traders who are not registered” (who are not charged 18%).

The study found that the most pressing challenges facing traders to register for tax voluntarily to a distinctly greater extent for VAT is fear of losing customers. This is because there are still groups of traders who have qualified to be registered in VAT system but are not registered. When they add up 18% on their sales, customers may opt not to purchase from them because of inflated prices with VAT.

Here when we say qualified traders we mean the traders who have a turnover of 100mil per annum and dealing with taxable supplies as per the VAT Act, 2014.

Another challenge facing traders who were not registered themselves on tax system was the imitation from other trader who are not registered in the tax system. These challenges are in line with views of Bordignon (1993) i.e. taxpayers in most cases are always inspired by concerns of rights and impartiality based on the services that the federal government provided in return for their tax expenses as well as the tax framework and the existence of avoidance by another taxpayers.

Thus, once the community is inquired about likely explanations for interesting in tax evasion, a general respond is that they are being handled unjustly and discriminatory. On the other hand, it was noticed that, those who perform extended time with little compensation amount are often believed themselves unjustly handled than those who perform smaller time with maximum amount of income. Therefore, the past team validated themselves in avoiding taxes.

Also the study found that, one of the challenges facing business traders to register themselves on tax system is compliance cost which is associated with tax, for example VAT. This answer is in line with the view of Pope (2001). The Value Added Tax was mentioned as the prime cause of tax complying expenses in most of OECD states which were considered. VAT conformity expenses, scope primarily documentation for VAT – purpose only, preparation and processing of VAT profits, verifying accounts, acquiring details about new techniques for stuffing VAT profits, changes in the law and other appropriate details (Cleroux, 1992); (Klun, 2004); O' Keefe and O' Hare, 2008).

Also based on the studies in UK, there was empirical evidence which recommends that complying expenses, as far as VAT concerns are a comparatively high load with entrepreneurs. Numerous researches about VAT complying expenses have amplified broad-spectrum attention, particularly the sovereignty and the company industry.
Hence, significant feature to facilitate persuasion complying expenses studies of VAT (in financial term) are the complication of tax structure, trade size, the nature of business, the variety of dealings conducted, the kind and variety of groups used to information and results, the time period the company has been in service and also authorized for the tax, level of education and book keeping training of business owners and staff preparing profits, bookkeeping system involved an socio demographic factors (Pope, 2003; Yesegat, 2008). These experiential results suggest that complying expenses show a vast difference among different kind of taxes.

Another challenge facing traders not to register them in tax system was the complexity of the tax system. The research realized that the VAT system is complex in interpretation of the law governing VAT as it requires technical personnel, record keeping in every transaction they perform, failure of that is penalized. The issue of monthly file of return and maintaining VAT account required certified public accounts which have financial implications. The issues of refund of input tax takes more than six months, which creates a problem with cash flow. "The regulation which is known only by little class of lawyers and accountants is questionable and doubt". By depression well-liked shore up, complication undermines the self-assessment in which economic conformity rely on".

The tax rules naturally are procedural and mostly are very difficult. But, these rules may form other complication in a variety of means. For instance, document keeping necessities, taxation concession, numerous tax charges, rebate, etc. all affix to the difficulty. The study found that another challenge facing traders in registering themselves in tax system was the issue of tax knowledge gap. This is because most of the small and medium traders are of primary education; this makes the level of understanding tax laws to be a big challenge. This challenge is in line with the views of Silvan et al. (1991) taxpayers' education is especially crucial because the size of information gap in the tax system is inversely to the level of voluntary compliance.
The challenge of an influential group leader and fear of losing business because of tax evasion at Kariakoo was also manifested, This is because of the nature of VAT, a registered trader must make her purchase to registered traders only and input tax charge shall be deducted from output tax before submission to TRA, however this should be supported by genuine invoice before submission to TRA office otherwise her submission shall be rejected. Because most of business traders make their purchases at Kariakoo in Dar es Salaam and an act of tax evasion is manifested at Kariakoo, traders fear to lose their capital eventually business.

Influential group leaders are also businessmen and most of them are whole sellers and these small traders are purchasing goods and services from them. Since VAT in nature is multiple stages, hence they are in fear of the information about their business to be known, therefore, discourage these small and medium traders to be registered themselves voluntarily. This is one of the form of tax evasion which is in line with the view of Alam (2012) and Keen (2007).

The term “tax evasion” refers to unlawful and deliberate actions taken by persons or corporations to trim down their legally owed tax obligations. Persons can evade income taxes by underreporting of earnings; by overstating deductions, exemptions, or credits; by deteriorating to file appropriate tax returns or even by appealing in barter.

The study has successfully answered the research question of “What are the challenge facing traders to register themselves voluntarily in the tax system in Mwanza City” and is in line with the views of Adam and Webley (2001) who talk about the impact of egoism on compliance behavior.

They draw on research by Weigel et al. (1998) demonstrating that the communities with egoistic tendencies are more likely to break rules when these rules are not in their individual self-interest and therefore are more likely to try to avoid paying taxes in order to maximize their overall business profits.

Another Challenge facing traders not to register them on tax system was an issue of lack of political will.

The respondent gave the reason on the issue of the grand corruption on the side of the expenditure of the government as the miss use of their taxes and some politicians doing business without paying taxes as well as issue of tax exemption given to investors. These answers are in line with the view of Franzen (2012).

Another Challenges facing trades not to register themselves on tax system was dissatisfaction with the tax authority, because of the taxpayer services they offer and approach they use in administering of tax laws does not meet the taxpayers' expectations. This challenge is in line with views of Adam and Webley (2001); Elffers (1991); Hofmann et al., 2008; Webley et al. (2006) who indicate that displeasure with the tax authorities is one of the reasons for non-compliance. One way to consider at this is based on efficiency. Research shows that the community believes that the system is ineffective and is less likely to act in accordance with Wearing and Heady (1995). Spending resources to conduct an administrative assessment of tax liability or to mitigate taxpayer noncompliance exclusively through auditing and penalty is ultimately very costly. We propose that taxpayer services, such as electronic filling, tax simplification, continuous withholding, and taxpayer education, would foster voluntary compliance by reducing the taxpayer’s cost (Silvan et al. 1991).

Generally, the challenges facing traders t register themselves voluntarily in the tax system in Mwanza City are Fear of losing customers, administrative costs, fear of losing business because of tax evasion at Kariakoo, influential group on tax evasion and low level on tax knowledge.

4.4 Obstacles Facing Business Traders in Collecting 18% as VAT from Customers.

In assessing the factors hindering tax compliance of traders in Tanzania, particularly of Mwanza Region, the study specifically identified obstacles facing business traders to collect 18% as VAT from customers.

The study was asking the question of what are the obstacles facing business traders in collecting 18% as VAT from customers in Mwanza (appendix 3). Respondents were required to answer by indicating the degree of improvements they know. These are summarized in the Table 4.6.

Table 4.6 Obstacles Facing Business Traders in Collecting 18% as VAT from Customers (n=150).

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

Source: Study Findings, 2017

The study found that the obstacles facing small and medium business traders in collecting 18% as VAT from customers in Mwanza City were personal greed, tax evasion at Kariakoo , lack of motivation, competition for customers and mental accounting effect.

In answering the research question which asked the respondents on what hindrance encountered by traders in collecting 18% from their customers in Mwanza city (appendix 3), out of the sampled 150 respondents, the most answer (38%) was personal greed, followed by tax evasion at Kariakoo which was accounted for by 23.3 percent, Lack of motivation among businessmen in Mwanza city which was accounted for by 15.3 percent.

Customers' competition among Mwanza City which accounted for by 13.3 percent and mental accounting effect was accounted for by 10 percent as indicated in Table 4.6 above. The study found that the hindrance encountered by small and medium traders in collecting 18% from their customers was personal greed and is in line with the views of Webley et al. (1991) who conducted study on community. Nearly everyone's respond might be "for greediness". He assumes that society will commit an offence to make the most of their value.

Another finding was the issue of tax evasion at Kariakoo market. Most of the business traders in Mwanza city make their purchase at Kariakoo market in Dar es Salaam and often are being given fake tax invoices or under declared goods and services or not be given receipts at all in their purchases, and whenever they demand the correct ones, the business traders at Kariakoo do refuse to give them and hence that being the case they would have no other better alternative but these business traders are forced to purchase from them. During submission of monthly VAT return and claiming the input VAT on their purchase TRA deny these fake tax invoices or manual tax invoices because they are illegal. This kills their capital eventually business.

This is one of the forms of tax evasion which is in line with the view of Alam (2012) and Keen (2007).

Furthermore the lack of motivation was mentioned. Respondents presented reasons and arguments that, they are given the task as a government agent to collect VAT from the general public without reward. This answer was in line with the view of Vroom's expectancy theory which based on the belief that employee effort will lead to performance and performance will lead to rewards (Vroom, 1964). The theory states that individuals can be motivated if they believe that there is a positive correlation between the efforts they put in and their performance and when that favorable performance leads to a reward. As a result, the prize helps to persuade a significant need and the wish to satisfy that need is physically powerful enough to make the efforts value wide. The theory states that the power of an individual's motivation will depend on the degree to which they anticipate the results of their efforts to contribute towards their personal needs or goals and that inspiration is a result of a rational calculation (Vroom, 1964).

Vroom's theory can apply to any circumstances where somebody does something for the reason that they expect a positive result.

Another obstacle facing small and medium business traders to collect VAT was customers' competition. This was mentioned because there was still a group of traders who were not registered for tax and do not pay taxes, therefore when you charge VAT for instance, your price would be more than 18% compared to unregistered trader, thus automatically customers would not opt to buy from traders who charged 18% of VAT.

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

The community has a number of mental accounts that function separately from one another. What is interesting in the current situation is whether traders psychologically separate monies owed to the VAT into a separate mental account from that of business sales. If they don't, they may be more likely to attempt to evade VAT as a consequence of seeing it as "their" money. The results of their research is that the majority of the business people saw the money obtained as theirs and hence detested handing it over to relevant authority.

Generally, the obstacles facing small and medium business traders in collecting VAT from customers in Mwanza City are personal greed, act of tax evasion at Kariakoo market, lack of motivation and competition for customers.

4.5 Factors Making Business Traders Reluctant to use EFDs Machine

In assessing the factors hindering tax compliance of traders in Tanzania, particularly of Mwanza Region, the study specifically identified the factors which cause the traders to be reluctant in using EFDs machine. The study asked the question on which factors cause traders to be reluctant to use EFDs machine? Respondents were required to answer by indicating the degree of improvements they know.

The study used the sample of 150 respondents and their answers are summarized in the Table 4.7.

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

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

Source: Study findings, 2017

The study found that factors making business traders to be reluctant in using EFDs machine were low level of education, fear to be registered for VAT, fear of paying actual tax, acquisition cost and maintaining cost and intimidation from influential groups on the uses of EFDs machine (appendix 3).

In answering the research questions which were asked the respondents to identify which factors cause the traders to be reluctant in using EFDs machine (appendix 3), out of the sampled 150 respondents, the most answer was low level of education which was accounted for by 30 percent of all respondents, followed by fear to be registered for VAT which was accounted for by 23.3, followed by fear of paying actual tax was counted 19.3 percent followed by cost of acquisition and maintaining of EFDs machine which was counted for by 17.3 percent, and finally was intimidation from influential groups which was counted 10 percent.

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

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

Another factor causes traders to be reluctant in the uses of EFDs machine was feared be registered for VAT. This was because every sale they made should be supported by EFDs receipt therefore machine permanent records the actual sales of traders be seen by TRA office and hence easily registration for VAT system. This is one of the forms of tax evasion.

Another factor causes traders to be reluctant in the uses of EFDs machine was feared to pay actual tax. This is because the sales they made would be a permanent record in the EFDMS system, therefore, shall be no negotiation between taxpayers and tax officers during the period of assessment.

Another factor causes traders to be reluctant in the uses of EFDs machine was acquisition cost and maintaining cost. Taxpayers claim that EFDs machine was introduced by the government with the purpose of collecting government money. It is unfair for traders to use their money to purchase EFDs machine, it was the duty of the government to purchase and give traders to use them freely as the case was done by TANESCO with their loyal customers of meter readings *(LUKU)*, furthermore traders claim that from the experience of users of the first phase, machines manifest several weakness those are network problem, power storage problem, mother board problem, therefore maintenance cost is high to them. However, in their respond TRA tax officers' claims that these are not an issue because the traders have the right to claims i.e. allowable expenditure in the final return.

Another factor causes traders to be reluctant in the use of EFDs machine was intimidation from influential group leaders on tax evasion. Most of the Influential group leaders are the traders who are whole sellers at Mwanza City and were involved in acquisition of machine in the first phase. They have a large number of transactions and most of the traders made their purchases from them. The uses of EFDs machine will enforce small traders to demand receipts and tax invoice from them. Therefore, they intimidate small and medium traders not to acquire them by telling them that the machines will kill their business. This also is one of the forms of the tax evasion.

Generally, the most factors making small and medium business traders to be reluctant in using EFDs machine are low level of education, fear to be registered for VAT, fear of paying actual tax and acquisition and maintaining costs.

4.6 Actual Registration of all Eligible Traders

In assessing factors hindering tax compliance of traders in Tanzania, the study specifically assessed whether all eligible traders are actually registered under the tax laws or not.

The study was asking the question of whether all eligible traders are actually registered for tax at Mwanza City. (Appendix 2). In answering this question the study used a total of 150 respondents, and they were required to provide three answers namely Yes, No, I don't know. The views of respondents are summarized in the Table 4.8.

Table 4.8 Actual Registration of all Eligible Trader for Tax (n = 150)

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

Source: Study Findings, 2017

The study found that there are still eligible traders for tax registrations are not in tax system base.

In answering the research question which asked the respondents whether all eligible traders are actually registered for tax? Out of the sampled 150 respondents, the most answers were No, which was accounted for by 77.3 percent of all respondents, followed by I don't know, which was accounted for by 16 percent and Yes, was accounted for by 6.7 percent. Thus, in conclusion, it is clear that not all eligible traders have been actually registered under the tax system.

This answered the research questions which asked the respondents about whether all eligible traders are actually registered for tax. Also, these answers are in line with the views of Aruwa (2008) who conducted a study to examine the challenges facing tax administration in Nigeria.

He found that poor remuneration and motivation of FIRS staff, practical problems related to the implementation of VAT, dual elements of input and output, inadequate funding for the revenue services, tax evasion and avoidance and problem of unqualified, untrained staff caused a significant number of traders who were supposed to be registered for tax in Nigeria, were not registered and hence led to loss of higher amounts of tax revenues. From these he recommended that these problems should be solved in order to make all eligible traders to be fully registered for tax in Nigeria. Generally, there are still eligible traders for tax registrations are not in tax system base.

4.7 Knowledge of business traders in tax payment

In assessing Factors hindering tax compliance of traders in Tanzania, particularly of Mwanza Region, the study specifically was to asses' knowledge of business traders in tax payment.

The study was asking the question "Does business owners have enough knowledge of tax payment at Mwanza City? In answering this question the study used a total of 150 and respondents were required to provide three answers namely Yes, No, I don't know. The views of these respondents are summarized in the Table 4.9.

Table 4.9 Knowledge of Business Traders in Tax Payment.

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

Source: Study Findings, 2017

In answering the research question which asked the respondents on whether the business owners had enough knowledge of tax payment (appendix 3). Out of the sampled 150 respondents, the most answers were No, which was accounted for by 63.3 percent of all respondents followed by I don't know, which was accounted for by 20.7 percent and Yes, was accounted for by 16 percent. Thus, in conclusion, it is clear that most of small and medium traders in Mwanza Region do not have fully and right knowledge on payments of taxes.

This resulted in frequent clashes with TRA officials and other Government officials. This answered the research question which asked the respondents about whether the business owners have enough knowledge of tax payments. Also, these answers are in line with the views of Aruwa (2008) who conducted a study to examine the challenges facing tax administrations in Nigeria. He found that a large percentage of business owners in Nigeria do not have sufficient knowledge of tax laws and tax payments and this contribute to increase the difficulties of implementing tax administrations in Nigeria. He recommended that tax authorities in collaborations with the Government should collaborate to increase tax knowledge to businessmen and the general public.

Generally, most business owners of Mwanza City do not have enough knowledge of business on tax payments.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Major Findings

Generally, Factors hindering tax compliance of traders in Tanzania, particularly in Mwanza Region to register themselves voluntarily in Tax system in Mwanza City are Fear of losing customers, administrative cost, fear of losing business because of tax evasion at Kariakoo, influential group on tax evasion and low level on tax knowledge.

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

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

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

5.2 Conclusion

Increasing poor implementations of administration of tax laws in Mwanza City by business communities in Mwanza City have contributed to weaken the overall performance of tax collections in Mwanza City and frequently resulting in clashes and riots between TRA officials and businessmen in Mwanza City and other parts of Tanzania whenever TRA officials are enforcing traders to implement Tax administration procedures as specified by the laws in order to improve Government Revenue collections. Hence, immediate measures need to be undertaken by the TRA management in Mwanza City, Businessmen and other stakeholders in order to make sure that there are overall improvements in Tax administrations in Mwanza City and other parts of Tanzania.

5.3 Recommendations

In order to make certain that there are high-quality Tax administration in Mwanza City and other parts of Tanzania, according to the findings of this study, the following are recommended:

i. TRA office at Mwanza city must enhance strong block management system as a strategy to identify eligible traders who are supposed to be in the VAT system and all other traders who are conducting business but do not pay tax be registered. This can be possible through employing qualify, trained and motivated personnel with an investigative mind so as to attain desired output. This will create good atmosphere of fair competition among the business community, hence enhances revenue generation.

ii. TRA office in Mwanza together with the recommendation mention above should use stiff punishment for those who practice this act of tax evasion once they are being identified according to the law and register them as the Tax Laws stipulates.

iii. Conduct tax audit to identify the actual tax liability from the time were supposed to be registered and collect them immediately as per tax laws.

iv. TRA and other stakeholder have to review tax laws and remove some of the laws which unnecessary burdens to taxpayers because some of the requirements of the tax law is cost when you complied with them.

v. TRA and other stakeholders have to pay special attention at the market of Kariakoo in Dar es Salaam because tax is the system, when one part of the system fails to meet its obligation by the law creates problem to another part of the system. Since there is an act of taxation evasiveness at Kariakoo causes the act of evasiveness at Mwanza too, as most of Mwanza traders do purchase their commodities from Kariakoo Market. Since this is intended, tax education should be given to the traders at Kariakoo and strong punishment should be taken to the traders who breach the law and enhance strong block management system.

vi. National campaign should be taken as the national illness, i.e. The general public, private sectors, activist, politicians, media and government through local authority at the family level, street, village, ward, schools, mosque and churches in one spirit should be sensitized to demand receipt when buying goods or service from the traders and not leave to TRA only. The tax evaders should be reported to relevant authorities and be publicized through the media. Tax audit, Penalties, and possibility to be detected on tax evasion should be enhanced. This will help to change the attitude and act of tax evasion among the business community.

vii. TRA must invest in taxpayer's service such as electronic filing, tax simplification, continuous withholding, and taxpayer education, would foster voluntary compliance by reducing the taxpayer's cost.

viii. Before they introduce any major changes to the tax laws, according to the law pilot study should put into the mind to asses applicability of that law.

ix. Before they introduce major changes, various stakeholders should be involved in preliminary stages such as intellectual bodies, researchers, local authority leaders, influential groups, religious groups, political and media so as to create conductive atmosphere and to reduce resistance of changes from the business community.

x. Government ought to show assurance in cost sharing on purchase and preservation of the EFDs machine since it helps to collect government revenue.

xi. Government should consider registering VAT taxpayers as agent by paying them some percent of their collection as a reward that will motivate them to collect more and reduced VAT rate of 18% to single digit to encourage compliance behavior among the general public.

5.4 Area for Further Study

This research has assessed on Factors hindering tax compliance of traders in Tanzania, particularly in Mwanza Region, future study could:

i. Investigate administration of other taxes such as Property Tax which is now paid to TRA, Withholding Tax, Capital Gain, etc. in Mwanza City and other parts of Tanzania
ii. Assess capacity of TRA in administration of VAT and other taxes, whether are match with the number of taxpayers.
iii. Assess whether 100 million as a minimum threshold for VAT registration is varied as per the VAT Act, 2014.

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APPENDICES

APPENDIX 1

Questionnaire for taxpayers in Mwanza Region on the title:-

Factors hindering tax compliance for traders of Tanzania, focusing on entrepreneurs of Mwanza Region.

Dear Respondent.

I am a student from MBA (Corporate Management) Mzumbe University Morogoro Main Campus. This study is conducted in partial fulfillment of the requirements for the Master Degree in Business Administration.

I will be highly obliged if you like to participate in this short survey and help me to complete the attached questionnaire. I am trying to figure out the **Factors hindering tax compliance of traders in Tanzania**. This questionnaire should take no more than 10 minutes of your time.

Subject of the study: Factors hindering Tax Compliance of traders in Tanzania.

The Case of Mwanza City Council

Researcher's name : Julius R. Mafuru

Supervisor's name : Dr. Emmanuel Chao (PhD)

All the answers will be treated anonymously and no one will be able to identify you. The information provided by you will not be used for any other purpose than the above mentioned.

Your contribution is highly valued, and I appreciate your time and effort.

Best Regards

"Please tick the appropriate answer for each of the following questions

SECTION A: Personal data

1. Gender:- Male ( ) Female ( )

2. What is your age:- 18 – 25years ( ) 26-32 years( ) 33-42 years ( ) 43-65
years ( ) 65 years and above ( )

2. Education level

Primary level ( ) Secondary level ( ) Tertiary education (Certificates, Diplomas and Bachelors, Master and PhDs) ( ) others (please specify)
…………………………………………….

3. Position of the respondent in business

(a) Business owner ( ) (b) Employee ( ) (c) Tax Consultant ( )

4. How many years are you in business?

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

5. Do you pay Tax? Yes ( ) No ( )

6. Type of trader

(a) Manufacturing ( ) (b) Whole Sellers ( ) (c) Sub whole Sellers ( ) (d) Retailer ( )

7. Nature of business …………………………………………………………..

SECTION B; Questions related to the TRA office in Mwanza

8. What do you consider in taxpayers identification and registration process for tax system.

(i) Is VAT system in Mwanza fairly enough?

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

(ii) Is TRA officers in Mwanza investigative enough?

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

(iii) Some tax officers in Mwanza intentionally fail to register some VAT potential taxpayers.

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

(iv) Still there are many potential traders should be registered in Mwanza but didn't do so.

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

(v) Small and Medium Entrepreneurs should be exempted from paying tax.

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(vi) Do you have enough knowledge on tax system payment?

Yes ( ) No ( ) I don't know ( )

(vii) The measures taken by the government to curb the issue of tax evasion and tax avoidance is said to be …. (a) Lower level ( ) (b) Medium level ( ) (c) High level ( )

9. List the Obstacles you face in Charging 18% as VAT in your daily gross takings.

……………………………………………………………………………….

10. Mention the challenges you face to register yourself as a trader for voluntarily in tax system.

……………………………………………………………………………….

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

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

13. Do you think that all eligible traders for VAT have been actually registered for VAT in Mwanza City and other part of our Region? (a) YES (b) NO (c) I do not know

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

15. Suggest the possible solutions to control tax evasion and tax avoidance that may create voluntary tax compliance to small and medium entrepreneurs.

……………………………………………………………………………….

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

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

1) Purchasing in Dar es Salaam affect your business positively in relation VAT system

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

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

system in Dar es Salaam.

i) Is VAT system in Dar es Salaam fairly enough?

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

ii) Are TRA officers in Dar es Salaam investigative enough?

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

iii) Some tax officers in Dar es Salaam intentionally fail to register some VAT potential taxpayers.

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

iv) Still there are many potential traders should be registered in Dar es Salaam but

didn't do so.

(a) Strong Agree [ ]

(b) Agree [ ]

(c) Indifferent [ ]

(d) Disagree [ ]

(e) Strong Disagree [ ]

3. What are challenges you encounter in purchasing goods in Dar es Salaam in relation to tax system …………………………………………………………….

4. If you could have purchasing alterative with Kariakoo in Dar es Salaam tax system could you opt to do so? Why?...

5. What is your opinion about the threshold, turnover of Tshs. 100milion per annum? (Tick)

(a) Very high

(b) High

(c) Moderate

(d) Low

(e) Very low

6. What are the major problems of VAT collection in Mwanza? (Tick all that apply)

(a) Monthly returns for small firms is costly

(b) There are many filing requirements

(c) Laws and procedures not clear and simple

(d) Monthly massive cross checking takes long time

(e) Tax collectors are skilled enough

If you have any, mention here …………………………………………………

7. How do you evaluate the strength of TRA Mwanza with respect to the following aspect?

(a) Excellent

(b) Good

(c) Fair

(d) Poor

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

8. Do you have confidence with TRA officers in tax assessment and auditing?

(a) Yes

(b) No

9. For question number 8, if your answer is 'No", give the reason (s) of your choice ………………………………………………………………………………

10. If there is no penalty, is there a possibility that you may not be register for tax?

(a) Yes

(b) No

Thank you very much for your co – operation

APPENDIX 2

Questionnaire for TRA Officers in Mwanza Region on the title:-

Factors hindering tax compliance of Traders in Tanzania specifically in Mwanza Region

Dear Respondent,

I am a student from MBA (Corporate Management) Mzumbe University Morogoro Main Campus. This study is conducted in partial fulfillment of the requirements for the Master Degree in Business Administration.

I will be highly obliged if you like to participate in this short survey and help me to complete the attached questionnaire. I am trying to figure out the ***Factors hindering tax compliance of traders in Tanzania.*** *This questionnaire should take no more than 10 minutes of your time.*

Subject of the study: Factors hindering Tax Compliance of Traders in Tanzania.

The Case of Mwanza City Council

Researcher's name : Julius R. Mafuru

Supervisor's name : Dr. Emmanuel Chao (PhD)

All the answers will be treated anonymously and no one will be able to identify you. The information provided by you will not be used for any other purpose than the above mentioned.

Your contribution is highly valued, and I appreciate your time and effort.

Best Regards

"Please tick the appropriate answer for each of the following questions

SECTION A: Personal data

1). Age of Respondent in TRA (years)

(a) 0-2 [ ]

(b) 2-5 [ ]

(c) 5-10 [ ]

(d) 10+ [ ]

2). At what Department do you belong?

(a) Domestic Revenue Department

(b) Customs

(c) Investigation

Section B Question related to the tax office

3). In registering taxpayer for tax system such as VAT and Income Tax, what system do TRA follow? (Tick all that apply).

(a) Physical Survey in Block Management system

(b) Surprise visit

(c) Checking purchase invoices of registered taxpayers during auditing

I any other, mention here ………………………………………………..

4). What is your opinion about the threshold, Tshs 100mil per annum for VAT registration?

(a) Very high [ ]

(b) High [ ]

(c) Moderate [ ]

(d) Low [ ]

(e) Very low [ ]

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

Good

Fair

Poor

(a) Simple and stable tax laws

(b) Good service to taxpayers
(c) Simple filing and payment procedure
(d) Appropriate penalties
(e) Fair and efficient appeals system

6) Do you agree your office is effective in auditing and enforcement of tax?

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

Section C questions related to taxpayers

7. How do you express the number of voluntary taxpayers in Mwanza Region?

(a) Very high (b) High (c) Moderate (d) Low (e) Very low

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

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

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

(Tick all that apply).
May, Insignificant, Few, Non
Tax registrants sell goods and services without issuing EFD receipts?
Tax registrants manipulate EFD machine
VAT registrants provide fake invoices to secure more input tax
If you have any mention here ……………………………………………………….

10. How do you evaluate the trends of TRA Office in administering tax laws I the last five years? ………………………………………………………………………..

11. What are the main constraints in administering tax in Mwanza City in terms of; registration, collection, auditing, and enforcement activities?

………………………………………………………………………………
………………………………………………………………………………

12. Do you have simplified laws and procedures particularly for Small and Medium Entrepreneurs?

……………………………………………………………………………………………

……………………………………………………………………………………………

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

……………………………………………………………………………………………

……………………………………………………………………………………………

14. On recent years we have experienced strike over acquisition of EFD machines starting from Mwanza region to other region, in your opinion what do you think the cause and reason that let traders to close their shops as the means to force the government to suspend the enforcement measure to traders on acquisition of EFD machines?

……………………………………………………………………………………………

……………………………………………………………………………………………

15. Finally, please, generalize the degree of effectiveness of Mwanza in Tax Laws Administration including VAT.

……………………………………………………………………………………………

……………………………………………………………………………………………

16. Do you think that all eligible traders for VAT and other taxes have been actually registered in Mwanza City and other part of our Region? (a) YES (b) NO (c) I do not know.

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

....

Thank you very much for your co – operation

APPENDIX 3

Interview Guide

1. What are the challenges facing traders to register themselves voluntarily in tax system?

What are the obstacles facing business traders in collecting tax such as VAT from

2. customers in Mwanza City?

3. Mention the factors that cause other traders to be reluctant in using EFD machines to
4. collect VAT and other Central Government taxes ……………………

5. How do you express the voluntary compliance of taxpayers in Mwanza an if any
6. effort or plan to improve it?
7. ……………………………………………………………………………

8. Give your general comments on the overall tax administration in Mwanza
9. Region………………………………………………………….

Thank you very much for your co - operation