CHALLENGES FACING TAX COLLECTION FROM SMALL AND MEDIUM TAXPAYERS: A CASE STUDY OF MWANZA TAX REGION

CHALLENGES FACING TAX COLLECTION FROM SMALL AND MEDIUM TAXPAYERS: A CASE STUDY OF MWANZA TAX REGION

By

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

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled "**Challenges facing tax collection from small and medium taxpayers: a case study of Mwanza Tax Region"** in fulfilment of the requirements for award of the degree of Master of Business Administration of Mzumbe University

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Accepted for the Board of

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DEAN SCHOOL OF BUSINESS

DECLARATION AND COPYRIGHT

I, **Edwin Harold Mlay,** 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.

Signature ____________________________

Date___________________________________

ACKNOWLEDGEMENT

The completion of my Master's Degree would not be made possible without the immense contributions of many people from whom I am highly indebted to give my exceptional appreciation. The journey for my MBA was not simple at all. At this juncture, when I meditate about my journey, I see an endless list of people who contributed significantly to make this academic endeavour a success.

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DEDICATION

This dissertation is dedicated to my beloved wife Hellen Marco Rabi my two Daughters Deborah Edwin Harold, Dorcas Edwin Harold and a Son Daniel Edwin Harold, for their moral support which drove me positively and enabled the completion of my master's degree.

ABSTRACT

This study explores challenges facing tax collection from informal sector in Tanzania. Specifically, the study aims to achieve the following objectives; to establish the factors influencing willingness of informal enterprises to pay taxes, to establish the factors hindering procedural tax obligations and to establish alternative mechanisms for improving tax collection.

The study involved a total number of 98 respondents from 4 Blocks in Mwanza City Council, of whom 88 were small and medium taxpayers. Other respondents were 3 tax consultants, 6 tax officials and 1 Regional Manager from Domestic Revenue Department (DRD) Mwanza Tax Region. The study used non probability sampling where purposive and convenient sampling techniques were used to obtain the above mentioned respondents from total population. Questionnaires were used as the main tool of collecting data.

Findings of this study reveal that willingness of small and medium taxpayers to pay tax depend on the tax morale, low transaction costs, a functioning tax administration and capacity in auditing and monitoring tax payments from the small and medium taxpayers. It was also revealed that rampant tax evasion by the small and medium taxpayers is the result of lack of cordial methods of tax collection. The study also reveals the importance of establishing an alternative mechanism to improve tax collection from the small and medium taxpayers including the use of Public Private Partnership (PPP), rationalizing tax rate and designing unique tax structure for informal sector.

Lastly, the study recommends that there is a need to have the sector specifics strategy of tax collection that will enhance tax collection from the informal sector so as to minimize gap between the available tax revenue potential against the actual taxes collected.

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CHAPTER ONE
INTRODUCTION

1.0 An Overview

This chapter introduces the study on tax non-compliance as challenge of tax collection from small and medium taxpayers in Tanzania. It covers the statement of the problem, research objectives, research questions and significance of the study. At the end, the chapter presents the organization of the study.

1.1 Background to the Study

Tanzania is heavily relying on taxes revenue collection for promoting socio-economic development. Therefore, the government has tried hard to establish an efficient tax administration system that aims to collect all the necessary taxes to meet development needs of the nation.

One category, which has a great potential to increase domestic revenue mobilization that can reduce huge budget deficits, is the small and medium taxpayers. A large number of the country's active labour force is employed in this sector and it has a potential to generate significant amount of taxable income. The estimated size of the small and medium taxpayers indicates presumption that this sector makes significant contribution to the Gross Domestic Product (GDP) and so the sector could equally make a major contribution to the tax revenue (Swaminathan, 1991).

According to Lubell, (1991) the small and medium taxpayers are regarded as a group of production units which form part of the household enterprises. These are not constituted as separate legal entities independent of the household or household members that own them. Always they do not have reliable accounts which would permit a clear income demarcation between production activities of the enterprises and other activities of their owners, or the identification of any flows of income and capital between the enterprises and owners.

In the view of valuing this sector in Tanzania, the government since 1990's has made significant progresses in the formulation, implementation and performances of socioeconomic development. These efforts intend to empower small and medium taxpayers in managing and operating social economic activities as one of the ways to generate more incomes. This is This is in line with Fjeldstad *et al*, (Odd-Hedge, Brautigan, & Moore, 2008) who assert that citizens' voluntary tax compliance changes significantly when service provision are improved by the state, and more cordial methods of tax collection are introduced

However, tax revenue in Tanzania from small and medium taxpayers is still very small compared to the existing potentials. The tax evasion is huge, deliberate and systematic due to various reasons. These include lack of knowledge, heavy costs of compliances, difficulty in identification and registration, poor record keeping, non-filling of important tax information and rampant corruption practices (MKURABITA, 2007).

Although the majority of enterprises exist in this sector of the economy, they have minor estimated contribution to total revenue collection. Statistical evidence indicates that over the past ten years the contribution of small and medium taxpayers to the total revenue remained very low. According to the Tanzania Revenue Authority (TRA) Corporate Plan 2003/4 – 2007/8 taxpayers' revenue distribution amongst Tanzanian enterprises is as follows:

i. Large enterprises represent below 5% of all potential taxpayers but contribute more than 70% to total tax revenue collections.
ii. Medium enterprises represent about 5% to 10% of all potential taxpayers but contribute between 10% and 25% to total tax revenue collections.

iii. Micro and small enterprises represent about 70% to 90% of all potential taxpayers but only contribute between 0% and 10% to total tax revenue collections.

Based on this evidence, it is obvious that this sector provides diverse sources of income, which, if taxed properly, could have increased the governments' internally generated revenue.

The size of the small and medium taxpayers is an obstacle to tax collection efforts; therefore, the greater part of the real income from this sector cannot be satisfactorily assessed. As a result, majority of people engaged in the sector have been the worst income tax evaders. The evasion takes three forms, namely non-declaration of income, under declaration and inflation of deductions from income (URT, 2007).

The Central Government tax collection through TRA excessively focuses on businesses existing at the formal sector. This may be considered a cause of poor collection of tax revenue from the small and medium taxpayers. The small and medium taxpayers have been neglected for a considerable period now from tax revenue efforts and subsequently there is inadequate income tax contribution from it (MKURABITA, 2007).

Tanzania Government extracts revenue from the small and medium taxpayers using presumptive tax as described by first schedule under Income Tax Act (URT, 2006). The best-known attempt to date is Block Management System (BMS), which finally was reported to be operational but ineffective. BMS has very small success due to ineffective administration (TRA, 2009).

In practice, the collection of taxes from the small and medium taxpayers is difficult, as there are rampant poor records of accounts. In addition, real incomes for many small and medium taxpayers are invisible to the authorities because some of them work to meet their basic needs to sustain their lives and do not separate business incomes from household drawings and expenses. Due to this situation, it is difficult for tax authorities to determine the exact taxable income.

According to the Income Tax Act United Republic of Tanzania (2006) there are four procedural obligations to be followed in order to achieve tax collection from any business enterprise. These are registration, timely filling requisite taxation information, reporting of accurate information and payment of tax on time (WTO, 2010). Failure to meet any of these obligations may be considered non-compliance, which leads to poor income tax collection. The literature suggests the best ways of practicing voluntary tax compliance and hence more tax collection in the small and medium taxpayers. It is due to this concern that western economies have high level of compliance and exhibits significant understanding of tax collection effort in this sector.

A concept of ‘fiscal social contract’ is central to explaining the high level of tax compliance and tax collection as well. It is this contract that mobilized wide range of interest groups in taxation system to support, oppose, and propose tax reforms, which subsequently became central in tax compliance matters and had stimulated the increase of tax collections in all sectors of economy. They assert that small number of informal taxpayers contribute to tax revenue collection, as central government revenue is mainly raised more from other sources than from proper taxation. For instance, they heavily rely on commercial loans and foreign aid.

Any government, which seriously desires to have effective tax collection from her citizens, cannot ignore the contribution of small and medium taxpayers. In this light, therefore the effective and efficient imposition of income tax on the small and medium taxpayers in Tanzania holds the great prospect in increasing domestic revenue generation. This would only be possible if more participants from this sector were involved in broadening the existing tax base.

This study therefore explored procedural obligations from small and medium taxpayers as the way to improve central Government revenue collections. As a civic duty and pride, it is expected that all citizens voluntarily comply with obligation of paying due taxes. In contrast, this is not the case for many small and medium taxpayers in Tanzania due to various known behavioural factors that negatively influence taxpaying culture.

1.2 Statement of the Problem

Majority of Tanzanians are engaged in small and medium enterprises that generate good income as their earnings but they are not fully integrated into the formal taxation system. The number of informal operators in Tanzania is growing fast and their share to the GDP is large (currently estimated at 40%), indicating that when they are not taxed substantially, the Government loses revenue (URT, 2007).

The complexity of collecting income tax from the small and medium taxpayers arises from its characteristics, which include; absence of business premises, mobile nature of the operators, high tax collection cost, aggressive nature of the actors, cash operation and absence of data and information. These characteristics make it hard to tax the small enterprises available in this sector, hence posing bigger challenges for income tax collection (Bird, 2007).

The highly growing number of small and medium taxpayers in Tanzania is a challenge for existing tax administration. This is because tax-paying culture is characterized by a widespread non-compliance. For the small and medium taxpayers to be thoroughly taxed depends on alternative mechanisms beyond the current Government approach whereby many of the business ventures operate informally and extra-legally.
The challenge of tax non-compliance in the existing tax collection effort is serious because it is negatively influenced by informal enterprising behaviour. The extent of the impact is not well understood and it does not encourage central government tax

collection from small and medium taxpayers in Tanzania. Despite tax collection complexity from the small and medium taxpayers in Tanzania, studies on tax compliance are very limited.

Therefore, unfulfilled legal obligations of small and medium taxpayers convinced the researcher to see the necessity of conducting this study on challenges of collecting taxes from small and medium taxpayers in Tanzania to enable the government to expand the tax base. It is for this reason that this study attempted to establish alternative institutional mechanism to influence tax compliance behaviour in order to boost central Government revenue collection from small and medium taxpayers in the coming fiscal years.

1.3 Main Research Objectives

The main objective of this study was to explore challenges of tax collection from small and medium taxpayers in Tanzania.

1.4 Specific Research Objectives

The study was set out to address the following specific objectives: -

i. To establish the extent to which small and medium taxpayers are willing to pay tax.
ii. To establish the factors hinder procedural tax obligations in the small and medium taxpayers.
iii. To establish institutional mechanisms that can be used to improve tax collection at the small and medium taxpayers.

1.5 Research Questions

i. What is the extent of willingness of small and medium taxpayers to pay tax?

ii. What factors that hinder procedural tax obligations in the small and medium taxpayers?
iii. What are institutional mechanisms that can be used to improve tax collection at the small and medium taxpayers?

1.6 Significance of the Study

The findings from this study contributed in area of the effective collection of tax revenue from the increasing number of small and medium entrepreneurs. This is mainly because, after knowing motives and willingness of paying taxes, causes of non-compliance with procedural tax obligations, factors hindering procedural tax obligations and alternative institutional mechanisms to improve tax collection, the government can come up with different strategies of increasing tax revenue from small and medium taxpayers.

Moreover, the study provides in-depth understanding on effective tax administration from the small and medium taxpayers to different stakeholders. It is beneficial to other researchers, consultants, practitioners, policy makers and informal entrepreneurs who would like to venture into taxation affairs especially fiscal matters as this would have both theoretical and practical significance. Finally, the study assisted the researcher to come up with new insights and knowledge on the area of tax.

1.7 Limitations of the Study

Time and financial constraints negatively affected the study. In this case, time allocated for data collection was not enough to cover all Small and Medium taxpayers in Mwanza City Council. The researcher lacked enough literature to compare and refer due to minimal data of challenges facing tax collection from the small and medium taxpayers in Mwanza City Council. This also impinges on the funds allocated for the study. However to overcome these limitations the researcher

1.8 Delimitations or Scope of the Study

The study its generalization obviously based on the Mwanza City Council due to financial and time constraints and the need to control environmental factors. It is more interesting if other parts of the country especially rural areas are also studied.

CHAPTER TWO
LITERATURE RIVIEW

2.0 Introduction

This chapter presents a review of relevant literature to the present study. The chapter starts by reviewing definitions of terms, followed by development of theoretical literature review of the study. It presents a thorough review of the different studies related to small and medium taxpayers and tax compliance issues.

2.1 Definitions of Terms

2.1.1 Tax

Tax may be defined as a "pecuniary burden laid upon individuals or property to support the government. It is a payment exacted by legislative authority Payle (1989). A tax "is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority" and is "any contribution imposed by government, whether under the name of toll, tribute, import, duty, custom, excise, subsidy, aid, supply, or other similar name.

2.1.2 Willingness to pay Tax

Willingness to pay tax is affected by a number of factors including the taxpayer behaviour and perception. Moreover, ones willingness to pay tax is affected by the personal attributes of age, sex, marital status literacy level and religion.

2.1.3 Procedural Requirement

Procedural requirements include the functional activities of registration, accounting, collection, enforcement and audit.

2.1.4 Tax Avoidance

Tax Avoidance is the legal utilization of the tax regime to one's own advantage, in order to reduce the amount of tax that is payable by means that are within the law.

By contrast, Tax Evasion is the general term for efforts not to pay taxes by illegal means. The term tax mitigation is a synonym for tax avoidance. It started to be used by tax advisors as an alternative to the pejorative term tax avoidance. Presently the term is applied in the tax regulations of some jurisdictions to distinguish tax avoidance foreseen by the legislators from tax avoidance, which exploits loopholes in the law.

2.1.5 Tax Base

Tax base refers to the base upon which a tax system of any government of a particular country can impose appropriate taxation system to collect tax revenue from the public (Pyle, 1989).

2.2 The Genesis of the Small and medium taxpayers Concept

The term is typically either used to refer to ways of making a living outside the formal wage economy, as an alternative to it, or as a means of supplementing income earned within it (Bromley & Gerry, 1979). Even though the original notion of the small and medium taxpayers is limited to the self-employed, the introduction of the concept made it possible to incorporate activities that were previously ignored in theoretical models of development and in national economic accounts (Swaminathan, 1991).

2.3 Classification of Small and medium taxpayers

Although the introduction of the political aspect in the small and medium taxpayers was an achievement as supported by other scholars, the basic criteria which has also received most attention is the economic one. This is because all small and medium taxpayers operate informally thus form main part of the informal sector. Therefore, according to the literature, classification of small and medium taxpayers involves one or a combination of the following aspects: -

i. Labour market or status of labour. According to Harding and Jenkins (1989) argues that this criterion is the sum of all income-earning activities with the exclusion of those that involve contractual and legally regulated employment.

ii. Unreported income or tax evasion. According to Hart (1973), the small and medium taxpayers is described as the sum of all taxable money income left unreported with the intention to evade taxes.

iii. Professional status. According to Hart (1973) under this criterion, informal workers are defined as 'the sum of the self-employed, family workers and domestic servants'.

iv. Regulation or registration of an activity. According to Hart (1973), this criterion defines the small and medium taxpayers' enterprises as establishments, which are semi-registered, unregistered and unlicensed.

2.4 Motives for Engaging in Small and medium taxpayers

Many scholars agree that economic recession is one of the foremost causes of the development and tenacity of the small and medium taxpayers. Because of stagnation, unemployment and depreciation of capital stimulate participation in informal activities. For example, Lubell (1991) mentioned primary reasons for people to participate in the underground economy are as follows; to evade taxes: to avoid losing government benefits, to circumvent regulations and licensing requirements, to react against a call from labour unions and to react against international competition.

In broader terms, the motives for participation can be economic and noneconomic. Economic reasons are related to unemployment and an inflexible formal labour market, a declining real price of capital, and the high cost of formal production. According to Lubell (1991), non-economic motives are related to a greater flexibility and greater satisfaction in work; a complete use of their professional qualifications; and the increased leisure time. A very important element and motivating participation in the small and medium taxpayers, seems to be the role of the state. He argues that there are two groups of factors, which determine the decision to become active in the small and medium taxpayers, namely the ‘structural’, and ‘opportunity’ factors.

He further argues that the structural factors consist of financial pressure; socio psychological pressure and institutional constraints which explain why different sorts of informal economies exist. The opportunity factors consist of individual background skills, education, contacts and living situation, or non-individual components environment, cultural tradition, values and standards, and geographical factors. He concluded that the individual free choice affects the decision on tax payments based on a combination of inadequate information and a lack of any trust in the way taxes are spent.

Other authors view tax evasion as one aspect of the informal economy. For instance, Lubell (1991) argue that evasion of taxes is mainly caused by high tax rates and low audit probabilities. Furthermore, Tanzi (1982) summarizes the main determinants of tax evasion as follows:

i. The perceived fairness of tax laws
ii. The attitude of taxpayers towards their government
iii. Their basic religious and cultural characteristics
iv. Expected severity of penalties imposed on the tax evaders
v. The ease of evading taxes.

Other motives related to the labour market are the increased number of unemployed people, the reduction in working hours, early retirements, and supportive social welfare systems. Each of them provides incentives to individuals to search for new job opportunities, which are mostly available in the small and medium taxpayers.

2.6 Theoretical Literature on Tax Compliances

The popular tax compliance theories date back to early 1970s and they cut across all types of taxpayers irrespective of whether or not are operating formally. However, both tax evasion and avoidance are phenomena that are probably as old as taxation itself. In their theoretical analysis, Allingham (1972) view tax compliance in terms of taxpayer behaviour and attitudes and they consider being both multi-faceted and theoretical. Therefore, they argue that wherever and whenever authorities decide to levy taxes, individuals and firms try to avoid paying such taxes. Though this problem has always been present, it becomes more pressing in the course of human development and as a result, the theory of tax compliances seeks to address a range of opportunities to circumvent taxation while simultaneously reducing the risk of being detected.

There are traditional economic theories of tax compliance, which are popularly referred to as deterrence theories. These theories suggest that taxpayers make calculations of the economic consequences of different compliant alternatives such as whether or not to evade tax the probability of detection and consequences thereof, and choose the alternative which maximizes their expected profits after making tax return. Deterrence model explains tax morale as a complicated interaction between taxpayers and the government (Allingham & Sandmo, 1972).

These theories further suggest that taxpayers need to maximize their moral utility hence emphasize increased audits and penalties as a solution to compliance problems. Based on economic view they suggest that taxpayers' behaviour is influenced by economic motives such as profit maximization and probability of detection. Psychology theories of tax compliance assume that psychological factors including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system.

They further argue that a psychological tax contract goes beyond the traditional deterrence model and describe tax morale as a complicated interaction between taxpayers and the government. As a contractual relationship implies duties and rights for each contract party, tax compliance is increased by sticking to the fiscal exchange paradigm between citizens and the state. However, in defence of tradition deterrence model, some scholars contend that the gap between theory and evidence might be closed by assuming sufficiently high risk of taxpayers' evasions

Generally, all these theories purport that tax compliance towards a tax system is influenced by taxpayer behaviour. The attitudes towards tax compliance behaviour are direct depending on how effective is the interaction between taxpayers and the government and on other hand between taxpayers with tax administration.

2.7 Types of Voluntary Compliance Procedures

Different scholars recognize four types of voluntary compliance procedures, as follows:

i. Registration of business to the Tax Authorities
ii. Filing compliance: - This refers to the timely filing of any required return
iii. Reporting compliance: - This refers to the accurate reporting of Income and Tax liability.
iv. Payment compliance: - Which refers to the timely payment of all tax obligations. (Allingham & Sandmo, 1972).

2.8 Measurement of Voluntary Compliance

In their study Andreoni (1998) describe voluntary compliance as what the taxpayers actually do, how many returns are to be filed, and how much income and tax liability are to be reported. In order to analyse the possible determinants of taxpaying behaviour, one clearly has to control the corresponding obligations by including the explanatory variables on their behavioural attitudes.

In this regard therefore, taxpayer behaviours will better explain this challenge. Allingham *et al*, (1972) indicate that early researchers based their work on economic perspective of tax compliance and they identified tax rate, penalty and detection probability as factors influencing taxpayers' behaviour. Therefore, they concluded that taxpayers' compliance behaviour is equally influenced by social and psychological factors.

Having adequate literatures for tax compliance behaviour is the better way to understand tax compliance. Therefore, by incorporating literature reviews on economic, political, social, psychological and cultural, the characteristic of a taxpayer can bring much knowledge to the government, tax administrators and policy makers depending on perception and taxpayer's behaviours.

2.9 The Tax Non Compliance in the Small and medium taxpayers

In studying the tax non-compliance of entrepreneurial activities within small and medium taxpayers, Kidder *et al*, (1989) sub-divided procedural non-compliance into six sub-categories, which occur during the course of registration, file, and report and eventually paying tax. Kidder *et al*, (1989) argues that violations of any procedural requirements do not necessarily result in understatement of tax liability but have to do with the exact income and deductions that should be declared. Compliance with procedural requirements is both time and resources consuming, hence it is only a few informal entrepreneurs who can afford to comply.

Moreover, according to Kidder *et al*, (1989) unknowing or nonprofessional non-compliance appears during underpayment of taxes through ignorance of complex, changing, and sometimes ambiguous rules. It occurs when individuals discover that they cannot document legitimate expenses for business or health costs or fail to keep track of outside earnings for which there is no withholding.

Furthermore, Kidder *et al*, (1989) also points out that social non-compliance occurs when the income earner arranges his business activities so as to be invisible to the tax officials. This is done by transacting business in cash and circumventing officials. It is done in order to protest for perceived unfairness and inequities in tax laws. It also involves refusal to pay tax as a protest against what one perceives as unfair tax laws and abuse of tax revenue by the government officials. This results from peer pressure and social influence on the taxpayer not to comply with the tax laws.

Finally, Kidder *et al*, (1989) contend that brokered or advised non-compliance takes place upon the advice of a knowledgeable expert such as accountant, lawyer, or bond dealer. The taxpayer is advised by the accountant hired to prepare the accounts not to pay tax and in return, the account may be compensated for non-payment of tax. In addition, habitual non-compliance emerges over time as the taxpayer establishes a pattern of no declaration of income or under declaration of income based on traditional or family habit.

2.10 Willingness for an Informal Enterprise to Pay Tax

Different scholars for the willingness of people to pay their tax have advanced a number of reasons. For instance, Pyle (1989) and Cowell,(1990) mentioned these reasons as follows: Firstly, payment of tax is regarded as a social or collective choice, that is, the relationships between the preferences of the individual members of the state or society and the collective choices made by governments. People are willing to pay tax because of the "social contract" that exists between them and their governments

Secondly, people pay tax because it is linked to governance. People pay tax because of government's effective coercion since people will not pay voluntarily. Thirdly, people pay tax voluntarily because they feel they are contributing to a state with which they identify or a government program which they support. Fourthly, and more importantly, taxpaying depends on an underpinning culture, which does not necessarily depend on the claim that it stemmed originally from loyalty to a political order. Fifthly, people are willing to pay tax depending on the technical efficiency of the revenue authority that includes not only administrative and accounting techniques but also "understanding the culture of the small and medium taxpayers (companies and individuals) from whom compliance is sought and the network of rules and understandings which underpin tax behaviour.

2.11 Reasons for Tax Non-Compliance in the Small and medium taxpayers

According to Torgler (2002), there are various reasons for non-tax compliance in the small and medium taxpayers. In order to develop methods and instruments for fighting tax evasion, it is important to establish a broad understanding of the different reasons underlying these problems. The first category of reasons includes the factors that negatively affect taxpayers' compliance with tax legislation. These are as follows:

i. Unwillingness to pay taxes (low tax morale) or
ii. High costs to comply with tax laws.

The second category contains reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities. These can be summarized as resulting from the following: -

i. Insufficiencies in the administration and collection of taxes
ii. Weak capacity in auditing and monitoring tax payments, which limit the possibility to detect and prosecute violators.

According to literature, the low tax morale appears when taxpayers' willingness to pay taxes is affected by high tax burden. For instance, Allingham *et al*, (1972) contends that paying of more taxes can be explained by highest feasible levels of auditing, penalties and risk aversion. According to Torgler (2002), the presence of high costs which taxpayer has to bear in order to gather the necessary information, fill out tax forms and eventually paying a tax can be an additional reason for tax evasion. In their contribution, Andreoni (1998) argue that there is insufficient functioning of tax administration, especially with respect to identifying and administering those citizens and firms that are liable to tax payments. A well-functioning body of tax investigation is essential for the detection and prosecution of cases of tax evasion and fraud. Re-echoing this fact, Torgler (2002) explains that the legal framework is an important prerequisite for any enforcement activity. For example, the size and nature of penalties that are incurred after evasions have been detected is directly connected to the level of tax compliance.

2.12 Interest in Taxing the Small and medium taxpayers

In his study Torgler (2002) reveals the revenue needs and he argues that the introduction of neo-liberal reforms under Structural Adjustment Programs (SAP) has brought to the fore the urgent practical necessity of increasing revenues, which would enable the state to deliver basic services. Therefore, small and medium taxpayers become the obvious avenue to be drawn into the tax net having been mostly out of it. In his study, he also explained the impact on tax compliance, arguing that legitimate taxpayers in the formal sector perceive the state as being unfair in pursuing them for taxes while the small and medium taxpayers continues to operate untaxed. Ignoring small and medium taxpayers' activities would lower compliance morale and increase the risk of generalized non-compliance.

2.13 Conflict of Interest between the Govt. and Small and medium taxpayers

There is a strong disincentive to collect taxes from small and medium taxpayers, as the cost of monitoring and collecting tax from small businesses usually outweighs the revenues generated by small businesses, and revenue authority resources are usually scarce (TRA, 2009). Compelling reasons for the small entrepreneurs and the government to join the tax net include the following: On the small and medium-sized enterprises side, participating in a tax regime brings a firm into the formal sector, and allows the firm to access formal credit markets, government procurement, and access to markets including for export.

On the government's side, by encouraging firms to fully enter the formal sector through registering for and paying taxes, the government promotes a culture of compliance and sets the stage for the firm to grow and become a bigger taxpayer. Additionally, firms in the formal sector are more likely to comply with all other regulations and official obligations than those in the small and medium taxpayers.

Finally, there is extensive evidence that growth is severely hampered by the existence of a small and medium taxpayers working in parallel with the formal sector. The broad consensus on 'good tax policy' argues for a simple tax structure, with few exceptions and derogations, which are broadly applied across the whole economy. Applying this argument to small businesses, it is clear that small businesses should be taxed differently for both efficiency and equity reasons (Stiglitz, 2002). Golab (1996) argues that a flat tax system (replacing a number of tax instruments) would benefit most small businesses .First, because the compliance costs for such a system are far lower and this benefits small firms disproportionately. Second as tax credits and tax, incentives tend to benefit larger, better-connected and more influential firms and third, the increase in personal tax exemption benefits small businesses especially those, which operate as sole-proprietors.

2.14 Method of Taxing the Small and Medium Taxpayers in Tanzania

Taxation in the small and medium taxpayers has been extremely difficult for the government to handle. In the past, some attempts were made to tax the small and medium taxpayers. The method used has been successful to very small extent. This method was presumptive in nature, that is, it assumed a taxable income. The approach adopted to tax the small and medium taxpayers is through standard tax assessment.

Income Tax Act Chapter 332 Revised Edition 2006 joins all the taxpayers in the same tax net irrespective of their size or formality of the business. The general legal provision is under presumptive tax on First Schedule on the same Act, which confers common obligation so there is lack of specifics and commitment to the persons and unregulated enterprises and/or which operate informally. The enterprises within small and medium taxpayers are eligible to the presumptive income taxation system based on the First Schedule under Income Tax Act. This is operational function of TRA under the auspices of the Department of Domestic Revenue. The standard assessment is applied where a fixed lump-sum tax is levied on individual income, investment or business. The levies correspond to some average income level presumed to be earned by individual or business entity. In principle, the standard tax assessments are payments on accounts to be set-off against the amount of income tax actually payable (Tanzania Revenue Authority, 2006).

According to the Annual Implementation Report of TRA for 2006/2007, the main advantage of the standard assessment is that it enhances the vertical equity. However, despite this advantage it has some drawbacks that prevented it from achieving the policy objectives to the small and medium taxpayers as follows: -

i. The weak administrative capacity of the tax administration did not allow the effective monitoring.

ii. The highly impoverished small and medium taxpayers deemed the annual lump-sum payments too high. Evasion was quite rampant by small-scale small and medium taxpayers' operators who did not effectively require clearance certificates to undertake business activities.
iii. It imposed the same tax liability on high and low income earners
iv. The grouping of taxpayer identification list of small businesses and large business in the same tax net is over centralized tax administrative set-up could not achieve this policy objective.

The best-known attempt on tax collection from the small and medium taxpayers was set to be reached easily through a geographically based Block Management System (BMS). Under BMS, business areas are divided into 'geographical blocks' to carry out the functions of registering, assessing, collecting and accounting for tax revenue (Tanzania Revenue Authority, 2009).

2.15 Dimensions of Tax Evasion in the Small and Medium Taxpayers

Tax evasion has been identified as one of the major problems confronting tax administration especially in the developing countries. Evidence on income tax evasion is difficult to obtain from small and medium taxpayers. This is because there is no statistical evidence of the actual contribution of small and medium taxpayers to the total revenue collection (Tanzania Revenue Authority, 2009).

2.16 Difficulties in Taxing Small and Medium Taxpayers

According to Cowell (1990), most of the existing business transactions in the small and medium taxpayers are done in cash basis and even sometimes would not even accept bank cheques. The transaction of all business in cash is one of the means by which a businessperson can conceal taxable profits. By so doing, they are able not only to manipulate their records and turnover figures for tax reduction purposes but also to eliminate all third party information leading to their purchases and sales.

Moreover, the Government uses direct and indirect mechanisms to collect tax from the small and medium taxpayers in Tanzania. Direct taxing through formal systems of accounting and income calculation and formal payment channels has not worked effectively because collection costs tended to be high in relation to the amounts collected and discretionary ((URT, 2007).

According to Tanzi, (1982) a formal taxation systems of income calculation, accounts and payment options is not appropriate for the small and medium taxpayers. Direct presumptive taxation may be more promising. Although the introduction of presumptive income taxes has eased the assessment and collection processes, there is still a need for effective tax administration for monitoring and enforcement. Pyle (1989) explains that the small and medium taxpayers constitute a substantial vote bank for politicians.

2.17 Ways Applied to Improve Voluntary Tax Compliance in Tanzania

According to the TRA Annual Report 2008, there are different methods, which are used to increase voluntary tax compliance hence, more tax collection to the public. First, through sustained public education with expectation of changing attitudes and perceptions whereby tax authorities intensify this effort in organizing public education programs through taxpayer education in the media; magazines, posters, radio stations and TV channels. More sustainable approach should be put in place for the sensitization in the sector.

Secondly, by promoting an atmosphere of trust, TRA has Taxpayer Charter, which involves all taxpayers without categorizing whether or not they are in public or small and medium taxpayers. Nevertheless, the taxpayer charter explicitly expresses a general trust, which lack important component of developing a tax-paying culture in the small and medium taxpayers.

Thirdly, the Government through TRA enforces rules and regulations governing tax compliance in line with due process. Those who are found to have defaulted face sanctions. Special tax courts must be established to deal expeditiously with cases of tax non-compliance (Tanzania Revenue Authority, 2008).

Lastly, the Government plays her part by providing goods and services to the pubic with transparency and accountability to motivate people to pay tax voluntarily. The Government strives hard to work on administrative system, which provides accurate information on how much money is collected, and how much is spent, where and for what purpose, and what its future obligations are likely to be (*ibid*).

2.18 Mechanism in Collecting Taxes from Small and Medium Taxpayers

The reviewed literature suggests alternative institutional mechanisms, which can be adopted beyond the usual government apparatus to improve tax compliance for entrepreneurs operating informally in Tanzania as follows:

In his study on tax reform in developing countries, Golab (1996) enunciated that the reforms, which burgeoned over the past decade or more, have recommended that taxes should be levied at low and relatively flat rates. Likewise, he explains that the lower and simpler taxes are seen as easier to collect and administer and as creating less inefficiency. Flat tax system would benefit small businesses most because the compliance costs will be lower and this benefits small firms disproportionately.

International best practice suggests that any special tax regime for small enterprises should offer reduced compliance costs and a reduction in the actual tax burden. This reduction in the actual tax burden facilitates the shift to “formal sector”. Experience in transition countries has shown that simplified tax systems generally not only reduce compliance costs but also considerably lower the actual small business tax burden (WTO, 2010)

Apart from that, Swaminathan (1991) indicates that reducing tax compliance costs and thereby lowering the overall tax burden on small businesses helps to achieve more neutral tax treatment of firms of varying sizes. This can encourage compliance with the tax laws of a country and full reporting of all amounts required to determine the true tax base. In addition, he emphasizes that compliance costs tend to increase with number of taxes that an entrepreneur is exposed or subject to, complexity of the tax rules, the frequency of submitting tax returns, and the number of levels of government involved in levying and collecting taxes.

2.19 Empirical Literature Review

Thomas (1992) has shown that taxing the small and medium taxpayers are a herculean task and that the prospects for making a significant advance are not so bright. However, he further contended that the importance of attempting to do so by the government is undeniable. He later concluded that the potential for taxing the small and medium taxpayers depends upon two key factors:-

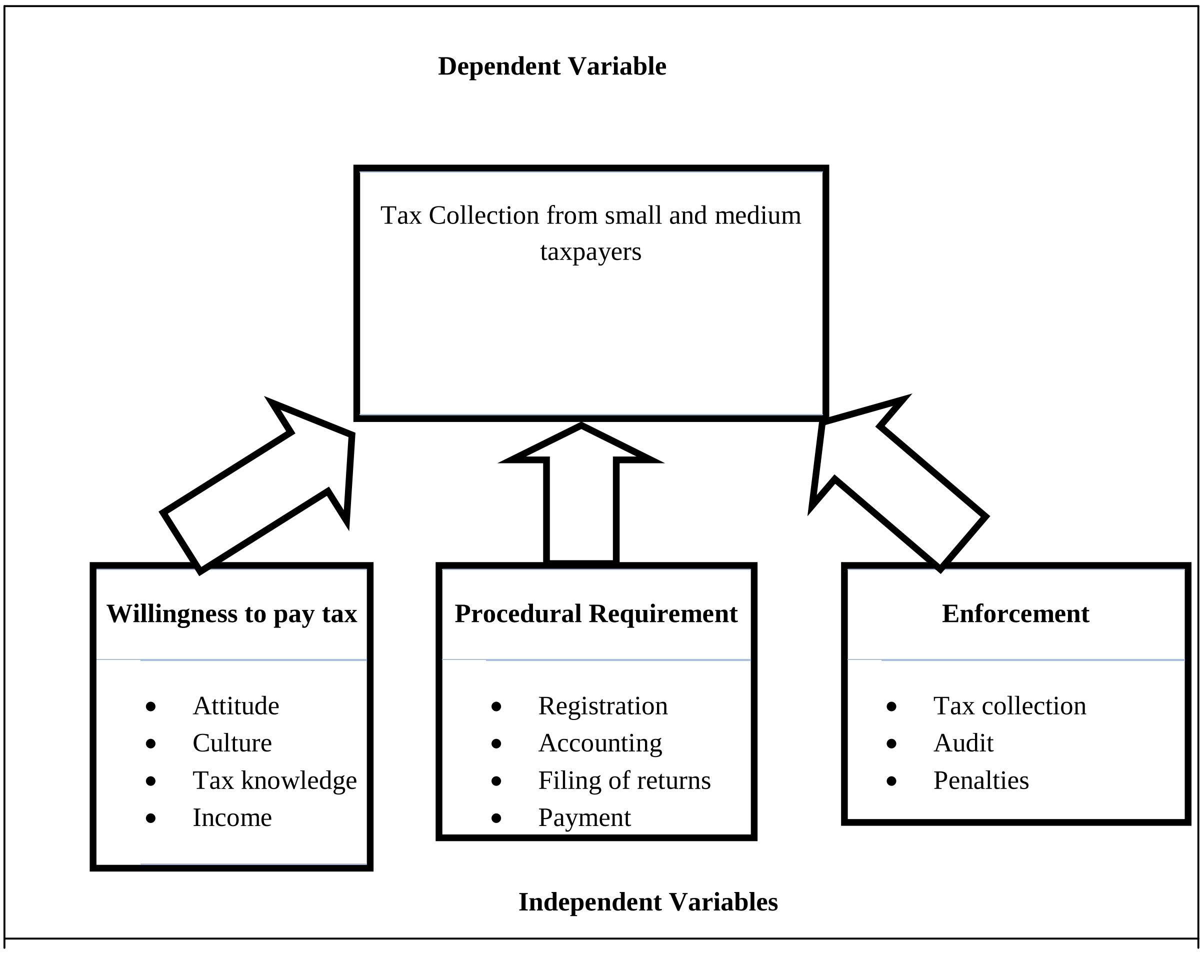
i. The degree of pressure on governments to increase revenues
ii. The existence of collective actors in the small and medium taxpayers having institutionalized channels for negotiating with the state.

Furthermore, he recommended that there must be a different way of thinking politically about taxation of the small and medium taxpayers that could lead to a substantial new research agenda. In other words, to make inroads into the difficult problem of taxation of the small and medium taxpayers we need to think differently about the issue. Maximizing voluntary compliance is therefore an obligation, which must be taken seriously by any reform or new research agenda (*ibid*).

A study on means to pull small businesses into the tax net by the Department of Research & Policy TRA Headquarters Dar es salaam, April 2000 came out with proposal to simplify the tax on non-corporate (Small) businesses. The first proposal based on mean tax and mean income while the second based on turnover. All these proposals are mainly trying to overcome the challenges facing tax collection from small and medium taxpayers

Another study of informal sector and presumptive taxation in Tanzania, 2010 by the Department of Research & Policy TRA Headquarters Dar es salaam proposed a simple presumptive income tax that would promote an enabling and supportive environment to the development of taxation of small and medium business. The proposal suggested a review of legal framework, institutional framework, a new form of business registration systems, maximum taxable income and introduction of flat tax rate

Figure 2.1 Conceptual Framework



*Source: **Researcher's own construct***

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter covers research methodology used in this study. It presents research design, survey population, sampling design, units of analysis and their selection, sample size, selection of the case, data collection methods, types of data collected, and data analysis, and conclusion.

3.1 Research Design

To successfully carry out this research, a descriptive research design was applied in order to obtain researchable facts to various stakeholders in the small and medium taxpayers. The major purpose of the descriptive research is to portray the state of affairs, as they existed (Kothari, 2003). Both qualitative and quantitative approaches were employed. However, descriptive design is appropriate when the nature of the problem is well known and the objectives are clearly specified.

3.2 Areas of Study

The study concentrated on different Block A, Block B, Block C and Block D within Mwanza City Council due to the geographical and resources limitations. This Municipality constitutes a large numbers of small and medium business engagements, so and it is selected to avoid other environmental factors, which seem to be peculiar in other areas of the City, which may contravene the study findings.

3.3 Survey Population

Mwanza City Council, located within Mwanza Tax Region, was selected as the representative of the whole Mwanza Tax Region population due to the following facts: -

i. It is one of the biggest tax contributions in terms of Central Government tax revenue collection in Mwanza Tax Region.
ii. It is very famous with many people having heterogeneous small and medium businesses in Mwanza that have adequate taxable incomes but not recognized by the existing taxation system.
iii. The researcher can easily reach it.

3.4 Sample Size and Sampling Technique

3.4.1 Sample size

The study was carried out in different Blocks of Mwanza City Council that have a similarity in socio economic characteristics of the local entrepreneurs but diversity in culture. These helped in enriching the study and paint a realistic picture of both small and medium businesses and tax compliance behaviour in Mwanza Tax Region. In this regard, the population comprised a sample size of 100 small and medium taxpayers, 6 Tax Officials, 3 Tax Consultants and 1 DRD Regional Manager. A total number of 110 respondents provided an adequate sample within the limitation of fiscal resources and time. According to Kothari (2003), the optimum sample is one that fulfils the requirements of efficiency, representativeness, reliability and flexibility.

For TRA Management, one-DRD Manager was interviewed due to the following reasons: -

i. An attempt to avoid good wording syndrome from the top management.

ii. Regional Manager and his subordinate tax officials are the ones who mostly contact taxpayers hence possibility of getting adequate information and thus, an opportunity to learn.

According to Saunders (2003) dividing the population into a series of relevant strata means that the sample is more likely to be representative, as you can ensure that each of the stratum is represented proportionally within the sample". The selected sample from small and medium taxpayers was divided into four (4) Blocks each Block was targeted to have twenty five (25) small and medium taxpayers.

Kothari (2003) supports this assertion when he states, "the problem is that no sample can be guaranteed to be representative. If you could take a large number of different samples from the same population, some would overestimate and some underestimate the true figure".

3.4.2 Sampling Techniques

To obtain the required sample non probability sampling technique was used. Purposive and convenience sampling technique were employed to obtain the sample. The tax consultants and TRA officials were obtained using purposive sampling technique while small and medium taxpayers from four blocks within Mwanza City Council were obtained using convenience sampling technique.

Purposive sampling a type of non-probability sampling in which the researcher consciously selected specific elements or subjects for inclusion in a study in order to ensure that the elements would have certain characteristics relevant to the study. Heads of blocks are the one with relevant information about the taxpayers in their respective blocks. Moreover, the two (2) Assistant Regional Managers, 1 DRD Regional Manager and 3 tax consultancy were selected basing on this sampling technique

3.5 Data Collection Methods and Procedures

Both primary and secondary data was used for the study. Primary data was collected by means of interview, semi-structured and unstructured questionnaires. Questionnaires included both closed and open-ended questions and presented series of statements for which the respondents were asked to indicate their degree of agreement or disagreement.

3.5.1 Interview

Interviewing is about asking questions and receiving answers. It is a way of accessing people's perception, meaning and definitions of situations and construction of reality (Punch, 2005). Interview was conducted to key informants including two Assistant Regional Managers and one Domestic Revenue Department Regional Manager from Mwanza Tax Region. The interview method is quite flexible and can be easily adapted to a variety of situations (Mason & Bramble, 1997). This study employed unstructured and semi-structured interview.

3.5.2 Questionnaires

Using questionnaires opinions regarding willingness to pay tax, procedural requirements and enforcements were collected from four heads of blocks (Tax Officials), three tax consultants and one hundred (100) small and medium taxpayers. Two sets of structured questionnaires were prepared and administered. Structured questionnaires poses definite, concrete and pre-tested questions; that are prepared in advance (Rwegoshora, 2006).

3.5 Variables and Measurements

The independent variables in this study were willingness to pay tax, procedural requirements and enforcement activities while the dependent variable was challenges facing tax collection from small and medium taxpayers.

3.5.1 Willingness to pay tax

Willingness to pay tax attributes to be measured includes attitude, culture, tax knowledge and ability to pay. Willingness to pay tax was measured by identifying answerability of taxpayers for their actions. The attributes were measured in terms of being answerable to their actions. Therefore, to test willingness to pay tax accountability a set of statements was used and applied as follows; Yes, sometimes, and No

3.5.2 Procedural requirements

Procedural requirements to be measured include the processes of registration, accounting, returns filing and payment of tax. Procedural requirement was measured by identifying answerability of taxpayers for their actions against the procedures in place. The attributes were measured in terms of being answerable to their actions. Therefore, to test procedural requirements a set of statements were used and applied as follows; good, average and poor

3.5.3 Enforcement activities

Enforcement attributes to be measured includes audit, penalties and interest. Enforcements activities currently undertaken by TRA were measured by identifying answerability of taxpayers for their actions on the audit, penalties and interest. The attributes were measured in terms of being answerable to their actions. Therefore, to test the effect of enforcement activities in place a set of statements were used and applied as follows; good, average and poor

3.5.4 Personal attributes

Personal attributes of small and medium taxpayers measured was age, sex, marital status and level of education. The variables of age, sex, marital status and level of education will be measured as follows: - age in years, sex (1= female, 2 = male) and marital status (1 = married, 2 = single, 3 = widowed, 4 = divorced). Education variable will be measured by four-point scales ranging from 1 none, 2 Primary school, 3 Secondary school, 4 Colleges and 4 adult education.

3.6 Data Analysis

In data analysis, collected data from the field was edited to discover errors and omissions. Corrections were made for obvious errors such as wrong entry. For cases of missing replies, proper answers were determined by reviewing other information in the questionnaires. When there is no basis for determining the correct answer the researcher will strike out the answer (Kothari, 2003).

There was the application of computer program for summarization and interpretation with the aid of Statistical Package for Social Science (SPSS) statistical analysis software. This software helped to develop data presentation, graphs, tables and charts (Pallant, 2001)

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CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF RESEARCH FINDINGS

4.0 Introduction

This chapter provides an analysis of data collected and major findings from the study. These findings guide the conclusions as well as recommendations that are beneficial and useful to different stakeholders of informal sector in taxation matters particularly the government and her tax agencies.

4.1 General Observations from the Findings

4.1.1 Gender of Respondents

Table 4.3 indicates that there are more male clients than female small and medium taxpayers. While male are 65.9% their female counterparts are 34.1%. Several reasons can explain this and one of them is tendency or male dominant over the family economic activities within the small and medium taxpayer's category. This finding implies that there are more male than female in the small and medium taxpayer's category.

Table 4.2 Respondents by sex

Sex	Frequency	Percent	Cumulative Percent
Male	58	65.9	65.9
Female	30	34.1	100
Total	**88**	**100**	

Source: Field data 2013

4.1.2 Level of Education for Informal Entrepreneurs

Results obtained show that 31.8% of the respondents had primary education and the other thing worth noting is that 68.2% of all respondents have good level of education, 34.1% have secondary education and 34.1.8% have attended colleges and university education.

This finding implies they have education to be involved in evading tax deliberately. Lack of knowledge is not a signalling factor as shown at the lower end. In addition, a segment with this nature is found in formal employment, thus its appearance indicates that they engage in systematic tax evasion in order to get benefit out of it. The data gathered from the field work on the level of education of the small and medium taxpayers is presented in table 4.3 below.

Table 4.3 Respondents by education

Education level	Frequency	Percent	Cumulative Percent
Primary	28	31.8	31.8
Secondary	30	34.1	65.9
College	30	34.1	100.0
Total	**88**	**100.0**	

Source: Field data 2013

Conclusively, it is obvious that a large number of small and medium taxpayers have education to understand their civic obligation to pay tax so there is a need for an effective machinery to administer that. Therefore level of education cannot be taken as reason for small and medium taxpayers' failure to comply with the laid down procedural obligations as per demand of the Income Tax Act.

4.1.3 Respondents' Duration in the Business

Most respondents had run small businesses for at least 1 to 2 years. Table 4.4 indicates that only 51.1% had stayed in business for less than 2 years. This finding implies that, majority of taxpayers in the small and medium enterprises had enough experience to operate their business and hence qualify for upper bands on presumptive taxes as per provisions of first schedule under Income Tax Act [CAP 332 R.E.2006] of the laws. Moreover, in business cycle a business with an experience of more than 2 years in operation qualifies to have a definite going concern. This study indicates that 48.9% of the respondents have stayed in their business for more than 2 years as summarized in the following Table 4.4 below.

Table 4.4 Respondents duration in business

Business Duration	Frequency	Percent	Cumulative Percent
1-2	45	51.1	51.1
3-5	20	22.7	73.9
6-10	9	10.2	84.1
11+	14	15.9	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.2 Procedural Tax Obligations and Tax Assessments

4.2.1 Respondents' perception on registration procedures

Most of the respondents accepted the contention that the registration system in place does not hinder their day to day business activities. 61.4% of the respondents concurred with the registration procedures in place while 38.6% went against the registration systems currently in use. This finding indicates that registration procedures in place are conducive to the small and medium taxpayers. The data gathered from the field work on the perception of taxpayers on the registration procedures in place is presented in Table 4.5 below.

Table 4.5 – Respondents Perception on the registration procedures

Response	Frequency	Percent	Cumulative Percent
Yes	54	61.4	61.4
No	34	38.6	100.0
Total	88	100.0	

Source: Field data 2013

4.2.2 The use of accountant service

60.2% of the respondents agreed to have an Accountant in place while 39.8% did not have a service of an Accountant. This finding indicates that a high compliance rate is expected from the 60.2% of the small and medium taxpayers because of the use of accounting expertise. In cases where this compliance rate is not attained there is mutual dealing between the taxpayers and accountant for the purpose of concealing the tax base by hiding some information on the taxpayer's income thus escalating the challenges in collecting tax revenue from small and medium taxpayers. The data gathered from the field work on the need of Accountant Service is presented in Table 4.6 below.

Table 4.6 – Respondents Perception on the registration procedures

Response	Frequency	Percent	Cumulative Percent
Yes	53	60.2	60.2
No	35	39.8	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.2.3 Separation of Business and Personal Expenses

83.0% of the respondents are separating the business expenses and personal expenses complying with the requirement of Income Tax Act while 17.0% does not separate business expenses and business expenses.

This finding indicates that most of the small and medium taxpayers do separate the activities of the business from their own and therefore the risk of eroding tax base by mixing the two is not there. The data gathered from the field work on the need of Accountant Service is presented in Table 4.7 below.

Table 4.7 – Separation of Business and Personal Expenses

Response	Frequency	Percent	Cumulative Percent
Yes	73	83.0	83.0
No	15	17.0	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.2.4 Respondents' on returns filling

Most of the respondents accepted the contention that the returns filling system in place does not hinder their day to day business activities. 80.74% of the respondents concurred with the return filling system in place while 19.3% went against the return filling system currently in use.

This finding shows that a large number of the small and medium taxpayers are aware of the system in place for filling returns. The data gathered from the field work on the perception of taxpayers on the registration procedures in place is presented in Table 4.8 below.

Table 4.8 – Respondents Perception on the registration procedures

Response	Frequency	Percent	Cumulative Percent
Yes	71	80.7	80.7
No	17	19.3	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.2.5 Payment of Taxes

Most of the respondents accepted the current system of paying taxes through commercial banks as this simplifies their tax paying process. 94.3% of the respondents supported the paying system while 5.7% went against the payment of taxes directly to commercial banks.

This finding indicates that almost all of the small and medium taxpayers are comfortable with the current system of paying their taxes directly to the Bank. The data gathered from the field work on the perception of taxpayers on the registration procedures in place is presented in Table 4.9 below.

Table 4.9 – Respondents Perception on the registration procedures

Response	Frequency	Percent	Cumulative Percent
Yes	83	94.3	94.3
No	5	5.7	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.2.6 The most difficult procedure to follow

The procedural obligation for registration and return filling according to the respondents are the most difficult to follow as they accounted for 70.5%. This is the reason why most of the small and medium tax of the respondents accepted showed willingness to use the service of an accountant. The other procedures of record keeping and payment of tax are simple as they accounted for only 29.5%.

This finding indicates that there is a need to streamline the procedures so that they become user friendly to the small and medium taxpayers. The data gathered from the field work on the perception of taxpayers on the registration procedures in place is presented in Table 4.10 below.

Table 4.10 – Respondents Perception on the registration procedures

Response	**Frequency**	**Percent**	**Cumulative Percent**
Registration	29	33.0	33.0
Return Filling	33	37.5	70.5
Proper records	12	13.6	84.1
Tax payment	14	15.9	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.3 Factors affecting Willingness of an to Pay Tax

4.3.1 Respondents' perception on attitude

Most of the respondents argued that they have good attitude in paying tax. 80.7% of the respondents claimed to have good attitude in paying tax while 19.3% denied. This finding indicates that it is true that most of the small and medium taxpayers have good attitude in paying taxes but there is a need of proving tax education to the minority

19.3% for the purpose of bringing them to the tax net. The data is presented in the following table 4.11 below.

Table 4.11 – Respondents Perception on attitude to pay tax

Response	Frequency	Percent	Cumulative Percent
Yes	72	80.7	80.7
No	16	18.2	98.9
Total	88	100.0	

Source: Field data 2013

4.3.2 Respondents' perception on culture

Most of the respondents argued that they have good culture in paying tax. 95.5% of the respondents claimed to have developed good culture in paying tax while 4.5% denied this. This finding indicates that it is true that most of the small and medium taxpayers have good culture of paying taxes but there is a need of proving tax education to the minority 4.5%. The data is presented in the following table 4.12 below.

Table 4.12 – Respondents Perception on culture to pay tax

Response	Frequency	Percent	Cumulative Percent
Yes	84	95.5	95.5
No	4	4.5	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.3.3 Respondents' knowledge on tax laws

More than half of the respondents claimed to have knowledge on the tax laws and regulation administered by the TRA. 68.2% of the respondents claimed to have knowledge on tax laws while 31.8% have no knowledge on tax laws.

This finding indicates that despite the fact that more than half of the small and medium taxpayers have knowledge about tax laws there is a need to extend more training on tax to this category for the purpose of attaining good compliance. Data for this finding is presented in the following table 4.13 below.

Table 4.13 – Respondents knowledge on tax laws

Response	Frequency	Percent	Cumulative Percent
Yes	60	68.2	68.2
No	28	31.8	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.3.4 Respondents' Income

Most of the respondents have good income level to honour any tax obligation. 87.5% of the respondents claimed to have enough income to pay tax while 12.5% claimed to have insufficient fund to pay taxes. This finding indicates that income is not a problem for payment of taxes to the majority of the small and medium taxpayers. The data for this finding is presented in the following table 4.14 below.

Table 4.14 – Respondents income level

Response	Frequency	Percent	Cumulative Percent
Yes	77	87.5	87.5
No	11	12.5	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.4 Enforcement activities

4.4.1 Respondents' comments on the tax audits

The majority of respondents argued that the tax audit carried out by tax officials do force them to pay tax on time. 90.9% of the respondents agreed that the tax audit carried make them comply while 9.1% said they are not affected by the tax audits. This finding indicates that tax audit is a good enforcement measures but there is a need of carrying qualitative audits for the purpose of bringing the minority 9.1% to comply. Data for this finding is presented in the following table 4.15 below.

Table 4.15 – Respondents comments on the tax audits

Response	Frequency	Percent	Cumulative Percent
Yes	80	90.9	90.9
No	8	9.1	100.0
Total	88	100.0	

Source: Field data 2013

4.4.2 Respondents' comments on penalties and interest

94.35 of the respondents agreed that the penalties and/or interest imposed for non-compliance force them to pay tax on time. 94.3% of the respondents agreed that the tax audit carried make them comply while 5.7% said they are not affected by the penalties and interest imposed. This finding indicates that penalties and interest is a good enforcement measures but there is a need revisiting the amount of penalties and interest rates for the purpose of bringing the minority 5.7% to comply. Data for this finding is presented in the following table 4.16 below.

Table 4.16 – Respondents comments on the penalties and interest

Response	Frequency	Percent	Cumulative Percent
Yes	83	94.3	94.3
No	5	5.7	100.0
Total	**88**	**100.0**	

Source: Field data 2013

4.5 General Findings from Manager, Tax Officials and Tax Consultants

4.5.1 TRA Staff Profile

The interviews involved one DRD Manager and six tax officials. The manager had adequate experience as he had been working with DRD with different capacities for the period of more than 20 years. All six respondents were male, and all of these respondents were daily involved with domestic revenue within the in the respective blocks, hence the researcher hoped that their responses would meet intended objectives.

4.5.2 Observations from Tax Officials

All the respondents revealed that there is very low voluntary compliance in the small and medium taxpayers sector in Tanzania which leads to poor collection of revenue. The cause for this was high transaction cost to collect tax effectively from the sector.

4.5.3 Observations from DRD Manager

The response from the manager revealed that there are two major types of problems that face voluntary tax compliance in the small and medium taxpayers sector in Tanzania, leading to poor collection of revenue. The first is high transaction cost to collect tax effectively from the sector, which raises the need to have alternative approach. He mentioned the second problem being lack of awareness on taxation matter from the players in the ground, which creates a difficult in disclosing vital information to the tax agencies.

According to the manager and other tax officials, taxpayers' unwillingness to pay tax indicates signs formidable task before the tax authorities. This is supported by a study carried out by Torgler, (2002) which revealed that the cause for this situation can be either emanated from low tax morale or high costs to comply with tax laws.

4.5.4 Tax Consultants

Three respondents were involved and revealed that, there are a number of problems that voluntary compliance faced at the informal sector in Tanzania, which in turn leads to poor collection of revenue. These include high tax rates, corruption practices and poor service delivery.

4.6 Findings on Research Questions

4.6.1 The Extent of Willingness to Pay Tax

The general findings from small and medium taxpayers, entrepreneurs, tax officials and tax consultants are in line with the literature review in Chapter Two which indicates the extent of willingness of small and medium taxpayers to pay tax. Despite different responses which have been provided by the informants, the following can be general factors: -

i. To increase tax morale on tax burden that is imposed to the small and medium taxpayers.
ii. The presence of plausible transaction costs which small and medium taxpayers has to bear, which include gathering of the necessary information, filling out tax forms, and eventually paying a tax.
iii. Presence of a well-functioning tax administration that will be able to identify and administer informal operating enterprises that are liable to pay tax liability fairly in this sector of economy.
iv. To increase capacity in auditing and monitoring tax payments for the small and medium taxpayers which enhance the possibility to detect and prosecute violators.

However, the specific findings indicate the following: -

i. Quality of the service in return for taxes to be increased because if the government fails to provide basic public goods and services or provides them insufficiently, citizens may not be willing to pay taxes and tax evasion will be the consequence.
ii. Tax system should be tailored to suit good perception of fairness whereby structure of the overall tax system must reflect positive impact on tax paying habit.

iii. There must be transparency and accountability within public institutions in the use of public funds. This will contribute to public trust with respect to the tax system as well as the government. This in turn will increase voluntary compliance level in the sector.

iv. Rule of law and fiscal jurisdiction should operate in accordance with the rule of law. Lack of rule of law reduces transparency of public action and fosters distrust among small and medium taxpayers. As a result, citizens may not be willing to finance the state through taxes, and may decide to evade these liabilities.

4.6.2 Suggested Solutions:

The following are the suggested solutions to boost the willingness for tax compliance: -

i. Government expenditures require the generation of adequate revenues which must positively reciprocate the people’s expectations on provision of public services. The laid down tax laws, rules and regulations, facing people who fail to comply must also equally face those tax agencies that have obligation to collect as well.

ii. People pay tax voluntarily because they feel they are patriotically contributing to a state with which they are entrusted or with government programs which they do support.

iii. And more importantly, a tax-paying habit depends on an underpinning culture, which does not necessarily depend on the claim that it stemmed originally from loyalty to a political order.

iv. Eliminating the language barrier by using local dialect on tax matters such as translation of tax laws, rules, regulation and procedures. By using Swahili language people would be articulated with right meaning behind some legal and technical parameters in taxation system.

4.6.3 Factors that Hinder Procedural Tax Obligations from the Sector

Findings obtained from the tax officials and tax consultants revealed a number of factors. These include the following: -

i. Improper recording of taxable incomes for majority of people engaged in the small and medium taxpayers sector makes revenue generation task to tax agencies to become difficulty.
ii. Tax administration becomes easier if correct determination of the income of the taxpayer is made and hence assessment of the tax liability could be made easier too.
iii. Most of the existing business transactions are done in cash, which makes it easy manipulate the records and turnover figures for tax reduction purposes. This can also eliminate all third party information leading to their purchases and sales.
iv. Direct taxing through formal systems of accounting and income calculation and formal payment channels cannot work effectively because collection costs tended to be high in relation to the amounts collected and discretionary.
v. Presumptive income tax rates are so high, resulting into wrong tax assessment and unfair collection processes which affect both monitoring and enforcement to the informal enterprises.

4.6.4 Solutions to the Above Factors

The following are suggested solutions to address the factors outlined above: -

i. Tax administration will become easier if correct determination of the income of the taxpayer is made, and hence assessment of the tax liability could be made easier too. Therefore the service of accountant to each small and medium taxpayer when running his or her business should be mandatory.
ii. In line with previous issue, business transactions though done in cash basis, proper records should be kept by incorporating third party information leading to their purchases and sales.

iii. Presumptive income taxes should be made easy and the tax assessment and collection processes must be fair by reaching general consensus with informal enterprises within specific areas to achieve better monitoring and enforcement.

iv. The use of informant should be emphasized whereby informant is going to be rewarded in a percentage of tax amount recovered from evasion

4.6.5 Institutional Mechanisms to Improve Tax Collection at the Sector

a) Findings from Tax Official and Tax Consultants

Tax officials and tax consultants admit that there is a need for having alternative institutional mechanisms to improve tax collection at the informal sector. As a result of having high transaction costs all the respondents feel that the government has to put a simple taxation system with new collecting methods. Amongst the proposed alternatives are as follows: -

i. To introduce a simplified presumptive income tax structure that will promote an enabling and supportive environment to the development and taxation of the informal sector. So six respondents consider single tax structure as a way of reducing the number of payments.

ii. Furthermore, respondents consider to offer different payment options that include either one-off or by instalments.

iii. Moreover, respondents consider avoiding retroactive taxation for businesses that discourage business formalization where informal enterprises will be reluctant to formalize if they fear a large tax bill.

iv. All the respondents believe on sharing information with government ministries, departments and agencies on businesses activities, developments, and on what taxes are used for, and how informal businesses will benefit from enhanced services. This will enhance communication and exchange of information with other players in the sector

b) Findings from DRD Manager

The following are suggested solutions to address challenges mentioned above: -

i. Reducing tax compliance costs and thereby lowering the overall tax burden on small and medium taxpayers can encourage more compliance with the tax laws and more disclosure to determine more of income.
ii. The presumptive income tax is still appropriate in order to decrease administrative and compliance costs, but its benefits are potentially larger in information gathering instruments in a dynamic environment. However, it has been used to curve widespread tax evasion in the informal scale sector and avoidance by reducing enforcement costs, which is likely to generate positive externalities in taxpayer compliance.
iii. Moreover, there is a need for designing new structure in the first schedule which solely considers the specifics of the sector. To improve on the outcome of direct domestic tax revenue from informal enterprises when working for a particular period of time, we should consider aspects like grace period at the commencement and redesign new bands which consider operation of 2 to 5 years from the date of business registration.
iv. Careful analysis is required as their effects in terms of use, efficiency, transparency, governance are multiple and can be large, and the exact desired presumptive tax structure is ultimately linked to the characteristics of the targeted tax base.
v. Taxation system in the informal sector might be successful if PPP is adopted. TRA may enter into contract with qualified private business firms that will collect presumptive taxes from informal sectors based on their geographical allocation under BMS.

4.7 Conclusion

Findings from this study indicate a number of challenges in collecting tax from the informal sector in Tanzania. These challenges are concerned with failure of the tax administration to reach more informal entrepreneurs and join them in the tax net. The major challenges include low tax morale among informal taxpayers, high costs which taxpayer have to bear to gather the necessary information, fill out tax forms and eventually paying a tax; insufficiencies for a well-functioning tax administration; and weak capacity in auditing and monitoring tax payments, which limits the possibility to detect and prosecute violators in the sector.

CHAPTER FIVE
CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This chapter presents conclusion of the study and offers recommendations that are useful to different stakeholders in taxation issues within the informal sector, such as small and medium taxpayers, tax consultants, government ministries and tax agencies so as to enable them to make right decision and enhance more taxation accountability.

5.1 Conclusion
Small and medium taxpayers play a key role of providing socio-economic activities. It has a great potential to increase domestic revenue mobilization and to reduce huge budget deficits in the informal sector. Voluntary tax compliance in the small and medium taxpayer's category is one of the ways to generate more revenue incomes.

Rampant tax evasion at this sector in Tanzania is the result of failure to have a favourable environment on tax administration and lack of cordial methods of tax collection. Tax revenue collection from this sector is still very small compared to the existing taxable income potentials. In practice, the collection of taxes from the small and medium taxpayers is difficult, as there are poor records of accounts, which are often invisible to the tax authorities. Their engagements are mostly carried out on their home premises, and they either work at night, or are part of a long chain of production. So it becomes difficult to trace accurately their streams of incomes and link directly to the procedural requirement under Income Tax Act. Because of this situation, it is difficult for tax authorities, particularly the DRD to determine the exact income they real earn and hence fairly assessing due tax.

For a long period Tanzania government extracts revenue from the small and medium taxpayers using presumptive tax as described by first schedule under Income Tax Act. The best known attempt to date being Block Management System, although it has a very small success due to ineffective administration. TRA excessively focuses on the formal sector. This may be considered to be a cause of poor collection for tax revenue from the informal sector.

According to the Income Tax Act Chapter 332 Revised Edition 2006, there are four procedural obligations to be followed in order to achieve effective tax collection. These include; registration, timely filling requisite taxation information, reporting of accurate information; and payment of tax on time. Failure to meet any of these obligations may be considered to be non-compliance and may lead to poor income tax collection.

The study aimed at exploring challenges of tax collection from small and medium taxpayers Tanzania so as to increase central Government tax collections in the coming fiscal years. Specifically, the study intended to establish the extent to which informal enterprises are voluntarily willing to pay tax, to establish the factors hindering procedural tax obligations and ultimately to establish alternative mechanisms to improve tax collection at the informal sector. This exploration will therefore provide suggestions or recommendations for different stakeholders.

5.2 Major Challenges Facing Willingness for Tax Compliance

From the objectives and findings of the study, the major challenges of collecting taxes from the informal sector can be summarized as follows: -

i. Low tax morale on tax burden imposed to the small and medium taxpayers.
ii. The presence of high transaction costs which taxpayer has to bear, which including gathering of the necessary information, filling out tax forms and eventually timely payment of tax.

iii. Insufficiencies for a well-functioning tax administration, especially with respect to identifying and administering those enterprises that are liable to tax payments in all sectors of economy.
iv. Weak capacity in auditing and monitoring tax payments which limits the possibility to detect and prosecute violators.

5.3 Recommendations

This sub section presents recommendations to various stakeholders aiming at strengthening efforts of increasing tax revenue collection.

5.3.1 Recommendations to small and medium taxpayers

i. Tax administration become easier if correct determination of the income of the small and medium taxpayers is made and hence assessment of the tax liability could be made easier too. Therefore the service of accountant to each small and medium taxpayer should be mandatory.
ii. More tax revenue collection received from the sector will enhance the ability of the government to meet its socio-economic-political obligation. This will become true if and only if every citizen play his/her part well to fulfil this civic duty of complying voluntarily.
iii. It should be taken as immoral, unethical and illicit to temper with any of the laid down procedural requirements, and the suspected or culprit should be taken before the sight of law without fail.
iv. Good accounting practices should be made easier to assess thoroughly their accounting information. They should encourage people to follow the procedure.
v. Small and medium taxpayers should be encouraged to formalize their business venture after a certain period from the commencement of their business.

5.3.2 Recommendations to the Tax Agencies

i. There should be a well-functioning tax administration, especially with respect to identifying and administering small and medium taxpayers that are liable to tax payments.

ii. There should be a strong capacity in auditing and monitoring tax payments which easily detects and prosecute violators.

iii. Corruption practices should be dealt with stringent arm of the law to the parties involved; if possible the suspected tax officials should temporarily be out of office for further investigations.

5.3.3 Recommendations to the Government and Ministries

The study recommends that Government should do the following

i. Formulate good taxation system which can harmonize the tax structure and nurture more compliance level at the small and medium taxpayers

ii. Introduce a simplified presumptive income tax structure that will promote an enabling and supportive environment to the development and taxation of the small and medium taxpayer's category. Single tax as a way of reducing the number of payments should also be considered.

iii. Formulate new taxation policy which explicitly explains sector specifics as an impetus to revenue generation. Moreover, it will raise a need to review, refine and make few amendments on the First Schedule of the Income Tax Act especially on tax rate.

iv. The government must take active role in collaboration with DRD in building the capacity of the informal entrepreneurs through training and equipping them with basic skills so as to enhance good accounting practices.

v. DRD should develop very simple tax return forms and payment system to the informal entrepreneurs which will encourage the filling of income tax return and making payments in time.

vi. The government should not rely much on revenue from donors, it should rather rely more on its citizens and natural resources. If revenue mainly comes from donors, the government will focus on pleasing donors equally as if it comes from citizens. The authorities will focus on more tax collection efforts to ensure that citizens meet their expectations.

5.3.4 Recommendations to other Stakeholders

i. There should be sharing of vital information with government ministries, departments and tax agencies on businesses activities, developments, what taxes are used for, and how businesses will benefit from enhanced services.

ii. Stakeholders should make easily assistance of consultation about tax matters, good accounting practices and to educate informal enterprises about the good intention behind the culture of voluntary compliance in paying tax habit for building the nation.

5.4 Contribution to World of Knowledge

Results from the study indicate that voluntary tax compliance is the result of taxpayers' compliance with the tax laws without being compelled by the tax agencies. High level of tax compliance is a result of the tax morale of society that fosters self-enforcement of tax compliance. The presence of affordable costs which a taxpayer has to bear to gather the necessary information, fill out tax forms and eventually paying a tax can be an additional reason for tax compliance and enhanced tax collections.

This study posits that a presence of well-functioning tax administration, especially with respect to identifying and administering those citizens and firms that are liable to tax payments is vital for voluntary tax compliance. Problems of insufficient capacity may also occur due to the organizational set up of the tax administration and its relationship with the Treasury. A well-functioning body of tax investigation is essential for the detection and prosecution of cases of tax evasion and fraud.

5.5 Limitations of the Study

When conducting this study, the researcher noted that time is the major limiting factor. The researcher asserted that small and medium taxpayers are very susceptible to unforeseen social dynamics and therefore if the time frame of the study is prolonged findings are likely to be affected by unforeseen events.

5.6 Areas for further Research

This study was carried out in four blocks within Mwanza City Council in Mwanza Region. Since the study was carried out in one of the busiest City Council in the country, the researcher recommends that further studies should be carried out in other City Councils and Municipalities in the country. Furthermore, this study ought to involve other tax agencies like local government and share practical experience on tax collection process from the small and medium taxpayers. It would be insightful if such studies cover wider areas of the country and especially in the rural areas where most of the Tanzanians live and operate their businesses informally

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Appendix I

Study budget Estimates

SN	DESCRIPTION	COST BASIS	NO OF UNITS	UNIT COST	TOTAL
1	STATIONERIES	REAMS	3	90,000.00	270,000.00
2	ALLOWANCES TO ASSISTANTS	HOURS	10	45,000.00	450,000.00
3	TELEPHONE	HOURS	24	12,500.00	300,000.00
4	SECRETARIAL SERVICES	DRAFTS	5	50,000.00	250,000.00
5	EMERGENCY				300,000.00
	GRAND TOTAL				**1,470,000.00**

Appendix II

Questionnaire for Tax Officials and Tax Consultants

Introduction:

This study aims to explore the challenges of collecting Government taxes from small and medium taxpayers in Mwanza City Council. So please feel free to express your opinions openly. There is no right or wrong answer. All answers are equally valid. I assure you that the data collected will only be used for academic purposes and will be treated confidential.

Where necessary put this sign [√] for a correct answer of your choice

PART I

RESPONDENT'S BACKGROUND

1. Designation: - ……………………………………………………………..
2. Name of your organization: -…………………………………………….
3. Number of years you have been in service
    a) Two years or less [ ]
    b) Between 2 and 5 years [ ]
    c) More than 5 years [ ]
4. Gender of respondent
    a) Female [ ]
    b) Male [ ]
5. Respondent's highest educational level
    a) Non [ ]
    b) Secondary O- level [ ]
    c) Secondary A-level [ ]
    d) Diploma/University [ ]

PART II – Enforcement

1. Does the tax audit carried out by tax auditors enhance compliance in the category of small and medium taxpayers?

a) Yes [ ]

b) No [ ]

If the answer is **No** please explain

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......................................…………………………………………………………………

2. Does the amount of penalties imposed as a result of non-compliance increase compliance in the category of small and medium taxpayers?

a) Yes [ ]

b) No [ ]

If the answer is **No** please explain

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3. Do the tax rates in place demoralize taxpayers in the small and medium taxpayers' category to comply?

a) Yes [ ]

b) No [ ]

If the answer is **No** please explain

……………………..

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PART III – Procedural Requirement

1. Do you think that tax registration procedures obligations are easy to understand by the small and medium taxpayers?

a) Yes [ ]

b) No [ ]

Briefly explain

……………………………………………………..

....……………………

2. Do you think that tax accounting procedures easy and simple to understand and implement by the small and medium taxpayers?

a) Yes [ ]

b) No [ ]

Briefly explain

……………………………………………………..

....……………………

3. Do you think that tax returns filing procedures simple and easy to understand by the small and medium taxpayers?

a) Yes [ ]

b) No [ ]

Briefly explain

……………………………………………………..

....……………………

4. Do you think that tax payment procedures easy to understand by the small and medium taxpayers?

a) Yes [ ]

b) No [ ]

Briefly explain

……………………………………………………………………………………………………..

....………………………

PART IV – Willingness to pay Tax

1. Does the small and medium taxpayers have good attitude in paying tax?

    a) Yes [ ]

    b) No [ ]

Briefly explain

……………………………………………………………………………………………………..

....………………………

2. Do the small and medium taxpayers have developed a sound and good culture in their environment for payment of tax?

    a) Yes [ ]

    b) No [ ]

Briefly explain

……………………………………………………………………………………………………..

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3. Do the small and medium taxpayers have knowledge of tax laws and their respective regulations?

    a) Yes [ ]

    b) No [ ]

Briefly explain

……………………………………………………………………………………………………..

....………………………

4. Do the small and medium taxpayers have good income to meet tax expense as well as other expenditure?

    a) Yes [ ]

    b) No [ ]

Briefly explain

………………………………………………………………...

"THANK YOU FOR YOUR CO OPERATION"

Appendix III

Dodoso kwa ajili ya Walipa kodi wa kati na wadogo:

Utafiti huu unahusu changamoto zitokanazo na ukusanyaji mapato ya kodi kutoka kwa walipa kodi wa kati na wadogo. Kwa hiyo dodoso hili ni kwa ajili ya kukusanya takwimu zihusianazo na utafiti wa kitaaluma. Kuwa huru kabisa katika kujibu maswali haya kutokana na uelewa wako, majibu yote ni halali kabisa na ya msingi sana katika utafiti huu.Ninashukuru kwa kukubali kushiriki katika utafiti huu na ninapenda kukuhakikishia kuwa taarifa zitokanazo na takwimu hizi ni kwa ajili ya taaluma tu na si vinginevyo na zitahifadhiwa kwa usiri mkubwa.

Weka alama ya vema [√] katika jibu la chaguo lako

SEHEMU I - Maelezo binafsi

1. Jinsia yako
    a) Mume [ ]
    b) Mke [ ]
2. Kiwango chako cha elimu
    a) Sijasoma [ ]
    b) Elimu ya msingi [ ]
    c) Elimu ya sekondari [ ]
    d) Diploma/Chuo kikuu [ ]
3. Je umejiajiri kwenye shughuli hii kwa muda gani?
    a) Miaka 0-2 [ ]
    b) Miaka 2-5 [ ]
    c) Miaka 5-10 [ ]
    d) Zaidi ya miaka 10 [ ]

SEHEMU II – Mifumo mbalimbali

1. Je mfumo uliopo wa kuandikisha walipa kodi unakidhi matakwa na utendaji rahisi wa biashara yako?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

…………………………………………………………………………………………

Kama jibu ni “Hapana” eleza sababu kwa kifupi

…………………………………………………………………………………………

2. Je unafikiri unahitaji huduma ya Mhasibu katika uwekaji bora wa kumbukumbu za biashara yako?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

…………………………………………………………………………………………

3. Je katika kumbukumbu zako unatofautisha kati ya mapato na matumizi yako ya nyumbani na yale biashara yako?

a) Ndiyo [ ]

b) Hapana [ ]

4. Je mfumo uliopo wa kuwasilisha majesho ya kodi kwa walipa kodi wadogo na wa kati unaenda sawa na matakwa na urahisi wa kuendesha biashara yako?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

…………………………………………………………………………………………

5. Je mfumo uliopo wa kulipa kodi moja kwa moja benki unaenda sawa na matakwa na kurahisisha uendelezaji wa biashara yako?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni "Hapana" eleza sababu kwa kifupi

………………………………………………………………………………………

6. Je unafikiri ni utaratibu upi ni mgumu zaidi kuufuata katika taratibu za ukadiriaji wa kodi ya mapato kwa walipa kodi wa kati na wadogo?

a) Kujisajili [ ]

b) Kujaza makadirio [ ]

c) Kutoa taarifa sahihi [ ]

d) Kulipa kodi stahiki [ ]

SEHEMU III –Utayari wa kulipa

1. Je unahamsika unapolipa kodi ukiwa kama mfanya biashara wa kundi hili la walipa kodi wadogo na wa kati?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni "Hapana" eleza sababu kwa kifupi

………………………………………………………………………………………

2. Je umejijenga tabia ya kulipa kodi bikla shururti ukiwa kama mfanya biashara wa kundi hili la walipa kodi wadogo na wa kati?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni "Hapana" eleza sababu kwa kifupi

………………………………………………………………………………………

3. Je una uelewa kiasi wa sheria za kodi na taratibu zake ukiwa kama mfanya biashara wa kundi hili la walipa kodi wadogo na wa kati?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

……………………………………………………………………………………………

4. Je mapato yako yanatosheleza kulipa kod na ushuru mbalimbali kwenye hili kundi la walipa kodi wadogo na wa kati?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

……………………………………………………………………………………………

SEHEMU IV – Udhibiti na ukusanyaji wa madeni

1. Je hatua zinazochukuliwa na maofisa wa kodi kukusanya madeni ya kodi zinawasukuma kulipa kodi kwa wakati?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

....

2. Je ukaguzi unaofanywa na Wakaguzi wa kodi unawasukuma kupeleka makadiro yaliyo na uhalisia?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

....

3. Je adhabu zinazotolewa kwa kutolipa au kupeleka marejesho ya kodi zinawasukuma kupeleka marejesho na kulipa kodi kwa wakati?

a) Ndiyo [ ]

b) Hapana [ ]

Kama jibu ni “Hapana” eleza sababu kwa kifupi

....

“NINASHUKURU SANA NA AHSANTE KWA USHIRIKIANO WAKO”