THE IMPACT OF TAX EVASION ON REVENUE COLLECTION PERFORMANCE IN TANZANIA:

A CASE STUDY OF TANGA TAX REGION

THE IMPACT OF TAX EVASION ON REVENUE COLLECTION PERFORMANCE IN TANZANIA

A CASE STUDY OF TANGA TAX REGION

By

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

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, dissertation thesis entitled "***The impact of Tax Evasion on Collection Revenue Performance in Tanzania: A case study of Tanga tax region***", in partial fulfillment of the requirements for award of the degree of Master of Business Administration(Corporate Management) of Mzumbe University.

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

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LIST OF ABBREVIATIONS

GDP	-	Growth Domestic Product
GFI	-	Global Financial Integrity
CED	-	Customs and Excise Department
EACMA	-	East Africa Community
FY	-	Financial Year
ITA	-	Income Tax Act
OECD	-	Organization for Economic Co-operation and Development
RRA	-	Research on Poverty Alleviation
SME	-	Small and Medium Enterprises
TIN	-	Tax Payers' Identification Number
TSED	-	Taxpayers Services and Education Department
TRA	-	Tanzania Revenue Authority
US$	-	United States of America's Dollar
VAT	-	Value Added Tax

ABSTRACT

This study is about the impact of tax evasion on revenue collection performance in Tanzania. It examined specific factors for rising tax evasion and establishing mechanism to curb the problem. The study was conducted in Tanga tax region. Data were collected through documentary analysis, questionnaires and interviews. Quantitative data were analyzed by means of descriptive statistics using SPSS programme. Qualitative data were subjected to content analysis.

The findings showed that the amount of tax collected in Tanga tax region from 2011 and 2013 did not meet the target of tax collection as it was expected. Many factors were associated with tax evasion problem namely high tax rate, complexity of tax laws systems and procedures, taxpayer's perception towards government ability to utilize tax collection for social welfare, limited resources and capacity of tax administration, low literacy and lack of tax education, poverty and nature of business/ production, the legal provisions in Tax and a low tax Morality. The study also found that in order to overcome tax evasion Tanga tax region should provide more powers of access to information, opportunities from voluntary disclosure, prosecution and imprisonment of tax offenders and publication of tax offenders.

Based on the findings and analysis on the data, it can be concluded that there is a many factors for rising of tax evasion and its impact on the economy is high in Tanzania and Tanga tax region in particular. The government must focus in the education of citizens as an instrument to guide them to best understanding to the tax laws and the role of tax in enhance and flourish the society. The level of income must be taken into account. Furthermore, the government must pay more attention about the tax officials, by enhance their salaries, and implement sufficient incentive systems. In addition, tax rate must be at a reasonable level which does not overburden taxpayers, whether individuals or entities. The study recommended among others that the current tax procedures, law should be amended to provide for establishment of a professional and independent tax tribunal that could hear matters of fact and law in relation to the assessment under appeal.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND INFORMATION

1.0. Introduction

This study is about " the impact of tax evasion on the revenue collection performance in low developing countries, specifically Tanzania" In studying these factors Tanzania Revenue Authority(TRA) as the agency of the Central government in assessing, collecting and accounting for all government revenue, Tanga tax region was used as a case study. This study focused more on the influence of tax evasion toward revenue collection performance**.**

1.1. Chapter overview

This chapter presents the study on the impact of Tax evasion on revenue collection performance in Tanzania. Other sections include statement of the problem, general objective, specific objectives, significance of the study, and limitation of the study as well as delimitation of the study.

1.2. Background to the study

Building the capacity of low-income countries to mobilize more tax revenues is now at the top of the development policy agenda. Tax-systems have undergone some major changes since the mid-1990s, and the reform-process is expected to continue. Some of the important changes expected are: a simplification of the tax-regime, including broadening of the tax base; rationalization of the exemption-system to avoid further erosion of the tax-base; and review/change of tariff-rates and introduction of revenue- raising measures to compensate for possible losses arising from further liberalization of the trade-regime (Alm, and Martinez-Vazquez, 2007). Another important change is to improve the efficiency of the tax administration itself. A number of African countries have implemented comprehensive reforms of their tax administration. Part of the exercise has been to establish autonomous revenue authorities, which would be less vulnerable to political intervention and tax evasion practices. Although the empirical evidence is mixed, it seems that these ‘independent’ authorities in some countries have not helped to reduce tax evasion (Alm, McClelland and Schulze, 1992).

Tax evasion refers to a deliberate refusal of a taxpayer towards his/her tax obligation. Deliberate refusal to disclose one’s sources of income to the tax authority with the intention of paying nothing or something lesser in terms of one’s tax liability is an attempt to evade tax (Coetzee, 1993). Tax evasion is a phenomenon that is present in all societies using taxes to finance government expenditures. This is due to certain factors which include ignorance and noncompliance on the part of taxpayers, poor standard of record keeping and incorrect returns made by small scale businesses. Hence drastic measures should be set and implemented to be able to fund development projects. As Chen (2003) posit, the provision of public services offers a rationale for taxation. Hitherto, taxation and tax evasion, in turn, influence public expenditure and capital accumulation, which affect output and economic growth.

The incidence of taxation and the prevalence of tax evasion are vast and cannot be underestimated. Since centuries past, tax evasion, by its very nature, is difficult to observe Fisman and Wei, (2001). This is evident in the fact that ‘during the third century, many wealthy Romans buried their jewelry or stocks of gold coin to evade the luxury tax, and homeowners in eighteenth-century England temporarily bricked up their fireplaces to escape notice of the hearth tax collector, Webber and Wildavsky, (1986) in Manuel, (1999). Thus, they went further to state the history of taxation is replete with episodes of evasion, often notable for their inventiveness

Today tax evasion seems to take place in practically every country in the world, and should be considered a potential problem everywhere. Still, evasion and fraud in tax administration are phenomena which hit developing countries hardest. Firm evidence on the extent of such illegal practices is naturally hard to come by (Hindriks *et al*, 1999). According Tanzi, (2000) anecdotal evidence from different developing countries indicate that half or more of the taxes that should be collected cannot be traced by the government treasuries due to corruption and tax evasion. For example, Gupta, (2013) calculates a sum of US$285 billion per year which developing countries lose because of tax evasion in the domestic informal economy. Estimates on tax revenue lost due to corporate income shifting vary between US$35 billion and US$160 billion per year. Tax evasion by wealthy individuals is estimated to cause additional revenue losses in developing countries ranging from US$15 billion9 to US$124 billion annually.

Also, global Financial Integrity (GFI) calculates that developing countries loose between $859 billion to $1.06 trillion a year through illicit financial flows. Illicit financial flows are defined as money that is illegally earned, transferred, or utilized (Gupta, (2013)). By definition of GFI this includes the transfer of money earned through illegal activities such as corruption, transactions involving contraband goods, criminal activities, and efforts to shelter wealth from a country's tax authorities (Gupta, (2013)). Empirical evidence about the extent of tax evasion and avoidance for different world regions is also very limited. A new study by GFI estimates that African countries have lost US$854 billion in cumulative capital flight over the period 1970-2008 (GFI, 2010).

In Tanzania Tax collection in the country is still below the international standards of being above 30% of the GDP and currently it amounts to around 18 percent of the GDP. However, according to the current data, tax revenue collection contributes to around 53.3% of the total government budget while non-tax revenue mainly collected by the Local governments is still as low as only 4.3percent (Tanzi, 2000). This tax evasion is associated with deliberate actions, carelessness, errors, misunderstanding of the law and regulations and requirement relating to record keeping and filing tax returns.

Due to rampant tax evasion in most developing countries including Tanzania, governments have been facing difficulties to expand their tax base to meet the revenue needed to finance service delivery. This has encouraged the governments to resort to increasing the same type of taxes every year in order to cope with the yearly increased budgetary demand for service delivery in the country. Lack of proper information has also denied the government of Tanzania to raise substantial revenue from non-tax sources such as on properties taxes, user fees, and other non-tax sources whereas in the developed countries these has been contributing to more than

30% of the government revenue (Chipeta,2012). For instance in FY 2012/13 the domestic tax revenue collection in Tanzania was projected to amounts to 53% of total budget and non-tax revenues contributes to only around 0.7% of total government revenue while the deficit amounting to around 39 percent was financed by foreign and domestic loans and grants that contributed to around 40% of the total budget (Chipeta, 2012).

Tax evasion also affects the distribution of the tax burden as well as the resource cost of raising taxes. The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses, Franzoni (1999). It has been shown by Gemmell and Morrissey **(**2003) that, in seeking to identify how much tax each person pays, it is important to distinguish between the 'statutory incidence' (the legal liability to pay the tax) and the economic incidence, which in practice is often the belief regarding who ultimately bears the burden of the tax. Tax evasion affect the ability of those legally liable for various taxes to shift these as traditionally assumed. Tax evasion does affect incidence but is difficult to incorporate. This justifies the need for the study to examine the effects of tax evasion on revenue collection performance in Tanzania.

1.3. Statement of the problem

The impact of Tax evasion on collection revenue performance was the problem of my study .The government of Tanzania has undertaken important steps to improve revenue collection performance by introducing various measures to improve Tax collection ,these include The introduction of Taxpayer's identification number(TIN),broadening tax bases and a major introduction of Value added tax (VAT) to replace sales tax ,with all efforts undertaken the country is still facing low collection performance due to tax evasion

A low revenue productivity of the tax system is argued to have been attributable to mainly generous tax exemption, low compliance and tax evasion coming both from a weak tax administration and high tax rate (Osoro, 1991). As a result, tax collection n in the country is still below the international standards of being above 30% of the GDP and currently it amounts to around 18 percent of the GDP. However, according to the current data, tax revenue collection contributes to around 53.3% of the total government budget while non-tax revenue mainly collected by the Local governments is still as low as only 4.3percent (REPOA, 2012). From the data above it is observed that despite the increase in revenue collection in the current years the government still faces deficit in her budget indicating insufficient level of collection, This leads to the insufficient level of satisfying social welfare and it is mainly caused by the rise of tax evasion, It is necessary to study the effects of tax evasion especially in developing countries like Tanzania. Since it has great impact on the growing of these countries

1.4. Research Questions

1.4.1 Main Research Question

What is the effect of tax evasion in revenue collection performance in Tanzania?

1.4.2 Specific Research Questions

i) To what extent taxes are evaded in Tanga tax region?

ii) What is revenue collection performance in Tanga tax region?

iii) What is the impact of tax evasion on revenue collection performance in Tanga region?

iv) What are the strategies employed by TRA officials in reducing tax evasion problem in Tanga region

v) Are strategies used by Tanga tax region effective or not?

1.5. Objectives of the study

1.5.1. Main research objective

To examine effects of tax evasion on revenue collection performance in Tanga region

1.5.2. Specific objectives

i) To examine the extent which taxes are evaded in Tanga tax region

ii) To examine revenue collection performance in Tanga tax region

iii) To assess the impact of tax evasion on revenue collection performance in Tanga region

iv) To find out strategies employed by TRA officials in reducing tax evasion problem in Tanga region
v) To examine effectiveness of strategies employed by TRA in curbing tax evasion problem in Tanga region.

1.6. Significance of the study

The study is reasonable on the basis that it would serve as good grounds for theory development which would give insight that would be useful in relation to other interventions for tax administration in Tanzania and to add to knowledge by eliciting views on the effects of tax evasion on the revenue collection performance. This would be a useful resource which would be beneficial to individual tax administrators, the government and the academia.

Additionally, this study is justified on the grounds that it provides recommendation for further studies on the effects of tax evasion on the revenue collection in Tanzania due to the fact that, there is no research that is exhaustive enough to cover the problem to be studied. The study gives theoretically knowledge to the students and other tax administrative officers on implication of the tax evasion.

1.7. Scope and limitation of the study

Delimitation of the study is about stating the scope or boundaries of the study in terms of respondents, subject matter and area of the study. Kombo and Tromp (2006) insist that delimitation involves a purposeful and conscious action in order to make the research manageable.

This study confined itself on effects of tax evasion on revenue collection performance in Tanga tax region only. This study used questionnaire and interviews as the instruments of data collection.

The study faced several limiting factors, such as financial constraints and limited time. The time and funds allocated for the study was not enough to conduct it in a wider area - whole of Tanga, and so only few respondents were selected to form study sample. Non-availability of data and relevant documents was also acted as limitation. Again some respondents did not turn up or hand over the questionnaire.

Some important documents and data related to this study – tax payments records, income records and tax registration forms were missing due to lack of records keeping in most of the Tanzanian public organization, like the organization that we selected as a sample. Despite the limitations, the researcher was able to gather enough data as per the research tasks and questions.

1.8. Chapter Summary

The chapter has covers the general introduction of the topic, background of the problem, objectives and importance of the research to be studied, as well as scope and limitation which the study is likely to encounter. The chapter also has discussed the research problem and research question as well.

1.9 Organization of the Report

The study sought to identify the impact that tax evasion has on revenue collection performance in Tanga tax region. Toward this end the study is divided into six chapters. Chapter One contains the background to the problem, statement of the problem, purpose and significance of the study, research objectives and associated questions, delimitation and limitations of the study.

Chapter Two contains a review of related literature covering theoretical stances and empirical evidence drawn from both developed and developing countries, and Tanzania in particular, explaining the factors which tax evasion imposes on collection are presented and analyzed; followed by a synthesis and delineation of the research gap. Chapter Three describes the research methodology which was used in this study. It delineates the approach to the study, research design, and study area, population of the study, sample and sampling procedures, data gathering techniques, validation of instruments, data analysis plan and ethical considerations of the study.

Chapter Four contains the presentation of the research findings. The findings are presented according to the study objectives, research questions delineated in chapter one. Chapter Five contains discussion of the research findings. The summary, conclusion and recommendations of the study are provided in Chapter Six.

CHAPTER TWO

LITERATURE REVIEW

2.1. Chapter overview

This chapter of the study presents both theoretical and empirical literature reviews on influence of tax evasion on revenue collection performance put forward by different Authors. The chapter aiming at identifying existing literature materials which formed the basis for further research in terms of data collection and analysis.

2.2. Theoretical literature review

2.2.1 Taxes.

Taxes are compulsory financial contribution made by a person or body of persons towards the expenditure of a public authority. Usually is payable in monetary terms. Basically there are two types of taxes; each type is classified according to the legal and effective incidence to the final payer. These two types are Direct and Indirect taxes are the main source of government revenue despite other sources of income which are subsidiary that are, loan, grants, contribution and public trading. According to Tanzania Income tax Act (2004) taxation is a legal accepted ways of collecting money from qualified source of income

2.2.2. Taxation concept

Taxation as Ogundele (1999) posits, it is the process or machinery by which communities or groups of persons are made to contribute in some agreed quantum and method for the purpose of the administration and development of the society. In a similar description, Soyode and Kajola (2006) explained tax as a compulsory exaction of money by a public authority for public purposes. Nightingale (1997) described tax as a compulsory contribution imposed by the government. And Kohonen and Alemayehu, (2011) defined tax is a compulsory levy on privately held assets, work, transactions and other activities and flows as designated by the parliament and enacted by the government. These various authors concluded that it is possible for tax payers not to receive anything identifiable for their contribution but that they have the benefit of living in a relatively educated, healthy and safe society, Fagbemi et al, (2010). The parliament designates taxes according to its understanding of equity, while following the prevailing constitution, which also prescribes the purpose of taxation and confirms that the rightful ownership of tax receipts ultimately lies with the citizens Kohonen and Alemayehu, (2011).

In many ways the raising of tax revenues is the most central activity of any state. Most essentially, revenue from taxation is what literally sustains the existence of the state, providing the funding for everything from social programs to infrastructure investment, Prichard and Bentum, (2009). Of all the powers of government, other than its authority to declare war, none bears so incisively upon the welfare of citizens, both privately and in their economic enterprise, as does its power to tax. The effect of taxation is that subjects are forced to give up hard earned earnings or possessions, or, in the early days, also payments in kind, without receiving visible benefits in return, Coetzee, (1993); Theron, (1994); Lamont, (1992). Thus, of all the needs and the benefits accrued from tax, people evade tax.

2.2.3. Tax evasion

In general refers to illegal practices to escape from taxation. To this end, taxable income, profits liable to tax or other taxable activities are concealed, the amount and/or the source of income are misrepresented, or tax reducing factors such as deductions, exemptions or credits are deliberately overstated (Alm and Vazquez, 2001). According to Chiumya, (2006) tax evasion refers to the willful or deliberate refusal of the tax payer towards his/her tax obligation (Malkawi and Haloush, 2008). It is the deliberate distortion of facts and figures relating to an assessment after tax liability has been incurred with the intention of reducing the liability. Deliberate refusal to disclose one’s tax sources of income to the tax authorities with the intention of paying nothing or something less in terms of one’s tax liability is an attempt to evade tax. Tax evasion is an offense as described by the law and so the sanctions are very severe.

2.2.4 Tax avoidance

Tax avoidance is the legitimatize use of the tax loopholes in order to minimize/reduce ones tax liability (Brown, 1983) and (Pyle, 1989). (Mponguliana, 2002), Explains tax evasions as unlawful act of dodging the statutory tax obligations, tax avoidance takes advantages of any hoop any loop holes and weakness, deficiencies, and loose or vague clauses in tax legislations to minimize/reduce or eliminate tax liability.

2.2.4. Reasons for tax evasion and tax avoidance

The definition of tax evasion and tax avoidance seems to contradict many scholars and tax practitioners. The demarcating line between tax evasion and tax avoidance is always not clearly put forward as one may be thinking of avoiding tax but end up with evading tax. However, the concepts are always distinguished on legal basis.

There are various reasons for tax evasion and tax avoidance. In order to develop methods and instruments for fighting tax evasion and avoidance, it is important to foremost establish a broad understanding of the different reasons underlying these problems. These reasons can be filed in two categories. The first category comprises factors that negatively affect taxpayers' compliance with tax legislation. These factors can be subsumed either contributing to a low willingness to pay taxes (low tax morale) or to high costs to comply with tax laws (Kirchler et al., 2007).

The second category contains reasons for the low ability of tax administration and fiscal courts to enforce tax liabilities (Kirchler et al., 2007). These factors can be summarized as resulting from insufficiencies in the administration and collection of taxes as well as weak capacity in auditing and monitoring tax payments which limit the possibility to detect and prosecute violators. These facilitating factors are discussed below.

i). Low level of (voluntary) tax compliance

a).Low tax morale

Taxpayers' willingness to pay taxes differs widely across the world. It cannot be viewed as simply depending on the tax burden. Rather, Alm et al. (2007) indicates that taxpayers throughout the world pay more taxes than can be explained by even the highest feasible levels of auditing, penalties and risk aversion. These high levels of tax compliance result from the tax morale of society that fosters self-enforcement of tax compliance. Tax morale is, however, not easy to establish. Especially countries without a deep-rooted ‘culture’ and habit of paying taxes find it difficult to establish tax morale (Alm et al. 1992). This “willingness to pay” of the taxpayer is influenced by the following factors:

***Low quality of the service in return for taxes*:** In general, citizens expect some kind of service or benefit in return for the taxes paid. 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 and avoidance will be the consequence (Pashev, 2005).

Tax system and perception of fairness: Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Chipeta, 2002). However, the level of the tax rate may not be the only factor influencing people’s decision about paying taxes. In fact, the structure of the overall tax system has an impact as well. If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant effect on the disposition to evade and avoid taxes.

Low transparency and accountability of public institutions: Lack of transparency and accountability in the use of public funds contributes to public distrust both with respect to the tax system as well as the government. This, in turn, increases the willingness to evade taxes (Kirchler et al., 2007).

b) High compliance costs

High compliance costs, these are the costs the taxpayer has to bear to gather the necessary information, fill out tax forms etc, can be an additional reason for tax evasion and avoidance. The World Bank's 2008 World Development Indicator for "time to prepare and pay taxes" shows huge differences between countries: While preparing and paying taxes requires 210 hours on average in high income OECD countries, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. Similarly, Everest-Philips (2008) describes a recent mapping of local taxes in Yemen which found over 1500 different taxes, licenses and fees covering various bases at different rates. This situation led businesses to worry more about the administrative burden than about the actual tax burden. In such a situation it can be assumed that compliance costs are very high and the probability of the taxpayer complying with such a great variety of taxes low.

Particularly small and medium sized enterprises (SME) suffer from high compliance costs. A survey among South African firms on the regulatory costs of doing business revealed that taxes, in particular VAT, are perceived as the most problematic set of regulations followed by labor regulation (SBP, 2005). Above all it is the paperwork that has to be mastered to comply with tax legislation which is deterring firms from paying their taxes appropriately. When asked on their strategy to cope with regulatory costs of running their business about 18 percent responded to simply try to avoid or evade taxation.

ii).Weak enforcement of tax laws

a). Insufficiencies in tax collection

Regarding tax collection, many developing countries face difficulties with respect to important premises for a well-functioning tax administration, especially with respect to identifying and administering those citizens and firms that are liable to tax payments. Although there has been progress, tax administrations' capacity to introduce and sustain e.g. well-functioning tax registers still pose severe difficulties in many developing countries. Problems of insufficient capacity may also occur due to the organizational set up of the tax administration and its relationship to the ministry of finance. In general, there are two approaches for the organizational set up of tax administration. The first option is where the ministry of finance itself assumes the tax administration function and departments within the ministry of finance collect taxes. The second option is a semi-autonomous revenue authority where tax administration is moved out the ministry of finance into a separate entity. Often, tax administration and collection by ministries of finance were considered inefficient and suffering from corruption and high compliance costs (Moore, 2009). Therefore the creation of semi-autonomous revenue authorities has been pursued.

Moreover, one has to bear in mind that tax administration and tax policy are intertwined spheres. Tax policy directly affects the costs and the organization of the tax administration. Additionally, the capacities of tax administration influence the way tax policy is implemented. Thus, both areas tax policy as well as tax administration have to be taken into consideration when designing successful tax reforms. Otherwise, the proper functioning of the overall system is affected. For this reason, the tax system should be aligned to the administrative and legal prerequisites of the respective country (Moore, 2009).

Qualified, well trained and motivated tax officials are crucial for the collection of taxes and the performance of tax administration bodies as a whole. In order to motivate tax officials to work in accordance with the interests of the government and to reduce their vulnerability to corruption, attention has to be given to wages and other incentives (Kirchler et al., 2c007).

Finally, insufficiencies in tax collection according to Moore (2009) also result from the fact that economies of most developing countries are characterized by a large informal sector. Firms and individuals active in the informal sector usually do not pay direct taxes on personal or business income, and they do not charge consumption taxes or excises on their sales. The state loses these potential tax revenues and, as a consequence, lacks necessary funds to provide goods and service. Often, the reasons to be active in the informal economy are not directly related to attempts to avoid taxation but rather to limited options or excessive administrative requirements to enter the formal economy or excessive costs of labour regulations. However, there are also cases where individuals and companies choose to be active in the informal sector with the intention to escape their tax liabilities. Nevertheless, tax evasion does not need to be the primary reason why firms remain or become informal.

b**).Weak capacity in detecting and prosecuting inappropriate tax practices**

A well-functioning body of tax investigation is essential for the detection and prosecution of cases of tax fraud. The lack of sufficient capacities in tax administrations reduce the probability of detection that again influences the decision of a taxpayer as to whether evade or not. Additionally, the legal framework is an important prerequisite for any enforcement activity. For example, the size and nature of penalties that are incurred after evasion has been detected is directly connected to the level of tax compliance (Fishlow and Friedman,1994).

c). **Source of Income**

Source of income has a significant effect on tax compliance. Bruce (2000) argues that some individuals inter to self-employed to avoid tax. This may due to cash receipts, or the weak of tax information reporting. Furthermore, the lack of visibility of income for the self-employed encourages tax payers to transform to this branch.

Finally, tax laws in many countries, especially in developing countries, changes rapidly, thus producing instability and low transparency of the tax code. As a result, complicated tax legislation and ongoing changes of the tax code confuse tax administrators and taxpayers alike. This produces ample opportunity for tax avoidance (Mo, 2003). Furthermore, it results in tax evasion which is not intentional, but occurs due to lack of knowledge, that is ignorance. In extreme cases, tax evasion and avoidance even become inevitable when the tax system becomes too complex and/or contradictory to follow.

The reasons listed above do not occur in isolation and some are mutually enforcing. Often, tax evasion and avoidance are by-products of deficient political, economic and social governance in a country. Especially in these circumstances – which are not untypical for many developing countries – any ‘exit strategy’ away from evasion and avoidance needs to be based on a profound analysis of the current situation and the types of tax evasion and avoidance used predominantly.

2.2.4. Mode of tax evasion

This subsection outlines different modes of tax flight strategies that are employed by private individuals or corporations with the purpose to minimize or circumvent their tax liability. The subsection intends to give a broad overview on the most prevalent instruments that are constraining revenue mobilization efforts in developing countries and Tanzania in particular. Note that the overview does not provide a comprehensive list of all possible modes of tax evasion but rather focuses on the most relevant ones in terms of tax losses in developing countries and Tanzania in particular.

VAT fraud: False statements of business transactions subject to VAT represents a type of tax evasion that has attracted increased attention in the course of broader adoption and rising rates of VAT or goods and services taxes (GST) in developing countries. For example, Sri Lanka which introduced the VAT system in 2002 had to incur major revenue losses (approximately 10 % of its net VAT receipts (Keen and Smith, 2007) from a single case of VAT fraud. Fraudulent exploitation of the VAT system thereby takes a number of different forms and is carried out within as well as across national borders. All different forms of VAT fraud rely on the principle that all registered businesses are able to credit VAT expenses from purchasing input goods against VAT due on their sales (Keen and Smith, 2007).

In the simplest case, missing trader fraud includes under-reporting of sales by falsifying records and accounts allowing the fraudster to collect taxes without remitting them to the tax authority. Similarly, overstating purchases and forging invoices to increase the amount of VAT refunds are methods applied especially by new businesses where corresponding levels of sales are not expected immediately (Keen and Smith, 2007).

At the international level, carousel fraud takes advantage of the zero-rating (Keen and Smith, 2007) of exports between multi-country trade operations which have been identified to be most vulnerable to VAT fraud as they occur across national borders and hence, affect different tax authorities. In principle, carousel fraud consists of two parts – the collection of VAT payments without remitting them to the corresponding tax authority (missing trader fraud) followed by illegitimately claiming a tax refund for the good that is exported.

Misclassification of commodities and smuggle of goods: Another source of tax evasion stems from the misclassification of commodities subject to different VAT rates with the purpose to reduce tax liabilities or increase claims for tax refunds. Related to revenue losses stemming from tax evasion activities is the smuggling of goods across borders as a way of evading not only VAT liabilities but also other forms of indirect taxes such as customs and excise duties (Keen and Smith, 2007).

Bribery of tax officials: Developing countries that suffer from inefficiencies in the administration and enforcement of taxes are exposed to bribing activities by companies as shown in the case of Bangladesh where sugar importers evaded 90 % of excise taxes in collaboration with corrupt tax officials (TJN,2003).

All in all, it is important to note that the above described modes of tax evasion are not mutually exclusive but may also result as a consequence of one another. For instance, illicit financial flows that are directed to offshore accounts may result from proceeds that are realized through criminal activities such as the smuggling of goods or fraudulent manipulation of VAT records or bribery.

2.3. Empirical literature review

2.3.1. Effects of tax evasion

In seeking to identify how much tax each person pays, it is important to distinguish between the 'statutory incidence' (the legal liability to pay the tax) and the economic incidence, which in practice is often the belief regarding who ultimately bears the burden of the tax. Tax evasion affect the ability of those legally liable for various taxes to shift these as traditionally assumed. Tax evasion does affect incidence but is difficult to incorporate, Gemmell and Morrissey **(**2003).

If the government compensates for the loss by raising rates, tax evasion becomes even more attractive. The higher rates in effect penalize honest taxpayers, who comply either because they want to or because they have no opportunities for evasion. If the government, however, takes effective steps to prevent or combat non-compliance, it can raise revenue without increasing taxes or reducing spending.

The resulting tax revenue loss may cause serious damage to the proper functioning of the public sector, threatening its capacity to finance its basic expenses, Franzoni, (1999). Provision of public services offers a rationale for taxation. Hitherto, taxation and tax evasion, in turn, influence public expenditure and capital accumulation, which affect output and economic growth, Chen (2003).

Some of transactions that are part of our daily routine are, either deliberately or accidentally, concealed from the tax authority Russo, (2010). Tax evasion and fiscal corruption have been universal and persistent problems throughout history with many-sided important economic consequences Fjeldstad, (1996). Hence, Gillman and Kejak (2006) argued that tax evasion is produced in a competitive decentralized corruption services sector. The consumer pays a competitive market price for the service and as representative agent, owns shares in the corruption sector and receives its dividend profits (kickbacks).

Tax evasion has had a variety of fiscal effects and there are at least three reasons for concern. According to Fjeldstad (1996), in the first place, revenue losses from non-compliance and corruption become particularly significant at a time of substantial budget deficit. Second, horizontal and vertical equity suffer because the effective tax rates faced by individuals may differ because of different opportunities for tax evasion, Alm et al., (1991). Again, Shome (2005) stress that, an important adverse effect of tax evasion is perhaps on equity. There is horizontal and vertical inequity where in both forms of inequity, the higher-taxed person pays for the lower-taxed person since, had there been no tax evasion; the tax rates would have been lower under the premise of revenue neutrality.

Third, there is a growing concern about the expanding underground economic activities, and how these activities affect economic policies, Tanzi and Shome, (1993). Acts of corruption by tax collectors often play a role in promoting or sustaining underground economic activities and in facilitating tax evasion, (Tanzi,1994). Tax evasion and fiscal corruption thus contribute to undermining the legitimacy of government. Furthermore, citizens' disrespect for the tax laws may expand disrespect for other laws.

Russo (2010) reported that, in Italy, one of the effects of tax evasion is loss of revenue to the government. Estimates from the Ministry of Finance indicate that roughly 20% of the income earned within the national border is not reported, resulting in a loss of more than 300 million euros every year in forgone tax revenue. This example is not an exception because it is prevalent across the globe. Marion and Muehlegger (2008) have added that lack of compliance with tax laws are likely to alter the distortionary costs of raising a given level of government revenue and may affect the distributional consequences of a given tax policy. Furthermore, resources spent evading taxes represent a deadweight loss to the economy.

2.3.2. Determinants of causes of tax evasion

All modern contemporary societies are grounded on the compulsory payment of taxes. Hence, enforcement efforts are made everywhere to encourage tax compliance, Lago-Peñas and Lago-Peñas, (2010). Cummings et al., (2009) in their research discovered that, one of the more vexing problems for policy makers in developing and transition economies is encouraging high levels of tax compliance. Tax revenue as a proportion of GDP is typically much lower in developing countries than in rich countries. The difference in tax revenues between the poorest and the richest nations of the world is entirely explained by the weakness of direct taxation in developing countries. For instance, direct taxation represents 7% of GDP in sub-Saharan Africa and 22% in industrial countries. In comparison, indirect taxation in developing countries is roughly 10% of GDP, which is the same level as in industrialized countries Auriola and Warlters, (2005). This clearly shows a low level of tax compliance in developing countries.

In his study on tax evasion in developed and developing countries, Herschel (1978) in Sookram and Watson (2005), pointed out that in developing countries,… tax evasion tends to be more widespread, since these economies are based on a few large enterprises, less wealthy people, low tax morale, reduced opportunities to resort to tax avoidance schemes and less use of tax practitioners. Schneider et al. (2001) define tax evasion as "an illegal reduction of tax payment (underreporting income or stating higher deduction rates)". Therefore, theoretical and empirical studies on tax evasion have shown that the factors that determine tax evasion are extremely diverse and include economic and sociological factors, psychological attitudes and administrative and legal issues, Sookram and Watson, (2005). Additionally, Jiménez et al. (2010) in their research have noted that, the causes of evasion identified by the case studies involve certain characteristics of the countries in the region, such as the large underground economy, the financial limitations of taxpayers and the high concentration of income.

The question that is asked is, 'Why do taxpayers evade paying taxes frequently despite the effects and consequences? One major tax evasion literature reviewed by Jackson and Milliron (1986) established fourteen (14) key determinants of tax evasion. These include: age, gender, education and occupation status (i.e. 'demographic' determinants), income level, income source, marginal tax rates, sanctions and probability of detection (i.e. 'economic' determinants), and complexity, fairness, revenue authority initiated contact, compliant peers and ethics or tax morale (i.e. 'behavioral' determinants). Richardson (2006) noted other significant determinants of tax evasion which are denoted by education, income source, fairness and tax morale.

The question asked can be answered by considering the major determinants of tax evasion previously identified in the literature by Jackson and Milliron (1986) and also in Richardson (2006) where he provided the first detailed review on the topic. This study considered the effect of ten (10) of Jackson and Milliron's (1986) key variables: age, gender, education, income level, income source, marginal tax rates, fairness, complexity, and revenue authority initiated contact and tax morale.

In the first place, the literature revealed that, the chronological age of taxpayers is one of the most important determinants of tax evasion, Jackson and Milliron, (1986). Studies find that older taxpayers are generally more compliant than younger taxpayers, Tittle, (1980) in Richardson, (2006); Feinstein, (1991). Tittle (1980) in Richardson,(2006) explains the relationship between age and tax deviance as attributable to lifecycle variations and generational differences. Younger taxpayers are more risk-seeking, less sensitive to penalties (a lifecycle variation), and reflect the social and psychological differences related to the period in which they are raised (a generational difference).

Secondly, the gender of the taxpayers has been revealed to be important in earlier studies. For instance, Richardson (2006) shows that the compliance levels of female taxpayers are normally higher than for male taxpayers. Jackson and Milliron (1986,) argue that the compliance gap between females and males is decreasing over time as new generations of liberated women are emerging. However, studies of gender and tax evasion since Jackson and Milliron (1986) tend to show that the compliance gap among females and males has been maintained.

Another key determinant of tax evasion according to Jackson and Milliron (1986) is income levels. It typically refers to the adjusted gross income or total positive income of a taxpayer. Witte and Woodbury (1983) in Richardson (2006) found that middle income taxpayers are usually compliant with tax laws, while low income level taxpayers and high income level taxpayers are relatively non-compliant with tax laws.

Income source usually refers to the type or nature of the taxpayer’s income, Jackson and Milliron, (1986). Schmolder’s (1970) in Richardson (2006) shows that when a large part of a country’s labor force is engaged in agriculture and small trading, income and profit taxation is unsuccessful. Wallschutzky’s (1984) survey research of tax evaders and non-tax evaders finds that the greatest opportunity to evade income tax exists from those who derive their income from agriculture, independent trades or self-employment. The least opportunity exists for those taxpayers whose source of income is dependent on wages or salaries subject to withholding, such as from the services sector.

Clotfelter (1983) researching on the topic “Tax evasion and tax rates: An analysis of individual returns” discovered that, marginal tax rates are another significant tax evasion determinant, but empirical results are mixed. In his findings, it was reported that there is a positive association between marginal tax rates and tax evasion, while Feinstein (1991) show a negative association between them. Richardson (2006) argued that not controlling for the correlation between marginal tax rates and income level may cause this variation. While Victor(1996) pointed out that whenever Tax rates are rising highly on one side the revenue increases but in the long run this would cause people not to pay taxes either through legal means(avoidance) or through illegal means.

Barth et al (2006) and Jackson and Milliron (1986) has noted that it is generally accepted that perceptions about fairness and tax evasion are associated. The importance of taxpayers ‘perceptions’ of fairness should not be underestimated. Richardson (2006) finds a significant negative association between fairness and tax evasion generally. Song and Yarbrough (1978) in Richardson (2006) also detect a significant negative association between these variables, with 75% of taxpayer subjects stating that the fairness concept of ‘ability to pay’ is more significant for tax evasion than is the ‘benefits’ concept. Moreover, it was discovered that fairness is considerably associated with perceptions of an improved tax system, and that fairness and tax evasion are negatively related.

2.3.3. Controlling tax evasion

The role of tax administration in maximizing revenue generation and minimizing tax evasion cannot be over-emphasized. These remain challenging tasks at every stage of development of a tax administration. This is because it is not just a matter of maximization or minimization but, rather, one of optimization, Shome, (2005).

The strategies which could be utilised by governments to address the problem of tax evasion, can be categorised into those which define and criminalise tax evasion (for example, anti-avoidance legislation), those which punish evasion (revenue powers), those which forgive tax evaders and allow them to re-enter the formal economy (settlements and amnesties), and those which appeal to, or seek to, create group norms of compliant behaviour (naming and shaming) Oberholzer, (2007). Shome (2005) also stated that, there has to be a genuine threat and actual carrying out of audit, scrutiny, investigation, penalty and punishment for an errant taxpayer. However, regarding this issue, Lewis (1982) cited in Oberholzer, (2007) is of the opinion that two major policy initiatives remain: increasing the deterrence capabilities of tax authorities and seeking an improvement in taxpayers' attitudes and perceptions vis-à-vis the government and tax authorities. He believes that what is required is compliance to rules prompted by conscience, rather than fear of punishment.

Further, Shome (2005) summed up modalities in order to keep tax evasion in check, the tax administration must: *(i)* incorporate genuine threat of penalty but ensure due process; in order to do this, of course the tax administration should be adequately financed and structured; *(ii)* computerize as many administrative processes as possible to minimize the interface between taxpayer and tax official; and *(iii)* not remain aloof from tax policy but assist in every way possible to help design, in reflection of its field experience, a simple tax structure and its commensurate tax law.

Green (2009) also simplified the how to control tax evasion in his research on the topic 'What Is Wrong with Tax Evasion?' stating that, there are presumably many potential fixes for the state of affairs and they are:

- Simplify the tax code, making clearer the distinction between lawful and unlawful behavior (though we should recognize how difficult this would be, particularly in the context of taxes paid by large businesses); and distinguish more clearly between what constitute criminal and civil violations of the code;

- Change our political rhetoric, attempting to educate people about the importance of tax revenues; and modify priorities for government spending;

- Make the Code more equitable, from both a vertical and horizontal perspective; and distinguish more clearly between choate and inchoate violations;

- Rethink the requirements of *mens rea* (criminal intent; the thoughts and intentions behind a wrongful act (including knowledge that the act is illegal); and increase enforcement and make the level of enforcement more uniform.

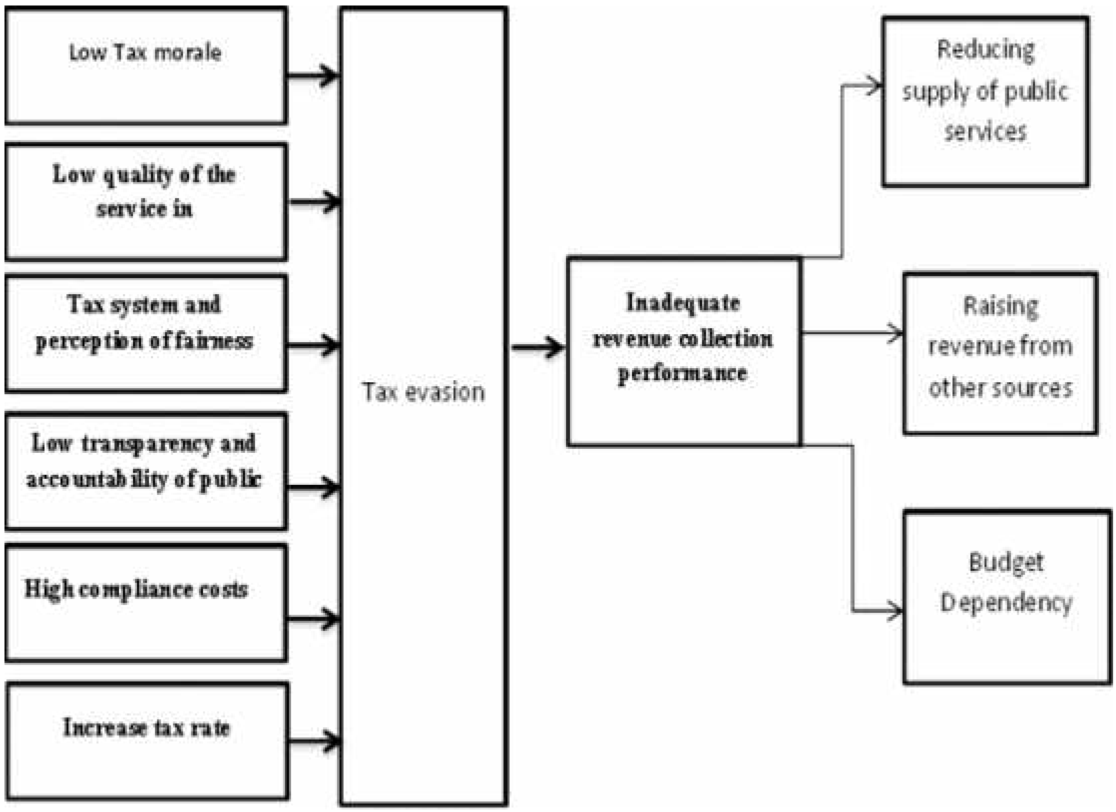
Chiumya (2006) has therefore stated that, counteracting tax evasion is one of the most complex activities in tax Administration. This is because tax evasion takes many forms and facets. One of the major keys to successfully carry out such activities is to first and foremost understand the behavior of taxpayers and the reasons that cause such specific behavior. Thus, taking into consideration the emphasis by Vogel (1974) cited in Oberholzer, (2007), on the importance of education and information in the process of opinion formation. A deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behaviour.

2.4. Conceptual framework

Independent variable of tax evasion impact of dependent variable tax revenue performance in various ways including low revenue collection, budget deficit and failure to reach revenue collection target. The question of how tax evasion affects the revenue collection performance has not been closely examined in the public finance literature. Tax evasion alters the effective tax rates and as such affects the efficiency, equity, and revenue yield of any given tax instrument.

Additionally, tax evasion has wide ranging implications especially regarding its effect on tax revenues, excess burden, and the numerous out-of-pocket costs that are typically associated with tax evasion. Government’s responses to the revenue short-fall created by tax evasion, such as raising revenues from other sources, reducing the supply of public services, and/or borrowing, could also lead to excess burdens. Related to this is the indirect effect of tax evasion on economic institutions. For instance, when entrepreneurs or any other private individuals are faced with burdensome bureaucracy, extreme levels of corruption, and a deficient legal system, agents may respond by diverting their activities to the shadow or underground economy. This leads to lower tax revenues, additionally compromising the quality of the public administration as well as the quality and quantity of public goods and services.

Figure 2.1 Causes of Tax evasion and its effects



Source Researcher 2014

2.5. Summary

In summary, this chapter has discussed the literature review (both theoretical and empirical), Conceptual framework and the relationship of variables in study.

2.6. Hypotheses of the study

- There is high rate of tax evasion in Tanga tax region implying Tax compliance is low

- Tax evasion has a negative impact on revenue collection performance
- Strategies employed by TRA in curbing tax evasion problem have a positive effect on reducing Evasion

CHAPTER THREE
RESEARCH METHODOLOGY

3.1. Chapter overview

This chapter presents research methodology guided this study. It comprises the following subheadings; the research design, population, sample and sampling technique, data collection instruments, validity and reliability of the instrument, research procedure and data analysis.

3.2. Study area

The setting of the present study was Tanga tax region. Tanga tax region was deliberately selected from other tax region in Tanzania. Tanga region since had high rate of tax evasion in Tanzania and hence low revenue collection below the national target. For the example, in last financial year 2012/13 only 57% of target revenue collection was collected (TRA, 2013).

3.3. Research approach

In this study, the researcher used both qualitative and quantitative approaches. According to Kombo and Tromp (2006), qualitative and quantitative research approaches have often been used together in the same research project and in many cases to obtain methodological triangulation so as to maximize the quality of the collected data. The qualitative approaches were used to provide descriptive forms which involved conducting interviews, observation and questionnaires with open-ended questions. The choice for qualitative approach was based on the fact that, interviews, observation and open-ended questionnaires enabled the researcher to gather detailed information on effect of tax evasion on revenue collection performance. The study also employed quantitative method which involved constructing questionnaires with closed-ended questions. The choice for quantitative approach was based on the fact that, the researcher was able to gather broad and quantifiable data on effect of tax evasion on revenue collection performance. Further, the findings of this study were represented by descriptive forms and statistical presentation.

3.4. Research design

This study used survey design. The survey method was adopted because of its flexibility in asking questions and its analysis of the responses. It provides for a comprehensive examination of people's attitudes towards specific issues. Similarly, since the research project was based on Tanga tax region, the targeted respondents comprised tax payers and TRA officials. The study administered questionnaires to tax payers and some of TRA officials, while the interviews were administered to top TRA officials. Last but not least, in order to compliment the interviews and questionnaires, the document review method was used to observe various aspects such as receipts and customer registration files.

3.5. Population and Sample of the Study

3.5.1. Targeted Population

The researcher used all 148 TRA officials and 8640 tax payers from Tanga tax region as the study population.

3.4.2. Sample of the study

Tanga tax region regions was estimated to have 8,640 corporate tax payers and 148 officials because it was not easy to cover all 8,640 corporate tax payer in this study a total sample of 297 i.e. 287 tax payers respondents as well 10 TRA officials .

Table 3.1: Respondents profile

Tax payers Strata	No of taxpayer on each stratum	Sampling	Target sample
Large	3640	$3640 / 8640 x 864$	121
Medium	3280	$3280 / 8640 x 864$	109
Small	1720	$1720 / 8640 x 864$	57
TRA officers	148		10
Total	**8640**	$8640 / 8640 x 864$	**297**

3.4.3. Sampling procedures

A sample according to Cohen *et al.*, (2007) is a small group of respondents drawn from the population in which the researcher is interested in gaining information and drawing conclusions. Sampling is done for the purpose of measuring some elements of the population and drawing conclusions regarding the entire population. Therefore sampling is a process of selecting a given number of representatives of the target population or the universe, in such a way that they represent all major attributes of the population. Two sampling techniques were employed in this study, namely purposive sampling and stratified sampling.

3.5.3.1 Purposive Sampling

There are a wide range of purposive sampling techniques that you can use (see Patton, 1990; Kuzel, 1999, for a complete list). These include: Maximum variation sampling, Homogeneous sampling, Typical case sampling, Extreme (or deviant) case sampling, Critical case sampling, Total population sampling and Expert sampling

In this research, Homogeneous sampling is a type of purposive sampling technique that aims to achieve a homogeneous sample; that is, a sample whose units (e.g. people who share the same (or very similar) characteristics or traits (e.g. a group of people that are similar in terms of age, gender, background, occupation, etc.). A homogeneous sample is often chosen when the research question that is being address is specific to the characteristics of the particular group of interest, which is subsequently examined in detail.

All TRA officials were purposeful selected while tax payers were obtained by using stratified sampling technique so as to obtain all three major groups namely large, medium and small tax payers.

3.5.3.2 Stratified Sampling.

In this study stratified sampling technique was employed to get TRA tax payers. When subpopulations within an overall population vary, it is advantageous to sample each subpopulation (stratum) independently. Stratification is the process of dividing members of the population into homogeneous subgroups before sampling. The strata should be mutually exclusive: every element in the population must be assigned to only one stratum. The strata should also be collectively exhaustive: no population element can be excluded. Then simple random sampling or systematic sampling is applied within each stratum. This often improves the representativeness of the sample by reducing sampling error. In selecting the sample using stratified sampling the population was divided into three strata, namely Large, Medium and Small taxpayers. Proportionate allocation have used sampling fraction in each of the strata that is proportional to that of the total population. For instance, each selected sample represents the fraction of the taxpayers in each stratum to represent the total population of taxpayers which consists 8640 in Tanga Tax region.

3.6. Methods of data collection

3.6.1 Interviews in research

In this study, face-to-face interview was used for collecting data from TRA officers and managers concerning effects of tax evasion on revenue collections in Tanga tax region. The semi-structured interview involved asking structured questions, followed by clarification of unstructured or open-ended questions. This technique was considered suitable for an intensive investigation and useful for tapping information about attitudes, likes and dislikes that were revealed by a respondent’s verbal behaviour with subtle gestures that might accompany it.

3.6.2 Questionnaires in research

Kothari (2004) maintains that questionnaires in a research are instruments for gathering data beyond the physical reach of the observer. Questionnaires involve a set of questions to be used to collect information from the respondents on their attitudes, feelings or reactions to the problem under study. This method of data collection ensures that all respondents answer questions almost at the same time. Kothari (2004) adds that in general, the questionnaire is an economical method of data collection in terms of time and coverage as well as being free of researcher bias. Respondents are provided with the chance to give well thought-out responses and anonymous, questionnaires can easily give out even confidential information.

The questionnaire method was used to collect information from tax payers, considering the large number of tax payers needed for the study and the limited time available. The questionnaire consisted of both closed and open-ended questions. Kothari (2004) believes that both open and closed types are cost effective and efficient and can elicit a lot of different types of information.

The questionnaire method was used to collect information from tax payers, considering the large number of tax payers needed for the study and the limited time available. The questionnaire consisted of both closed and open-ended questions.

3.7. Validity and Reliability of the Instruments

The research instruments were translated from English to Kiswahili, which is the national language and official language of the all public sectors in Tanzania. Before embarking on the main study, a pilot study was conducted in Tanga tax region. The questionnaires and interviews were tested to 10 respondents from Tanga tax region. In light of information, questions were modified accordingly so as to enhance clarity. It also helped in timing the duration that was taken in completing the questionnaire and interview sessions. Furthermore, the reliability of the instruments was conducted through the Statistical Package for Social Sciences, (SPSS) Version 15.0. The SPSS will employ the Cronbach's Alpha Procedure.

3.8. Ethical Considerations in this Study

Research ethics refers to the type of the agreement that the researcher enters with the research participants. According to Best & Khan (2006) and McMillan & Schumacher (2006), ethical issues in research fall into one of the five categories, which are protection from stress, harm, or danger; informed consent; right to privacy; confidentiality; and honesty with professional colleagues. Before conducting the study, research permission was secured from Mzumbe University. Institutional consent also was sought from the Tanga tax regional manager.

3.9. Data Analysis Techniques

Data that was obtained through questionnaires were coded and total scores by major sections or items representing cluster was computed. Frequencies and descriptive were analyzed through Statistical Package for the Social Sciences (SPSS). The Pearson's Product Moment Coefficient Correlation (r) was used to determine mode of tax evasion and causes of tax evasion and estimate effects of tax evasion on revenue collection.

The study employed a multiple model to represent the relationship between variables. From the selected model of regression analysis, the study suggests the following representation: $Y=a+b^1x^1+b^2x^2+b^3x^3$ whereby Y is the independent variable and x^1, x^2 and x^3 are independent variables. In this tax evasion trends, impact of tax evasion on revenue collection and strategies employed by TRA in curbing tax evasion are independent variables (x^1, x^2, and x^3); while collection performance is the dependent variables (Y). Whereby data computed by using statistical package for social science (SPSS), the final results summarized and presented on the tables.

CHAPTER FOUR

DATA PRESENTATION AND DISCUSSION

4.0 Introduction

This chapter presents data and findings of the study on effects tax evasion in revenue collection. The study findings were presented according to the research objectives as stated in chapter one.

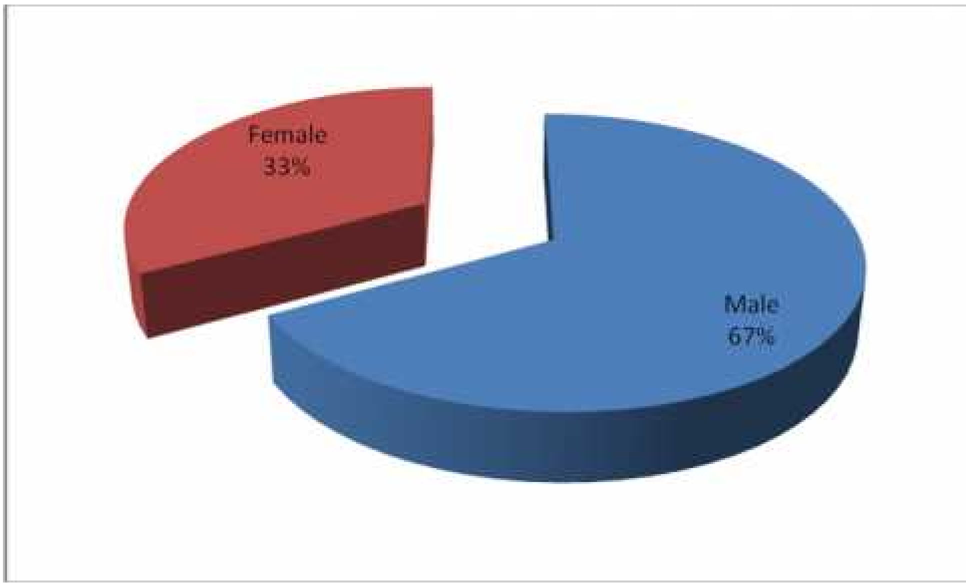
4.2. Profile of the Respondents

This presents the demographic distribution of the respondents by age group, sex and education level. The respondents are mainly corporate tax payers, and TRA officials from Tanga tax region.

4.2.1. Sex

The sex distribution of the respondents of the study may be depicted in the figure 4.1 below

Figure 4.1.Sex distribution of the respondents



It can be seen male had a greater representation of the whole population. This indicates that male dominate in taxpaying of 67% as compared to female respondents who 33%. The male counterparts therefore dominate the business environment and this confirms the difficulty in tax collection. This may also, reflect the same pattern in the paying of tax in other tax regions in Tanzania.

4.2.2. Distribution of respondents by Age

The table 4.1 presents the distribution of respondents by age. Different age groups tend to have different needs.

Table 4.1: Distribution of respondents by Age

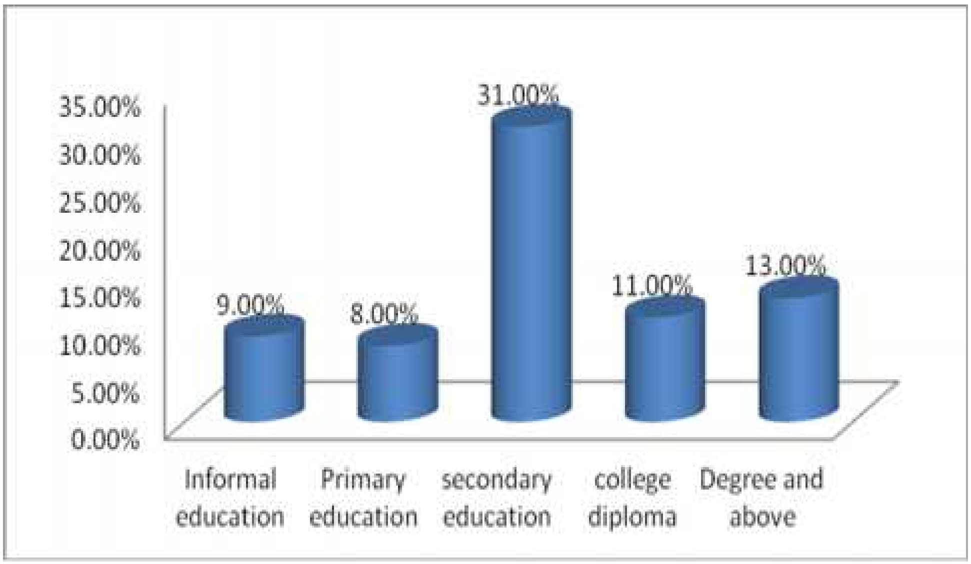
Age group	Frequency	Cumulative percent
18-25	16	5.5
26-35	104	35.8
36-45	82	28.2
46-55	71	24.4
>55	17	5.8
Total	290	100.0

The findings show that most of the respondents are youth with the age between 26 and 35 years making up 35.8% of all respondents. The age group that follows is 36-45 years which makes up 28.2%, followed by 46.55 group making 24.4%, this large percentage by the group 26-35 years may be a result of the large youth, who are educated and who are willing to pay tax.

4.2.3. Educational Level

The distribution of respondents according to education level is presented on the figure 4.2.

Figure 4.2: Distribution of respondents by education level



The large number of respondents is those who gave at least secondary education. It can be seen that, as the level of education increase the percentage of taxpayers also, increases. There might two reasons for these findings. First, majority of taxpayers are educated; second, there might be a large number of secondary school leavers engaging in business.

4.3. The examine the extent which taxes evaded in Tanga tax region

4.3.1 Taxpayers' enrolment in 2011 and 2014 in Tanga tax region

In this subsection researcher interest was to assess the expected taxpayers were registered as it was estimated. The study findings revealed that out of 57119 and 76563 taxpayers expected to be enrolled in 2012 and 2013 only 26009(45.5%) and 34848(45.5%) taxpayers were registered for tax payment (see table 4.2).

Table 4.2: Taxpayers' enrolment in 2012 and 2013 in Tanga tax region

Business type	Targeted Number		Registered			
	2012	**2013**	**2012**	**%**	**2013**	%
PARTNERSHIP	140	215	56	40	108	50.2
COPERATIVE SOCIETIES	30	35	5	16.6	13	37.1
LIMITED COMPANY	120	134	39	32.5	47	35
NGO	20	28	12	60	19	67.8
SOLE PROPRIETOR	56791	76131	25890	45.5	34651	45.5
GOVERNMENT	7	8	4	57.1	5	62.5
ASSOCIATION/CLUBS	8	12	3	37.5	5	41.6
Total	**57119**	**76563**	**26009**	**45.5**	**34848**	45.5

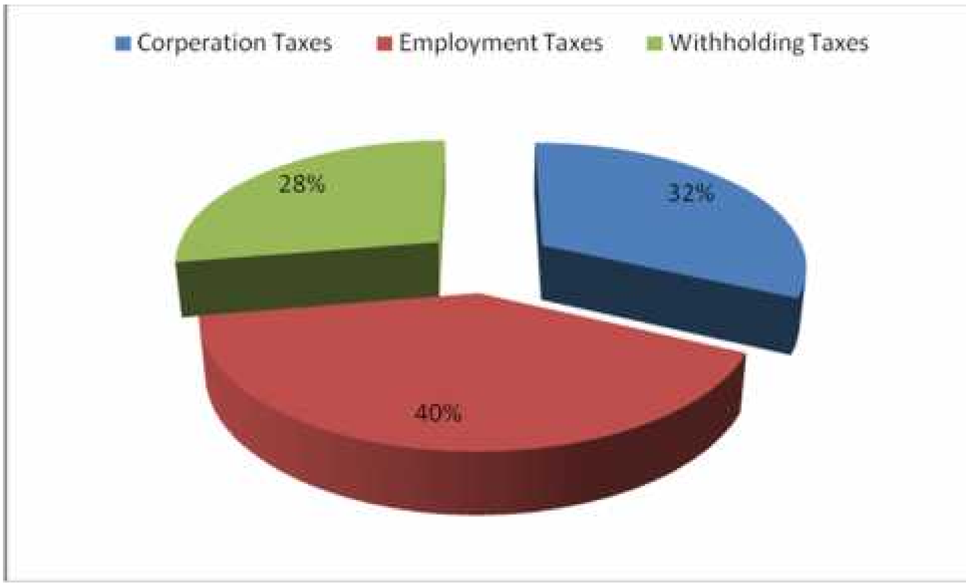
Source: Research data, 2014

Data in table 4.2 above shows that out of 140 and 215 cooperative societies expected to be enrolled in 2012 and 2013 respectively, only 56(40%) and 108 (50.2%) were registered for tax payment while the rest were not. In 2012 and 2013 it was expected that about 140 and 215 partnership taxpayers were expected but only 56(40%) and 108(50.2%) were registered respectively. Also, in 2012 and 2013 about 120 and 134 limited companies were expected to registered but only 39(32.5%) and 47(35%) were registered for tax payment. On NGOs in 2012 and 2013 it was estimated about 20 and 28 could be registered but only 12(60%) and 19(67.8%) were registered. This implies that taxpayers who were registered to pay tax were below expectation rate since only few of them registered for tax payment.

4.3.2 Trend of Tax collection in Tanga Tax region in 2012 and 2013 by Tax type

In this subsection the researcher was interested to find out the rate of tax collection in Tanga tax region. The study revealed that Survey finding revealed TRA in Tanga tax region collected (40%) employment taxes followed by corporation taxes (32%) and withholding taxes was only (28%) (Figure 4.3). This implies that corporation taxes were not collected effectively to meet the target of 100% which was set which means there is 12% discrepancy .

Figure 4.3: Tax collection pattern in Tanga tax region in 2012 and 2013 by Tax type



With regards to indirect tax, the study revealed that the high payment was received from VAT (67%), other charges (48%), excise duty local (45%) and departures charges (39%) (see figure 4.5).

Figure 4.4: Rate of indirect taxes collection

Findings in the figure 4.4 and figure 4.5 revealed the existence to tax evasion problem in Tanga tax region. The amount of tax collected did not meet the target level of collecting one hundred percent or more as it was expected.

4.3.3. Voluntary Compliance

In order to determine the voluntary compliance of tax in Tanga tax region, the receipts written in the TRA office are compared to those written by the TRA officers in the field. It is assumed that those receipts written on field have some element of force while those written by the cashier in the TRA office are those who pay voluntarily. For the purpose of this study, six months administrative records were perused. Receipts for the months of January 2013 and July 2013 were used as the base to determine the level of voluntary compliance. From the table above, 465 taxpayers pay tax in Tanga tax region (A) office. Out of this, 149 paid at the office accounting for 32.04% level of voluntary compliance. This means that the effort of the office in pursuing tax was 67.96%. Table 4.4 summarizes the data

Table 4.3 Voluntary Compliance from January to June 2013

TRA Office	No. of tax payers	No. paying voluntarily	Voluntary Compliance%
A	465	149	32.04
B	258	170	65.89
C	135	16	11.85

Source: TRA office Tanga region

Further analysis revealed that Tanga tax region Office (B), the total numbers of tax payers were 258 for January 2013. Out of this 170 paid voluntarily accounting for 65.89%. This means that the extra effort by the office to achieve that level of collection was 34.11%. For C office of 135 taxpayers in the month of January 2013, only 16 paid at the office accounting for 11.85% voluntary compliance. This means that, the office needs extra effort of 88.15% in order to make the performance that they have made.

For the Tanga tax region, there were 858 tax payers for the month of January, 2013. Out of this, 335 taxpayers paid at the office indicating 39.04%. This means the Tanga tax region needs to make an extra effort of 60.96% in order to make taxpayers to pay tax.

Administrative records for the month of January 2013 were also selected. This is to identify the level of payment of tax for the beginning of the year and at the same time at the beginning of the quarter. The total number of taxpayers has been increased from 465 to1579 for Tanga tax region office. This remarkable increase has been seen in the B and C sub-offices as well as outlined in table 4.5. This is still considered voluntary compliance since the enforcement is not directly from the staff of the Authority. The Table 4.5 on the next page for the month of January 2013 has confirmed this assertion.

Table 4.4 Voluntary Compliance for January 2013

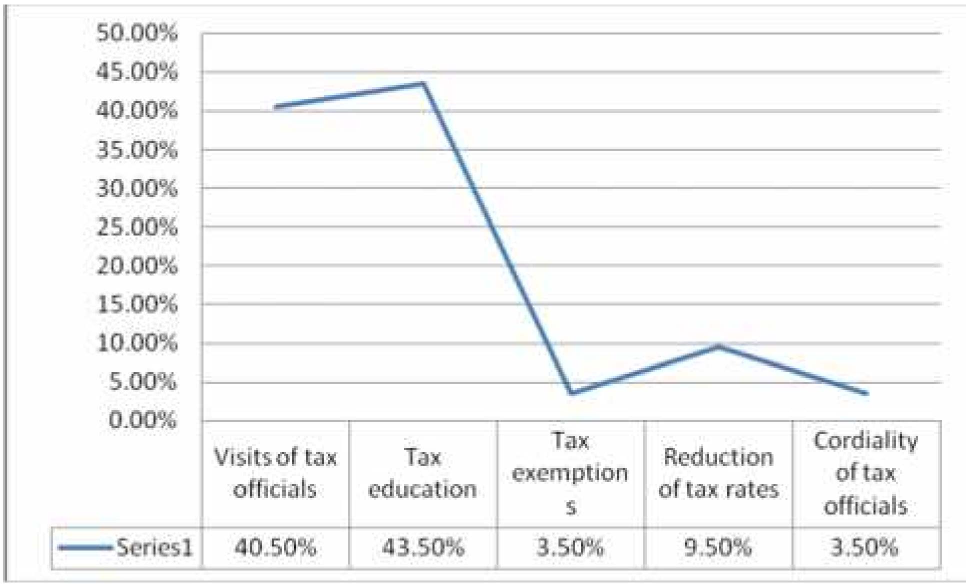
TRA Office	No. of tax payers	No. paying voluntarily	Voluntary Compliance%
A	1,579	944	59.78
B	746	544	72.92
C	658	184	27.96
Total	2,983	1,672	56.05

Source: TRA office Tanga region

Table 4.5 reveal increased compliance with corresponding voluntary compliance component. Voluntary compliance has increased for each office. It has increased from 32.04% to 59.78% for Tanga Tax region office (A), 65.89% to 72.92% in B sub- office and 11.85% to 27.96% for C Office. Also the total Tanga tax region compliance has increased with corresponding voluntary compliance from 39.04% to 56.05%. This implies that Tanga tax region office (B) has toppled the three offices in the tax region in voluntary compliance in both within the quarter and the beginning of the quarter. This implies the education should be more intense in the other two offices.

The opinion on how tax compliance can be improved has generated a lot of options that can help in the analysis of tax effectiveness and efficiency. The various opinions and their responses include: frequent visits of tax officials (40.50%), tax education (43.50%), tax exemptions (3.50%), reduction of tax rates (9.50%) and cordiality of tax officials (3.50%). Questionnaire on tax experts also revealed that tax evasion can be minimized if effective education can be conducted. More than 80% of the tax experts believe that training of the personnel and the taxpayers such as seminars are some of the effective factors in the efficiency of the tax system.

Figure 4.5: How to improve tax Compliance



Reasons for paying tax on field as captured in the questionnaire includes seasonal nature of business performance, some argue tax officers always come to their work so there is no need coming to the office, some said there is a long distance to the tax office while others said they do not get time to travel to the tax office.

4.4. To examine the revenue collection performance in Tanga tax region

4.4.1. Revenue collection performance in Tanga tax region

Documentary review revealed that domestic revenue collection in Tanga tax region increased from 63.7% in 2010 to 80.4% in 2013. Table 4.6 summarizes the study findings.

Table 4.5: Domestic revenue department

	Targeted	Actual	Percent	Evaded	percent
2010	24,254,300,000	15,462,342,557	63.7	8,791,957,443	36.3
2011	25,603,300,000	18,153,171,482	70.9	7,450,128,518	29.1
2012	34,860,600,000	24,447,073,207	70.1	10,413,526,793	29.9
2013	37,542,800,000	30,217,871,324	80.4	7,324,928,676	19.6

The data in the table above shows clearly that local revenue collected in Tanga tax region has not meet the region tax collection target. For example, in 2010 the target was to collect 24,254,300,000 revenue but at the end only 15,462,342,557 (63.7%) was collected. In the next year 2011 of 57,533,300,000 revenue targeted only 51,522,338,934 (89.5%) and 2012 of 70,746,400,000 targeted revenue only 47,259,876,373 (66.8%) revenue was collected.

Further analysis revealed that in 2010 about 8,791,957,443 (36.4%) of expected local revenue was evaded. In next year 2011 about 7,450,128,518 (29.1%) local revenue collection was evaded and, in 2012 revenue evasion rose to 10,413,526,793 (29.95) and the following year 2013 revenue evasion decreased to 7,324,928,676 (19.6%).

The same trend of tax collection performance was also observed in export revenue collection as summarizes in the table 4.7.

Table 4.6. Customs and exercise department

	Targeted	Actual	Percent	Evaded	Percent
2010	66,224,900,000	40,142,059,516	60.6	26,082,840,484	39.4
2011	57,533,300,000	51,522,338,934	89.5	6,010,961,066	10.5
2012	70,746,400,000	47,259,876,373	66.8	23,486,523,627	33.2
2013	54,537,463,037	35,087,741,740	64.3	19,449,721,297	35.7

Data in the table 4.7 above shows that in 2010 TRA in Tanga tax region expected to collect 66,224,900,000 revenue as a result 40,142,059,516 (60.6%), in 2010 of 57,533,300,000 revenue was expected consequently about 51,522,338,934 (89.5%) revenue collected and in 2012 of 70,746,400,000 expected revenue only

47,259,876,373 (66.8%) and the revenue collected in 2013 declined to 35,087,741,740 (64.3%).

Additionally, the data in the table above shows that in 2010 tax evasion was as high as 26,082,840,484 (39.4%) and in the next year 2011 was declined to 6,010,961,066 (10.5%) while it rose again 2012 to 23,486,523,627 (33.2%) and kept increasing to 19,449,721,297 (35.7%) in 2013. This shows clearly that tax evasion in Tanga tax region from 2010 to 2013 was increasing both in local revenue and export. For four consecutive years revenue collected in Tanga tax region have never meet the set target and was far below the region target.

4.4.2. Reasons for Low Collection of Taxes

The ten dimensions of customer satisfaction as outlined by Parasuraman (1985) as reviewed in the literature were considered. These include access, communication, competence on the part of tax officials, courtesy, credibility, reliability, responsiveness, security, tangibles and understanding which refers to the feelings and expectation of the tax payers. The attitude of tax officials, the length of time used to serve the tax payers and general services provided are summarized in a table 4.8.

Table 4.7: State of condition of tax payers

Condition	**Attitude of tax officials**		**Length of time used to serve**		**General satisfaction**	
	N	%	n	%	N	%
Very satisfied	102	39.6	121	47	46	17.8
Satisfied	76	29.5	65	25.2	148	57.5
Neutral	47	18.2	53	20.6	26	10
Not satisfied	32	12.4	18	7	37	14.3

This table 4.8 confirms the customer requirement of Samieie, (1999) assertion on dissatisfaction, satisfaction and delighters. 102 responses represent delighters, 148 responses represent satisfiers and 26 responses represent those who are dissatisfied. The few bad attitudes from the staff of the authority may account for the 26 response signifying dissatisfaction. Reasons for satisfaction include cordiality of tax officials, their high expertise and comportment. Reasons for dissatisfaction include no or low tax education, higher tax rates and the level of force applied by the tax officials in collection enforcement.

More than 80% of the respondents do not assume the present tax laws to be effective factors for the efficiency of the tax system. Even if there is most proper and appropriate laws, the efficiency would not be possible to achieve if these laws and regulations are not carried out properly. The studies reveal that simple, explicit, clear, and integrated laws can result in the promotion of the efficiency and satisfaction of the taxpayers.

More than 70% of respondents do not consider the bureaucratic formalities as an efficient factor in the efficiency of the tax system. For a case to be dealt with it is necessary to follow the procedures such as allocation of the tax unit, recognition of the tax amount and the tax collection; however, the length of the stage of tax collection may sometimes prevent the tax system to reach its objectives.

More than 70% of tax payers believed that tax encouragements are among the effective factors, which influence the efficiency of the tax system. Using the facilities, tax relieves, and the exemptions that are specific to the good pay can be effective factors in the promotion of the efficiency of the tax system.

More than 85% of the tax payers believe that application of judicial punishments is an effective factor for the efficiency of the tax system. Lack of knowledge in appropriate regulations and tax laws in this regard is a factor hindering the system. Harsh measures against those people, who refrain from paying the taxes, can be among the significant factors, which can cause tax efficiency.

4.4. Impact of tax evasion on revenue collection performance in Tanga tax region

The second objective of this study was to look at the impact of tax evasion of revenue collection performance in Tanga tax region.

4.4.1. Relationship between tax evasion and revenue collection performance

In order to establish relationship between tax evasion and revenue collection performance linear regression method was used.

Correlations		Tax evasion	Revenue collection
Tax Evasion	Person correlation	1.00	0.84
Revenue collection	Person correlation	0.84	1.00

The value in the table shows a very strong positive relationship between tax evasion and revenue collection performance. This implies that the law levels of revenue collection as indicated in the statement of the problem is largely a result of tax evasion (84%) with the rest of the factors contributing insignificantly (16%).

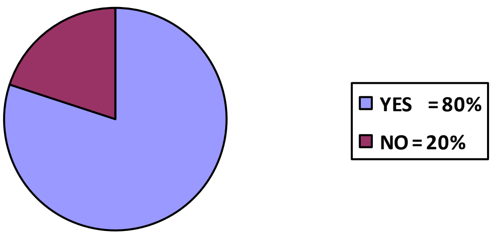
4.4.2. Effects of tax evasion on revenue collection

i).Inadequate revenue collection

The study investigated effect tax evasion caused low revenue collection in Tanga tax region. This is important because tax evasion is associated with low revenue collection. The Tanga tax region officers were requested to indicate extent to which tax evasion caused low revenue collection. Table 9 summarizes their responses.

Table 4.9: Inadequate revenue collection

Factor	**Respondent**									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
Higher	**X**			**X**			**X**			
High		**X**			**X**				**X**	
Normal			**X**			**X**				
Low								**X**		**X**



KEY:

The factors Higher, High and Normal means there is a positive correlation between the factors that were asked and thus in our pie chart it means YES, while low negate the correlation so it means NO.

Source: Field Data

Table 4.9 shows that the tax evasion caused low revenue collection in Tanga tax region. 8 respondents (80%) indicated that tax evasion was responsible for low revenue collection in Tanga tax region. However, 2 respondents (20%) indicated that tax evasion did not cause low revenue collection. The results of this study have shown that tax evasion behavior led to low revenue collection. This indicated that in Tanga tax region tax evasion has negative impact of level of revenue collection.

ii). Increase tax rate

Respondents were asked to indicate if tax evasion increases due to an increase in tax rate of taxpayers in Tanga tax region. Table 4.10 below show the responses.

Table 4.8: Responses on whether tax evasion increased due to an increase in tax rate for taxpayers

(N=10)

Responses	Respondents	Percentage
Yes	6	60.0
No	4	40.0
Total	**10**	**100.0**

Source: Filed Data

As shown in Table 10, 6(60%) tax officials indicated that the increase in tax rate causes tax evasion to increase, while 4(40%) respondents said that tax evasion did not increase due to increase in tax rate. This implies that the increase in tax rate cause tax evasion to increase and hence increase tax burden for voluntary taxpayers.

iii) Reducing the supply of public services

The respondents were also asked to indicate whether tax evasion reduced the supply of public services in Tanga tax region. This question was asked because revenue collected from tax was very important to fund development projects in Tanga. This situation has also had an impact on service delivery. The responses are presented in Table 4.11.

Table 4.9: Whether tax evasion lead to low development rate

(N=11)

Responses	Respondents	Percentage
Yes	7	70
No	3	30
Total	**10**	**100.0**

Source: Field Data

The Table 4.11 above shows that 7(70%) respondents indicated that the tax evasion lead to poor development growth. This suggests that tax evasion caused low development in sample area. It also has been announced recently by the Central Government that the Tanga region being at the Rank of City will be reduced to a normal region because of low Tax collected

iv). **Tax revenues falling short off targeted**

Another question asked to tax officers to indicate if tax evasion lead to tax revenue fails short of target. Responses are tabulated below.

Table 4.10: Responses on whether tax evasion lead to tax revenue fails short off target

(N=12)

Responses	Respondents	Percentage
Yes	10	100.0
No	0	0.0
Total	**10**	**100.0**

Source: Field Data

In table 4.10, all 10(100%) respondents indicated that tax evasion caused tax revenue failed short of target. Concurring with the above findings, Tanga tax regional coordinator said that due to tax evasion for six year consecutively the region had failed to meet target of revenue collection.

v). Raising revenues from other sources

The table below presents the respondents views on whether tax evasion caused TRA to raise revenues from other sources.

Responses	Respondents	Percentage
Yes	7	70.0
No	3	30.0
Total	**10**	**100.0**

Source: Field Data

Most of the respondents, 7(70%) who were approached to fill the questionnaires had view that tax evasion caused TRA to raise revenue from other sources to fill the gap. Very few respondents 3(30%) said tax evasion did not lead to raise revenue from alternative sources.

4.5. Strategies employed by TRA officials in reducing tax evasion problem in Tanga region

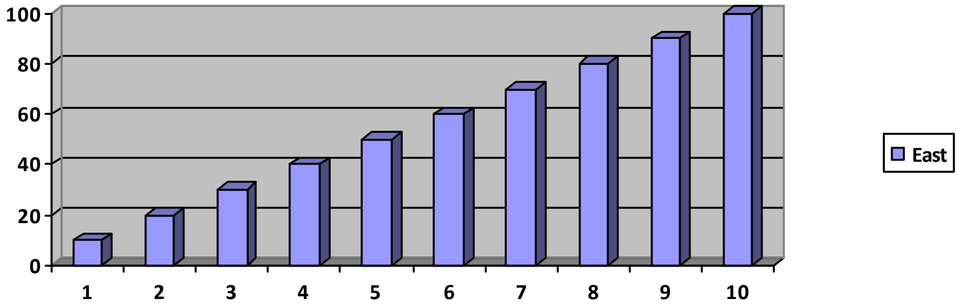
This section discusses strategies employed by Tanga tax region in curbing tax evasion. The study revealed all 10 (100%) respondents mentioned enforcement of penalties as the most strategy used to control tax evasion. For example, TRA officials revealed for the last financial year 2012/13 more than 50 taxpayers were taken to court or given penalty for tax evasion. The findings above seem to suggest that when laws on defaulting in tax obligations are well publicized and enforced to the letter, tax payers would not find means of evasion. Therefore, this seem to confirm Shome (2005) as stated that, there has to be a genuine threat and actual carrying out of audit, scrutiny, investigation, penalty and punishment for an errant taxpayer. Door to door was the next strategy mentioned by 9(90%) respondents as also used in control tax evasion in Tanga tax region.

Moreover, more than 8(80%) respondents said tax education was another strategy employed to control tax evasion. The findings seem to imply that more emphasis should be put into education and the provision of information on tax.

Further analysis revealed that, about 7(70%) of respondents mentioned a taxpayer identification number (TIN) as another measures taken to curb tax evasion. It was found that an effort to promote compliance and ensure that each taxpayer is unique, TRA embarked on an initiative to strengthen the use of the TIN system and database. Thus, TIN is an automated taxpayer registration system, which issues a unique number to each taxpayer on first registration

Table 4.11: Strategies employed by TRA officials in reducing tax evasion problem in Tanga region

Strategies	Frequency	Percent
Enforcement of Penalties	10	100
Door to Door visit in all area	9	90
Priority on Tax education	8	80
Introduction of taxpayer identification number (TIN)	7	70
Computerization of tax administration	5	50
Prosecution and penalty	4	40
Strengthen Taxpayer recruitment	3	30
Enhance Taxpayer Registration and De-registration	2	20
Providing relevant information to new taxpayers	1	10



Additionally, about 5(50%) of respondents said that community sensitization on tax payment was a permanent agenda in Tanga tax region because it was addressed by all Tanga tax region officials and political leaders of all levels. One Tanga tax region official noted,

> …..taxpayers in this area are lucky to have tax officials are committed to education. They have tried a lot to sensitize business people to pay tax for their business. However, some of the people opt not to pay tax as they should be.

The extent of the community sensitization success was researched. The tax official explained that the sensitization was conducted in 2012 for all medium and small tax payers.

Moreover, 3(30%) said that they used the mechanisms for strengthen taxpayer recruitment such as by introducing taxpayer service and education department. This department constantly encourages taxpayers register voluntarily. This is done through conducting seminars, advertising in Newspapers, Television, and Radio on a regular basis. While the registration of all persons engaged in business has been pursued rigorously.

Last 2(20%) respondents said that enhance Taxpayer Registration and De-registration was another measure that has put in place. Tax offences cannot be controlled without knowing the actual number of taxpayers in Tanga tax region. This number can be established through proper registration and de-registration procedure.

Specific programs are needed to identify active taxpayers not in the tax net and passive ones who can be safely de-registered. The taxpayer registration can be enhanced by improving the quality of taxpayer register and strengthening taxpayer recruitment exercise. Improve the quality of taxpayers register. The measures that can be taken to improve the quality in taxpayer registration include the following:

(i) Taking on board an effective procedure that will ensure that all taxpayers are registered within the time stipulated by the law, with little or no leakages;

(ii) Setting up standard forms of registration that are comprehensive enough to exclusively identify and locate a taxpayer;

(iii) Completing all mandatory fields in the registration form in full when registering a taxpayer;

(iv) Adopting an effective mechanism that ensures the updating of a taxpayer's registration information whenever changes occur in the status of the taxpayer;

(v) Ensuring that there are adequate mechanisms for monitoring de-registered taxpayers;

(vi) Putting in place adequate procedures for monitoring the growth or decline of taxpayers' revenues that may qualify them for an advanced or lower level of registration;

(vii) Allowing online application for a tax de-registration. This will reduce compliance costs and administrative burdens Reducing number of visits by taxpayers to TRA,

(viii) Considering notifying a taxpayer that he/she is de-registered using e-mail, fax or registered mail. This will reduce compliance costs and administrative burdens reducing number of visits by taxpayers to TRA.

4.6. Effectiveness of Strategies employed by TRA officials in reducing tax evasion problem in Tanga region

All 10 (100%) TRA officials indicated that they had made effort to curb tax evasion problem Tanga tax region. However, they said only few strategies were effective. Table 4.8 shows that majority of TRA officials ranked most of the strategies used in Tanga tax region to curb tax evasion as not effective. For example 6(60%) viewed enforcement of Penalties and providing relevant information to new taxpayers were not effective in curbing tax evasion while (40%) regarding them effective. Those who viewed them as not effective argued that only penalty was not enough because some of the tax collectors and court officials were bribe by taxpayers and let them free.

With regard to the introduction of taxpayer identification number (TIN) majority (80%) ranked TIN as not effective in curbing tax evasion behaviors. It was argued that some taxpayers despite that own TIN for paying tax, this did not mean that they did not evade tax. It was found that sometimes taxpayers hided some of other business. However, 40% of the TRA officials said TIN was effective.

The researcher asked TRA officials on whether door to door visit in all area and tax education was effective in reducing tax evasion. Ninety percent of respondents indicated two strategies as were effective.

Table 4.12: Effectiveness of Strategies employed by TRA officials in reducing tax evasion problem in Tanga region

Measures	TRA Officials (n=10)			
	Effective		Not effective	
	Freq.	Percent	Freq.	Percent
Enforcement of Penalties	4	40	6	60
Door to Door visit in all area	9	90	1	10
Priority on Tax education	9	90	1	10
Introduction of taxpayer identification number (TIN)	2	20	8	80
Computerization of tax administration	1	10	9	90
Strengthen Taxpayer recruitment	2	20	8	80
Enhance Taxpayer Registration and De-registration	1	10	9	90
Providing relevant information to new taxpayers	4	40	6	60

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.0. Introduction

This chapter contains discussion of the research findings. The discussion relates to the purpose of the study and questions as well as the research findings. The analysis also draws on theoretical stances and empirical studies contained in the review of related literature-Chapter Two. The researcher's point of view and comments are also given.

5.1. The level of Tax evasion in Tanga tax region

5.1.1. Taxpayers' enrolment in 2011 and 2014 in Tanga tax region

The study revealed that not all expected tax payers in Tanga tax region from 2011 to 2014 were enrolled. This implies that some of the taxpayers were not enrolled to pay tax in Tanga tax region. This caused the number of taxpayer's fail in short of targeted number.Thus meaning few taxpayers enrolled as taxpayers in Tanga tax region. In this view, a number of studies have been conducted to reverse this trend among which is the large number of taxpayers did not enroll to pay tax. This in line with Tanzi, (2000) anecdotal evidence from different developing countries indicates that half or more of the taxpayers were not registered as taxpayers. For example, Gupta, (2013) calculates a sum of 37% of expected tax payers were not registered and hence did not pay tax to government. Bitarabeho, (2003) noted that lack of tax registration was high in developing countries and was one of the factor hampering revenue collection.

5.1.2. Trend of Tax collection in Tanga Tax region in 2012 and 2013 by Tax type

The study revealed that Survey finding revealed TRA in Tanga tax region the amount of tax collected was below the set target level. The study revealed that from 2010 to 2014 tax collection was on decline and had never reached the annual target. This concurs with Bayer, and Sutter, (2009) and Nicholas, (2003) who found that was common that half or more of the taxes that should be collected cannot be traced by the Treasury in most of developing countries.

5.1.3. Voluntary Compliance

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though ‘tax laws are not always precise’ (James and Alley 2004: 29). Alm (1991) and Jackson and Milliron (1986) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. The study finding revealed that tax evasion in Tanga tax region from 2010 to 2013 was increasing both in local revenue and export. For four consecutive years revenue collected in Tanga tax region have never meet the set target and was far below the region target. This implies the education should be more intense in the other two offices. The increased compliance for B tax region may be due to incentives from TRA officers impress as indicated in the Hertzberg’s Hygiene-Motivator Theory in the literature. Lack of tax education, improper monitoring and sometimes bad attitudes of the field staff and high tax rate have been identified as the causes of low voluntary compliance. This has confirmed the six factors of tax efficiency (Samieie, 1999) in the literature. Theoretical research on herd behavior in economic situations (Banerjee 1992; Sah 1991) also indicates that social influences may affect compliance, in particular by affecting the perceived probability of detection. One of the most consistent findings about taxpayer attitudes and behavior in Western countries is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (Yankelovich *et al.* 1984). Evidence suggests that perceptions about the honesty of others may affect compliance behavior.

5.1.4. Reasons for Low Collection of Taxes

The study finding confirms the customer requirement of Samieie, (1999) assertion on dissatisfaction, satisfaction and delighters. In this study, majority of the respondents do not assume the present tax laws to be effective factors for the efficiency of the tax system. Even if there is most proper and appropriate laws, the efficiency would not be possible to achieve if these laws and regulations are not carried out properly. The studies reveal that simple, explicit, clear, and integrated laws can result in the promotion of the efficiency and satisfaction of the taxpayers. Respondents did not also consider the bureaucratic formalities as an efficient factor in the efficiency of the tax system. For a case to be dealt with it is necessary to follow the procedures such as allocation of the tax unit, recognition of the tax amount and the tax collection; however, the length of the stage of tax collection may sometimes prevent the tax system to reach its objectives.

They also believed that tax encouragements are among the effective factors, which influence the efficiency of the tax system. Using the facilities, tax relieves, and the exemptions that are specific to the good pay can be effective factors in the promotion of the efficiency of the tax system. Harsh measures against those people, who refrain from paying the taxes, can be among the significant factors, which can cause tax efficiency. This finding is in line with other studies by Tanzi (1988, 1992), Tait (1991), Casanare de Jantscher (1982), who argue that inefficient tax administration has been identified as one of the serious constraint to tax revenue mobilization. Tanzi (1987) notes that inefficient tax administration can result from lack of resources, lack of necessary degree of professionalism and accountability and lack of clear strategy for improving efficiency. He also argues that complex and opaque laws and the political system can lead to inefficient tax administration. This problem could also be responsible for low revenue collection from the non tax sources**.**

Among the causes of inadequate tax revenue is the inelasticity of the revenue structures and inadequate tax effort. Inadequate revenue creates fiscal crisis. Holcombe & Sobel (1997) continue to argue that fiscal crisis are an interaction of many complex causes including inadequate tax bases, increasing expenditure demand and limits placed on state government by voters.

5.2. Impact of tax evasion on revenue collection performance in Tanga tax region

The study revealed that there is a very strong positive relationship between tax evasion and revenue collection performance. This implies that the law levels of revenue collection as indicated in the statement of the problem is largely a result of tax evasion with the rest of the factors contributing insignificantly. As Gemmell and Morrissey **(**2003) found that tax evasion affect the ability of those legally liable for various taxes to shift these as traditionally assumed. Tax evasion does affect incidence but is difficult to incorporate. Russo, (2010) found that tax evasion has negative impact on the level of tax collection performance. He argued that the countries with high rate of tax evasion also has low rate of revenue collection and vice versa.

Russo (2010) reported that, in Italy, one of the effects of tax evasion is loss of revenue to the government. Estimates from the Ministry of Finance indicate that roughly 20% of the income earned within the national border is not reported, resulting in a loss of more than 300 million euros every year in forgone tax revenue. This example is not an exception because it is prevalent across the globe.

5.3. Strategies employed by TRA officials in reducing tax evasion problem in Tanga region

The study revealed all respondents mentioned enforcement of penalties as the most strategy used to control tax evasion. For example, TRA officials revealed for the last financial year 2012/13 more than 200 taxpayers were taken to court or given penalty for tax evasion. The findings above seem to suggest that when laws on defaulting in tax obligations are well publicized and enforced to the letter, tax payers would not find means of evasion. Therefore, this seem to confirm Shome (2005) as stated that, there has to be a genuine threat and actual carrying out of audit, scrutiny, investigation, penalty and punishment for an errant taxpayer. Shome (2005) also stated that, there has to be a genuine threat and actual carrying out of audit, scrutiny, investigation, penalty and punishment for an errant taxpayer. However, regarding this issue, Lewis (1982) cited in Oberholzer, (2007) is of the opinion that two major policy initiatives remain: increasing the deterrence capabilities of tax authorities and seeking an improvement in taxpayers' attitudes and perceptions vis-à-vis the government and tax authorities. He believes that what is required is compliance to rules prompted by conscience, rather than fear of punishment.

Thus, it was found that education programs organized by TRA officials in Tanga tax region were required to enhance taxpayers' ability to understand the importance of tax on country's economic development and to increase their confidence in fulfilling their responsibilities as taxpayers hence reduce tax evasion. It is clear that developing tax knowledge in taxpayers is an important element in operating a successful tax system. Achieving an appropriate voluntary compliance level could be achieved if taxpayers can complete the tax returns correctly and pay the right amount of taxes. Thus to realize the objectives of voluntary compliance, taxpayers need to be informed, well educated (particularly in tax matters), and their tax literacy level needs to be enhanced on a regular basis to keep their knowledge up to date and relevant.

The finding is in line with Eriksen and Fallan (1996) who claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. The research done by Eriksen and Fallan has illustrated the importance of tax knowledge in a tax system, especially in a SAS. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. Eriksen and Fallan's study is divided into three main parts. Firstly, the investigation is focused on taxpayers' knowledge. Secondly, the research tries to reveal the overall impact of tax knowledge on tax compliance behaviour among individual taxpayers and thirdly, the research involves tax agents in order to determine their influence in determining taxpayers' behavior because in SAS, tax agents are assumed to be involved more in preparing, declaring and calculating tax liability on behalf of individual taxpayers than in the directly assessed system.

Thus, as Vogel (1974 cited in Oberholzer, 2007), puts it on the importance of education and information in the process of opinion formation. 'A deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behaviour'.

Further analysis revealed that tax payer identification number (TIN) as another measures taken to curb tax evasion. It was found that an effort to promote compliance and ensure that each taxpayer is unique, TRA embarked on an initiative to strengthen the use of the TIN system and database. Thus, TIN is an automated taxpayer registration system, which issues a unique number to each taxpayer on first registration. Shome (2005) indicated that it is important to computerize as many administrative processes as possible to minimize the interface between taxpayer and tax official.

5.4. Effectiveness of Strategies employed by TRA officials in reducing tax evasion problem in Tanga region

The study revealed that some of the strategies employed by TRA officials in Tanga tax region were not effective since tax evasion behavior was increasing despite of all measures taken. As Chiumya (2006) has therefore stated that, counteracting tax evasion is one of the most complex activities in tax Administration. This is because tax evasion takes many forms and facets. One of the major keys to successfully carry out such activities is to first and foremost understand the behavior of taxpayers and the reasons that cause such specific behavior. Thus, taking into consideration the emphasis by Vogel (1974) cited in Oberholzer, (2007), on the importance of education and information in the process of opinion formation. A deeper understanding of the benefits provided for by taxes, as well as the technical reasons for tax laws and regulations are necessary preconditions to both positive attitudes about the tax system and appropriate fiscal behavior.

CHAPTER SIX

SUMMARY, CONCLUSION ANDRECOMMENDATIONS

6.0. Introduction

The purpose of the study was to find out impact of tax evasion on revenue performance in Tanga tax region. This chapter is to present a summary of the findings of the study, the conclusions drawn based on the findings of the study and recommendations made for consideration.

6.1. Summary of the major findings

Based on the analysis, it was indicated that the study was centered on three factors such level of tax evasion, measures of controlling evasion and its effectiveness. In order to achieve objectives set for the study.

- It was found that there was high tax evasion in Tanga tax region and tax compliance attitude was very low.
- High rate of tax evasion was associated with several factors including lack of education on tax, corruption, distance and high tax rate.
- Tax evasion had negative impact of revenue collection performance as it caused low revenue collection, lack of social service, budget deficit and failure to meet revenue target.
- In curbing tax evasion problem it was found that TRA officials from Tanga tax region employed several measures ranging from imposing penalty, door to door visit, education, using TIN to computerization of tax system but none of aforementioned measure was effective.

6.2. Conclusion

Tax evasion is extensive, always has been, and almost certainly always will be. Differences in educational level and the capacity to calculate tax returns can explain some of the across individual of evasion. But the stark differences in compliance rates is an individual's knowledge of the uses of tax revenue by the government, publicity and the education of the general public on their tax obligation and its effects on the national economy and the penalties on the default on non-compliance.

Using the cognitive theory as a basis where the assumption is that humans are logical beings making choices that make the most sense to them, tax payers would make decisions on fulfilling their tax obligation based on what make sense to them. Thus, if tax payers agree that taxes are used for meaningless ventures by government and the system of tax collection is fraught corruption, they would devise innovative ways of evading tax. And secondly, if tax payers lack the necessary information and the capacity to compute tax appropriately, there would be reluctance to comply and motivate evasion.

Finally, the study characterized the importance of publicizing penalties on defaulting tax payment and enforcing punishment, tax defaulter would be inclined to fulfill their obligations to avert punishment and shame.

6.3. Recommendations

6.3.1. Recommendation for Action

Tanzania Tax administration needs to continually review its systems, strategies and skills to keep pace with the problem of violations of tax law. That is why study suggests the following:

i) The study after the findings seeks to recommend that the TRA should ensure an enforcement of penalties for tax default, and these penalties should be made clearer and public. This will create real threat and actual carrying out of audit, inspection, inquiry, penalty and punishment for an errant taxpayer.

ii) Taxpayer Registration and De-registration procedure should be improved

iii) TRA should use amnesties. The basic idea of an amnesty is to encourage taxpayers to come forward and pay their long-past-due obligations and can be used to bring new taxpayers into the tax net

iv) The current tax procedure law should be amended to provide for establishment of a professional and independent tax tribunal that could hear matters of fact and law in relation to the assessment under appeal.

v) TRA should adopt an effective mechanism that ensures the updating of a taxpayer's registration information whenever changes occur in the status of the taxpayer particularly in changes in contacts and location

vi) The Taxpayer Service Department should constantly encourage taxpayers register voluntarily. It should do this by conducting seminars, advertising in Newspapers, Television, and Radio on a regular basis.

vii) TRA should consider starting an on-boarding program for new taxpayers. When taxpayers register with the TRA, they should be provided with all the necessary information, tax returns and instructions they will need to meet their filing and paying requirements.

viii) TRA should also consider designing utility software that does the calculation of taxes and fines for the taxpayer and validates entries. Distribute this program free of charge on a CD and through the TRA website. Include a checklist to help the taxpayer "get it right the first time˝.

ix) The Administration should provide an accurate register cleanup of all taxpayers by identifying active and passive ones.

6.3.2. Recommendation for further studies

This study was conducted in Tanga tax region hence it covered small area. Thus another study is recommended in another area for comparative purposes

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APPENDICES

Appendix I: Questionnaire

Dear respondent

The aim of this work is to find out effects of tax evasion on revenue collection performance in Tanga tax region . The accomplishment of this study is greatly on your hand, for that matter I request for your kind and exhaustive response to the available set of questions.

I strongly assure that all information availed will strictly be confidential and dealt with for the purpose of this research and there is no intention of doing otherwise.

1. Sex (Circle the appropriate answer)
   - (i) Male ( )
   - (ii) Female ( )
2. Level of formal education (Circle the appropriate answer)
   - (i) Primary ( )
   - (ii) Secondary ( )
   - (iii) Certificate ( )
3. Are you aware with the term taxation
   - (i) Yes ( )
   - (ii) No ( )
   - (iii) I don't know taxation ( )
4. Have you ever paid tax?
   - (i) No ( )
   - (ii) Yes ( )
5. Were you forced to pay tax (If the answer to question 4 is Yes)
   - (i) Yes ( )
   - (ii) No ( )
6. How frequent are the Tax officer's visits your business premises?
   - (i) Regularly ( )
   - (ii) Sometimes ( )

7. What do you think about the tax rates applied? (Circle the appropriate answer)

(i) Good ( )

(ii) Reasonable ( )

(iii) Too high ( )

8. Are the control measures employed by TRA enough in administering tax collection in tanzania (Circle the appropriate answer)

(i) Yes ( )

(ii) No ( )

(iii) I don’t know ( )

9. Please give your suggestions on what Tanzania Revenue Authority should do in order to improve effectiveness in administering Tax laws in our country:

____

____

____

10. Age the respondent (years):

____

____

____

APPENDIX II: Interview questions

The purpose of this interview is to gather information on the Factors giving rise to tax evasion in low developing countries (Tanzania).

As one of the stakeholders you are requested to provide your knowledge and understanding on the issue as inputs in the research.

Be assured that the information will be treated confidential and shall be used for academic Purpose only.

1. What do you understand by the term tax evasion?

   ………………………………………………………………………………………
   ………………………………………………………………………………………
   ………………………………………………………………………………………
2. Explain the factors that lead to tax evasion in Tanzania.

   ………………………………………………………………………………………
   ………………………………………………………………………………………
   ………………………………………………………………………………………
3. What is the impact of tax evasion to the revenue collection? ………………………………………………………………………………………
   ………………………………………………………………………………………
   ………………………………………………………………………………………

4. Do you think ways of registering taxpayers for tax purpose cause tax evasion?...........

   explain…………………………………………………………………………….
   .
5. What are factors that hinder collection of tax arrears ………………………………………………………………………………………
   ………………………………………………………………………………………
   ………………………………………………………………………………………

6. What are compliance measures taken by TRA to minimize tax evasion? ....
....

7. Is there any assistant received from other government authority in respect of enhancing tax collection. Explain and mention
………………………………………………………………………………………
………………………………………………………………………………………

''Thanks for your response''