FACTORS INFLUENCING TAX COMPLIANCE ATTITUDE IN SMALL AND MEDIUM ENTERPRISES (SMEs) IN TANZANIA:

A CASE OF DODOMA MUNICIPALITY

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A CASE OF DODOMA MUNICIPALITY

BY

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance byMzumbe University, a dissertation entitled “***Factors Influencing Tax Compliance Attitude in Small and Medium Enterprises (SMEs) in Tanzania: A Case of Dodoma Municipality”***, in Partial Fulfillment of the Requirements for Award of the Master’s Degree of Business Administration in Corporate Management (MBA-CM) of Mzumbe University

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I, **PhilipoEliamini,** declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

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Date_________________________________

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DEDICATION

This dissertation is dedicated to my son Iqram as an encouragement towards his future education life.

ABBREVIATIONS AND ACRONYMS

FGD	Focus Group Discussion
GDPs	Gross Domestic Products
LGAs	Local Government Authorities
OECD	Organization for Economic Co-operation and Development
SMEs	Small and Medium Enterprises
TRA	Tanzania Revenue Authority
VAT	Value Added Tax

ABSTRACT

The study was conducted to the factors influencing tax compliance in Small and Medium Enterprises (SMEs) in Dodoma Municipality, Tanzania. To meet this objective, the study employed three specific objectives. These objectives were, (i) to examine tax collection performance in Dodoma Municipality in the last three years (2014/15 – 2016/17); (ii) to determine economic factors influencing tax compliance in SMEs in Dodoma Municipality; and (iii) to assess non-economic factors influencing tax compliance in SMEs in Dodoma Municipality.

The study employed survey design. The questionnaire, interviews and Focus Group Discussions were used to collect data. Data analysis was undertaken bySPSS. The study found that the tax collection performance in Dodoma Municipality in years 2014/15 – 2016/17 was positive and increasing.

The study found that the economic factors that influenced tax compliance attitude among taxpayers included the following; (i) tax rates; (ii) tax benefits; (iii) tax audit; (iv) penalties; and (v) fines. The non-economic factors that were found by the study to influence tax compliance included the following. (i) Perceptions of the taxpayers; (ii) Norms; and (iii) Perceived fairness. It was concluded that in the recent years TRA had established good strategies to collect tax making the improvement in tax collection performance in Tanzania. Both economic and non-economic factors influence tax compliance among the SMEs. It was recommended that TRA and other stakeholders should sustainably improve their strategies to increase and improve tax collection performance.

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CHAPTER ONE

INTRODUCTION

1.1 Background Information

Tax compliance has principally attracted the attention of several studies. In many countries, economic equilibrium has been sought through emphasizing the taxpayers' willingness and honestly to obey tax laws. Tax compliance is one of the phenomena that affect the global economy (McGee, 2012). Taxes are immensely vital instrument and primary source of revenue to government (Mansor and Gurama, 2016).

Revenue is much needed by all governments in the world to develop the aspects of their nations since the development of every nation depends largely on taxation. Ali (2012) states that most of the countries have been trying to raise domestic revenue as an important and priority for a country so as to create fiscal space for essential public services and reduce foreign aid and single resource dependence. This is due to the fact that a solid revenue base is one of the foundations of every great nation. In addition, Mlay (2015) opined that many nations in the world have considered tax as a contribution demanded by the state and a non-penal but compulsory and unrequited transfer of resources from the private to the public sector levied on the bases of predetermined criteria. It is taken as a monetary charge imposed by the government on persons, entities or properties to yield public revenue which in turn used by the government to provide social services to its subjects (Nongwa, 2013). That is why authorities make use of different kinds of taxes and different tax rates in order to distribute the tax load among the population. Income tax, being a direct tax is levied on the income earned by an individual (Bensoon, Soondram and Jungurnath, 2016).

However, in many countries both the developed and developing countries face difficulties to maximize tax revenue collection due to various forms of tax evasions and difficulties in tax compliance (Eschborn, 2010). Many individuals and entities especially in the developing countries deliberately fail to abide by their tax responsibility and laws (Simser, 2008). For example, it was reported in 2011 that worth of tax evasion worldwide exceeded US$3.1 trillion equal to the 5.1 percent of global Gross Domestic Product (GDP) (Murphy, 2011). This being the case tax evasion has been one of the major problems inhibiting development in most of the countries. Gideon and Alouis (2013) argued that the developing countries collect their tax revenue from individuals and corporate incomes, sales, Value Added Tax (VAT), customs duty, estate and capital gains etc. However, the governments in these countries collect much lower proportions of their GDPs in tax revenue than do the governments of the OECD countries: 10-20% rather than 30-40% due to some problems including tax evasion of small and large scale enterprises. The tax collection efforts indices in these countries – revenue collections relative to estimated revenue potentials – are also lower than those of the OECD countries. Experts agree that there is considerable potential to increase tax revenue in developing countries if tax evasion is given a special focus and addressed accordingly (Gideon and Alouis, 2013).

The problems of tax evasion and non-tax compliance are reported to be high in most of Sub-Saharan African countries making the tax base is extremely narrow. There are noted efforts by the governments of the region so far attempting to raise tax revenue but the fruits have been little due to the chronic tax evasion and non-compliance. Many African local governments are facing a governance crisis and poor service delivery capability due to narrow base. To rescue the situation the fiscal decentralization – the devolution of revenue mobilization and spending powers to lower levels of government has been introduced and become the main theme but still the situation has persisted while the problem extending to the Small and Medium Enterprises (SMEs) (Fjeldstad and Heggstad, 2011). Some studies in Africa have shown the impact of low revenue tax collection to the people. It seems that the impacts are far reaching as the aspect touches the individual’s daily life. Some of the impacts mentioned are inadequate provision of social amenities and infrastructural facilities; inability to pay sitting allowances and wages to casual workers and allowances at the end of each month; over-dependence in carrying out infrastructural projects and provision of municipal services; indebtedness to contractors and suppliers.

In Tanzania, things have been different especially over the past two to three years. Revenue collections have been reported to increase year after year especially after the current government regime came to power in 2015. Over past years the government of Tanzania has made efforts to raise revenue collection from various sources in vain. A number of studies (such as Ali et al., 2013) have mentioned a lot of factors which show the potentiality of tax revenue in Small and Medium Enterprises (SMEs) on taxes such as rental, capital – gain, royalties, directors and other employees, interest, income, management fees, very small sectors like water sales, bites, commercial farming, employment taxes on small industries. In spite of a lot of bases for tax collection in Tanzania, some studies have revealed that revenue collection still faces a lot of problems including tax evasion (Mtasiwa, 2013). However, the revenue collection has been reported in recent years to expand and increase reflecting the taxpayers' compliance. This study intends to disclose the factors for tax compliance in Tanzania.

1.2 Statement of the problem

In Tanzania, the responsibility of tax collection is given to Tanzania Revenue Authority (TRA). TRA is and has been the committed authority which basically aims at improving Tanzanian domestic resource mobilization to enable the government to fulfill its social obligations to its citizens. Since independence, the government of Tanzania has been making notable efforts to ensure revenue collection for the national development. All the time, the government was facing difficulties in tax collection due to increased tax evasion and corruption among the government leaders and tax administrators. Fjeldstad and Heggestad (2011) found Tanzania tax collection was 14.2% of the GDP which wasthe least figure compared to neighboring countries of Mozambique (15.4%) and Zambia (15%) per GDP.

However, in recent years we have experience increased revenue collection. For example, the first months of 2016/2017 (July – December) TRA collected a total of 7.27 trillion shillings compared to 6.44 trillion shillings collected in the same period in financial year 2015/2016 (Ng'wanakilala, 2017). TRA marked the increase of 12.74% which was said to be the result of President's acts of suspending of the tax officials including the head of revenue authority due to the rampant tax evasions. The increase in tax collection has been reported several times since then. Despite the fact that the increased collection was less than the targeted collection of 15.1 trillion shillings in the financial year 2016/2017 equivalent to 13.8 percent of GDP up from an estimated 12.6 percent of GDP in 2015/2016, there is a notable increase (Ng'wanakilala, 2017). The noted increase in tax collection can be attributed to the taxpayers' compliance attitude. Therefore, this study intends to disclose and document the factors influencing tax compliance attitude among taxpayers in Small and Medium Enterprises (SMEs) in Tanzania. The study was conducted in Dodoma Municipality. The study was worth conducting since the findings are important to enable the tax administrator to find appropriate ways to increase revenue collection for national development.

1.3 Objectives of the study

1.3.1 General objective

The major objective of the study is to investigate the factors influencing tax compliance in Small and Medium Enterprises in Tanzania. The study focuses on the SMEs in Dodoma Municipality.

1.3.2 Specific objectives

i) To examine tax collection performance in Dodoma Municipality in the last three years (2014/15 – 2016/17)

ii) To determine economic factors influencing tax compliance in SMEs in Dodoma Municipality

iii) To assess non-economic factors influencing tax compliance in SMEs in Dodoma Municipality

1.4 Research questions

i) What has been tax collection performance in Dodoma Municipality in the period of 2014/15 – 2016/17?

ii) What are the economic factors influencing tax compliance in SMEs in Dodoma Municipality?

iii) What are non-economic factors influencing tax compliance in SMEs in Dodoma Municipality?

1.5 Significance of the study

The study is important to TRA especially in the Dodoma region and to other tax stakeholders in Tanzania and outside Tanzania to understandthe major influence of tax compliance. Further, the study will enable TRA to be able to improve the revenue collection strategies to suit the environment in which they are applied and to convince the taxpayers to pay tax willingly. The study will be able to suggest better and reliable means of generating more tax revenues to the authority through various means. The study will add knowledge by providing the study with empirical findings on main influence of tax compliance in involving application of theories and models in a new research setting. The study is expected to reveal the support of the theories in a new research environment confirming their applicability. The study in addition will generate new theories related to tax collection as knowledge expansion in the areas of disclose and expose what is currently unknown and publicize it further.

1.6 Organization of the study

This dissertation has five chapters. Chapter one consists of introductory part, background of the study, statement of the problem, objectives of the study, research questions, and rationale for carrying out the study, and organization of proposal. Chapter two covers literature review whereby a number of concepts linked to the topic are discussed. Chapter three describes research methodology that covers all methods and techniques that were used in data collection, the population of the study, sample size and sampling technique, methods of data collection (questionnaires, observation, interviews, and documentary review) and the methods of data analysis which includes a combination of descriptive, historical and analytical methods as well as the use of software packages. The fourth chapter presents results of the study and discusses them in detail. The chapter discussed the results in accordance with the research objectives. Finally, chapter five gives summary, conclusion and recommendations. It also proposes the area for further studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter two presents the literature review. The chapter is divided into two main areas, the theoretical literature review and empirical literature review. The theoretical literature review attempts to connect the theoretical perspectives to the study objectives. The empirical literature review cites the researches that have been conducted on the same area.

2.2 Theoretical literature review

This section addresses the theories that were considered relevant to the study. They are theories that address the question of taxation and tax compliance among taxpayers. The theories used in this study include expediency theory of taxation, optimal theory of taxation, and various theories of taxpayer perceptions and compliance behaviour. The discussion and explanation are given to each theory to show its relevance to the study.

2.2.1 The Expediency Theory of Taxation

The essence of the expediency theory of taxation lies in practicability. The theory states that any tax proposal should be considered valid if and only if it passes the test of practicability. In this theory, the economic and social aspects are not given priority at all. The social, political and economic pressure should not be given a chance and they should be considered irrelevant as far as this theory is concerned (Bhartia, 2009). The theory argues that even when every group tries to serve its interest, the authority is always forced to reshape the tax structure that is likely to accommodate these pressures Even when the administration is not efficient in tax collection at an economic and reasonable cost, the taxation provides a very powerful set of policy tools that is effective in remedying economic and social ills of the society. The expediency is relevant to the current study in that, it seeks to explain how practicability of tax proposals could influence revenue collections.

2.2.2 Optimal Theory of Taxation

The theory of optimal taxation was developed by Ramsey (1927) in his article *"a contribution of to the theory of taxation"*. Ramsey intended to reduce the problem of raising revenue by commodity tax on the single consumer. The theory basically has its focus on minimization of costs of taxation. It stresses on the rule for optimal taxation in the sense that it fulfills the demands of vertical equity by giving equal treatment of people with unequal observable characteristics, the taxpayers' ability to pay. It looks at cost efficiency and economic use of resources to the tax systems in best treating the social welfare but with the concept that the tax burden be distributed so that the rich pay higher sums in taxes than the poor. The theory points out that a tax system should be chosen with the intention of maximizing social welfare function subject to a set of constraints. The social planners are treated by the theory as utilitarian – i.e. social welfare function is based on the utilities of individuals in the society. The theory assumes that in the society all individuals have similar preferences. Based on this assumption, the social planners choose the tax system that maximizes representative consumers' welfare. The representative consumer is helpful to simplification of the procedure (Hazel 2005). This idea was supported by Edgeworth (1987) who proposed the distribution of tax burden among taxpayers suggesting the same marginal disutility for each taxpayer. This fact was pointed out with the expectation that the sum of the utilities would increase as the income distribution becomes more and more equal.

2.2.3 Theories of taxpayer perceptions and compliance behaviour

Tax has very sensitive and strong essential potential for revenue mobilization especially in the expanding towns. The tax immobility is the most important aspect to be considered when one thinks of the tax perception and compliance behavior among the taxpayers. According to Fjuldstad (2013) the tax base minimizes the economic efficiency implications to make it easy and affordable to allow the property to be natural collateral in case of nonpayment.That is why in many countries, and in most cases tax falls upon the people with ability to pay as the immovable property can be the primary repository of wealth (Akilu et al., 2013).

Models of taxpayer behavior, including the decision whether or not to pay taxes, tend to reflect one of five theories that can be referred to as: (1) Economic deterrence; (2) Fiscal exchange; (3)Social influences; (4)Comparative treatment; and (5)Political accountability. These are to some extent interconnected, and some represent an evolution of others (Kirchler et al., 2008).

a) The economic deterrence theory

The economic deterrence theory is the argument concerned with the factors that influence taxpayers to pay their tax and avoid tax evasion. The theory mentions the factors such as tax rates and the way these rates determine the taxpayers' behavior. Bird (2008) argues that the behavior of the taxpayer is likely to be influenced by penalties for fraud, benefits of evasion and detection probability. The implication here is that when the penalties become severe few people will have chance to evade tax.

The model of economic deterrence gives also the forecast of the non-compliance among the taxpayers. There are a number of evidences that support the stand of the economic deterrence theory although there have been a number of criticisms (Sandmo, 2005; McKerchar and Evans, 2009). For instance, the effective strategies suggested by the economic deterrence theory are the fear of being caught and detection probability to facilitate the faithful behavior among the taxpayers. The theoretical principles of economic deterrence theory have been successfully adopted by many tax administrators in the world as the tax enforcement strategy. The most strategies used are penalties, and fines for non-compliance.

b) Fiscal exchange

According to the Fiscal Exchange Theory, the presence of the expenditure of government consumptions may rouse consistence and that government can expand compliance by giving products that citizens lean toward in a more effective and available way (Moore 2004). Alm et al. (1992) take note of that compliance increase with (perception of) the accessibility of open merchandise and ventures. As needs be, the fundamental worry of citizens is the thing that they receive specifically as an end-result of their duty installments as open administrations (compensation). In this viewpoint, tax collection and the arrangement of open products and ventures are translated as an authoritative connection amongst citizens and the administration (Moore, 2004). People may pay charges since they esteem the products gave by the legislature, perceiving that their installments are important both to help fund the merchandise and ventures and to motivate others to contribute (Fjeldstad and Semboja, 2001). The presence of advantages may expand the likelihood that citizens will go along willfully, without coordinate intimidation. Albeit most citizens cannot evaluate the correct estimation of what they get from the administration as an end-result of expenses paid, it can be contended that they have general impressions and states of mind concerning their own particular and others' terms of exchange with the administration (Bird, 2008). It is then sensible to accept that a citizen's conduct is influenced by his/her fulfillment or absence of fulfillment with his/her terms of exchange with the legislature. Therefore, if the arrangement of expenses is seen to be out of line, tax avoidance may, at any rate somewhat, be considered as an endeavor by the citizen to change his terms of exchange with the administration. The fiscal exchange theory has much consideration and is entrenched hypothetically. Observational proof to help the hypothesis is, in any case, vague according to D'Arcy (2011).

c) Social influences

The social influence model considers the way tax compliance is influenced by attitude of the taxpayers to the tax systems. In the social influence model, compliance behavior and attitudes towards the tax system is thought to be affected by the behavior and social norms of an individual’s reference group (Sepulveda and Franzsen, 2005). It is reasonable to assume that human behavior in the area of taxation is influenced by social interactions much in the same way as other forms of behavior. Compliance behavior and attitudes towards the tax system may therefore be affected by the behavior of an individual’s reference group such as relatives, neighbors and friends. Therefore, if a taxpayer knows many people in groups important to him evade taxes, his/her commitment to comply will be weaker (Keen and Simone, 2004). On the other hand, social relationships may also help deter individuals from engaging in evasion in fear of the social sanctions imposed once discovered and revealed publicly. Theoretical research on herd behavior in economic situations also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection. One of the most consistent findings about taxpayer attitudes and behavior in Western countries is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat. Evidence suggests that perceptions about the honesty of others may affect compliance behavior (Devos, 2008).

d) Comparative treatment

The comparative treatment model is based on equity theory and places that tending to disparities in the trade connection amongst government and citizens would bring about enhanced compliance (McKerchar and Evans, 2009). Citizens who are actually the taxpayers may not consider their association with the state or local government in a vacuum where the two gatherings are the main on-screen characters. In like manner, they may not consider their kindred nationals without thinking about their own relationship with the government. They may likewise consider how the government or local government treats them with respect to their kindred subjects (fellow citizens). This judgment is probably going to influence their judgment of the government, as well as how they see their fellow citizens (D'Arcy, 2011). On the off chance that the government or local government treats certain gatherings specially, may be shading the national's association with the government and the gathering getting favors. A pivotal variable is then not exactly what a man gets from the government, yet what the individual gets from the government (and how the state treats the individual) in respect to the individuals who are in the individual's more extensive national network. This social psychology model demonstrates features the significance of equity theory the investigation of compliance and taxpayers' behavior (Sarzin, 2007).

e) Political legitimacy

According to the political legitimacy theory, tax compliance is likely to be impacted by the degree that citizens who are basically taxpayers trust their tax administrators (Kirchler et al. 2008). Legitimacy could be depicted as belief or trust in the authority, institutions, and social arrangements to be fitting, appropriate, just and work for the benefit of everyone. Political researchers have tended to show how political legitimacy and civic identifications are fostered. Parson (2008) contends that African countries that upon autonomy accentuated assembling national over ethnic character have been more effective than those who allowed ethnicity to end up the fundamental hostility of governmental issues.

Similarly as with reforms, influencing the tax to work requires visionary authority, a suitable arrangement system, solid authoritative limit, and proper impetuses to activate the political, regulatory and prevalent help expected to improve incomes, value and effectiveness (Kelly, 2013). In any case, numerous countries embrace a grouped framework, permitting the tax rate to change by property utility and residency. In spite of the fact that there might be honest to goodness arrangement purposes behind doing as such, it creates the impression that the presentation of differential assessment rates might be to a great extent for political reasons. For instance, bringing down tax rates on rural land gives a sponsorship to farming, taking weight off those agrarian properties situated at the urban periphery to be changed over from agribusiness to urban land utilities.

Higher tax rates on business and mechanical properties are frequently legitimized as 'reasonable' in light of the business' "capacity to pay" as a money producing activity and with the contention that the business properties are not completely paying for the advantages they got from the administration (Devos, 2008). Be that as it may, the occurrence of a business charge is very mind boggling, as assessments required on organizations may not be completely borne by the entrepreneurs yet rather moved in reverse to the variables of generation and forward to buyers in different ways, influencing both value and effectiveness. As far as catching the advantages delighted in by organizations, ponders in Canada and the US demonstrate that the business area is frequently strained regarding the net advantages got, consequently there are monetary contentions to bring down the expense rate on business properties. Exhausting business properties over the edge of advantages got enables neighborhood governments to 'send out' the assessment to non-inhabitants, breaking the proficiency linkage between nearby consumptions and nearby incomes (Kitchen, 2005).

In creating nations, be that as it may, where business properties may not be completely paying for the nearby administrations got through client charges and neighborhood level salary and utilization charges, there might be a more prominent avocation for applying a higher assessment rate on business properties as an 'advantage impose' for privately gave open administrations (Mahdavi, 2008). A few countries have connected dynamic tax rates in light of the individual property estimation (e.g. Colombia, Bolivia, Chile, Guatemala, Peru and Brazil, Egypt India) (Kelly, 2011).

The utilization of dynamic rates is defended as a method for moving the taxation rate to those properties with a higher "capacity to pay." The legitimacy of this contention is flawed, be that as it may, since there is little connection between a property and citizen pay. That is, there are numerous low esteem properties possessed by well off citizens while there are higher esteem properties claimed by "resource rich-money poor" citizens (Akilu et al., 2013). Most countries don't utilize dynamic assessment rate structures for their charges, yet hold the utilization of dynamic rate structures for their wage charges. The main country that has effectively connected the expense continuously on the thorough estimation of all land and private properties is the Republic of Korea under their national-level Far reaching Land Holding Assessment, which is connected over the consistent tax. The Korean government can connect the property proprietorship records with family enrollment records to total aggregate property possessions for dynamic tax collection (Administration of Korea, Service of Procedure and Fund, 2012).

In many countries, be that as it may, extensively connecting properties to singular proprietors is for all intents and purposes outlandish and along these lines it is authoritatively difficult to impose ardent property dynamically in a thorough way. Furthermore, truth be told, the Legislature of Korea declared in 2008 that the Thorough Land Duty will be supplanted extra time with an assessment on the affluent, with here and now changes presented on its organization from 2012 (Chosun, 2008). As opposed to exhausting properties under a dynamic rate structure, most nations have a tendency to receive less complex assessment rate structures to guarantee straightforward and responsible incomes. Indeed, even nations which already connected complex dynamic rates are moving to more straightforward assessment rate administrations. For instance, in 2005, Jamaica moved from its perplexing, dynamic rate structure for its yearly assessment to a straightforward level rate structure to expel the expense rate unpredictability and enhance impose installment consistence (Gupta, 2007).

Moving far from a dynamic rate structure can have various focal points: To begin with, it can diminish the motivating force to sub-partition property for absolutely impose purposes. Second, it can bring down the taxation rate on high esteem properties, which may empower more prominent levels of duty consistence. Third, it can take out the issue with section crawl, where properties can normally fall into the higher assessment sections as property estimations normally increment, except if the sections are listed to the general property estimation increments. Fourth, it can make it simpler to modify the rate after some time (Sjoquist, 2004). In spite of the fact that a uniform expense rate might be the perfect choice for creating and transitional nations, it frequently turns out to be politically troublesome, constraining nations to acquaint various rates with oblige particular gatherings of properties. In nations that do embrace a characterized impose rate structure , the quantity of various expense rates should, to the degree conceivable, be kept to a base, with maybe a greatest of three duty rates being separated for horticulture, private and non-private properties (Mahdavi, 2008).

2.2.4 Benefit Theory of Taxation

The benefit theory of taxation argues that the government should levy taxes on the individuals in accordance with the benefits conferred to them. The more benefits a person derives from the activities of the state, the more she/he should pay tax to the government. The principle has been subjected to severe criticism on the following ground.

If the state maintains a certain connection between the conferred and the benefit derived it will be against the basic principle of the taxation. Tax as we all know is a compulsory contribution made by the government and the provision of the general benefit. There is no direct quid pro quo in the case of tax.For most of the expenditure incurred by the government for the general benefit of its citizen, it is not possible to estimate the benefit enjoyed by a particular individual every year.If we apply the principle in practice, then the poor will have to pay the heaviest taxes. If we get from the poor by way of taxes, it is against the principle of justice.

2.2.5 Canons of tax revenue collection

A classical economist Smith (1776) put forward the canons or general principles of taxation which he said should be observed when imposing tax, and these are; equity, certainty, convenience, productivity, buoyancy and economy. These canons if followed in tax assessment, collection and administration, improve the Local Authority revenue collection and administration.

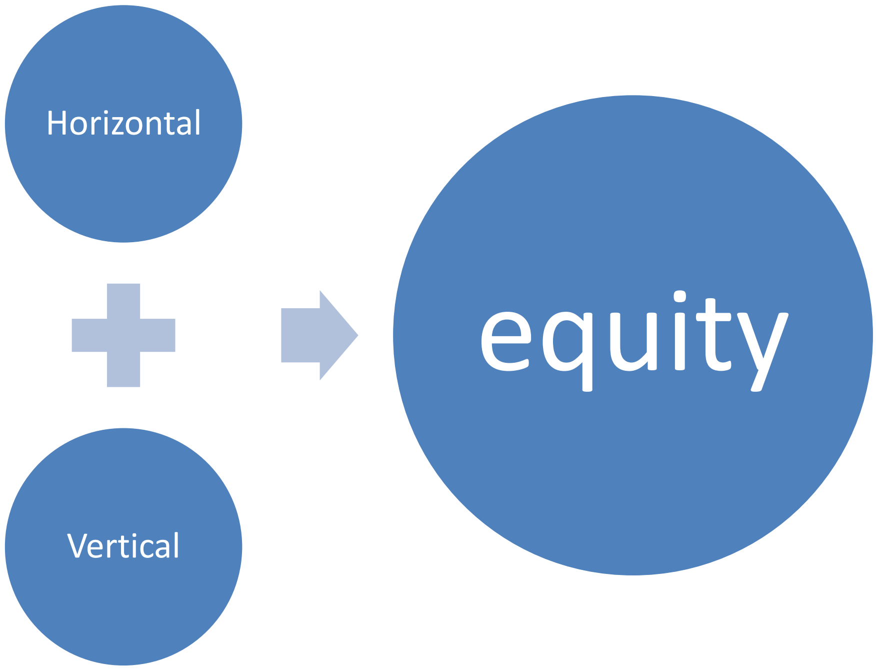
2.2.5.1 Convenience

According to Smith (1776) tax should be convenient. It is should be levied at the time which is likely to be convenient for the taxpayer to be able to pay. In this respect, the mode and timing are the most important factors. The implication here is that tax should be charged when the taxpayers have ability to pay, have money or ability to have it. The emphasis should also be posed to the mode of tax collection; manner through which the tax is collected should be fair and strategic.

2.2.5.2 Canon of Equity

The principle of equity has to do with fairness. According to Smith (1776) the amount of tax charged should be equal or proportional to the income of the taxpayer.This principle has humanitarian basis, which the taxpayers should be treated fairly without given burdens upon them. Equity takes two forms, horizontal equity, and vertical equity. Horizontal equity means that people in the same income bracket should be taxed equally while vertical equity means that people in different income brackets should be taxed differently.

Fig. 2.1 Forms of canon of equity



2.2.5.3 Productivity

Tax collected must be productive. It must be able to generate more and more revenue to the local government. Barrie (2010) stresses that tax systems should be set to ensure that the collected revenue brings more and more results to the government as possible. Tax system should yield enough revenue to the treasury, so that the Local council does not resort to deficit financing (Barrie, 2010).

2.2.5.4 Certainty

The principle of certainty is said to improve the local revenue collection. The tax authority must be certain on the all questions related to tax and taxpayers be protected from all unnecessary harassment by revenue officials which is rampant in most of the developing countries (Fjeldstad, 2003).

2.2.5.5 Economy

The principle of economy is very important in local revenue collection. It is the principle that emphasizes on cost of tax collection and administration, issues of fees and charges which basically must be lower than tax proceeds. Gordon (2010) suggests that tax collection costs should not exceed 5 percent of the tax since it is meaningless to impose taxes, which are widespread and difficult to administer as they impose an unnecessary burden upon the society in the form of additional administrative expenses.

2.2.5.6 Flexibility/Buoyancy

Tax should change directly with the change in tax base. Any tax should be able to change directly with the changes in the economic situations or incomes or tax bases with the Local administration. For instance, if the taxpayers' incomes rise, even the taxes on them should be able to adjust directly and taxes should reduce as incomes reduce. The fees/tax structure should be adjustable to the changing requirements of the Governments with ease; and the Local revenue system should not be complicated (Chijoriga, 2012).

2.2.5.7 Diversity

The local government revenue greatly depends on the diverse resources available in the area. It is advantageous for the local government that has abundant resources and it is very risky for the local government to depend on few resources. If Local revenues come from diversified sources, then any reduction in a particular revenue item is bound to be very small, hence the principle of diversity. The authority in the local government should be keen with the resources it possesses since multiplicity of resources may be problematic. If the local government does not become careful, then there can be unnecessary costs that in turn violate economic principles. The fiscal authorities should make sure that it becomes more careful to predict accurately the revenue collection in the future and forecast the rates it can generate (Barrie, 2010). Adam Smith (1776) identified a number of cannons of taxation. These cannons are convenience, equity, certainty, flexibility, etc. which essentially may not fully help in tax assessment, collection and administration because of the nature or make up of the Local Governments. For instance estimation of the convenient period of paying tax becomes difficult especially for the taxpayers who are in informal sector. With regard to the question of equity, it can be difficult to determine the taxpayers who are in the same income brackets since there may be a tendency for some of them to be very secretive in disclosing their wealth. However, it has been argued frequently that Smith's principle of diversity may not be applicable in some countries especially the developing ones since their tax base is low and it depends on agriculture as the principal economic activity. The implication here is that the principle is more applicable in the advanced economy where there a variety of tax bases with developed database of the individuals and their respective incomes.

Moreover, Maurer (2005) brings in the question of education programs arguing that they are so critical in providing information on issues such as tax structure, procedures of payment, appeal and dispute mechanisms and enforcement provisions. This information, combined with improved and effectively open installment frameworks, can bring down consistence costs and empower willful compliance. Keeping in mind the end goal to lessen authoritative and compliance costs, nations are progressively giving numerous helpful installment choices through banks, post workplaces, ATM machines, or by means of web, electronic checks and credit cards, and taking into account coordinate bank conclusions or potentially installments through mobile phones credit exchanges. A few nations attempt to connect the assessment to the power or water bills to encourage gathering (Greece, El Salvador, and South Africa)(Devos, 2008). To realize these potential tax revenue improvements, countries must undertake strategic reform, combining policy and administrative interactions to improve tax base coverage, property valuations, collection, enforcement and taxpayer services (Kirchler et al., 2008). Tax policy reforms must adjust tax base definitions and tax rate structures along with making appropriate policy decisions linked to valuation standards, appeals, collection and enforcement (Kelly, 2013).

2.3 Empirical Literature Review

2.3.1 Strategies of tax collection

Kayombo (2015) assessed the strategies used by the tax authorities to raise revenue collection in local government. The study was undertaken in Sumbawanga District Council. The findings of the study revealed that the council faced poor tax collection which resulted from acute dependence on aid from the central government. The planned revenue goals were not met because of poor administration while the expenditures were very high. The council used a number of strategies which essentially lacked effectiveness. These strategies included contracting, agency and inspections. All these strategies were not fruitful and counted failure. There was another study conducted by Ng'eni (2016) to review the mechanisms in place to administer tax. The study used the library and desktop review and paid its focus on the tax morale (motivation) and voluntary tax compliance as the key issues of revenue collection. The study found out that in Tanzania like other developing countries, tax is lost because of poor administration mechanisms in place. The study found that the government had poor and ineffective tax administration mechanisms stemming from poor taxation policy. This was found to be the reasons for non-compliance among taxpayers. The ineffective management and poor taxation policy attracted the malpractices such as tax avoidance, tax evasion and low compliance.

Kayuza (2006) conducted a study giving much attention on the tax administration and strategies in place particularly in property tax. The study was undertaken in three Districts of Kinondoni, Ilala and Temeke, all of them in Dar es Salaam Region. The analysis of the study was focused on tax identification, valuation and the tax revenue collected. The study detected inadequacies in tax administration leading to low levels of revenue collection compared to available potentials. The study found out that the taxpayers had resistance to pay tax because they saw little benefits from it.

2.3.2 Perceptions of taxpayers towards tax collection

Mwakibete (2015) stressed on the influence of taxpayers' perceptions on tax compliance. The study was undertaken in three municipal councils of Kinondoni, Morogoro and Dodoma. The findings revealed that 22.3% of the respondents showed that they did not pay tax at all because of their negative perception of tax collected. The study also found that compliance rates were 77.7%; 91.2%; and 84.1% in Kinondoni, Morogoro and Dodoma respectively.

Another study conducted in Kenya and South Africa by Devos (2008) showed an expansion in the impression of people about the trouble of avoiding charges of one unit improving the probability of tax agreeable state of mind by 5% and 8% in Kenya and South Africa, respectively. The findings give suggestive confirmation for the economic deterrence theory, which places that the impression of expanded requirement that makes more avoidance troublesome will build tax compliance attitude in in Kenya and South Africa. The findings keep on providing confirmations that in Kenya, people who are satisfied with government provision of infrastructure such as roads and electricity will probably have compliant attitude by around 10%. However, in Uganda and Tanzania, people who are satisfied with the government’s provisions of essential wellbeing administrations and instructive needs will probably have compliance attitude by 8% and 10%, individually. Notwithstanding basic needs administrations and training, fulfillment with government's treatment of wrongdoing, struggle and debasement improved the probability of having a consistent state of mind in Uganda with 7%. In like manner, in South Africa, people who are satisfied without lifting a finger of getting different administrations from the legislature, for example, issuing of character card, family unit administrations and police administrations will probably have a tax- compliant disposition by around 8%. The discoveries indicate diverse outcomes from the four nations and propose that administration consumptions may propel consistence and that legislatures can build consistence by giving products that residents lean toward in a more effective and open way. In any case, it was discovered that incessant installment to non- state on-screen characters, for example, lawbreakers and packs lessens the probability of having an assessment consistent state of mind in all the four nations. The impact ranges from an increase in consistent state of mind from 6% in Kenya, to 8% in Uganda and South Africa and as high as 12% in Tanzania. Moreover, the study could not find out factors influencing tax revenue collection in the respective countries.

2.3.3 Challenges facing tax collection

Dedu (2015) conducteda study in Dodoma Municipality to assess the challenges of tax collection. The findings revealed that tax collection in Dodoma Municipality was challenged by ineffective statutory rate, ineffective means of transport, varied methods to determine tax base, inconsistency in tax valuation etc.

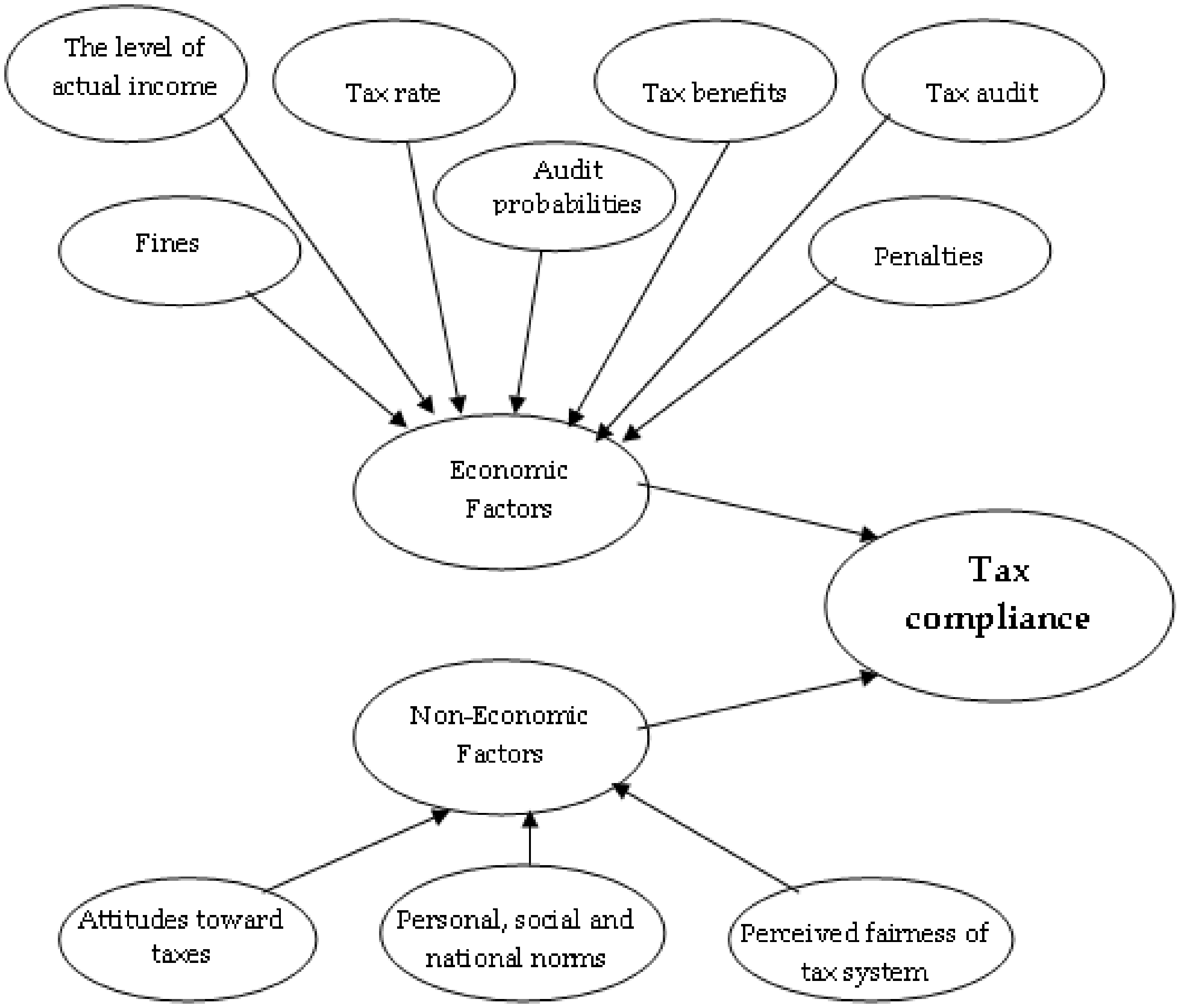
Ndemanyisho (2014) assessed the practice of record management in Tanzania Revenue Authority (TRA). The study focused on the extent to which TRA adhere to the ISO 15489-1. The findings of the study revealed that the implementation of ISO 15489-1 was constrained by some challenges such as unqualified records officials, poor linkage between department of ICT and records management unit, poor or lack of policies, records retention and disposition schedules etc. The study by Kimario (2014) that was undertaken in Dar es Salaam Municipalities investigated the challenges that faced the LGAs in implantation of strategies adopted to enhance revenue collection. The study found that there was a great gap between the budgets of the LGAs and revenue collection of 5 to 8 percent. The LGAs tried to use some strategies such as outsourcing to private collectors, integration of database and review of bylaws but it was found out that the problem was with the taxpayers who were not willing to pay tax and frequent interference of the politicians. The implication of the findings was that the taxpayers were to be prepared to pay tax and the politicians were to be prohibited to interfere with tax collection. The study by Elibariki (2013) that was conducted in Kinondoni, Dar es Salaam investigated the challenges that faced the tax collection systems. Data were collected from LGA, TRA officials as well as the taxpayers within the Dar es Salaam city council. The findings of the study found that the challenge number one was the resistance of the taxpayers who claimed that their tax was not used for their services as it was intended. Moreover, the study found out that there were still other problems such as lack of awareness on tax, inadequacy in tax systems due to incompetent officials, long valuation procedures and obsolete database.

Mtasiwa (2011) conducted a study with key intention to investigate the hindering factors to potentiality of tax/revenue collection in Tanzania. TRA was facing complaints due to vices such as tax evasion, tax avoidance and tax complexities that were rampant in the country. The study used a survey research design and mixed approaches to data collection. The study found out that the authority officials were facing difficulties in some areas such as administration, coordination and oversee of all tax activities. In this regard, the study found that the authority failed to promote tax compliance and effectiveness to counteract frauds and evasions because of incompetency of some to its officials.

2.4 Conceptual Framework

The major objective of the study is to investigate the factors influencing the compliance attitude among taxpayers in Small and Medium Enterprises (SMEs) in Tanzania. The independent variables here are the factors which in this study are categorized into two areas; economic factors and non-economic factors. This study adopted the conceptual framework of Misu (2011) that conducted the study with the same variables in Romania. The study adopted the framework because it was consistent and its variables explainable in the context of Tanzania.

Fig. 2.2 Conceptual Framework



Source: Misu (2011)

2.4.1 Economic factors

In the tradition of tax compliance a number of factors have been put into consideration as important to explain tax compliance; the level of actual income, tax rate, tax benefits, tax audit, tax probabilities, fines and penalties.

The level of actual income: according to Spicer and Lundstedt (1976) the self-employed individuals are more likely to avoid taxes than the employed taxpayers. However, self-employed taxpayers have possibilities and opportunities for tax evasion and these opportunities might further increase with the number of various income sources. In this regard, in tax compliance decisions and the level of income might interact with its source.

Tax rate: Economic models of rational compliance decisions provide either mixed predictions of the effect of marginal tax rate on compliance, or predict that increased tax rates would increase compliance (Allingham and Sandmo, 1972). On the contrary, most of the empirical evidences have revealed that higher tax rates decrease compliance. The most important thing is trust. That is the impact of the tax rate would depend on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers, as an attempt at taking from the taxpayers what is rightly theirs. When trust is high, the same level of tax rate would be interpreted as contribution to the community, which in turn again profits each individual.

Tax benefits: The benefits of tax influence the tax compliance among the entrepreneurs. The taxpayers pay tax with expectation of receiving something in return. For the case of Tanzania, the taxpayers expect the government to use their tax to provide social services such as infrastructure, education, health and water facilities. The compliance attitude is expected to be positive when the taxpayers think their tax is beneficial to them and their businesses.

Tax audit: This is one of the exceptionally powerful approaches to secure tax avoidance conduct. The level of assessment audit can be controlled by two components: one is what number of taxpayersare chosen for review and the second is how much serious the review is. The main component is effortlessly estimated by the quantity of inspected citizens separated by the aggregate number of citizens. Be that as it may, the second component is so hard to measure because of no distributed data about the procedure of tax audit. It is generally estimated by the main component to show the level of tax auditfor useful correlation (Hyun, 2005). Tax audit produces authoritative cost. As a limitation of the settled organization cost, an expansion in the level of audit is required to diminish the level of other regulatory capacities, similar to citizen benefit, tax collection and so forth.

Audit probabilities: This has to do with the certainty about the probability of the business being audited. Some studies have argued that an increase in uncertainty about the probability of being audited (ambiguity) increases tax compliance for ambiguity-averse taxpayers but reduces compliance for ambiguity lovers. In that regard, fostering uncertainty about the probability of being audited may or may not be an effective policy for increasing taxpayer compliance.

Fines: Some studies have shown the relationship between fines and tax compliances. That is the non-compliant individuals or entities get fined as a punishment to make them comply. These studies have shown significant increase with the increase of fine instants. That being the case, fines that are too low could be seen as marker that the specialists are powerless and unfit to control the miscreants, undermining trust among legit citizens. Additionally, fines that are wrong on the grounds that a citizen automatically committed an error coming about because of uncertain assessment laws, or fines that are extravagantly high, would undermine the impression of retributive equity and incite impose dodgers to invest significantly more energy to recapture their "misfortunes"' brought about by those fines (Kirchler et al., 2008).

Penalty: The structure of penalty system may differ from country to country but the penalty system has been used in different countries to cause tax compliance. Penalty rates have been independently connected by the distinctive duty subjects like the individual salary impose, capital wage assess, esteem included expense and so forth. Besides, the punishment rates for each assessment subject are separated by the diverse sorts of avoidance, such as non- filing, convenient documenting yet under- reporting, no accounting of solicitations, receipts and so on. Or on the other hand, the punishment rates are diversely connected to the sorts of citizens, contingent on their sidestepped practices. In the event that a few citizens had the purposeful avoidances, the punishment rate is significantly higher than that of unexpected avoidances (Hyun, 2005).

2.4.2 Non economic factors

There are various non-economic factors that influence tax compliance attitude. These factors include willingness to pay for public provision, public education, tax morale, tax information etc. It is reported by some studies (such as Misu, 2011) that non-economic factors are important determinant of compliance attitude among most of the taxpayers.

Attitude towards taxes: Attitude represents the positive and negative evaluations that the taxpayers hold against tax. Individuals are likely to act according to their attitude. Thus, a taxpayer with positive attitudes toward tax evasion is expected to be less compliant than a taxpayer with negative attitudes. The attitudes are important for both the power and the trust dimension. On the one hand, favorable attitudes will contribute to trust in authorities and consequently will enhance voluntary tax compliance. On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as benevolent or malicious. Tax attitudes in general also depend on the perceived use of the money collected and therefore are connected to knowledge (Kirchler et al., 2008).

Personal, social and national norms: Norms are imperative determinants of tax compliance. Behavior expectations are resolved likewise by subjective norms (Ajzen, 1991). Norms are behavior gauges on three unique levels: the individual level, the social level and the national level (Kirchler et al., 2008). On the individual level, norms characterize disguised guidelines on the best way to act. Individual norms are identified with moral thinking, tyranny and Machiavellianism, pride, standard reliance and qualities. There is impressive cover between individualnorms, qualities and duty morals: the more built up the ethical thinking or assessment morals, the more probable is voluntary compliance (Trivedi et al., 2003). On the social level, norms are normally characterized as pervasiveness or acknowledgment of tax avoidance among a reference gathering (Wenzel, 2005). Social norms are identified with the behavior of reference gatherings, for instance companions, colleagues or professional gathering. On the level of national norms, norms end up social principles, regularly reflected in the real law.

Perceived fairness in tax systems: This represents three aspects of justice in tax administration. These aspects are distributive justice, procedural justice and retributive justice.

In distributive justice, comparisons are made on the individual, the group, and the societal level. On the individual level, taxpayers are concerned about the fairness of their outcomes, and they want to be treated relative to their merits, efforts and needs. If an individual's tax burden is heavier than that of comparable other individuals, tax compliance is likely to decrease.

In procedural justice the components essential for perceived fairness are neutrality of the procedure, trustworthiness of the tax authorities and polite, dignified, and respectful treatment. Taxpayers consider the treatment by the tax authorities, information provided, costs regarding compliance and administration, and the dynamics of allocation of revenues. It is argued that increased information related to tax law and explanations for changes can increase fairness perceptions of tax system.

Retributive justice relates with the unfair aspects that are imposed to taxpayers. Unreasonable and intrusive audits and unfair penalties lead to negative attitudes toward the tax office and taxes in general. Unfavorable retributive justice perceptions could lead to increased distrust and consequently increasednon- compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Study Design

This chapter outlines the research methodology to be adopted by the researcher to undertake this study. The section includes the details on study area where the study was conducted and the reason for its selection, research design, research approach, targeted population, sample size, sampling procedures, data collection methods, data processing, analysis and presentation of findings, validity and reliability of the information collected and ethical issues of the study.

According to Kothari (2008) research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. In line with this Milanzi (2009) describes research design as a blue print that enables the investigator to come up with solutions to those problems and guides him/her in various stages of the research. The appropriate design is important for this study for it will make the study to be systematic and focused to the information related to tax and tax compliance.

This study was conducted under survey study research design. The survey design was suitable for this study because of its ability of involving a big number of respondents in the study. A big number of respondents were involved in this study through answering questions in the well prepared, structured questionnaire. The questionnaires were distributed to the SMEs' owners/managers to answer some questions in line with the research questions.

3.2 Study Area

The study was conducted among the Small and Medium Enterprises (SMEs) in Dodoma Municipality. SMEs in Tanzania and in the world at large are the drivers of national economy. It is the sector that gives a notable contribution to the efforts towards income poverty alleviation through creation of employment opportunities, income generating activities and equitable distribution of goods and services to the people (Sanga, Kasubi and Kisumbe, 2014). Dodoma Municipality was purposively selected due to the fact that it is one of the fast growing municipalities congested with various types of small businesses (Sanga et al., 2014). Also Dodoma Municipality had tax collection with higher loses of revenues according to Dedu (2015).

3.3 Study Population

Saunders et al. (2009) defined population as the full set of cases from which a sample is taken. It is the target group to be studied in a particular place (Krishnaswami, 2002). The target population for the study included all registered SMEs taxpayers in Dodoma Municipality and tax collectors (tax officers) at middle and senior levels in TRA – Dodoma. The SMEs as taxpayers enabled the study by uncovering their perceptions towards tax payment, the suitability of the strategies used to collect tax and the commitment of tax officers. Tax officers from TRA - Dodoma were involved in to give the strategies they use in tax collection, their commitment and the tax collection performance in the selected years. Tax administrators were asked to reveal the tax collection performance in a given period.

3.4 Sample Size

A sample is a part of the population from which it was drawn (Yin, 2003). Sekaran (2003) recommends the sample size to be at around 30 and 500 respondents. While, Enon (2002) recommends that a minimum number of sample for any research should at least be 30. Therefore, the sample size for this study was 120 SMEs' owners in Dodoma Municipality. The study opted for a sample study because covering the entire population was not be viable in terms of cost, time available for the study, and that the population is too big. In addition, the officials (such TRA data processing and registration unit officers/block management officers, and other operations officers) with information on the tax collection were involved to give the relevant information about listed and taxed SMEs, strategies used, tax collection trends in a given period and challenges facing tax collection in the area.

Table 3.1 Sample Distribution of Respondents

Category of respondent	Sample size
Block management register	1
TRA operations officers	4
TRA non-operations officers	2
Taxpayers (SMEs owners)	120
Total	127

Source: Researcher (2018)

3.5 Sampling Techniques

According to Kothari (2004) sampling is concerned with the selection of the subset of individual from within a population to estimate characteristics of the whole population. Sampling techniques to be used for this study used both probability (simple random) and non-probability (purposive) sampling.

3.5.2 Purposive Sampling

Purposive sampling technique was used to the tax officers to obtain qualitative data. Purposive sampling is commonly used in qualitative research which involves selection of the research participants according to the need of the study (Creswell, 2009). The respondents who were selected purposively comprised of one (1) block management registrar (4) TRA operation Officers and two (2) TRA non operations officers. Also purposive sampling was used to select the study area, Dodoma Municipality. Purposive sampling is suitable for this study because it enabled the study to be enriched with personal experience, feelings and opinions/views regarding the subject matter.

3.5.2 Simple Random Sampling

Random sampling is the process that guarantees all the possible samples taken from the population have the same probability of being chosen, this is, all the elements of the population have the same probability of being chosen to belong to the sample (David, 2011). The study used simple random sampling approach to select SMEs. The researcher visited the office of data processing and registration unit, the office dealing with recording all taxpayers in the region through block management system. The list of all registered and taxed SMEs were asked to be given. In the list, all the SMEs were numbered and their numbers were jotted down on small pieces of papers that were folded and mixed. From the folded and mixed papers, the researcher picked randomly. The numbers of the respective SMEs were included in the study.

3.6 Variable measurement

The study had both independent variables and dependent variable. Independent variables consisted the economic and non-economic factors while the dependent variable was tax compliance. In summary, the measurement of variables is illustrated in the Table 3.1 below:

Table 3.2 Variable Measurement

Dimension	**Variable**	**Measure/value**	**Indicators**	**Scale**
I: Independent variables				
Demographic characteristics	Age	Years lived by manager	Number of years	Continuous
	Sex	Sex	1. Male; 2. Females	Nominal
	Education level	Education level reached	1. Non-formal; 2. Primary; 3. Secondary; 4. Certificate; 5. Diploma; 6. Degree	Ordinal
	Marital status	Marital status	1. Single; 2. Married; 3. Widowed; 4. Divorced; 5. Separated	Nominal
	Experience business	Years business operated	Years of business	Continuous
	Type of business	Type of business	1. Sole proprietorship; 2. Partnership; 3. Limited liability	Nominal
	Number of employees	Number of employees	Number of employees	Continuous
	Annual turnover	Amount of money collected as profit yearly	Amount of Money in Tshs.	Continuous
Revenue collection performance	Amount of revenue	Amount of money/tax collected in indicated years	Amount of money in Tshs	Continuous
Economic factors	Factors related to economy	Likert Scale	Tax rate Tax benefits Tax audit Tax audit possibilities Penalties Fines	Continuous
Non-economic factors	Factors that are non-economic aspects	Likert Scale	Attitude towards tax Norms Perceived fairness system	Continuous
II: Dependent variable				
Tax compliance	Positive attitude	Likert scale	Taxpayer perception	Continuous

3.7 Data collection strategies

The study employed some relevant strategies to collect data in the study area. These strategies involved the use of interview, questionnaire, Focus Group Discussion and documentary review for data collection in this study.

3.7.1 Interview strategy

Yin (1994) argues that interview tool is very important source of getting information and it is helpful in handling the information that are qualitative and that are detailed in their essence. This study used both unstructured and semi-structure interviews to collect data from operation and non-operation officers in TRA – Dodoma. Also face to face interviews with TRA tax officers and TRA non operations officers in lieu of their availability were carried out. The interviews targeted to obtain the information on the strategies used to collect tax, commitment of the tax officers and tax collection performance in a given period in order to answer the first, second and third research questions. The interviews focused on themes of tax collection, tax officers' commitment and tax collection performance. Therefore, a semi structured interview guide was developed in line with the research objectives to be used. A tape recorder and handwritten field notes were used to capture information during in-depth interviews which took 30 up to 45 minutes. The interview guides were developed in English and then were translated into Kiswahili to facilitate communication during interview.

3.7.2 Questionnaire Method

According Cresswell (1998) questionnaire consists a set of predetermined questions that may be structured, unstructured or semi structured. Unlike interview, questionnaires are used to collect opinion on a theme of interest from a large sample of respondents (Yin, 1994). A closed- ended and open-ended questionnaire was administered to taxpayers who are SME owners/managers in Dodoma Municipality. The questionnaire was used in order to capture the taxpayers' perceptions (second and third research questions) towards economic and non-economic factors influencing tax compliance in Dodoma Municipality. The questionnairewas used since it provides an easy way of administration and analysis of data obtained (Mugenda and Mugenda, 2003).

3.7.3 Focus Group Discussion

Focus Group Discussion was undertaken with the respondents of three to five participants especially the SMEs owners/managers. This enabled the participants to express their views and perception regarding the subject matter. This also enabled the researchers to gain insights about the issues that will seem not clear by asking more and more questions.

3.7.4 Documentary review

The researcher reviewed different documents related to tax collection and tax compliance. The documents utilized in the study comprised of guidelines for revenue collection in TRA, directives for TRA regarding revenue collection, policies and regulations on revenue collection, books and journals used as literatures, Dodoma tax region revenue collection performance reports, Dodoma tax region presumptive collection report. Other reviews involved all materials related to SMEs and tax collection and tax compliance attitude such as books, journals and periodicals from University library, published and unpublished papers and websites.

3.8 Pilot studyand pretesting of data collection tools

Pilot study pretesting were conducted to those TRA officers who deal with revenue collection in Dodoma Municipality. The study instruments of questionnaire, interviews and FGD check-list were pre-tested before they were used in the study in order to ensure their reliability. The pre-test enabled the researcher to identify the ambiguity in the questions and the researchers eliminated all ambiguities and make the questions clear. All the interviews and discussions were tape-recorded for reference when clarity was needed. Finally, the instruments were refined to suit the context of the study and translated into Kiswahili. Also, the pilot and pretest provided a clear indication on the response to interview guides and average time allocated for interviewing one respondent. The results from the pilot and pretest study also helped to improve interview guide.

3.9 Data Management

Both quantitative and qualitative data were collected. Quantitative data were cleaned and cleared before they are entered in SPSS. Questionnaires were closely checked to make sure that all questions are answered and that all responses are clear. Quantitative data in SPSS were handled with care to make sure that they are not disturbed to the extent of giving different outputs.

Qualitative data, data generated from the interviews and Focus Group Discussions, were checked daily and also they were cleared so as to ensure quality and consistency. All recorded data during the interviews and FGDs were coded and analyzed according to the emerging themes. The researcher read and re-read the transcripts so as to be familiar with the content represented by the key informants. The codes were explored to deduce important information then the interpretation of the findings was done.

Data were managed so as to ensure that all information are recorded effectively and they are documented. The management of data was done at a high level of confidentiality as nobody who is not directly involved in the study had access to the collected data. Digital audio recorders and other data were kept in a safe place to be accessed by researcher only.

3.10 Data Analysis

Data collected in line with the first and second research objectives were predominantly quantitative. The quantitative data were analyzed by using descriptive statistics involving frequencies and percent.

Qualitative data, were analyzed using thematic approach, whereas thematic decomposition analysis is a specifically form of thematic discourse analysis which identifies pattern (themes, stories) within data and theories language as constitute of meanings and meaning as social (Stenner,1993). The process of analysis in thematic approach involved six phases which were used in analysis of the findings. Data recorded during the field were transcribed verbally in written form so as to make a researcher to be familiar with the data and to get the general idea. The Researcher created start list and initial codes where by data reduction was done. Codes helped to identify the features of the data that appears to be interesting and to get the meaningful of the data. The general list of the codes helped in sorting of the themes and the focus were on to broad patterns in the data, combining coded data with the proposed themes, also it examined how relationships are formed between codes and themes and between different levels of existing themes. After identification of the themes the researcher read and reviewed the coded data so as to know if they had appeared to form a coherent pattern. The existing themes were defined and refined for the presentation in the final analysis. The final analysis involved writing the report which convinced the reader of the merits and validity of the analysis (Snape & Spencer 2003).

3.11 Ethical issues and consideration

In this study the researcher sought the permission letter from the Directorate of Post Graduate students of Mzumbe University. Also the permission to conduct research was requested from Dodoma Municipal TRA regional office through TRA Head Quarter before starting data collection. Confidentiality was maintained throughout and after the study. All participants were informed on the objectives of the study in order for them to make informed decision to participate or not to participate in the study. Before starting the in-depth interview study participants were asked for their willingness.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents and analyses the findings as they were collected form the respondents in the SMEs in Dodoma Municipality. The findings presented are both quantitative and qualitative. The analysis and presentation of data are done according to the research objectives. The study objectives were:

i) To examine tax collection performance in Dodoma Municipality in the last three years (2014/15 – 2016/17)

ii) To determine economic factors influencing tax compliance in SMEs in Dodoma Municipality

iii) To assess non-economic factors influencing tax compliance in SMEs in Dodoma Municipality

The response rate of the respondents who participated in this study was perfect since all 120 (100%) were met by the researcher and they were given questionnaire to fill in their responses and produced the required information. Data presented in this chapter are presented in Tables and textual forms. The data presented in Tables are mainly those involving numbers.

The chapter is generally divided into four sections. The first section presents findings related to the socio-characteristics of the respondents namely age, sex, marital status and education levels of the respondents. The second section in this chapter presents the data tax collection performance in Dodoma Municipality in the previous three years (2014/15 – 2016/17). The third section presents the analyzed data on the economic factors influencing tax compliance in SMEs in Dodoma Municipality. The last section presents the analyzed data on non-economic factors influencing tax compliance in SMEs in Dodoma Municipality

4.2 Basic Profile of the Respondents

The study was interested to survey 120 SMEs in Dodoma Municipality. In this regard, a total of 120 questionnaires were produced and administered to the 120 SME owners as sample respondents. Most fortunately, all 120 questionnaires were returned to the researcher for analysis. The collected data were analyzed both quantitatively and qualitatively to produce the quantitative and qualitative findings.

4.3 Validity and reliability analysis

This study used the instrument Cronbach's Alpha to test reliability and to measure the internal consistency by the use of SPSS. According to Grayson (2004) Cronbach Alpha ranges between 0 and 1; the closer the Cronbach's Alpha coefficient is to 0.1 the greater the internal consistency of items in scale.

Nunnaly (1978); Grayson (2004) argued that reliability coefficient of 0.7 or higher is acceptable in most social science research situations. In addition, George and Mallery (2003) indicated that the Cronbach's alpha greater than 0.9 is an excellent consistency; greater than 0.8 means good consistency; 0.7 means acceptable; 0.6 means questionable; 0.5 means poor; and less than 0.5 means unacceptable.

In this study, Cronbach's Alpha was tested to measure the internal consistency of the variables. The findings showed that the Cronbach's Alpha for the tax compliance was 0.904 which was greater than 0.7 signifying great internal consistence.

Table 4.1 Reliability Analysis

Variable	Cronbach's Alpha	No. of items
Tax collection performance	0.904	3
Economic factors	0.632	13
Non-economic factors	0.631	13

Source: Author (2018)

4.4 Socio-economic Characteristics of the Respondents

The study addressed the characteristics of the respondents who participated. They were asked to tell their demographic characteristics of age, sex, marital status and education levels. The demographic characteristics were important to give the general picture of the respondents on which the study relied to obtain the relevant data.

4.4.1 Sex of Respondents

The study was interested to establish the sex of the respondents. The respondents were asked to tell in the questionnaire if they were men or women. The results in Table 4.2 amazingly showed that half, i.e. 60 (50%) of all respondents were females while other half i.e. 60 (50%) of the respondents were males.

Table 4.2 Sex of Respondents

Sex category	Frequency	Percent
Male	60	50
Female	60	50
Total	120	100

Source: Author (2018)

This shows that all gender (men and women) was well represented in the study to make data collected to be relevant and reliable for the study. The findings showed that number of women and men who were participating in business were equal. The implication of the findings is that nowadays especially in the urban areas women are like men in participating in business activities. They need to assist their men to participate in economic activities in order to generate income. Very interestingly, the culture of making the women to stay at home while men are working hard to feed their families with little participation of women is currently disappearing. The findings suggest that women today are engaged in business and it seems they are overtaking men especially in small businesses.

4.4.2 Age of Respondents

The study was interested to address the age category of the respondents. The respondents were asked to show their age groups. The results in Table 4.4 show that the respondents were well distributed across the age, i.e. 43 (35.8%) of respondents were of the age 20 -30; 37 (30.8%) of respondents were of the age 31 – 40; 32 (26.7%) of respondents were of the age 41 – 50; while 8 (6.7%) of respondents were above 50 years of age.

Table 4.3 Age of Respondents

Age groups	Frequency	Percent
20 – 30	43	35.8
31 – 40	37	30.8
41 – 50	32	26.7
Above 50	8	6.67
Total	120	100

Source: Author (2018)

The results imply that the respondents who participated in the study were from different age groups. The implication of the findings is that the owners of SMEs do not belong to some a certain age groups but they are scattered throughout the age groups especially from 20 to 50s. The findings also showed that the majority of the SMEs are those of the young age. The young age is the reproductive age when many have families and they are striving to take care of them. In this situation, most of them find themselves engaging in entrepreneurship and small businesses and sometimes they are running family businesses.

4.4.3 Marital status of respondents

The researcher wanted to determine marital status of respondents who participated in the study. It was revealed that majority, i.e. 51.7% of respondents were married; 27.08% of respondents were single (never married); 11.46% of respondents were widowed; 3.13% of respondents were separated.

Table 4.4 Marital Status

Category	Frequency	Percent
Married	62	51.7
Single	32	26.7
Widowed	17	14.2
Separate	9	7.5
Total	120	100

Source: Author (2018)

The findings show that majority of respondents were married. The implication here is that married couples are involved themselves in business activities. This could be due to increase on family commitment in which the married people have to be obliged. Married people, in most cases, have less risk in term of business seriousness as well as credit repayment (Makorere, 2014).

4.4.4 Education level of respondents

The study was interested to know the education level of the respondents who participated. The respondents were given the open-ended questions regarding the education level to which they belonged. The education levels were categorized from non-formal, primary, secondary, certificate, diploma and University Degree. The findings show that 49 (40.8%) of all respondents had secondary education; 27 (22.5%) of the respondents were University degree holders; 25 (20.8%) of the respondents had primary education; 9 (7.5%) of the respondents had Diploma level of education; 8 (6.7%) of the respondents had certificate level; while 2 (1.7%) of all respondents did not have any formal education.

Table 4.5 Education level of respondents

Level	Frequency	Percent
Non Formal	2	1.67
Primary	25	20.8
Secondary	49	40.8
Certificate	8	6.67
Diploma	9	7.5
Degree	27	22.5

Source: Author (2018)

The findings in the Table 4.5 have revealed that majority, i.e. above 98% of the respondents had formal education. They were able to read and write. This means that all respondents were able to read the questions, understand and answer critically. The number of respondents with secondary education was the highest over all other levels. This reflects the impact of ward secondary school that were established all-over the country. The findings imply that majority of secondary schools that are scattered in all corners of Tanzania produce individuals who do not continue with further studies hencestart their businesses. Also the results showed that the number of the respondents who are Degree holders were relatively higher. This also shows the real situation in the streets, that University Graduates who do not get employed in the formal sector go to the informal sector where they start small businesses for income generation.

4.4.5 Experience in entrepreneurship

The interest of the study was to know the entrepreneurial experience the respondents had in the business activities. The findings revealed that the number of years' experience of some respondents i.e. 49 (40.8%) of all respondents were in business for 1 - 4 years; 34 (28.3%) of respondents were in business for 5 – 8 years; 17 (14.2%) of the respondents were in business for 9 -12 years; and 20 (16.7%) of the respondents were in business for more than 12 years.

Table 4.6 Number of Years of Working Experience

Years	Frequency	Percent
1 - 4 years	49	40.8
5 - 8 years	34	28.3
9 - 12 years	17	14.2
above 12 years	20	16.7
Total	120	100

Source: Author (2018).

The implication of the findings is that respondents have relevant time in entrepreneurial activities. This is very important since the respondents could give the information based in the day to day experience. However, the findings show that most of the businesses were young, with less than 5 years. This can allude that most of the people who are dealing with businesses especially in the urban areas in Tanzania are young people and their businesses are newly established.

4.4.6 Types of business operated in SMEs

The study was interested to know the type of the SMEs from which the respondents were taken. The types such as sole proprietorship, partnership and limited liability were categorized into open ended questions and exposed to the respondents in the questionnaire. The findings show that majority, i.e. 115 (95.8%) of respondents owned a sole proprietorship firms; while very few, i.e. 5 (4.2%) owned partnership firms.

Table 4.7 Types of business owned by SMEs

Type	Frequency	Percent
Sole proprietorship	115	95.8
Partnership	5	4.2
Total	120	100

Source: Author (2018).

The implication of these findings is that, the study was composed with the different types of business operations hence the researcher was assured with relevant of the collected data.

4.4.7 Number of employees in SMEs firms

The interest of the study was to know number of employees the SMEs had employed. The findings revealed that majority i.e. 105 (88%) of the visited SMEs firms had employed 1 – 4 employees; 9 (7.5%) had employed 5 – 49 employees; 4 (3.3%) had employed 50 – 99 employees; 1 (0.8%) SMEs had employed 100 – 150 employees; while 1 (0.8%) of the SMEs had employee more than 150 employees.

Table 4.8 Number of employees in SMEs firms

Number of employees	Frequency	Percent
1 – 4	105	88
5 – 49	9	7.5
50 – 99	4	3.3
100 – 150	1	0.8
above 150	1	0.8
Total	120	100

Source: Author (2018)

The findings imply that the study involved different firm size which can be measured easily on the business status because number of employees can be used to determine the status of the SMEs and the level of tax compliance as well. The findings mean that majority of SMEs in Tanzania are micro and small firms.

4.4.8 The annual turnover of SMEs firms

The study was interested to know the annual turnover of the SMEs surveyed. In this regard, the Table 4.8 illustrates the findings based on the annual turnover of SMEs firms. The findings revealed that 65 (54.2%) of SMEs had annual turnover of 4,000,000 – 7,500,000Tshs; 29 (24.2%) of SMEs had the annual turnover of 7,500,001 - 11,500,000Tshs.; 13 (10.8%) of the SMEs had the annual turnover of 11,500,001 - 16,000,000Tshs; 8 (6.7%) of the SMEs had the annual turnover of 16,000,001 - 20,000,000Tshs; while 5 (4.2%) of the SMEs had the turnover of above 20,000,000Tshs.

Table 4.9 Annual turnovers of SMEs firms

Amount	Frequency	Percent
4,000,001 - 7,500,000	65	54.2
7,500,001 - 11,500,000	29	24.2
11,500,001 - 16,000,000	13	10.8
16,000,001 - 20,000,000	8	6.67
above 20,000,000	5	4.17
Total	120	100

Source: Author (2018)

The implication of the findings is that majority of the SMEs operating in Tanzania are micro with the annual turnover of up to 7,500,000Tshs. This indicates that most of the SMEs in Tanzania are operated by small entrepreneurs with small capital leading to lower annual turnover. Annual turnover is usually affected by tax rate which in return may affect tax compliance.

4.4 Tax collection performance in Dodoma Municipality for the years 2014/15 to 2016/17

The interest of the study was to examine the tax collection performance in Dodoma Municipality in three years of 2014/15 to 2016/17. To meet this, the study asked the respondents to indicate the amount they paid for each year in their questionnaire. The officers in the interviews were asked to tell the amount they had collected for each year of the three years.

4.5.1 Tax collection in Dodoma Municipality in 2014/2015

The respondents were asked to indicate the amount they had paid to TRA in the year 2014/2015. The findings showed that some of the respondents were afraid to show the amounts for their own reasons. This made some of the questionnaire to have no response on the question that demanded the respondents to show their annual tax paid. Out of 120 respondents 80 showed the amount they paid in the indicated year. The study attributed this to some reasons such as the taxpayers were afraid to show the amount; and perhaps some firms were not yet open in the indicated year.

The findings showed that some taxpayers, i.e. 39 (48.8%) of all respondents had paid 100,000 – 200,000Tshs in the year; 19 (23.8%) of the respondents had paid below 100,000Tshs; 12 (15.0%) of the respondents had paid 200,001 – 300,000Tshs.; 9 (11.2%) of the respondents had paid the tax amounting 300,001 – 400,000Tshs.; while 1 (1.2%) of the respondents claimed to have paid 400,001 – 500,000Tsh in 2014/2015.

Table 4.10 Amount of tax paid 2014/2015 in Dodoma Municipality

Amount	Frequency	Percent
Below 100,000	19	23.8
100,000 - 200,000	39	48.8
200,001 - 300,000	12	15.0
300,001 - 400,000	9	11.2
400,001 - 500,000	1	1.2
Total	80	100.0

Source: Author (2018)

During the interview with the tax administrators in the Dodoma tax region, TRA officials were asked to reveal the amount of tax collected in the Dodoma Municipality in order to determine the tax collection performance in the Municipality. It was revealed that for the year 2014/2015 TRA collected 23,079,800,000Tshs from Dodoma Municipality.

The findings show that more than 50% of the SMEs taxpayers in Dodoma were paying tax below 200,000Tshs. The findings suggest that most of the SMEs in Dodoma Municipality are small with small business that makes small revenues. The findings can be attributed to the reason that most of the SMEs operating in Dodoma Municipality are sole proprietorship signifying that their businesses are small and some of them run informally. This can stem from the fact that most of the SMEs in Tanzania and other developing countries do face financial constraints. SMEs in Tanzania face imperfection in raising external finances.

4.5.2 Tax collection in Dodoma Municipality in 2015/2016

The interest of the study was to examine the tax collection from the SMEs in Dodoma Municipality in the financial year 2015/16. The respondents were asked to show the amount they had paid in the financial year 2015/16. The respondents responding to this question increased to 88 respondents were ready to show the amount of the tax they had paid. The findings show that more than half i.e. 45 (51.1%) of the respondents/taxpayers had paid the tax of 100,000 – 200,000Tshs; 16 (18.2%) of the respondents had paid the tax 200,001 – 300,000Tshs; 14 (15.9%) of the respondents had paid 300,001 – 400,000Tshs; 8 (9.1%) of the respondents had paid tax below 100,000Tshs; 3 (3.4%) of the respondents had paid above 500,000Tshs; a few respondents i.e. 2 (2.3%) of the respondents had paid tax of 400,001 – 500,000Tshs.

Table 4.11 Tax paid by SMEs in Dodoma Municipality in 2015/16

Amount paid	Frequency	Percent
Below 100,000	8	9.1
100,000 - 200,000	45	51.1
200,001 - 300,000	16	18.2
300,001 - 400,000	14	15.9
400,001 - 500,000	2	2.3
above 500,000	3	3.4
Total	88	100.0

Source: Author (2018)

The findings showed that the tax collected in Dodoma Municipality increased in the year 2015/16 in comparison with that collected in the previous year of 2014/15. The number of the taxpayers who paid below 100,000 per year dropped from 23.8% in 2014/15 to 9.1% in 2015/16. The findings also showed that there were some individuals that were able to pay above 500,000Tshs in a year. During the interview with the TRA officials it was revealed that, the tax collected in Dodoma Municipality had increased from 23,079,800,000Tshs to 29,851,000,000Tshs.

The findings indicate that there was an increase of tax collected in the financial year 2015/16 as compared to the previous financial year of 2014/15. The increase can be probably attributed to the change of the government regime and increase in tax compliance. This suggests that the new government had come to power with new strategies to mobilize and collect tax. It is when the current government put the emphasis on tax collection and made it known to the taxpayers the consequences of tax avoidance and evasion, but also the taxpayers realizes the benefits of tax they pay through improvement of social services.

4.5.3 Tax collection in Dodoma Municipality in 2016/17

The interest of the study was to examine the amount of tax collected from the SMEs in Dodoma Municipality in the financial year 2016/17. The study found that the number of respondents who responded to the question that demanded them to show the amount of tax they paid to TRA had increased to 99 from 88 of 2015/17. This might be attributed to the reason that the number of SMEs had increased in the year 2016/17 compared to that of the year 2015/16.

The findings showed that majority, i.e. 53 (53.5%) of the respondents had paid their tax of 100,000 – 200,000Tshs; 19 (19.2%) of the respondents had paid their tax of 200,001 – 300,000Tshs; 12 (12.1%) of the respondents had paid their tax of 300,001 – 400,000Tshs; 7 (7.1%) of the respondents had paid their tax of 400,001 – 500,000Tshs; 6 (6.1%) of the respondents had paid their tax above 500,000Tshs annually; while a few i.e. 2 (2%) of all respondents had paid tax below 100,000Tshs.

Table 4.12 Tax paid by SMEs in Dodoma Municipality in 2015/16

Amount paid	Frequency	Percent
Below 100,000	2	2.0
100,000 - 200,000	53	53.5
200,001 - 300,000	19	19.2
300,001 - 400,000	12	12.1
400,001 - 500,000	7	7.1
Above 500,000	6	6.1
Total	99	100.0

Source: Author (2018)

During the interview with the TRA officials it was revealed that the revenue collection had increased compared to the previous two years. The indicated amount collected in Dodoma Municipality was 39,428,700,000Tshs with an increase of 9,577,700,000Tshs from the tax collected by TRA in the financial year 2015/16.

The findings revealed that there was a tremendous increase of tax collected by TRA in Dodoma Municipality. The increase of the collected tax can be attributed to the notable efforts done by the current government towards the collection of tax. The results reflect the reality of the President Magufuli's repeated speeches on his seriousness on tax collection. The President has consistently addressed the way he is strong and firm to collect tax from businesses.

The growth of tax collection performance in the SMEs may also be attributed to the economic conditions that have been created. The economic conditions include decline of inflation to 4.5 percent in December 2017 from 6.4 percent in March 2017 and now it has decreased to 3.9 percent in March 2018 (BOT, 2018; 2017). Also the improvement in food production and money supply and credit has led to the improvement in economic situations of the private sectors especially the SMEs (BOT, 2017).

4.6 The economic factors influencing tax compliance in SMEs in Dodoma Municipality

The study was interested to know the economic factors influencing the tax compliance among the SMEs in Dodoma Municipality. The respondents were asked to show the economic factors influencing their compliance behavior in their businesses. To obtain the relevant data, the respondents were asked to fill the questionnaire of closed ended questions. In their questions the respondents were asked to show where they were convinced to strongly disagree, disagree, neutral, agree and strongly agree.

4.6.1 Tax rates

This section was meant to address the perceptions of the taxpayers towards the tax rates imposed to their businesses. The section assessed two main things; the affordability and how burden is the tax to their businesses.

(a) Affordability of Tax

The respondents were asked to show their conviction on the affordability of the tax amounts imposed to their businesses. The respondents were asked to respond to the statement *"Tax rates are affordable to make me comply with tax payment".* The respondents were asked to show where they were convinced to strongly disagree, disagree, neutral, agree and strongly agree. The findings show that 53 (44.2%) of the respondents disagreed with the statement that tax rates imposed to their businesses was to make them comply with the tax payment; 37 (30.8%) of the respondents strongly disagreed with the statement that tax rates imposed to their businesses was to make them comply with the tax payment; 23 (19.2%) of the respondents agreed with the statement that tax rates imposed to their businesses was to make them comply with the tax payment; 2 (1.7%) of the respondents strongly agree with the statement that tax rates imposed to their businesses was to make them comply with the tax payment; while 5 (4.2%) of the respondents were undecided with the statement.

Table 4.13 Affordability of tax rates to the taxpayers

Responses	Frequency	Percent
Strongly Disagree	37	30.8
Disagree	53	44.2
Undecided	5	4.2
Agree	23	19.2
Strongly Agree	2	1.7
Total	120	100

Source: Author (2018)

During the interviews with the TRA officers it was revealed that majority of the business owners especially SMEs are not compliant since majority of them feel and perceive paying tax is a burden to them and that paying tax is not their duty. One of the interviewees had this to say: "*they feel paying tax is not their duty and this makes their level of voluntary compliance to be low"*. The other interviewee said: "*The taxpayers' perceptions towards paying tax are negative. They always lament too many taxes with high rates"*.

The implication of the findings is that the taxpayers had the perception that taxes imposed to their business were not affordable which reduce morale hence non-compliance.

(b) Tax as a burden

The respondents were asked to show their conviction on whether the tax imposed to their businesses was a burden. The respondents were asked to respond to the statement *"Tax is the burden to me and my business"*. The respondents were asked to show where they were convinced to strongly disagree, disagree, neutral, agree and strongly agree. The findings of the study revealed that majority, i.e. 70 (58.3%) of all respondents agreed with the statement that tax imposed was the burden to their businesses; 18 (15.0%) of all respondents strongly agreed with the statement that tax imposed was the burden to their businesses; 14 (11.7%) of the respondents disagreed with the statement that tax imposed was the burden to their businesses; 12 (10.0%) of all respondents strongly disagreed with the statement that tax imposed was the burden to their businesses; whereas 6 (5.0%) of all respondents were undecided.

Table 4.14 Tax rates are burden to businesses

Responses	Frequency	Percent
Strongly Disagree	12	10
Disagree	14	11.7
Undecided	6	5
Agree	70	58.3
Strongly Agree	18	15
Total	120	100

Source: Author (2018)

The study revealed that majority of the respondents supported the statement that the tax rates imposed to their businesses were perceived to be the burden. The findings reflected the way the people perceive paying tax. The implication of the findings is that majority of the taxpayers have negative attitude towards paying tax. They don't feel it as their duty to give their contribution for the development of their nation. This can stem from the way the people are socialized. Perhaps most of the people are brought up in the egocentric communities were they are not obliged to give the contributions for the development of their fellows and their community. It is important to inculcate the culture of feeling the sense of responsibility to build our nation through giving out our contributions and obligations through paying taxes.

4.6.2 Tax benefits

The interest of the study was to assess the perceptions of the taxpayers in SMEs in Dodoma Municipality towards the tax benefits. This part/section addresses the perceptions of the taxpayers towards the tax they pay to the government.

The respondents were asked to show their perceptions towards the tax they paid and its importance to the services. They were given statements and were asked to show their convictions on whether they agree or disagree or undecided by showing their strongly disagree, disagree, undecided, agree and strongly agree. When the respondents were asked to show their perceptions towards the statement "*the tax I pay is important for services*" the findings of the study showed that majority, i.e. 80 (66.7%) of all respondents agreed with the statement that their tax was important for community services; 22 (18.3%) of all respondents strongly agreed with the statement that their tax was important for community services; 12 (10.0%) of the respondents disagreed with the statement that their tax was important for community services; while few i.e. 6 (5.0%) of all respondents were undecided.

Table 4.15 Tax for community services

Responses	Frequency	Percent
Disagree	12	10.0
Undecided	6	5.0
Agree	80	66.7
Strongly agree	22	18.3
Total	120	100.0

Source: Author (2018)

The findings of the study showed that majority of the respondents had positive perceptions towards their tax. The respondents had the perceptions that their tax was meant for community services. This means that the taxpayers paid their tax and expected to see the services such as water, health, education, electricity, roads etc.

The respondents were moreover asked to show their perceptions by responding to the statement *"the tax I pay is not spent on public services".* The findings of the study revealed that majority, i.e. 70 (58.3%) of the respondents agreed with the statement that their tax was not spent on public services; 29 (24.2%) of the respondents strongly agreed

with the statement that their tax was not spent on public services; 10 (8/3%) of all respondents disagreed with the statement that their tax was not spent on public services; 2 (1.7%) of the respondents strongly disagreed with the statement that their tax was not spent on public services; while 9 (7.5%) of all respondents were undecided.

Table 4.16 Tax not spent for public services

Responses	Frequency	Percent
Strongly disagree	2	1.7
Disagree	10	8.3
Undecided	9	7.5
Agree	70	58.3
Strongly agree	29	24.2
Total	120	100.0

Source: Author (2018)

The implication of the findings is that majority of the respondents had the perceptions that their tax were not spent well on the public services as they expected. This might be the principal reason to why most of the business especially SMEs in Tanzania have low compliant attitude in paying tax. The findings imply the poor administration of the tax paid. The taxpayers would like to see their taxes being reflected in the physical services such as roads, electricity, water servicesand health services. Most of the taxpayers are less concerned with the other intangible services that the government is obliged to attend. The taxpayers forget that the government has to pay salaries to the public servant, to pay for education services etc. This being the case, the taxpayers need to be educated on the various tasks the government is obliged to perform before it builds the physical infrastructures. The study by Elly (2015) found there is a close relationship between tax compliance and taxpayer's education. Taxpayers' education influences the feelings and perceptions of taxpayers as well as their willingness to pay tax timely.

4.6.3 Tax audit

The interest of the study was to know the taxpayers' perceptions towards the question of tax audit and the way it influenced the tax compliance attitude among the SMEs. The audit was assessed based on the tax collectors (officers) and the possibility of tax evasion of some taxpayers.

The respondents were asked to show their perceptions towards the question of whether the tax officers come to their businesses to audit them. The respondents were asked to respond to the statement "*TRA officers usually come to audit our revenues*". The findings of the study showed that 41 (34.2%) of all respondents disagreed with the statement that TRA officers regularly went to audit their businesses; 13 (10.8%) of the respondents strongly disagreed with the statement that TRA officers regularly went to audit their businesses; 33 (27.5%) of the respondents agreed that with the statement that TRA officers regularly went to audit their businesses; 15 (12.5%) of the respondents strongly agreed with the statement that TRA officers regularly went to audit their businesses.

Table 4.17 TRA officers' usual audit of SME revenues

Responses	Frequency	Percent
Strongly disagree	13	10.8
Disagree	41	34.2
Undecided	18	15.0
Agree	33	27.5
Strongly agree	15	12.5
Total	120	100.0

Source: Author (2018)

The implication of the findings is that to some extent the TRA officers were not auditing the revenues of the SMEs.

When the respondents were asked to respond to the statement "*Tax audit enables TRA to protect against tax evasion*" majority, i.e. 67 (56.8%) of the respondents agree with the statement that tax audit enabled TRA to protect against tax evasion; 10 (8.5%) of the respondents strongly agreed with the statement that tax audit enabled TRA to protect against tax evasion; 25 (21.2%) of the respondents disagreed with the statement that tax audit enabled TRA to protect against tax evasion; 9 (7.6%) of the respondents strongly disagreed with the statement that tax audit enabled TRA to protect against tax evasion; whereas 7 (5.9%) of the respondents were undecided.

Table 4.18 Tax audit protects against tax evasion

Responses	Frequency	Percent
Strongly disagree	9	7.6
Disagree	25	21.2
Undecided	7	5.9
Agree	67	56.8
Strongly agree	10	8.5
Total	118	100.0

Source: Author (2018)

The findings of the study imply that it is very crucial to have revenue audit of the businesses so that to avoid tax evasion. The businesses have to submit their documents indicating annual turnover so that the tax can be imposed on them. Though to SMEs will be a bit difficult due to poor records keeping.

When the respondents were asked to show their perceptions towards the seriousness of the tax auditors, the respondents were ready to give various answers. The respondents were asked to respond to the statement "*tax auditors are not serious*". The findings showed that 58 (49.2%) of the respondents agreed with the statement that tax auditors were not serious; 19 (16.1%) of the respondents strongly agreed with the statement that tax auditors were not serious; 25 (21.2%) of the respondents disagreed with the statement that tax auditors were not serious; 6 (5.1%) of the respondents strongly disagreed with the statement that tax auditors were not serious; while 10 (8.5%) of the respondents were undecided.

Table 4.19 Tax auditors' seriousness

Responses	Frequency	Percent
Strongly disagree	6	5.1
Disagree	25	21.2
Undecided	10	8.5
Agree	58	49.2
Strongly agree	19	16.1
Total	118	100.0

Source: Author (2018)

The implication of the findings is that the taxpayers had negative perception towards the tax collectors. This negative perception can greatly influence the negative compliance attitude of the taxpayers. The lesson obtains here is that the tax collectors should improve their image to the taxpayers so as to make them convinced to pay tax willingly. This suggests the establishment of the customer care services in TRA. There should be customer care services that should be tasked to attract the customers and to make them willingly pay the tax without avoidance and evasion.

4.6.4 Penalties

The study was interested to know the taxpayers' perceptions towards penalties as far as the tax compliance is concerned. The respondents were asked to respond to the statement "*I pay in order to get rid of penalties".* The findings of the study showed that 48 (40.3%) of the respondents strongly disagreed with the statement that they paid tax to avoid penalties; 42 (35.3%) of the respondents disagreed with the statement that they paid tax to avoid penalties; 16 (13.4%) of the respondents agreed with the statement that they paid tax to avoid penalties; 4 (3.4%) of the respondents strongly agreed with the statement that they paid tax to avoid penalties; while 9 (7.6%) of the respondents were undecided regarding the statement.

Table 4.20 Taxpayers pay tax to get rid of penalties

Responses	Frequency	Percent
Strongly disagree	48	40.3
Disagree	42	35.3
Undecided	9	7.6
Agree	16	13.4
Strongly agree	4	3.4
Total	119	100.0

Source: Author (2018)

The results imply that majority of the respondents disagreed with the statement that they paid tax so that to avoid penalties. This means that most of the taxpayers knew their obligations and they intentionally wanted to attend them accordingly. In this regard, the results imply that penalties were not one of the factors associated with enforcing tax compliance because the taxpayers were willingly to pay taxes without force.

However, when the taxpayers were asked to show their perceptions towards the statement *"there are big penalties to make taxpayers comply"* the findings of the study revealed that majority, 85 (70.8%) of the respondents agreed with the statement that there are big penalties that make the taxpayers comply; 13 (10.8%) of the respondents strongly agreed the statement that there are big penalties that make the taxpayers comply; 10 (8.3%) of the respondents disagreed the statement that there are big penalties that make the taxpayers comply; 6 (5.0%) of the respondents strongly disagreed the statement that there are big penalties that make the taxpayers comply; while 6 (5.0%) of the respondents were undecided regarding the statement.

Table 4.21 There are big penalties to make taxpayers comply

Responses	Frequency	Percent
Strongly Disagree	6	5.0
Disagree	10	8.3
Undecided	6	5.0
Agree	85	70.8
Strongly Agree	13	10.8
Total	120	100.0

Source: Author (2018)

The implication of the findings is that the taxpayers had the perceptions that TRA used big penalties to influence tax compliance. This can mean that TRA use punishment to make its customers to comply.

Furthermore, the respondents were asked to show their perception towards the relationship between penalties and tax evasion. They were requested to respond to the statement "*Penalties are for those tax evaders*". The findings showed that majority, i.e. 73 (60.8%) of the respondents agreed that penalties used by TRA were used for tax evaders; 17 (14.2%) of the respondents strongly agreed that penalties used by TRA were used for tax evaders; 12 (10.0%) of the respondents strongly disagree that penalties used by TRA were used for tax evaders; 7 (5.8%) disagreed that penalties used by TRA wereused for tax evaders; while 11 (9.2%) of all respondents were undecided regarding the statement.

Table 4.22 Penalties are for tax evaders

Responses	Frequency	Percent
Strongly disagree	12	10.0
Disagree	7	5.8
Undecided	11	9.2
Agree	73	60.8
Strongly agreed	17	14.2
Total	120	100.0

Source: Author (2018)

During the interview with the TRA officials, they were asked to explain the penalties given to those who are not compliant. It was revealed that penalties are imposed to those individuals or organizations that are found guilty of not paying tax in due date or giving misleading information. One of the respondents had this to say

> *Penalties are imposed for failure to file return and failure to pay tax on the due date. The penalties are also imposed to those who fail to maintain documents. There are penalties for making false or misleading information.*

The other officer said: "*Penalties are imposed by the tax law especially for those who are not tax compliant. The penalties mainly used by TRA are tax liability or imprisonment or both".*

Giving the actual amount of the money that is to be paid by the non-compliant taxpayers, one for the TRA officer said:

> *There various penalties for the non-complaint taxpayer depending on the nature of misconduct committed. Failure to submit VAT returns it is 225,000Tshs month. Failure to file return for individual it is 75,000Tshs per month. Failure to submit returns for company it is 225,000Tshs or 2.5% whichever is greater.*

The implication of the findings is that the tax administrators have their very relevant strategies and ways to make their customers/client to be compliant and refrain from tax evasion. One of these strategies is to employ penalties for non-compliant. The suggestion of the findings is that there are mainly three things that can make the individuals to be penalized. Delay to pay tax, false information and documents maintenance.

4.6.5 Fines

The interest of the study was to know the use of fines by TRA to enhance compliance attitude. The respondents were asked to show their perceptions to some statements, to show their conviction as they strongly disagree, disagree, agree, strongly disagree or neutral.

The respondents were asked to show their convictions towards the statement "*fines used by TRA are always inappropriate".* The findings of the study revealed that 56

(47.1%) of the respondents agreed that TRA used the fines that were inappropriate; 16 (13.4%) of the respondents strongly agreed that TRA used the fines that were inappropriate; 18 (15.1%) of the respondents strongly disagreed that TRA used the fines that were inappropriate; 6 (5.0%) of the respondents disagreed that TRA used the fines that were inappropriate; while 23 (19.3%) of the respondents were undecided regarding the statement

Table 4.23 Fines are inappropriate

Responses	Frequency	Percent
Strongly disagree	18	15.1
Disagree	6	5.0
Undecided	23	19.3
Agree	56	47.1
Strongly agreed	16	13.4
Total	119	100.0

Source: Author (2018)

During the interview with the TRA officials, it was revealed that the fines are imposed to the non-compliant clients. One of the officers had this to say:

> *Fines are usually imposed to taxpayers after proving beyond doubt that the act of offence has been committed and that taxpayer has been notified through notice of offence that has committed an offence. It should be noted that compounding of the offence is done after the taxpayer has agreed in writing that he/she has committed the offence.*

The other said:

> *The fines are being imposed by various provisions such as tax administration act. Fines are imposed to the non-compliant clients as per the requirement of the law, we are not imposing the fines by ourselves. The taxpayers know this and if they do not know they should seek to know.*

The findings of the study revealed that majority of the respondents were in the agree side to support the statement that TRA used inappropriate fines. However, it seems that all the imposed fines are stated by the law. The respondents may be having negative attitude toward the imposition of the fines because no one likes punishment. In this regard, it can

be learned from the findings that fines are one of the strategies used by TRA to make taxpayers compliant to the laws and act accordingly.

4.7 Non-economic factors influencing tax compliance in SMEs

This section addresses the non-economic factors that determine and influence the tax compliance among the SMEs in Dodoma Municipality. The respondents were given closed ended questions in the questionnaire to respond to. The section addresses the non-economic factors including the perceptions of the taxpayers towards paying tax, norms and the perceived fairness of the paid tax.

4.7.1 Perceptions of the taxpayers towards paying tax

The study was interested to know how the taxpayers (SMEs) in Dodoma Municipality perceived the act of paying tax. The respondents were asked to show their convictions towards the statement "*I do not see why we pay tax because our tax is not well utilized".* The findings showed that more than half of all respondents (51.3%) of the respondents agreed with the statement that they did not see any reason to pay tax because it was not utilized well; 28 (23.5%) of the respondents strongly agreed with the statement that they did not see any reason to pay tax because it was not utilized well; 15 (12.6%) of the respondents disagreed with the statement; 5 (4.2%) of the strongly disagreed with the statement; and 10 (8.4%) of the respondents were undecided regarding the statement.

Table 4.24 No reason to pay tax if it is not utilized well

Responses	Frequency	Percent
Strongly disagree	5	4.2
Disagree	15	12.6
Undecided	10	8.4
Agree	61	51.3
Strongly agree	28	23.5
Total	119	100.0

Source: Author (2018)

The findings of the study imply that majority of the taxpayers had negative perceptions towards the proper use of their collected tax. Most of them perceived the poor use and utilization of their resources and they were discouraged by their perceptions.

When the respondents were asked about their personal honesty in paying tax, majority i.e. 67 (56.8%) of the respondents agreed with the statement that they were honest paying tax in time; 26 (22.0%) of the respondents strongly agreed with the statement that they were honest paying tax in time; 8 (6.8%) of the respondents disagreed that they were paying tax honestly; 6 (5.1%) of the respondents strongly disagreed with the statement that they paid honestly; and 11 (9.3%) of the respondents were undecided.

Table 4.25 Paying tax honestly

Responses	Frequency	Percent
Strongly disagree	6	5.1
Disagree	8	6.8
Undecided	11	9.3
Agree	67	56.8
Strongly agree	26	22.0
Total	118	100.0

Source: Author (2018)

The findings indicate that majority saw themselves to be honesty in paying taxes. This implies that most of the businesses are committed and compliant to the laws regardless of their perceptions. However, majority i.e. 93 (78.8%) (those who agreed and strongly agreed) of the respondents had the perceptions that taxes imposed to their businesses are bigger compared to the size of the business. The remaining respondents, 14 (11.9%) had positive attitude/perceptions towards the amount imposed by TRA against the size of their business.

Table 4.26 Tax rates are bigger compared to business size

Responses	Frequency	Percent
Strongly disagree	6	5.1
Disagree	8	6.8
Undecided	11	9.3
Agree	67	56.8
Strongly agree	26	22.0
Total	118	100.0

Source: Author (2018)

The implication of the findings is that the taxpayers had negative perceptions towards tax administration and tax system despite the fact that they were honest and ready to pay tax. The administration was perceived to be poor as the taxpayers perceived that their tax was collected but not fully used. This means that the taxpayers paid their taxes with specific expectations but their expectations were not met. Moreover, the taxpayers had negative perceptions towards tax system in terms of amount of the tax to be paid. The taxpayers had the perceptions that the amount they paid was not fair. They perceived that the amount they paid was bigger than the business sizes. This can be the reason for some taxpayers not to be compliant since they may be feeling that they are exploited.

4.7.2 Norms

The interest of the study was to know the way norms affected the compliance attitude among SMEs. The respondents were asked to respond to the statement "*it is my obligation to pay tax*". The findings of the study revealed that 42 (35.3%) agreed with the statement that they felt it is their obligation to pay tax; 18 (15.1%) of the respondents strongly agreed with the statement that they felt it is their obligation to pay tax; 20 (16.8%) of the respondents disagreed with the statement that they felt it is their obligation to pay tax; 15 (12.6%) of the respondents strongly disagreed with the statement that they felt it is their obligation to pay tax; while 24 (20.2%) of the respondents were undecided.

Table 4.27 Feeling obliged to pay tax

Responses	Frequency	Percent
Strongly disagree	15	12.6
Disagree	20	16.8
Undecided	24	20.2
Agree	42	35.3
Strongly agree	18	15.1
Total	119	100.0

Source: Author (2018)

The findings imply that majority of the taxpayers especially the SMEs felt obliged to pay tax. This is a very good custom the businesses should build. They should know that the nation is built by the taxes of its citizens. However, the respondents who did not decide regarding the statement are20.2% of all respondents. This can imply the tendency of the taxpayers to hide their perceptions and feelings.

Moreover, the respondents were asked to show their convictions towards the statement *"many Tanzanians do not like to pay tax"*. The findings of the study revealed that majority, i.e. 70 (58.3%) of the findings agreed with the statement; 32 (26.7%) of the respondents strongly agreed with the statement; 9 (7.5%) of the respondents disagreed with the statement; 4 (3.3%) of the respondents strongly disagreed with the statement; while 5 (4.2%) of the respondents were undecided.

Table 4.28 Many Tanzanians do not like to pay tax

Responses	Frequency	Percent
Strongly disagree	4	3.3
Disagree	9	7.5
Undecided	5	4.2
Agree	70	58.3
Strongly agree	32	26.7
Total	120	100.0

Source: Author (2018)

The findings imply that taxpayers had the perceptions that most of the Tanzanians have the tendency of not paying tax. This is perceived to be normal for the Tanzanians. This can be the chief cause of low tax compliance and many rampant tax evasions.

4.7.3 Tax fairness

The study was interested to know the perceptions of the taxpayers towards the fairness of the tax and tax systems. The respondents were asked to respond to some statements by showing their convictions. To the statement "*Tanzanian tax system is difficult to follow*" the findings revealed that half (50%) of the respondents strongly agreed with the statement; 47 (39.2%) of the respondents agreed with the statement; 5 (4.2%) of the respondents were undecided; 4 (3.3%) of the respondents disagreed; and 4 (3.3%) of the respondents strongly disagreed.

Table 4.29 Tanzanian tax system is difficult to follow

Responses	Frequency	Percent
Strongly disagree	4	3.3
Disagree	4	3.3
Undecided	5	4.2
Agree	47	39.2
Strongly agree	60	50.0
Total	120	100.0

Source: Author (2018)

The implication here is that the taxpayers were considering the tax system to be the obstacle for the tax compliance. This can suggest that the system is very difficult to be followed by the taxpayers. This means that the tax system does not convince the taxpayers to willingly pay their taxes. It can be of importance if the government and TRA in particular establish the very simple, clear and easy to follow system so that the taxpayers can be motivated to pay their tax timely under their own willingness. This suggests that the taxpayers felt the system was not fair to them making majority of them non-compliant. These findings are comparable to those of Ongwamuhana (2011) that found tax system in itself is the cause of tax compliance. Ongwamuhana convincingly argues that most of the developing countries have poor tax system and still most of them invest in reforms based on tax enforcement thinking that reforms in themselves can raise tax collection and cause tax compliance, something that is incorrect for tax compliance needs. Basically, the study posits that there is a strong a link between good governance and taxpayer's compliance.

When the respondents were asked to show their perceptions to the statement *"tax is not collected in fair and just manner"* findings showed that 42 (35.6%) of the respondents strongly agreed with the statement; 38 (32.2%) of the respondents agreed with the statement; 18 (15.3%) of the respondents disagreed with the statement; 10 (8.5%) of the respondents disagreed with the statement; while 10 (8.5%) of the respondents were undecided.

Table 4.30 Tax not collected in a fair manner

Responses	Frequency	Percent
Strongly disagree	10	8.5
Disagree	18	15.3
Undecided	10	8.5
Agree	38	32.2
Strongly agree	42	35.6
Total	118	100.0

Source: Author (2018)

During the interview with the officials, it was revealed that tax collection in Tanzania is fair but there some small problems in the process of data collection and treatment of taxpayers. One of the interviewees had this to say:

> *Our tax system is generally fair. There are some small challenges for example the question of tax exemptions. We need to do something with tax exemptions. People especially the taxpayers would like to hear that everyone pays tax without hearing some people being exempted. Everyone must be subjected to tax. Exemptions undermine the fairness of the tax system.*

The findings can imply that most of the taxpayer perceived unfairness in the process of tax collection. This can be associated with the poor tax compliance among the SMEs. When the taxpayers perceive unfairness in tax collection, they will notbe convinced to pay tax. Some studies such as Saad (2012) found tax fairness as a factor associated with tax compliance. Taxpayers are more likely to comply when the tax system of the country is perceived to be fair. The perceptions of tax fairness have been found to determine the tax compliance behavior including taxpayers' knowledge of the country's tax system, the complexity of the tax system and the attitude of the individuals towards the compliance.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the major findings. It also presents the conclusion regarding the findings as presented in chapter four. Finally, the chapter presents the recommendations that are drawn from conclusion.

5.2 Summary of the major findings

Principally, the study investigated the factors influencing tax compliance attitude in Small and Medium Enterprises (SMEs) in Dodoma Municipality, Tanzania. To meet this objective, the study employed three specific objectives. These objectives were, (i) To examine tax collection performance in Dodoma Municipality in the last three years (2014/15 – 2016/17); (ii) To determine economic factors influencing tax compliance in SMEs in Dodoma Municipality; and (iii) To assess non-economic factors influencing tax compliance in SMEs in Dodoma Municipality.

The study found that tax collection performance in Dodoma Municipality in years 2014/15 – 2016/17 was positive and increasing. The study found that tax collection increased with the increasing of years. That is the amount of tax increased as the years went further. That is to say the taxpayers who paid little taxes decreased as the years increased while those who paid big amounts increased with years. For example, there was no taxpayer who paid 500,000 and above in 2014/15 but there were 3 taxpayers in the year 2015/16 and the number increased to 6 in the year 2016/17. These notable increases signify the increase in compliance.

Moreover, the study found that the economic factors that influenced tax compliance attitude among taxpayers included the following; (i) tax rates; whereby the taxpayers considered the taxes to be the burdens to the businesses and not affordable. This factor affected the tax compliance negatively and it influence non-compliance among taxpayers. (ii) Tax benefits. This affected the tax compliance in the positive way since the taxpayers considered tax to be important for national development and service provisions. (iii) Tax audit. This affected tax compliance positively since the business information was revealed to the tax authority reducing misleading information, tax avoidance and evasion. (iv) Penalties; that acted as the punishments to force the taxpayers to be compliant. This influenced positive compliance and created behavior among taxpayers to be paying taxes. (v) Fines were other punishments that were used especially for those who provided misleading information and failed to file the returns and keeping records. Fines also influenced tax compliance positively.

Furthermore, the non-economic factors that were found by the study to influence tax compliance included the following. (i) Perceptions of the taxpayers. The taxpayers had negative perceptions feeling that their taxes were not used as they expected. The taxpayers perceived tax to be bigger than their sizes of their businesses despite that the taxpayers considered themselves honest in paying tax. (ii) Norms. Norms influenced negatively tax compliance since most of the Tanzanians had tendency of not paying taxes. However, some taxpayers knew that it was their obligation to pay tax. (iii) Perceived fairness of the tax. This influenced tax compliance negatively since most of the taxpayers perceived taxes were not fair. Tax was considered to be unfair in terms of poor tax administration and difficult tax systems.

5.3 Conclusions

Several conclusions were drawn from the findings. Firstly, in the recent years TRA had established good strategies to collect tax making the improvement in tax collection performance in Tanzania. It is also concluded that the current government regime has influenced tax collection performance since the results have reflected this influence since the current government regime got to power.

Moreover, it is concluded that there are economic factors that influence tax compliance among the SMEs positively or negatively. Taxpayers perceived negatively the tax rates used by TRA in tax collection. This influenced tax compliance negatively since the taxpayers considered tax rates as burdens to their businesses. It is concluded that tax benefits influenced tax compliance positively since the taxpayers had the perceptions that the benefit of paying tax is that it returns to them in form of social services. Also it is concluded that punishments (such as penalties and fines) are important factors to enhance tax compliance.

Furthermore, it is concluded that there are non-economic factors that influence tax compliance. Taxpayers' perceptions influence either negatively or positively the question of tax compliance. When the perceptions are positive, the influence is positive and when the perceptions are negative, the influence is negative. It is also concluded that norms shape taxpayers' attitudes towards tax compliance. The norms influence positively when the taxpayers are normally willing to pay tax. Moreover, tax fairness influences tax compliance when the taxpayers perceive taxes are fair and otherwise when the taxpayers perceive tax to be unfair.

5.4 Recommendations

(i) TRA and other stakeholders should sustainably improve their strategies to increase and improve tax collection performance.

(ii) Tax administrators should consider tax rates that are affordable and comparable to the businesses in order to be fair.

(iii) The government should use the taxes collected and pay return to the community through provision of social services so that to convince the taxpayers willingly.

(iv) TRA should strictly employ punishments to the taxpayers who are not compliant

(v) The government and other stakeholders should impart among citizens theculture of willingness to pay tax.

(vi) Taxpayers' education should be strengthened so as to impart awareness to taxpayers of how their money is used by the government in provision of social services.

5.5 Areas for further studies

(i) This study was conducted in a small population of SMEs in Dodoma Municipality. There should be other studies to include increased population in order to make the results reliable.

(ii) This study was general to the economic and non-economic factors that influenced tax compliance. There should be conducted a study to specifically focus on a single element such as income and assess its influence on tax compliance.

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APPENDICES

Appendix 1: Questionnaire to SME owners

Section I: Background Information

Please tick in the appropriate box for the following questions

1. Your sex is

Male	[ ]	Female	[ ]

2. What age group is your age found?

Below 20 years	[ ]	41 – 50 years	[ ]
20 – 30 years	[ ]	Above 50 years	[ ]
31 – 40 years	[ ]		

3. What is your marital status?

Single	[ ]	Divorced	[ ]
Married	[ ]	Separated	[ ]
Widowed	[ ]		

4. What is your highest education level?

Non formal	[ ]	Certificate	[ ]
Primary	[ ]	Diploma	[ ]
Secondary	[ ]	University degree	[ ]

5. Your experience in entrepreneurship

1 – 4 years	[ ]	9 – 12 years	[ ]
5 – 8 years	[ ]	Above 12 years	[ ]

6. Select the type of business you own

Sole proprietorship [ ] Limited Liability Company [ ]

Partnership [ ]

Others…………………………………………………………………………………..

7. How many employees does the firm have?

0 – 4 [ ] 100 – 150 [ ]

5 – 49 [ ] Above 150 [ ]

50 – 99 [ ]

8. What is the annual Gross turnover (in Tshs)?

0 – 5, 000, 000 [ ] 35,000,001 – 55,000,000 [ ]

5,000,001 – 20,000,000 [ ] Above 55,000,000 [ ]

20,000,001 – 35,000,000 [ ]

Section II: Revenue collection performance since 2014/15 – 2016/17

9. Please indicate the amount of tax you paid against the year indicated in the Table below

Year	**Amount**
2014/15	
2015/16	
2016/17	

Section III: The economic factors

Please tick in the relevant box to show your perception towards the economic factors influencing tax compliance

Statement		Strongly disagree	Disagree	Undecided	Agree	Strongly agree
Tax rate	Tax rates are affordable to make me comply with tax payment					
	Tax is the burden to me and my business					
Tax benefits	The tax I pay is important for services					
	The tax I pay contributes to national development					
	The tax I pay is not spent on public services					
Tax audit	TRA officials usually come					

	to audit our revenues					
	Tax audit enables TRA to protect against tax evasion					
	Tax auditors are not serious					
Tax audit probabilities	We know when the tax auditors usually come and prepare ourselves					
Penalties	I pay in order to get rid of penalties					
	There big penalties to make people comply					
	Penalties are for those who evade tax					

Fines	Fines are always inappropriate					
	The fines are comparably high					

Section IV: Non-economic factors

Please tick in the relevant box to show your perception towards the economic factors influencing tax compliance

Statement		**Strongly disagree**	**Disagree**	**Undecided**	**Agree**	**Strongly agree**
Attitude toward tax	Tax is not collected in fair and just manner					
	I do not see why we pay tax because our tax is not well utilized					
	I am honest and tax compliant					
	Taxes in Tanzania are					

	so big compared to business sizes					
	Tax collectors are to be blamed for poor tax collection					
Norms	It is my obligation to pay tax					
	Many Tanzanians do not like to pay tax					
	All business I know do pay tax					
	Most of taxpayers lack knowledge of tax					
Perceived fairness in tax system	Tanzanian tax system is difficult to follow					

	Tax collectors are to be blamed for poor tax collection					
	Tax collectors are dishonest					
	We are harassed by tax collectors to pay tax					

Interview Guide to the TRA officers

1. Age ____________________
2. Sex ____________________
3. Marital status __________________
4. Education level ______________________
5. Please indicate the amount of tax collected in the period 2014/15 – 2016/17

Year	Amount
2014/15	
2015/16	
2016/17	

6. Which system do you use to audit revenues in SMEs?
7. Can you please tell how you do tax audit probabilities?
8. Kindly explain how you impose fines to those who are not compliant?
9. Explain please your penalties to those who are not tax compliant
10. How can you tell about the taxpayers' perception towards paying tax?
11. What do you comment on the personal, societal and national norms of paying tax?
12. Please say something on the fairness of tax system.