

**VAT COMPLIANCE IN MANUFACTURING INDUSTRIES IN
DAR-ES-SALAAM TANZANIA**

**VAT COMPLIANCE IN MANUFACTURING INDUSTRIES IN
DAR-ES-SALAAM TANZANIA**

**By
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A Dissertation Submitted to in Partial Fulfillment of the Requirements for the Award
of the Degree of Master of Account and Finance of Mzumbe University.

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled **Factors Affecting VAT Compliance in Manufacturing Industries Dar-es-salaam Tanzania**, in partial/fulfillment of the requirement of the degree of Masters of Account and Finance of Mzumbe University.

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DEDICATION

This study is lovingly dedicated to the memory of my Father Jeremia, My mother Magreth and my sister Debora, may their souls rest in peace.

ABBREVIATIONS

EFD	-	Electronic Fiscal Device
EPZ	-	Export Processing Zone
GDP	-	Gross Domestic Product
ITAX	-	Integrated Taxation Management System
NGOs	-	Non Government Organizations
SMEs	-	Small and Medium Enterprises
TRA	-	Tanzania Revenue Authority
TSH	-	Tanzania Shilling
VAT	-	Value Added Tax

ABSTRACT

The study was on the VAT Compliance in Manufacturing Industries in Dar-es-salaam Tanzania. Specifically, the study investigated factors affecting VAT compliance in Manufacturing Industries in Dar-es-salaam city in Tanzania. The study involved 30 respondents from 3 manufacturing industries located at Kinondoni municipality in Dar-es-salaam region, 10 Tax expertise (tax consultant) from Kinondoni municipality and 5 TRA staffs selected from VAT department at TRA Kinondoni tax region. Data collection methods were questionnaires, personal interview and documentary review. And data collected were analyzed using Statistical Package for Social Science (SPSS) as well as advanced Microsoft excel.

The results shows that almost 28 (93.3%) respondents from manufacturing industries were in opinion that current VAT rate (18%) is very high which tend to affect compliance of VAT in manufacturing industries in Tanzania by abusing VAT and by operating informal. Also about 28 (93.3%) respondents agreed that multiplicity of tax laws in Tanzania is the main cause of non-compliance, this is simply because having more than one tax law applicable to single transaction brings confusion in interpretation thus brings complication in complying with these laws. And results shows that Out of 10 respondents (tax expertise) 8 (93.3%) respondents were in opinion that VAT exemption cause non-compliance of tax to manufacturing industries, this is because VAT exemptions creates a room for taxpayers to evade paying tax by intentional misclassification of goods, ineffective monitoring and control of exemption by TRA, also unnecessarily exemptions granted to manufacturing industries.

Respondents come up with greater conclusion that current VAT rate is high therefore should be adjusted from 18% to 15%, multiplicity of tax laws complicate compliance, and VAT exemptions open the doors to tax evader. Therefore compliance of manufacturing industries in Tanzania is mainly affected by those factors.

It was recommended that, tax laws and VAT rate should somehow be reduced so as manufacturing industries and other taxpayers adhere and comply hence render proper amount of tax required conveniently and promptly. Also There should be strong administration by TRA that control and monitor VAT exemptions and hence enhance tax compliance by manufacturing industries.

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CHAPTER ONE

INTRODUCTION

1.0 Background to the Problem

Value added tax (VAT) is an indirect tax on consumption levied on a wide range of supplies of goods and services. VAT is a multistage tax charged on value added to goods and services by producers and traders at each stage of production and/or distribution. Registered traders are the collecting agents for the Government. VAT was introduced in Tanzania on July 1st 1998 and replaced sales tax on goods and services, receipts based stamp duty, hotel levy and entertainment tax applicable to VAT registered businesses¹.

In Mainland Tanzania, the VAT system is administered under the Value Added Tax Act No. 24 of 1997. As result of introduction of VAT in Mainland Tanzania, the sales Tax Act 1976 was repealed while the Hotel Levy Act 1972, the Entertainment Tax Act 1970, and the Stamp Duty Act 1972 were amended so as to exclude registered traders from paying the hotel levy, entertainment tax and stamp duty on receipts.

Value added tax is a very efficient tax that raises vast amount of revenue for the government (Nightingale,2002), introduction of VAT in Mainland Tanzania boost revenue collection. However issues like tax rates, multiplicity of tax laws, and VAT Exemptions are issues seems to affect VAT compliance of manufacturer for VAT. VAT compliance burden for companies across Africa, including Tanzania is high, It takes far longer for companies to comply with the VAT rules than corporate income tax (Shah, 2012).

¹ www.tanzania.go.tz/tra

Therefore the main research problem for this study was the factors affecting VAT compliance in manufacturing industries in Tanzania.

1.1. Statement of the Problem

The main research problem was the factors affecting VAT compliance in manufacturing industries in Tanzania. Thus the study examined the VAT rate used in Tanzania in order to know if the Tanzanian standard VAT rates cause the abuse of VAT. The study also examined the multiplicity of tax laws in Tanzania in order to know if this laws complicate compliance because firms are required to account for each law separately because firms are required to account for each law separately when filling returns, Lastly the study examined the VAT exemption in manufacturing industries in Tanzania in order to know if taxpayers (industrial sector) use VAT exemption to evade tax (abuse of exemptions) as well as to know if there is enough control and monitoring of the exemption granted to taxpayers. Thus the study determine clearly VAT compliance in manufacturing industries in Tanzania which was not known.

1.2. Research Questions

1.2.1. General Research Question

General research question was; What are the factors affecting VAT compliance in manufacturing industries in Tanzania?

1.2.2 Specific Research Question

This study was guided by the following research questions:

- 1) Is the Tanzania VAT rate high?
- 2) Do multiplicity of tax laws complicates in preparation of VAT return?
- 3) Are VAT exemptions contribute in tax evasion in industrial sector in Tanzania?

1.3. Research Objectives

1.3.1. General Objectives

The overall objective of this study was to investigate the factors that affecting VAT compliance in manufacturing industries in Tanzania.

1.3.2. Specific Objectives

The specific objectives were as follows;-

- 1)To examine the VAT rates used in Tanzania.
- 2)To assess the multiplicity of tax laws in Tanzania.
- 3)To find out whether VAT exemption contribute in tax evasion in manufacturing industries in Tanzania

1.4. Significance of the study

This study is of benefit to industrial sector to be aware about the issues of VAT compliance. Also the findings and recommendations from this study is importance to TRA and other related institutions in improving and promoting the aspect of revenue collection in industrial sector. Moreover the study may be helpful and useful to other researchers who may wish to go deeper into conducting further research in the same field as it will help them to get some important information.

1.5. Limitations and Delimitation of the study

During the study the researcher encountered the following limitations:

Despite the introduction letters that the researcher carried along, a number of respondents refused to provide all the required information as for most thought that the researcher was either a TRA official, journalist, spy, or national security officer. The researcher had to do a lot of explanations to these respondents.

The delay in return of questionnaires was another major problem as this disrupted the researchers' timeframe and financial budget. Research communicate with respondents very often to make sure they submit questionnaires on time.

The researcher also faced financial constraints because the research faced many unexpected expenses that had to be covered to attain the study objectives. These financial constraints rose from extra costs of transportation, data collection (research assistant allowance) and stationeries. Researcher use extra money from personal saving to cover raised extra cost.

1.6. Scope of the study

The research has been conducted at the Kinondoni Municipal, which are situated in Dar es Salaam region. Kinondoni Municipal is among of the Municipals which have a large number of manufacturing industries in Tanzania. The selection of Kinondoni Municipal based on the fact that, it is the Municipal where a researcher is working, Also it is the among Municipals which have large number of manufacturing industries.

This study was done because, together with increasing rate of manufacturing industries in Tanzania, VAT compliance is not increasing directly proportional as the increase of the number of manufacturing industries. The study came out with recommendations to Tanzania Revenue Authority concerning VAT compliance of manufacturing industries in Tanzania.

CHAPTER TWO

LITERATURE REVIEW

2.1. Theoretical review

2.1.1. Importance of Taxation in Public Finance

Governments all over the world including Tanzania have been imposing and collecting various taxes to finance their ever-growing expenditure. Tax is a part of the price of civilization although it is possible to have government without taxation, it is not possible to have taxation without government (Sabine, 1980).

Taxation is the process or means by which the sovereign, through its law-making body, raises income to defray the necessary expenses of the government. Expressed in another way, it is a method of apportioning the cost of government among those who in some measure are privileged to enjoy its benefits and must, therefore, bear its burdens (Cooley, 2010). Also taxation is a compulsory levy charge by the state on her citizens and non-citizens alike that is usually payable in monetary form for which the government need not offer equivalent direct compensatory services or render an individual account on how it utilized revenue (Mpongoliana, 2000). And taxation is the power vested in the legislature to impose burdens or charges upon persons and property for the purpose of raising revenue for public purposes (Malcolm, 2010).

The free market is good at allocating goods and services that producers compete with each other to supply. Things are not allocated well when monopoly disrupts the process. But there are some things, real benefits to the entire community, which cannot be had without monopoly; they are monopolies by their very nature. Consider roads, for example. A highway is generally built along the most direct route available, what incentive is there to build another road to compete with it? If the highway were privately owned, the owner could charge "whatever the traffic would bear" for its use. Rather than award individuals such a huge privilege, most communities build roads collectively, financing them through taxation.

Taxes help to develop the infrastructure of the state like Roads, hospitals, legal protection, welfare security, environment preservation are all possible for our enjoyment; tax also helps to improve the standard of the education. It will be able to provide education to all citizens and helps to increase the standard of living of the citizen. People pay taxes so they can maintain a streamlined government. Taxes are like income for the government so that they can pay for socialized services within any country for service such as health care, pension funds, welfare, homeland security, and in war.

2.1.2. Tax Evasion and its Effect to Economic Development

Tax Evasion is the general term for efforts by individuals, corporations, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability, and includes, in particular, dishonest tax reporting (such as declaring less income, profits or gains than actually earned; or overstating deductions). There is a difference between tax minimization/avoidance and tax evasion. All citizens have the right to reduce the amount of taxes they pay as long as it is by legal means.

2.1.3. Effects of Tax Evasion

Taxes are economically inefficient: In economics, taxes are often considered economically inefficient, which suggests tax evasion may potentially have a positive impact on an economy. The theory is that since taxes operate by increasing the prices of things, overall consumption decreases as taxes increase, and therefore, economic activity falls. The argument for taxes is society and businesses are unable to properly attribute resources toward projects that are in the common good, such as roads, utilities and other infrastructure, so the government collects taxes in order to provide these public goods. The basic laws of economics might suggest that in the absence of the government, private companies would exist to provide these public goods and could do so more efficiently, as they would not be hindered by taxes and government bureaucracy.

Tax evasion hampers governmental efficiency: While the idea those taxes are economically inefficient lends support to the possibility that tax evasion is an economically efficient practice, tax evasion also leads to several undesirable outcomes. First, the government must spend resources attempting to recoup taxes it is owed, which is wasteful to society. (If no one underpaid taxes, more money could be attributed toward beneficial programs instead of being spent on collecting it.) Also, an efficient capitalist economy relies on competition between businesses, but when one company is evading taxes and another is not, it creates an artificial advantage for the company evading taxes. This could lead to companies with less business practices outlasting those with more efficient practices, which would be jeopardizing the economy. Tanzania Revenue Authority views tax evasion very seriously and is evidenced by initiatives taken by the Authority to minimize the practice. One of the initiatives to address the practice is the replacement of Electronic Cash Registers (ECR) with Robust Electronic Fiscal Devices (EFDs), which incorporate advanced functionalities for the purposes of minimizing tax evasion and enhance voluntary compliance.

2.1.4. History of Taxation in Tanzania

In Tanzania the Income Tax Act, 2004 came into effect in July 2004. This act restructured the income tax system in line with modern requirements and repealed the previous Income Tax Act, 1973. Tax is levied on income from employment, income from business and income from investment. Taxable persons include entities and individuals. An entity can be a corporation or a trust, and a corporation is loosely defined to mean any incorporated or unincorporated body of persons or association. For partnerships the individuals within the partnership are taxed on their share of the income. Taxation is on worldwide income for residents (or for individuals, of residents of more than two years) while taxation of non-residents is on Tanzanian source income only.

Tax structure has undergone significant reforms for fairness, simplicity, equity, efficiency and taxpayer friendliness, characterized by abolition of a number of nuisance taxes. The regulatory framework has been harmonized also there is a good incentive regime in place; most rates are in line with internationally accepted best practice as follows:

2.1.5. Tanzania Tax Administration

For effective and efficient implementation of fiscal policy, the Government established an autonomous revenue agency, the Tanzania Revenue Authority (TRA) which became operational in July 1996. TRA is charged with the assessment, collection and accounting of Central Government revenues. The United Republic of Tanzania Constitution recognizes the two parties of the union, namely Zanzibar and the Mainland Tanzania. The Constitution has identified union taxes and non-union taxes. TRA collects the Union taxes, while the Zanzibar Revenue Board collects all non-union taxes in Zanzibar. UNION Taxes are taxes on income imposed under the Income Tax Act 2004 and Custom duties under the East African Customs Management Act 2004. NON-UNION taxes are taxes on domestic consumption, including the Value Added Tax, Excise Duties, Hotel Levies, Stamp Duties, Motor Vehicles Taxes, and other charges.

Revenue Collections have increased in absolute terms from an equivalent of US\$ 1,575 million in 2004/05 to US\$ 3,742 million in 2009/10 Revenue to GDP ratio has increased from 10.8 per cent in 2004/05 to 14.6 per cent in 2009/10.

2.1.6. Tax Administration Reforms in TRA

In recognition of the need to undertake coherent and comprehensive reforms, some years back, the TRA adopted a Tax Administration Reform and Modernization Programme whose primary objective was to modernize and integrate its operations in line with international best practice of tax collection.

Under this ongoing programme, TRA has implemented the following key measures aimed at enhancing revenue collection and service delivery to taxpayers:

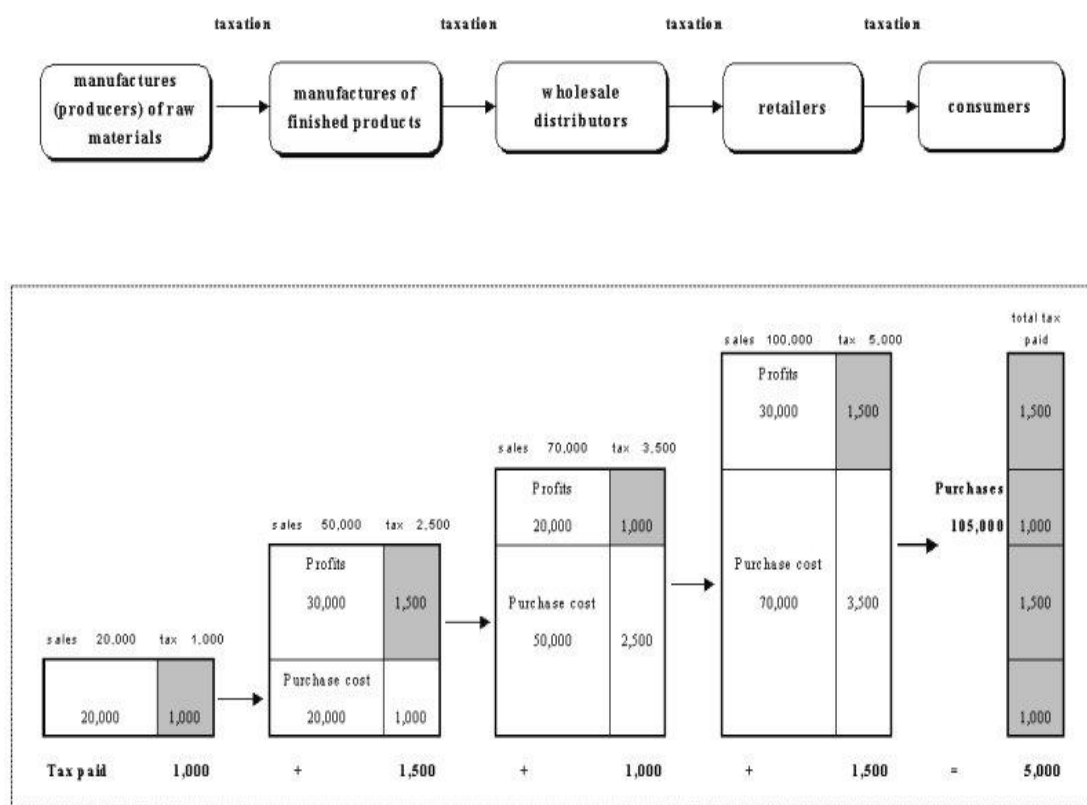
- (i.) Deployment of the Essycuda ++ System in the Customs Services Department;
- (ii.) Installation of X-ray Cargo Scanners at the Dar es salaam Port;
- (iii.) Implementation of a function-based rather than tax-based organizational structure in order to offer seamless service to taxpayers and enhance revenue collection.

2.1.7. Value Added Tax (VAT)

VAT was first introduced at a national level in France in 1954 (Liam Ebrill et al, 2001). Its original coverage was limited, and France did not move to a full VAT that reached the broader retail sector until 1968. The first full VAT in Europe was enacted in Denmark in 1967, although the country did not join the European Economic Community until 1973. The Value Added Tax (VAT) was introduced in Mainland Tanzania on 1st July, 1998 (P.Luoga, 2000). In Tanzania Zanzibar, the system became operational from 1st January, 1999. Main reasons for introducing VAT in mainland Tanzania and Zanzibar was: to broaden the tax base , to attain economic neutrality, to promote exports, and To attain its administrative advantages.

Value Added Tax is a tax levied on the value added to goods or services produced by businesses. Such a tax is collected in stages from each business that contribute to the final market value of goods and services (Bianca D.P, 1980). VAT is indirect tax, which is levied upon the supply of any goods and / or services by any business that is registered for VAT purposes, these goods/services must be sold or supplied in the course of or in furtherance of the business (TRA, 1997). VAT is a multistage tax (See Figure 1.0 below)

Figure 1: Stages of Collecting VAT (Using VAT rate of 20%):



Source: Website²

Figure 1; shows that VAT is charged on it stage of production, VAT is charged on the value added of goods or services. Goods and services pass through various stages of production and distribution process before they reach the final consumer. At each stage VAT is paid in proportion to the value added. Just as the value of goods and services at the point of supply to the final consumer represents the aggregate of the values added by successive traders, so the tax that is paid by final consumer represents the aggregate of VAT paid by successive traders.

In Tanzania, Value Added Tax (VAT) applies to most transactions at 18 per cent. Businesses with an annual turnover above 40 Million Tanzanian shillings must

² <http://www.taxation-tz.com/2011/05/mechanism-of-vat.html> of 20th June 2013

register for VAT, but in some cases registration is compulsory regardless of turnover. Exports, some agricultural inputs, medicines, educational equipment, petroleum products, gas, kerosene, maize flour, milk and newspapers are zero-rated. Exemptions to VAT include live animals, most foodstuffs, financial services (subject to certain exceptions), insurance, passenger transport, entertainment (subject to certain exceptions), and the rental and lease of land and buildings.

2.1.8. Tax Compliance

Compliance means an act or process of complying with official requirements and recommendations³. Tax compliance is a compliance with report requirement tool terms and condition in a way that all payments of taxpayers require submitting tax declaration in appropriate time, also tax declaration should report tax liability precisely according to total internal income, court rules and decisions that are executable at the time of registering declaration (Roth et al, 1989).

Tax compliance, in simple terms, means a system of compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file the tax return on time, with tax reporting requirements, as one must inform the tax authority of his own tax liability, as this refers to citizens willingness to honor the country's tax laws, regulations, and requirement as provided by tax administration authorities. Noncompliance, on the other hand, signifies failing to meet tax reporting requirements. Noncompliance represents the most inclusive conceptualization with respect to the failure to meet tax obligations. Other term used to describe tax noncompliance include tax cheating, evasion, errors and misreporting. Tax evasion, in lay terms, means hiding taxable income from the tax authority. Tax evasion is used interchangeably with noncompliance in the literature despite some differences, particularly with reference to intention. Tax evasion involves some elements of fraudulent conduct accompanied by real intention on the part of the taxpayer to willfully or deliberately mislead, deceive or conceal from the tax

³ <http://www.free-encyclopedia.com> of 20th May 2013

authority the intention to pay less tax than in actually owed. (Carol Fischer, Martha Warrick and Melvin Mark, 2007)

It is accepted that the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties (Park and Hyun 2003). Various indicators have been developed to measure VAT compliance (Silvani and Brondolo, 1990), these methods are as follows,

a) Revenue Productivity Ratio

A simple method for estimating compliance is to calculate the amount of VAT revenue collected as production of gross domestic product (GDP) per point of VAT rate. This ratio is commonly referred to the revenue productivity ratio. According to this measure, high revenue productivity ratios are associated with high levels of compliance. Mathematically, the revenue productivity is defined as follows:

$$RP = (VAT/GDP)/t \quad \text{Where: } RP = \text{Revenue productivity ratio}$$

$$VAT = \text{VAT revenue collected}$$

$$GDP = \text{Gross Domestic Product}$$

$$t = \text{Average VAT rate (Weighted)}$$

The main advantage to using this measure of compliance is that of the components of the calculation are based on the actual or observable data; no estimation is required. Because the data requirements for the revenue productivity ratio are modest and easily satisfied, the calculation can be made with a minimum of effort

Despite this advantage, the revenue productivity ratio has its limitations as a measure of compliance. The primary limitation is that while the ratio adjusts revenue collections for differences in VAT rates it does not make a similar adjustment for

differences in potential VAT bases. Therefore, countries may have high revenue productivity levels not so much because compliance is high, but because the level of the potential base is high. One may argue that the GDP term, in part, adjust for differences in potential bases. However, GDP does not provide a very accurate approximation of the size of the potential base. Substituting consumption for the GDP term would be an improvement, but would still leave the calculation highly biased against countries with narrowly defined VAT bases.

b) Compliance coefficient

Another measure of VAT compliance is the compliance coefficient which is defined as the ratio of actual VAT revenue to potential VAT revenue. The compliance coefficient can be cumbersome to calculate because it requires making an estimation of potential revenue. Mathematically, the compliance coefficient is defined as follows:

$$CC = \text{VAT} / (t * \text{PB})$$

Where; CC = Compliance coefficient

VAT= VAT revenue collected

t=Average VAT rate (weighted)

PB = Potential VAT base

2.1.8.1 VAT Rates

Tax rate describes the burden ratio (usually expressed as a percentage) at which a business or person is taxed. There are several methods used to present a tax rate, these are statutory, average, marginal, and effective.

It is frequently claimed that high average tax rates reduce compliance by holding the prospect of additional gain through understating sales or overstating purchases (Silvan and Brondolo, 1990).

VAT Rate in Tanzania

Value Added Tax is a consumption tax charged by VAT registered traders on all taxable goods and services at a standard rate of 18%. The VAT is a multistage tax levied at each stage of production and distribution up to the retail stage. The tax is also levied on taxable imports made by persons whether or not registered for VAT. All exports are renovated (0%).

All traders or businesses whose taxable turnover exceeds Shs. 40 millions per annum or Shs. 10,000,000 in a period of three (3) consecutive months are obliged to apply for registration to the Commissioner for Domestic Revenue within thirty (30) days of becoming liable to make such application.

Application for VAT registration is done by filling the application form online or manually and TRA inspect the business site before approving any registration. One registered, the taxpayer is required to submit monthly VAT returns either with payment, repayment or a nil return to the month following the month of business.

Some persons and institutions are relieved from the payment of VAT on supplies or on importation of taxable goods and services, while some goods services are specifically exempted from VAT (<http://www.taxation-tz.com/2011/05/tanzanias-tax-structure.html> of 20th July 2013)

VAT Rate in Kenya

Value Added Tax (VAT) is a tax on consumer expenditure introduced in Kenya in January 1990 to replace Sales Tax, which had been in operation since 1973. VAT was introduced as a measure to increase Government revenue through the expansion of the tax base, which hitherto was confined to sale of goods at manufacturing and importation level under the sales tax system. VAT is levied on consumption of

taxable goods and services supplied or imported into Kenya and is collected by registered persons at designated points who then remit it to the Commissioner. Registered persons only act as VAT agents in collecting and paying the tax since the tax is borne by the final consumer of goods and services.

The basic law is contained in the Value Added Tax Act, Cap. 476 of the Laws of Kenya and the Regulations stemming from it.

Value Added Tax is charged on the supply of taxable goods or services made or provided in Kenya and on the importation of taxable goods or services into Kenya. Taxable goods and services are contained in the various schedules to the VAT Act.

Kenyan VAT Act constitutes the following schedules: First Schedule part one specifies the general rate of tax which is 16%, part two taxable services at 14%. Second schedule exempt goods (Non-Taxable Goods) Goods that are not taxable. Third schedule lists the exempt services (Non-taxable Services) services outside this list are taxable. Fourth schedule part one mentioned designated goods. All taxable goods are now designated, part two mentioned designated services. These are services, which are not subject to the turnover limits for registration. Fifth schedule part A mentioned zero rated supplies, part B mentioned zero rated goods. Fifth schedule registration & deregistration procedures and changes affecting registration. Fifth schedule mentioned invoices, records and returns. Eighth schedule part A mentioned public bodies, privileged persons and institutions with zero rated status on imports and purchases, part B mentioned special goods subjected to zero rating, Part C zero rating of goods and services imported or purchased by persons with diplomatic privileges.

VAT Rate in UK

Value Added Tax (VAT) is a tax on consumption levied in the United Kingdom by the national government. It was introduced in 1973 and is the third largest source of government revenue after income tax and National Insurance. It is administered and collected by HM Revenue and Customs. VAT is levied on most goods and services

provided by registered businesses in the UK and some goods and services imported from outside the European Union. There are complex regulations for goods and services imported from within the EU. The default VAT rate is the standard rate, 20% since 4 January 2011. Some goods and services are subject to VAT at a reduced rate of 5% (such as domestic fuel) or 0% (such as most food and children's clothing). Others are exempt from VAT or outside the system altogether. Under EU law, the standard rate of VAT in any EU state cannot be lower than 15%. Each state may have up to two reduced rates of at least 5% for restricted list of goods and services. The European Council must approve any temporary reduction of VAT in the public interest. VAT is an indirect tax because the tax is paid to the government by the seller (the business) rather than the person who ultimately bears the economic burden of the tax (the consumer). It is also a regressive tax: the poorest people spend a higher proportion of their disposable income on VAT than the richest people (http://en.wikipedia.org/wiki/Value_Added_Tax_%28United_Kingdom%29)

2.1.8.2 Multiplicity of Tax laws(Multiple rates)

The term "multiplicity of taxes" refers to the unlawful compulsory taxes imposed by the local and state governments without proper legal support (Abiola, 2012). Multiple rate VATs complicate compliance because firms are required to account separately for each different rate category when filling out tax return (Choi,1990). Inadequately defined rate structures provide incentives for firms to intentionally misclassify goods in order to reduce their tax liability (Sandford and Gordon,1990). Moreover, multiple-rate VATs inevitably require the tax administration to make arbitrary decisions in classifying the rates applied to different goods, a practice that frequently leads to legal disputes to divert the attention of the tax administration (Cnossen,1982).

Abiola (2012), According to the National Tax Policy document, multiple taxation occurs 'where the tax, fee, or rate is levied on the same person in respect of the same liability by more than one state or local government council'. With due respect, this definition is too narrow to the extent that it implies that multiplicity occurs only with

regards to state and local taxes. From the general usages of multiplicity of taxes by stakeholders, it can be said to manifest in at least four ways.

First, it refers to the various unlawful compulsory payments being collected by the local and state governments without appropriate legal backing through intimidation and harassment of the payers. Collection of it is characterised by the use of stickers, mounting of road blocks, use of revenue agents/consultants including Motor Park touts (Abiola,2012)

Secondly, it refers to situations where a taxpayer is faced with demands from two or more different levels of government either for the same or similar taxes. A good example here is the administration of the Value Added Tax (VAT) and Sale Tax simultaneously (Abiola,2012)

Thirdly, multiple taxation refers to where the same level of government imposes two or more taxes on the same tax base. A good example is payment of Companies Income Tax, Education Tax and Technology Levy by the same company. Fourthly, it refers to cases whereby various government agencies 'impose taxes' in the form of fees or charge (Abiola,2012)

2.1.8.3 Tax Exemption

A tax exemption is a reduction or elimination of the taxes normally imposed on individuals and organizations by state and federal governments⁴.

Tax Exemption in Tanzania

The Government aims for a tax system which is broad based with as few exemptions as possible. However, exemptions are granted for a variety of reasons, such as to adhere to international norms for those with diplomatic status, to remove tax burden from donor funded projects, to respect Government commitments in legal

⁴ <http://www.free-encyclopedia.com> of 20th May 2013

agreements, and to implement certain policies such as support for NGOs or for certain economic sectors. Tax exemptions are listed in the schedules to the tax laws, which set out categories of exemptions and the relevant criteria for qualifying for exemptions. In addition, tax exemptions are granted through Government Notices signed by the Minister for Finance published in the Government Gazette (www.mof.go.tz).

Exemptions for non-governmental organizations and vehicles for public officials are administered through the Treasury Voucher system. This means that the tax is assessed as usual but the Government pays the tax on behalf of the exemption beneficiary. For this reason, beneficiaries of these types of exemptions are requested to apply well in advance of importation or purchase to avoid delays

There is also an exemption for Tanzania Investment Centre certified investors for purchase of initial deemed capital goods for their project - this is set out in the main body of the relevant tax laws. For more information see Tanzania Investment Centre.

An export processing zone (EPZ) is a special zone where different taxation rules apply. A company operating in an EPZ must sell at least 70% of its produce outside Tanzania. Any produce sold in the “Customs Territory” of Tanzania will be treated as an import into Tanzania for tax purposes, i.e. import duty, VAT and excise on imports as applicable will be levied. The Export Processing Zones are regulated under the Export Processing Zones Act and relevant provisions are included in the tax laws to reflect this. Companies in the EPZ enjoy the following fiscal incentives:

Exemption from corporate income tax for ten years and thereafter a rate of corporate income tax no higher than 25% , Exemption from withholding tax on interest and dividends , Exemption from stamp duty on documents relating to activities in the EPZ , Exemption from all taxes and levies imposed by local government authorities (except for goods sold in customs territory) , Exemption from 50% of the training levy for investors who train local employees.

In addition there are special provisions for companies in the EPZ as regards purchasing of inputs, compared to a normal exporter.

Table 1: Different between EPZ Exporter and Normal Exporter

EPZ exporter	Normal Exporter
Does not pay customs duty, VAT and other tax on imports*	Pays customs duties, VAT and excise on imports as appropriate, and is entitled to reclaim import duties and VAT
Does not pay VAT or excise on local purchases*	Pays VAT and excise as appropriate on local purchases, and is entitled to reclaim VAT
Exempt from Pre-shipment Inspection	Subject to pre-shipment inspection fee for imports of 1.2%
On-site inspection of imports in the EPZ	Port inspection of imports

Source: Website⁵

*provision applies to goods purchased for use as raw materials, equipment, machinery including all goods and services directly related to the manufacture in the EPZ but shall not include motor vehicles, spare parts and consumables

Tax Exemptions in Kenya

Doya D.M (2013), “There are over 300 exemptions which means too many refunds, which makes administration of the tax cumbersome,” Rotich told reporters in the capital, Nairobi. “Maintaining an exemption does not necessarily benefit the poor which it is supposed to.” Income from the VAT, which is applied at a rate of 16 percent, has fallen to 5 percent of gross domestic product from as much as 8 percent previously because the number of businesses with tax-exempt status keeps growing,

⁵ <http://www.mof.go.tz/mofdocs/revenue/revexemptions.htm> of 20th June 2013

Rotich said. “If one looks at Kenya’s tax revenue performance, one sees that income tax represents about 50 percent of tax receipts, while VAT only represents about 25 percent,” Ragnar Gudmundsson, the IMF’s representative in Kenya said in an e-mailed response to questions June 25. “This is unexpected in an economy like Kenya’s, where the informal economy plays an important role. Removing exemptions will definitely have an upward effect on prices because producers will transfer that burden to consumers,” Joseph Thogo, a Dar es Salaam-based senior manager on tax at Deloitte Tanzania, said

2.2. Empirical Literature Review

2.2.1. Different Perceptions on Tax Compliance

Ojochogwu Winnie Atawodi and Stephen Aanu Ojeka, (2012) conducted a study on the Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria. The study was conducted using SMEs in Zaria, North-Central Nigeria to evaluate and rank the factors that encourage non compliance with tax obligation by SMEs. It was found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of SMEs. Other factors like multiple taxation and lack of proper enlightenment affect tax compliance among the SMEs surveyed only to a lesser extent. Therefore, it is recommended that SMEs should be levied lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market. The government should also consider increasing tax incentives such as exemptions and tax holidays as these will not only encourage voluntary compliance but also attract investors who are potential viable tax payers in the future.

Sia, Gioak Faa (2008) conducted a study on Tax Compliance Behaviour of Individuals under Self Assessment System. Tax non-compliance has always been a major concern for all tax administrations, more so in a self assessment environment where it is dependent on voluntary compliance. In Malaysia, there is a dearth of empirical research on tax compliance in relation to the implementation of self

assessment which only began in 2001 for corporations and 2004 for individual taxpayers. One of the objectives for implementing self assessment is to increase voluntary tax compliance. As such, in a tax system based largely on voluntary compliance, understanding factors that affect compliance amongst individual taxpayers is of vital importance. This thesis integrates two important approaches, namely, the economic and behavioral approaches in examining factors affecting tax compliance. The factors examined include perceived probability of detection, prior tax audit, sanction perception, perception of fairness, perceived moral intensity and peer influence. The data for this study were gathered by using a mail survey. Descriptive analysis and multivariate analysis were performed on the data to determine how the above mentioned factors affect tax compliance behavior. The findings showed that four factors, namely, perceived probability of detection, sanction perception, perceived moral intensity and peer influence were found to have significant relationships with tax compliance.

On the other hand, perception of fairness and prior tax audit were found to have insignificant relationships with tax compliance. However, even though prior tax audit did not have a direct effect on tax compliance, it was found to be significantly associated with perceived probability of detection which is significantly related to tax compliance. This implies that prior tax audit has an indirect effect on tax compliance. Apart from prior tax audit affecting perceived probability of detection, another factor examined namely sanction perception was found to affect perceived probability of detection. In relation to perceived probability of detection and perceived moral intensity which had significant relationships with tax compliance respectively, the findings also indicated that both perceived probability of detection and perceived moral intensity had significant relationships with perception of fairness. Understanding these relationships is important as it not only extends knowledge on improving tax compliance but also provides useful information for the revenue collection authorities in designing better tax policies.

Merima Ali, Odd-Helge Fjeldstad and Ingrid Hoem Sjørnsen (2013). In this study, researchers explore factors that determine citizens' tax compliance behaviour in

Kenya, Tanzania, Uganda and South Africa using attitude and perception data from the new round 5 of Afrobarometer surveys. Using a binary logit regression, they found some similarities, but also differences in factors that are correlated with tax compliance attitude in the four countries. In Kenya and South Africa, citizens who perceive it is difficult to avoid taxes are more likely to have a tax compliant attitude than citizens who think avoidance is relatively easier. They also find evidence that individuals who are more satisfied with public service provision are more likely to have a tax compliant attitude in all the four countries. However, frequent payment to non-state actors, e.g. to criminal gangs in exchange for protection, reduces individual's tax compliant attitude. Furthermore, those individuals who perceive that their ethnic group is treated unfairly by the government are less likely to have a tax compliant attitude in Tanzania and South Africa. Tax knowledge is also significantly correlated with tax compliant attitude in Tanzania and South Africa. These findings are robust for different econometric specifications.

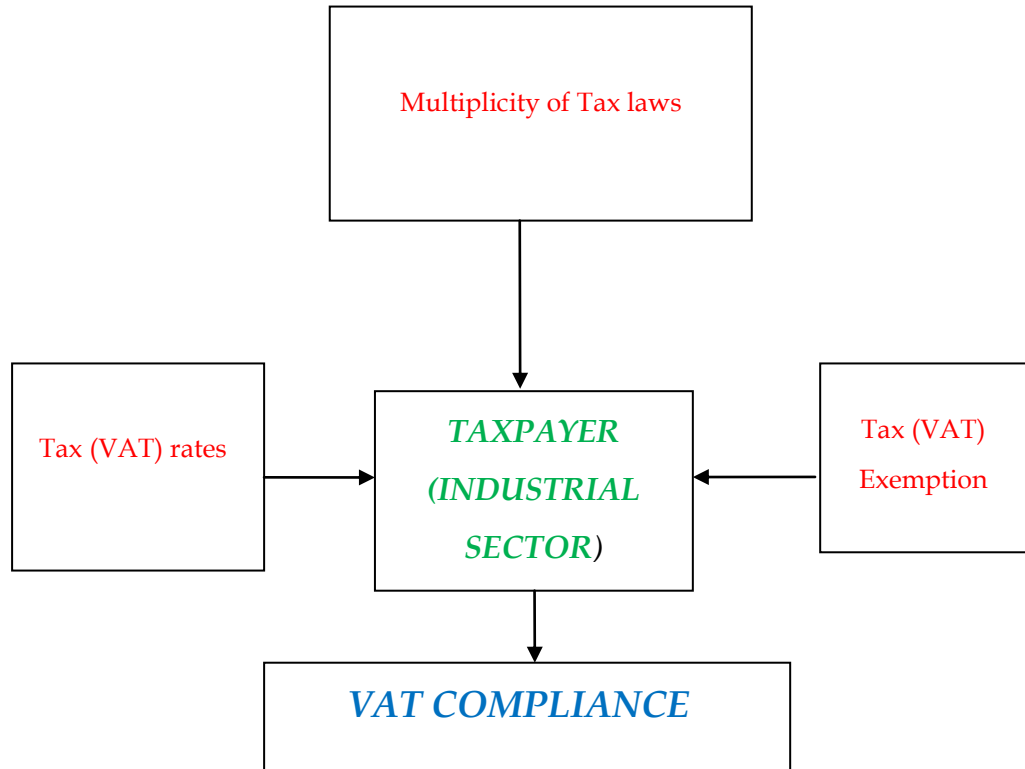
2.3. Research Gap

Despite several studies done in Tanzania and outside Tanzania, the above explanations shows that there is need to conduct studies to see the VAT compliance in manufacturing industries in Tanzania. Furthermore, the study will recommend to the government (policy makers) the factors that affecting VAT compliance and challenges that TRA authority face to in collecting tax to manufacturing industries.

2.4. Conceptual Framework

Looking at the conceptual dimension of VAT compliance in manufacturing industries in Tanzania. VAT compliance of manufacturing industries is the dependent variable which hold direct proportionality with tax (VAT) rates, multiplicity of tax laws, and tax (VAT) exemption on the other side as independent variables.

Figure 2: Conceptual Framework



Source: Research report 2013

Figure 2 gives picture on VAT compliance in manufacturing industries in Tanzania. The associated variables with VAT compliance in manufacturing industries in Tanzania include; tax rates, multiplicity of tax laws, and VAT exemption. VAT compliance in manufacturing industries depends on VAT rates, multiplicity of tax laws and VAT exemptions granted to manufacturing industries. When there is high VAT standard rates, high level of tax multiplicity, poor monitoring and control and abuse of VAT exemption together with un-necessary VAT exemptions granted to manufacturing industries, all these three factors will affect (lowering) the level of VAT compliance of manufacturing industries in Tanzania. Vice versa is true, that is when there is favorable and low VAT standard rate basing on the economy, when the level of tax multiplicity is low and when there is good monitoring and control of VAT exemptions granted to manufacturing industries, also VAT exemptions are granted to taxpayers considering return to the government (necessity of exemption),

then level of VAT compliance in manufacturing industries will be high. The level of VAT compliance can be measured by using Revenue productivity ratio and by using Compliance Coefficient (Silvan and Brondolo)

2.4.1. Dependent variable

In this study of VAT compliance in Manufacturing industries in Dar-es-salaam Tanzania, Dependent variable is VAT Compliance. VAT compliance depend on the VAT rates, Tax Multiplicity and VAT Exemptions. VAT Compliance of manufacturing industries is said to be high or low after being measured by using either Revenue productivity ratio or Compliance coefficient.

2.4.2. Independent variable

In this study of VAT compliance in Manufacturing industries in Dar-es-salaam Tanzania, Independent Variables are VAT Rates, Multiplicity of Tax Laws and Tax (VAT) Exemption. VAT rates as one of the factors affecting (positively or negatively) VAT compliance in manufacturing industries in Dar-es-salaam Tanzania associated with the issue of abuse of VAT. Also multiplicity of tax laws as the another factor affecting (positively or negatively) VAT compliance in manufacturing industries in Dar-es-salaam Tanzania associated with the issue of tax structure. And tax (VAT) exemption as the other factors affecting (positively or negatively) VAT compliance in manufacturing industries in Dar-es-salaam Tanzania associated with the issue of monitoring and control of VAT exemptions, and abuse of VAT exemption. Therefore this study assessed and examined these three factors and their associated issues to find out whether they are affecting (positively or negatively) VAT Compliance in manufacturing industries in Tanzania.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0. Introduction

This chapter shows the various research methodologies/techniques that employed in this study. Research methodology includes the systematic approach of conducting a research, guided by scientific methods/techniques of collecting data, analyze and interpret the same and logics behind them. It shows the procedures that used for collection, analysis and interpretation of data during the study. The study covered VAT Traders in manufacturing industries a case study of manufacturing industries located at Kinondoni municipality in Dar-es-salaam Region and TRA staff at Kinondoni tax region.

3.1. Research Designs

Research is the study of materials, sources, and data in order to get conclusions. Research Design is the conceptual structure within which research is conducted (Yin, 2003). It is the framework that specifies the types of information to be collected, source of data and data collection procedure. A good design makes sure that the information gathered is consistent with the study objectives and data are collected by accurate and economical. This study was conducted using technique of qualitative and quantitative research.

The study used questionnaires, interview questions and documentary review to collect data. The targeted populations of the study were Manufacturing industries in Tanzania and Tanzania Revenue Authority, but researcher selected a case study, the selected case study was Manufacturing industries at Kinondoni municipality in Dar-es-salaam region, Tax expertise (tax consultants) from Kinondoni municipality and TRA Kinondoni Tax Region, because the researcher assured with data access since researcher is working in the same tax region.

The area selected also had many industries which exposed to VAT tax but their compliance was doubtful. Therefore Manufacturing industries at Kinondoni

Municipality in Dar-salaam region, Tax expertise (Tax consultants) from Kinondoni municipality and staffs of TRA-Kinondoni tax region in VAT Department formed population of this study.

3.2. Area of Study

This study targeted Manufacturing industries in Tanzania. The most specific area of the targeted population covered was manufacturing industries at Kinondoni municipality from Dar-es-salaam region, Tax expertise (tax consultant) from Kinondoni municipality and TRA-Kinondoni tax region in VAT Department.

3.3. Study population.

The population was 45 respondents, in which 30 respondents were from three different manufacturing industries, 10 respondents were tax consultants (tax experts) and 5 respondents were TRA staffs. This study was conducted in Kinondoni municipality from Dar-es-salaam region. This population was chosen because it was drawn from area which is assumed to hold same characteristics, Kothari, (2004)

3.4. Sample Size

The sample for this study was 45 respondents from three different part. The first part comprised of respondents from 3 manufacturing industries from Dar-es-salaam region at Kinondoni municipality, whereby from each manufacturing industry specifically in finance department which includes personnel who are conversant with financial matters and VAT related issues 10 employees were selected, therefore makes a total number of 30 respondents from this category. Second part comprised of respondents from tax expertise (tax consultants) from Kinondoni municipality who were 10. And third part comprised of respondents from TRA staffs in VAT department at Kinondoni tax region which were 5. (See table 2 below)

Table 2: Sample Size and Population

Category	Expected number of respondents	Percentage
Manufacturing Industries	30	66.67%
TRA (Employees)	5	11.11%
Tax Expertise	10	22.22%
TOTAL	45	100%

Source: Field Data, 2013

3.4. Sampling techniques

The research used Non- probability sampling techniques, because there was no list of respondents to be studied, the items were chosen by the researcher himself. This technique does not afford any basis for estimation of probability that each item in the population has of being included in the sample. Kothari, (2004)

3.4.1. Judgmental non-probability sampling method

Sampling as one of the methods used to select a sample (group of individuals small in number but having the right qualities to represent the whole target population) was employed in this study. The researcher has used Judgmental non-probability sampling method to select a sample that facilitated the availability of data to meet the major purposes of this study. This is because Judgmental non-probability sampling method is the sampling procedure which does not afford any basis for estimating the probability that each item in the population has of being included in the sample. In this type of sampling items for the sample are selected deliberately by the researcher. (Kothari, 2004).

In this research the researcher used a limited number of sample size so as in each manufacturing industries few representative were selected to represent the whole population, For easy availability of data 3 manufacturing industries were selected and 10 respondents from each manufacturing industries were given questionnaires which summed up to total of 30 respondents from this category, 5 TRA staffs were selected from VAT department in Kinondoni Tax Region, And 10 tax expertise (tax consultant) were selected from different tax firms at Kinondoni municipality.

3.4.2. Purposive sampling method

The researcher choosed sample based on who they think would be appropriate for the study. The methods are primarily used when they are limited number of people that have expertise in the area being researched.

In this research, purposive method was employed to determine the sample of TRA staffs based n their position, experience and knowledge. Based on position Manager of the department was included in the sample and based on knowledge and experience researcher interviewed staffs with 5years experience and above within the organization, based on this criteria out of 10 staffs in the VAT department 5 staffs were selected in the sample and hence a total of 5 respondents in this category.

3.5. Methods of Data Collection and Instruments

The researcher used interviews, questionnaires and documentary review to obtain the data of the study.

3.5.1. Questionnaire

Researcher prepared a list of semi structured and unstructured questions with closed questions and open-ended questions that were presented to respondents. Questionnaires were provided to some of respondents from the selected manufacturing industries and tax consultants. The questionnaire was distributed by hand to each and was collected in the same way. The reason for the researcher to apply the method is that, it is cheap, It gave respondents enough time to give well

thought out answers. Questionnaires were divided regarding each objectives, questionnaire comprises of eight questions in total.

3.5.2. Interview

Interviews were conducted to some of the selected staff from VAT Department. Type of interview that was used is a structured interview in which questions were prepared and each selected staff was interviewed at the time which was convenient to both the interviewer and interviewee. The main reason why researcher decided to apply this type of data collection method was that, it saves time as the researcher prepared questions earlier and also the interviewee had the chance to ask for clarification and modification of the questions of the interview for improvement of findings for in depth discussion. The questions were divided into VAT compliance in general, factors affecting VAT compliance in manufacturing industries in Tanzania, and issues that Government can do to increase VAT compliance. The researcher use both English and Swahili languages when conducting interviews, this helped to reduce the problem of communication barriers.

3.5.3. Documents Review

This is the method of going through the past records and documents of the organizations so as to collect the secondary data which will be of great significance before coming to the point of making a generalization statement. The researcher review information and data concerned revenue collection to TRA, Books, Journals, Newspaper and websites review.

3.6. Types of Data Collected

There are two types of data that the researcher collected; these are primary and secondary data. Primary data was collected by using questionnaires. The questionnaire was structured, open ended and closed ended which were dropped and then picked later. Primary data was also coded and tested for completeness. Secondary data was mainly collected from the TRA's Kinondoni tax region office by

analyzing official documents and by past records inferences, Books, Journals, Newspapers and Websites.

3.6. 1 Primary data collection method

In this study, raw data collected was sorted and summarized in tables and diagrams. The process of data analysis involved several stages. Completed questionnaires were edited for completeness and consistency. The data was then coded and checked for any errors and omissions (Kaewsonth & Harding, 1992). The responses from the open-ended questions were coded. Content analysis was also used in the analysis of some of the open-ended questions. The data was analyzed using procedures within Statistical Package for Social Sciences (SPSS) version 20 and advanced Microsoft excel.

3.6.2. Secondary Data

Secondary data are those which have already been collected by someone else and passed through the statistical process (Kothari, 1999). The secondary data used in this study was obtained from research reports of distinguished academicians connected with the industry, books, Journals, Newspapers, Websites as well as some dissertation paper written on similar research problem. Secondary Data was gathered through documentation.

3.7. Data Analysis Techniques

Data and all the information collected organized in manageable and meaningful forms through simple editing, checking and comparing the information in order to get the relevant information so as to draw valid conclusions. Statistical Package for Social Sciences (SPSS) version 20 and advanced Microsoft excel was used to analyses data collected from respondent. Decision criteria of data analysis techniques was a rate of above 50% out of all respondents.

3.7.1. Quantitative data analysis Technique.

Data originally measured in numerical terms were examined, computed and interpreted by the researcher so as to give analytical statements to suit the scope of this study. Quantitative data were analyzed using Statistical Package for Social Science (SPSS) and advanced excel.

3.7.2. Qualitative Data Analysis Technique.

Basing on the computation which were available from quantitative analysis, a judgmental data analysis was made by providing logical statements to suite the study.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1. Introduction

The main concern of this research was to investigate factors affecting VAT compliance in manufacturing industries in Tanzania. Standard VAT rate used in Tanzania, multiplicity of tax laws in Tanzania, and tax (VAT) exemption in manufacturing industries in Tanzania seems to have effect (whether positive or negative) on VAT compliance to manufacturing industries in Tanzania.

4.2. Respondents information

All 30 respondents from 3 manufacturing industries located at Kinondoni municipality in Dar-es-salaam region and 10 tax expertise (tax consultants) answered questionnaire. Also 5 staffs of Tanzania Revenue Authority from VAT department in Kinondoni tax region respond properly into interview.

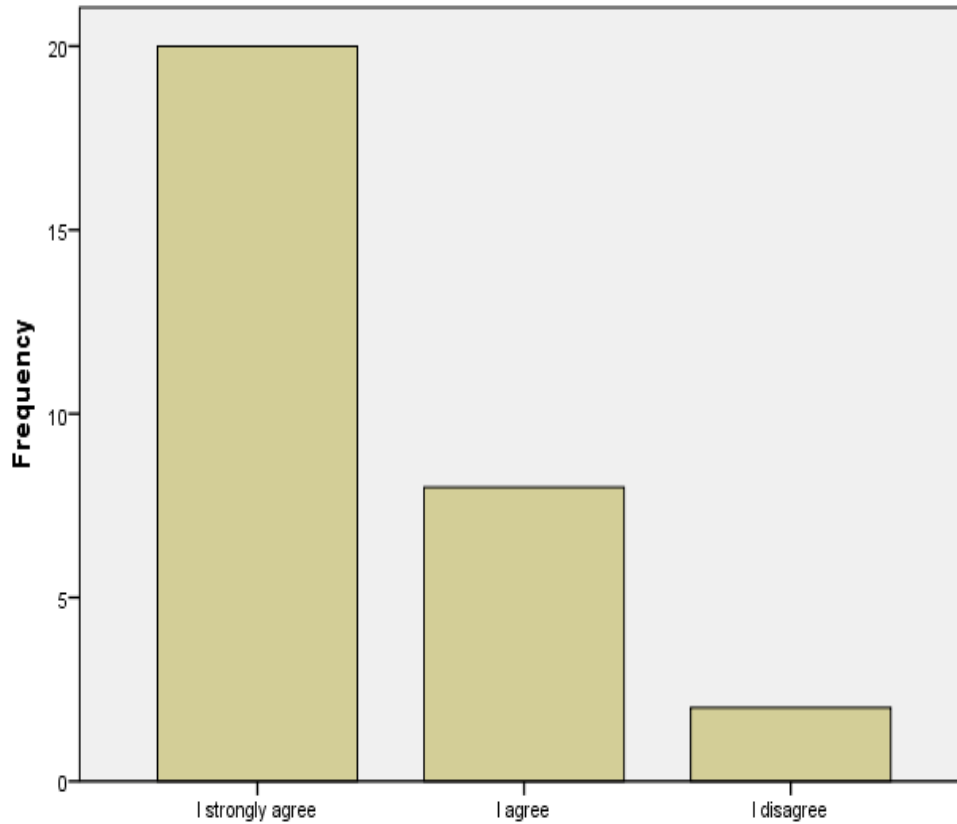
4.2.1. Examination of VAT rate used in Tanzania

This objective aimed to examine the VAT rate used in Tanzania (18%) whether this rate affect VAT compliance of manufacturing industries in Tanzania. Four parameters were observed under this objective, these parameters were Abuse of VAT, Informal operation of manufacturing industries, Taxpayer needs in changing the current VAT rate, as well as suggested new VAT rate. Below are presentation and analysis of the findings of the first objective;

4.2.1.1 VAT rate (18%) and Abuse of VAT

30 respondents from manufacturing industries were asked to state whether they strongly agree, they agree, they don't know, they disagree or they strongly disagree that, Basing to the income of Tanzania citizens, Current Tanzania VAT rate of 18% is high hence cause abuse of VAT. Figure 3 below illustrate more on the response

Figure 3: VAT rate and Abuse of VAT



Source: **Field Data, (2013)**

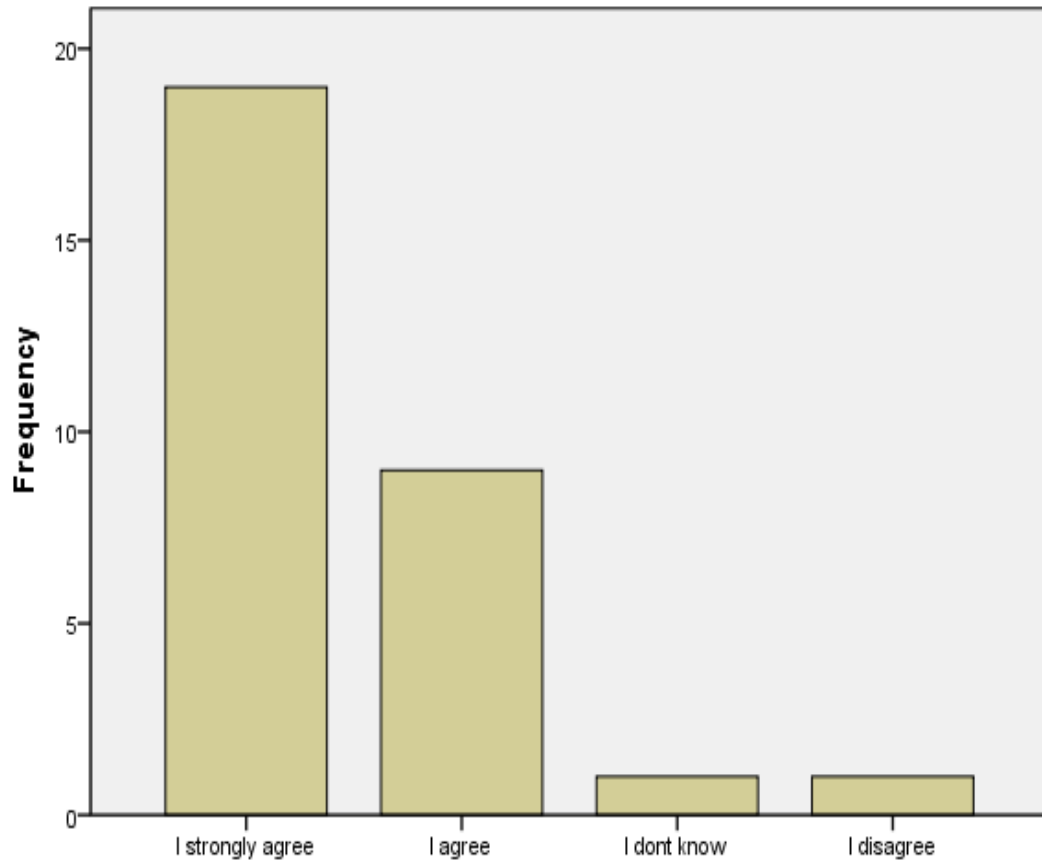
Results in Figure 3 revealed that out of 30 Respondents, 20 (66.7%) respondents said they strongly agree that, based on the income of Tanzania citizens, current Tanzania VAT rate of 18% is high because most of taxpayers (VAT registered trader) fail to pay VAT because VAT rate reduces profit of the taxpayer at large amount that's why cause abuse of VAT, and 8 (26.7%) respondents said they agree that, based on the income of Tanzania citizens, current Tanzania VAT rate of 18% is high hence cause abuse of VAT, and 2 (6.7%) respondents said they disagree that, based on the income of Tanzania citizens, current Tanzania VAT rate of 18% is high that's why cause abuse of VAT. This shows that most of respondents agreed that, basing to the income of Tanzania citizens, current Tanzania VAT rate of 18% is high hence cause abuse of

VAT. VAT rate seems to be high when it reduces the huge amount of the added value (Profit) on the goods or services, out of 30 respondents 28 (93.4%) said that the rate of 18% is high hence the fail to pay tax.

4.2.1.2 VAT rates (18%) and Informal Operation of Firms

On this research question, respondents were asked to state whether they strongly agree, agree, they don't know, they disagree or they strongly disagree that, high standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers and profit. This question was asked to examine whether the current standard VAT rates used in Tanzania is high therefore customers shift their transaction from VAT registered firm to unregistered firm, where by this shifting of customers forces the registered firm to transact in informal (unofficial) way by not imposing VAT on their goods and services in order to maintain their customers by low price. Figure 4 below illustrate more on the response:

Figure 4: VAT rates (18%) forces firm to operate informal



Source: Field Data, 2013

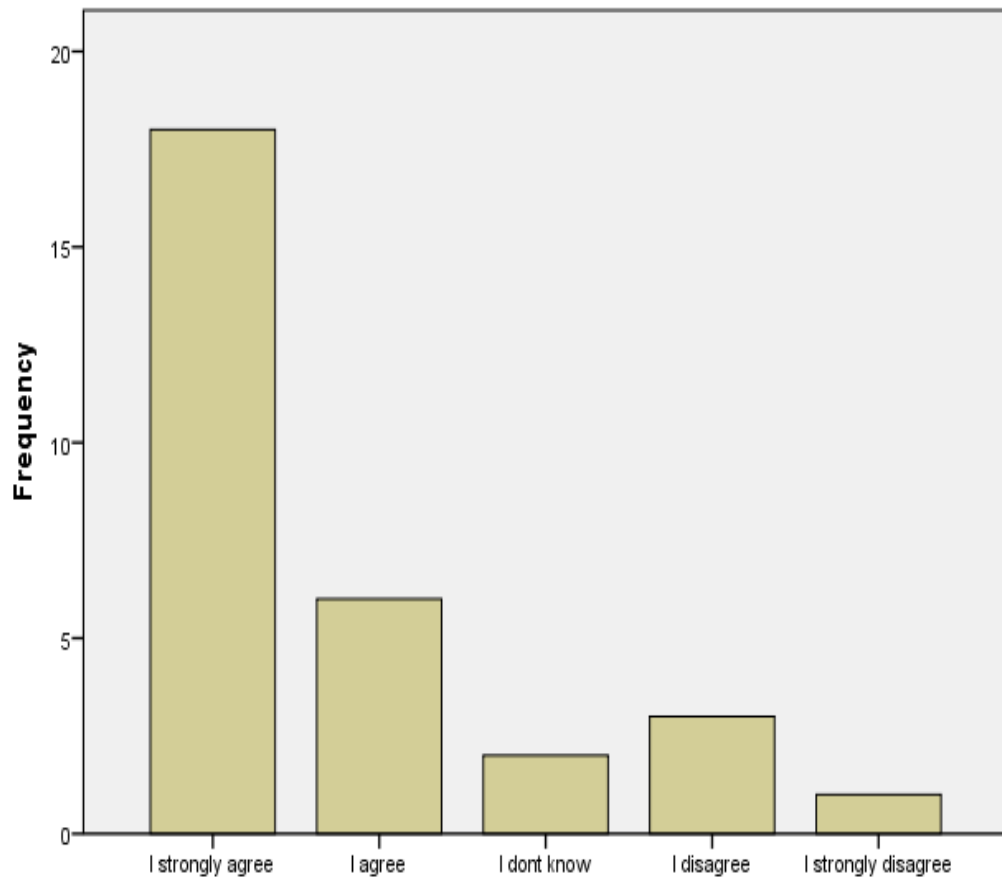
Results from figure 4 revealed that, out of 30 Respondents, 19 (63.3%) respondents they strongly agree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, and 9 (30%) respondents they agree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, 1 (3.3%) respondent don't know that, high standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, and 1 (3.3%) respondent disagree that, high standard rate of VAT of 18% in Tanzania

encourage firms to conduct their business in informal way (they transact informal) so that to get more customers.

4.2.1.3 Need to change VAT rate.

Respondents were asked to state whether they strongly agree, they agree, they don't know, they disagree or they strongly disagree that, there is any need for Government to change the current standard VAT rate of 18%. The aim for this questionnaire was to examine whether there is a need for Government to change its current VAT rate in order to increase VAT compliance of manufacturing industries in Tanzania. Results were presented and analysed in Figure 5.

Figure 5: Need to Change Current VAT Rate (18%).



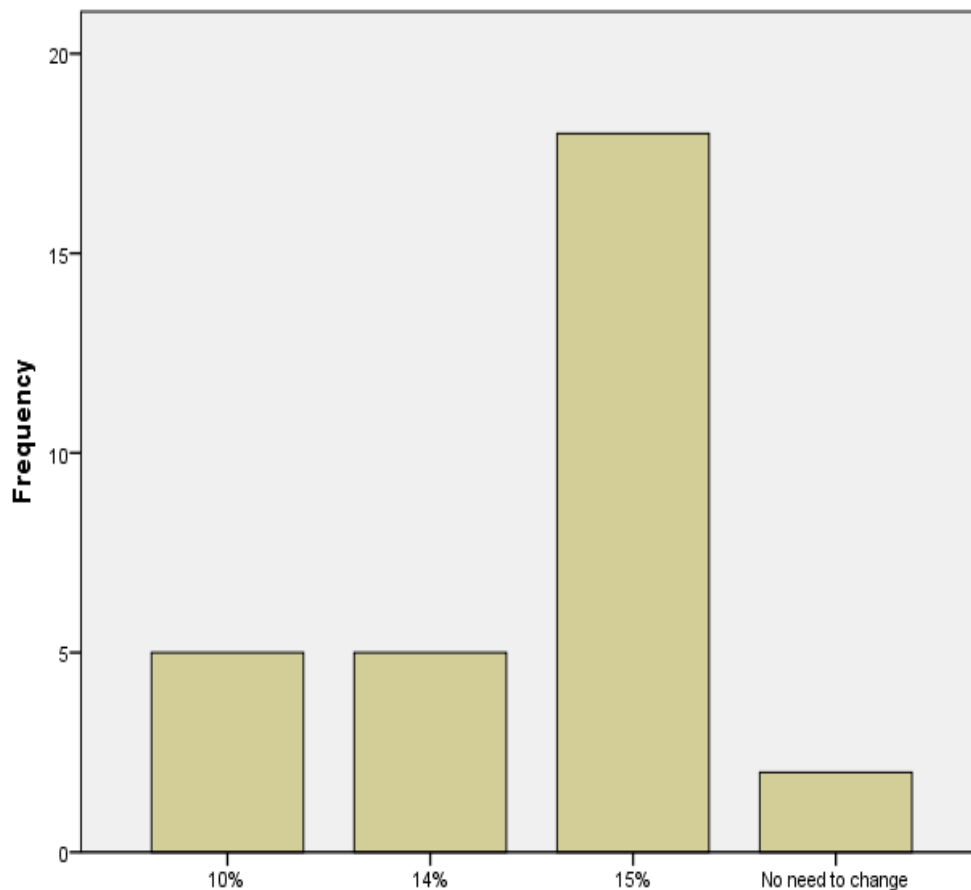
Source: Field Data, 2013

Results in Figure 5 shows that out of 30 respondents, 18 (60%) respondents strongly agree that there is a need for the Government to change the current VAT standard rate because the current VAT rate is high and does not support ability to pay principle, 6 (20%) respondent agreed that there is a need for the Government to change its current VAT standard rate, 2 (6.7%) respondent said they don't know that if there is a need for the Government to change its current VAT standard rate, also 3 (10%) respondent disagree that there is a need for the Government to change its current VAT standard rate, and 1 (3.3%) respondent strongly disagree that there is a need for the Government to change its current VAT standard rate.

4.2.1.4 New VAT rates.

Respondents were asked to indicate new suggested VAT rate to be used by Government that will increase VAT compliance in manufacturing industries in Tanzania. Respondents were provided questionnaires to fill in order to provide their suggested rates which will minimize or eliminate non-compliance of VAT in manufacturing industries in Tanzania, results were presented and analysed in Figure 6.

Figure 6: New VAT Rates



Source: Field Data, 2013

Results in Figure 6 shows that out of 30 respondents, 5 (16.7%) respondents suggested VAT rate of 10%, 5 (16.7%) respondents suggested VAT rate of 14%, 18 (60%) respondents suggested VAT rate of 15%, and 2 (6.7%) respondents said no need for the Government to change the VAT rate used (So they have suggested the VAT rate to remain 18%). Basing on the current rate of VAT (18%) , study reveals that the need to reduce the rate of VAT is highly required for taxpayer.

4.2.2. Multiplicity of Tax Laws.

Second objective of study was to assess multiplicity of tax laws in Tanzania. Under this objective 30 respondents from manufacturing industries were asked to state whether they strongly agree, they agree, they don't know, they disagree or they

strongly disagree that multiplicity of tax laws in Tanzania complicates filing of VAT returns. Table 3 below illustrate more on the response.

Table 3: Multiplicity of Tax Laws.

Response	Frequency	Percent	Valid Percent	Cumulative Percent
I strongly agree	23	76.7	76.7	76.7
I agree	5	16.7	16.7	93.3
I disagree	2	6.7	6.7	100.0
Total	30	100.0	100.0	

Source: Field Data, 2013

Results on Table 3 show that out of 30 Respondents, 23 (76.7%) Respondents said that they strongly agree that Multiplicity of tax laws in Tanzania complicate on filling of VAT returns, 5 (16.7%) Respondents said that they agree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns, and 2 (6.7%) respondents said that they disagree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns.

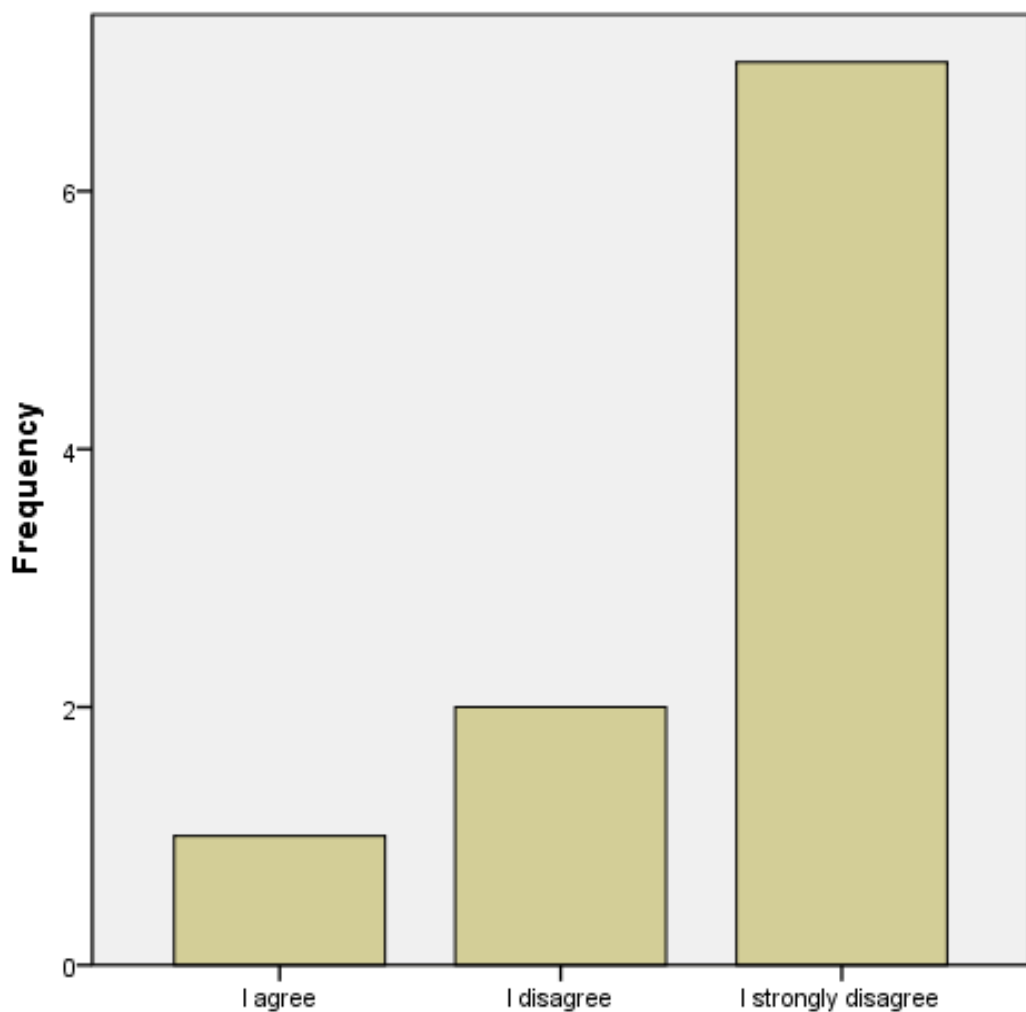
4.2.3. VAT Exemption to Manufacturing Industries in Tanzania

Under this objective of finding out whether VAT exemptions contribute in tax evasion in manufacturing industries in Tanzania, three parameters were observed. First, Necessity of VAT exemptions granted to manufacturing industries in Tanzania. Second, Contribution of VAT exemptions granted to manufacturing industries in tax evasion (Abuse of exemptions). And lastly, Administration (Monitor and Control) of VAT exemptions to Manufacturing industries in Tanzania.

4.2.3.1 Benefit of VAT Exemptions to the Government

The study here aimed to evaluate whether all VAT exemption have benefit to the Government. 10 respondents (tax expertise) were asked to state whether they strongly agree, they agree, they don't know, they disagree or they strongly disagree that all VAT exemptions granted to manufacturing industries in Tanzania have necessity to the government. Results were presented and analysed in Figure 7.

Figure 7: VAT Exemptions to Manufacturing Industries in Tanzania



Source: Field Data, 2013

Results in Figure 7 show that out of 10 Respondents, 7 (70%) respondents they strongly disagree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government, 2 (20%) respondents they disagree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government, 1(10%) respondents said he agree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government. Finding shows that large no of respondents (90%) disagree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government.

4.2.3.2 Contribution of Tax Exemptions in Tax Evasion

The study consider to finding out whether VAT exemptions contribute in tax evasion in manufacturing industries in Tanzania hence affecting VAT compliance. 10 Respondents (tax expertise) were asked whether they strongly agree, agree, they don't know, they disagree or they strongly disagree that, some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions). Results were presented and analysed on Table 4.

Table 4: VAT Exemptions and Tax Evasion

Response	Frequency	Percent	Valid Percent	Cumulative Percent
I strongly agree	7	70.0	70.0	70.0
I agree	2	20.0	20.0	90.0
I disagree	1	10.0	10.0	100.0
Total	10	100.0	100.0	

Source: Field Data, 2013

Results on Table 4 shows that out of 10 respondents 7 (70%) respondents they strongly agree that some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions), 2

(20%) respondents said they agree that some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions), and 1 (10%) of respondents said he disagree that, some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions). Findings revealed that manufacturing industries in Tanzania use VAT exemption granted to them as a loophole to evade tax by mixing some of standard rates goods/services as an exempt goods/services so as to understate their taxable standards sales and they overstate their taxable standards purchases, then they prepare monthly VAT return with low VAT liability in order to make super-profit.

4.2.3.3 Administration of VAT Exemptions in Industries.

The study here aimed to examine if there is effective administration of VAT exemptions granted to manufacturing industries in Tanzania. Respondents were asked to state whether they strongly agree, they agree, they don't know, they disagree or they strongly disagree that, there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania. Results were presented and analysed on Table 5.

Table 5: Administration of VAT Exemptions in Industries.

Response	Frequency	Percent	Valid Percent	Cumulative Percent
I agree	1	10.0	10.0	10.0
I don't know	1	10.0	10.0	20.0
I disagree	2	20.0	20.0	40.0
I strongly disagree	6	60.0	60.0	100.0
Total	10	100.0	100.0	

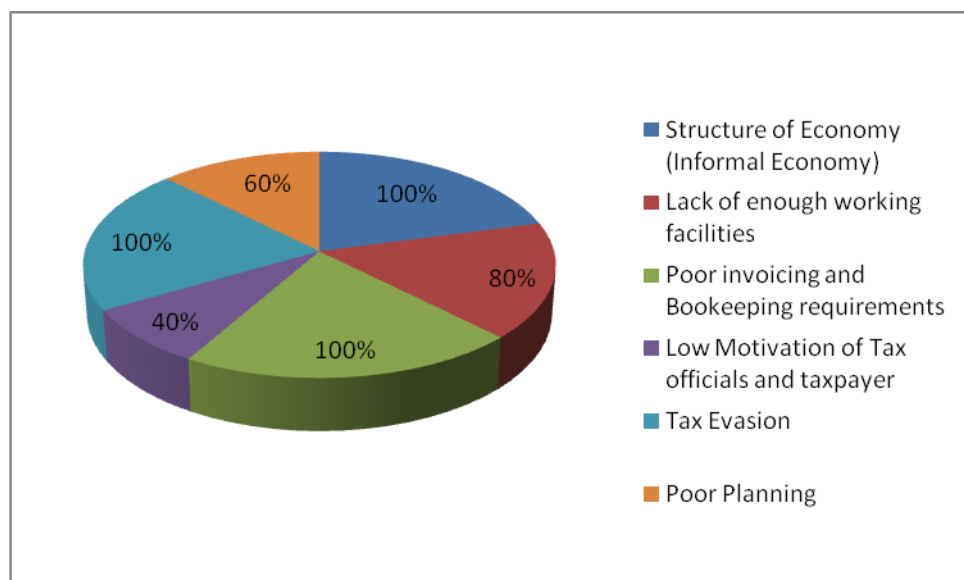
Source: Field Data 2013

Results on Table 5 shows that out of 10 respondents 6 (60%) respondents they strongly disagree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, 2 (20%) respondents said they disagree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, 1 (10%) respondents said he don't know that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, and 1 (10%) respondents said he agree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania.

4.2.4. Challenges in Administering VAT from Industrial Sector

Researcher had an interview with 5 selected TRA staff from VAT department at TRA Kinondoni tax region. Respondents were asked to mention problems which they face when administering VAT in manufacturing industries. Results were analyzed and presented on Figure 8.

Figure 8: Challenges in Administering VAT from Industrial Sector



Source: Field Data, 2013

Results on Figure 8 show that out of 5 TRA staff, all 5 (100%) TRA staff mention Structure of economy (informal economy), Poor invoicing and Bookkeeping requirement, and Tax evasion as a problems/challenges they face when collecting/administering VAT in industrial sector in Tanzania. And out of 5 TRA staff, 4 (80%) TRA staffs say the problem/challenge is working facilities. Also out of 5 TRA staff, 3 (60%) TRA staff said that problem is Poor planning of VAT when administering VAT from industrial sector. Lastly out of 5 TRA staff, 2 (40%) TRA staff said that the problem/challenges is Low motivation to Tax Officials and taxpayers.

Some of the findings revealed that structure of economy in Tanzania is not formal as most of traders have not registered with VAT or they not issuing receipts. In that regards it makes it hard to some of manufacturing industries to account for VAT at each stage of production. Hence it is hard to control VAT from informal sector of economy.

Further findings showed that there is a poor invoicing and bookkeeping to most of the taxpayers as required by law. As a result it leads into the problem on administering/collecting VAT revenue from taxpayers. While there is punishment for those who do not keep records properly there is enough evidence of poor compliance by many tax payers and most of them seems to benefit more for not keeping records hence happily paying the penalties. On Tax evasion major problem in administering VAT in manufacturing industries is that taxpayers prefer to pay low penalties on evading tax than paying the huge amount of tax required by law.

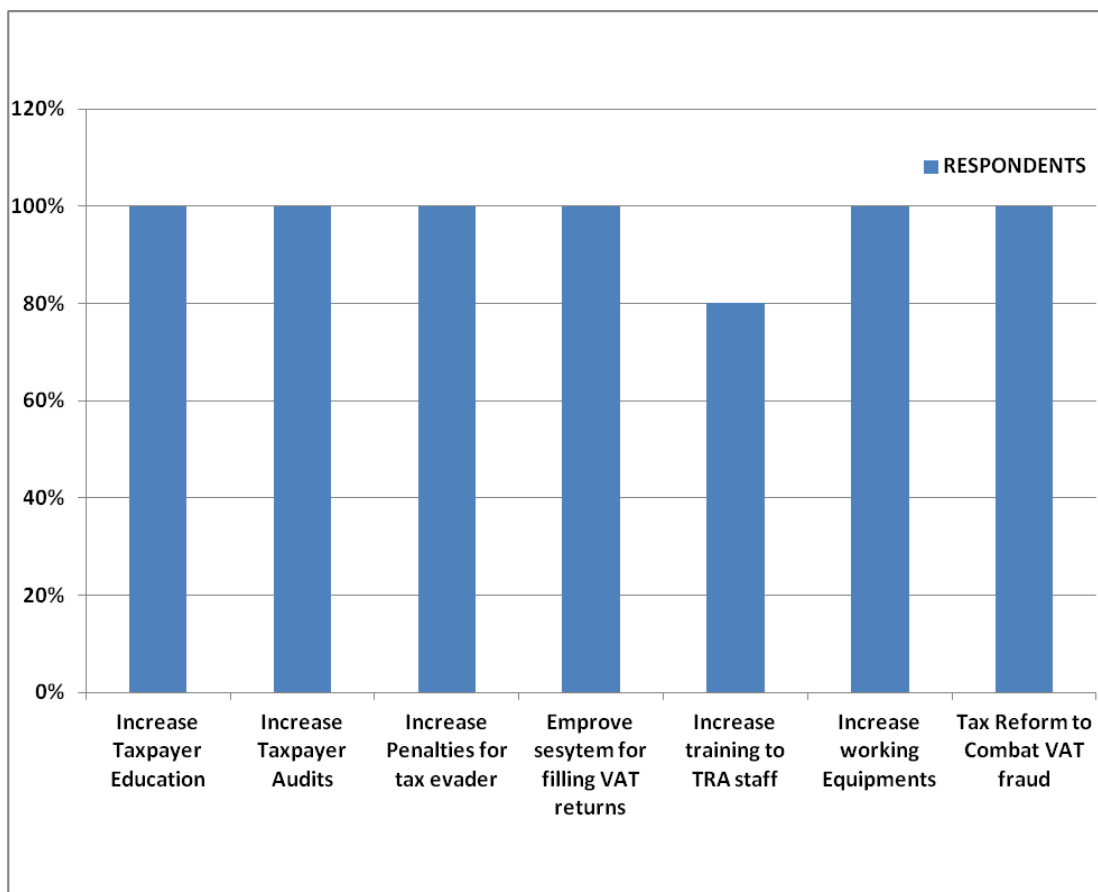
It was further revealed that working equipment is another problem on administering VAT in manufacturing industries, this is because TRA have few vehicles to visit and inspect all taxpayers on time, few personal computers to staff, small office to accommodate all staff and taxpayers at a time.

Lastly findings revealed that there is a poor planning to administer VAT on manufacturing industry by the TRA/Government. There is no good plan to administer and control all VAT registered taxpayers, a good example is that TRA do not have even a report on tax payment on all manufacturing industry.

4.2.5. VAT Compliance from Industrial Sector.

Researcher had an interview with 5 selected TRA staff from VAT department at TRA Kinondoni tax region on issues that TRA/Government can do to increase VAT compliance from Industrial sector. Accordingly respondents were asked to list issues that TRA/Government can do to increase VAT compliance in industrial sector. Results were analyzed and presented on Figure 9.

Figure 9: Increasing VAT compliance from Industrial Sector



Source: Field Data, 2013

Results on Figure 9 shows that out of 5 TRA staff, all 5 (100%) TRA staff mention Increasing Taxpayer Education, Increase Taxpayer Audit, Increase Penalties to taxpayer evader, Improve System for filling VAT returns, Increase working equipments, And Tax laws reform to combat VAT fraud as an issues to consider so as to increase VAT compliance in industrial sector. Out of 5 TRA staff, only 4 (80%) TRA staff suggest that Increasing training to TRA staff will increase VAT compliance to industrial sector in Tanzania.

Findings revealed that TRA staff suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to increase day to day taxpayer education because TRA have taxpayer education department but it have few number of staffs as compared to the needs of taxpayers.

Also TRA staffs suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to increase Tax Audit to the manufacturing industry because most of taxpayers they have not audited for each year of income, but procedure requires that all companies that have criteria to be audited are supposed to be audited for each month so as to monitor and to control revenue collection hence increasing taxpayer compliance.

And TRA staffs suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to increase penalties for tax evader because now days it have been revealed that it is normal practice for taxpayer to evade tax because of not at all to pay penalties or sometimes they are paying low penalties than that they have evade.

Then TRA staffs suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to improve system for filing VAT returns, because taxpayers do not comply with the laws because there is VAT return filing system which is not working appropriate. Also TRA staffs suggest that TRA is supposed to Increase training to its staff in order to increase VAT compliance in

manufacturing industries, because staffs do not have new techniques for controlling and monitoring VAT like taxpayers who have new modern techniques for evading tax. Lastly TRA staffs suggest that in order to increase VAT compliance in manufacturing industries Government must reform tax laws so as to combat fraud, because most of taxpayers do not comply with tax laws by using those laws as loophole for not complying.

4.3. Discussion of Findings

VAT Rate Used in Tanzania

Under the first objective of examining the current VAT standard rate used in Tanzania, there was four analyses.

First Respondents were asked to state whether they strong agree, they agree, they don't know, they disagree or they strong disagree that, basing to the income of Tanzania citizens, Current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT. Results were presented and analysed in Figure 3. Results in Figure 3 revealed that out of 30 Respondents, 20 (66.7%) respondents said they strong agree that, basing to the income of Tanzania citizens, current Tanzania VAT rate of 18% is high hence cause abuse of VAT, and 8 (26.7%) respondents said they agree that, basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT, and 2 (6.7%) respondents said they disagree that, basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT. This shows that out of 30 respondents 28 (93.3%) respondents agreed that, basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT. This implies that the current Tanzania VAT standard rate is high, because lead the abuse of VAT by the registered trader (Manufactures) not to sell their products with VAT in order to maintain their customers.

Second, Respondents were asked to state whether they strong agree, agree, they don't know, they disagree or they strong disagree that, high standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers. Reason for this was to examine whether the current standard VAT rates used in Tanzania is high therefore Customers shift their transaction from VAT registered firm to unregistered firm, where by this shifting of customers forces the registered firm to transact informal way by not imposing VAT on their goods and services in order to maintain their customers. The results are presented and analysed in figure 4. Results from figure 4 revealed that, out of 30 Respondents, 19 (63.3%) respondents they strong agree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, and 9 (30%) respondents they agree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, 1 (3.3%) respondent don't know that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, and 1 (3.3%) respondent disagree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers. Findings implies that because of the High Tanzanian VAT standard rate of 18% forces manufacture to operate informal (informal economy) so that as to cope with the informal customers by afraid to lose those customers. Compliance can be affected by the economy's structure of production because as the formal sector expands taxation tends to be increasingly determined by a more readily measurable and verifiable tax base, thereby reducing opportunities for non-compliance (Bird, 1992).

Third, Respondents were asked to state whether they strong agree, they agree, they don't know, they disagree or they strong disagree that, there is any need for Government to change the current standard VAT rate of 18%. The aim for this questionnaire was to examine whether there is a need for Government to change its current VAT rate in order to increase VAT compliance of manufacturing industries in Tanzania. Results were presented and analysed in Figure 5. Results in Figure 5

shows that out of 30 respondents, 18 (60%) respondents strong agree that there is a need for the Government to change the current VAT standard rate, 6 (20%) respondent agreed that there is a need for the Government to change its current VAT standard rate, 2 (6.7%)respondent said they don't know that if there is a need for the Government to change its current VAT standard rate, also 3 (10%) respondent disagree that there is a need for the Government to change its current VAT standard rate, and 1 (3.3%) respondent strong disagree that there is a need for the Government to change its current VAT standard rate. The finding implies that there is a need for the Government to change its current standard VAT rate in order to broadening tax base and increase VAT compliance in manufacturing Industries in Tanzania.

Lastly, Respondents were asked to indicated new suggested VAT rate that can be used by Government, then respondents were provided questionnaires to fill in order to provide their suggested rates which will minimize or eliminate non-compliance of VAT in manufacturing industries in Tanzania, Results were presented and analysed in Figure 6. Results in Figure 6 shows that out of 30 respondents, 5 (16.7%) respondents suggested VAT rate of 10%, 5 (16.7%) respondents suggested VAT rate of 14%, 18 (60%) respondents suggested VAT rate of 15%, and 2 (6.7%) respondents said no need for the Government to change the VAT rate used (So they have suggested the VAT rate to remain 18%). The study reveals that the need to reduce the rate of VAT is highly required for taxpayer as it stated early that this current VAT standard rate affect negatively on the VAT compliance of manufacturing industries in Tanzania.

In view of the first objective, findings revealed that current VAT rate (18%) in Tanzania is high hence affect VAT compliance in manufacturing industries in Tanzania

Multiplicity of Tax Laws in Tanzania.

Under second objective of assessing the Multiplicity of tax laws in Tanzania whether complicate compliance because firms are required to account for each law separately when filling returns. Respondents were asked, multiplicity of tax laws in Tanzania

complicates filing of VAT return, respondents were asked to state whether they strong agree, they agree, they don't know, they disagree or they strong disagree with this. Results were presented and analysed in Table 3. Results on Table 3 shows that out of 30 respondents, 23 (76.7%) Respondents said that they strong agree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns, 5 (16.7%) respondents said that they agree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns, and 2 (6.7%) respondents said that they disagree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns. This implies that in Tanzania there is multiplicity of tax laws. Multiple taxation burdens businesses and traders, thus reducing their ability to compete domestically with imported products and to compete successfully in export markets (Okere, R & Okereke, H, 2011). Moreover, multiple rate VAT is inevitably require the tax administration to make arbitrary decisions in classifying the rates applied to different goods, a practice that frequently leads to legal disputes to divert the attention of the tax administration (Cnossen, 1982). Confederation of Tanzania Industries Executive Director Christine Kilindu said that businesspeople have no problem with paying the taxes outlined by the government but the problem was the multiple levies which they were required to pay (Shekighenda, 2013).

VAT Exemption in Manufacturing Industries in Tanzania.

Under this objective of finding out whether VAT exemptions contribute in tax evasion in manufacturing industries in Tanzania, three issues were analysed under.

First, the study here aimed to evaluate whether all VAT exemption have benefit to the Government. 10 respondents (tax expertise) were asked to state whether they strong agree, they agree, they don't know, they disagree or they strong disagree that all VAT exemptions granted to manufacturing industries in Tanzania have necessity to the government. Results were presented and analysed in Figure 7. Results in Figure 7 shows that out of 10 Respondents, 7 (70%) respondents they strong disagree that all VAT exemptions granted to manufacturing industries in Tanzania have necessity to the government, 2 (20%) respondents they disagree that all VAT

exemptions granted to manufacturing industries in Tanzania have necessity to the government, 1(10%) respondents said he agree that all VAT exemptions granted to manufacturing industries in Tanzania have necessity to the government. Finding shows that large no of respondents (90%) disagree that all VAT exemptions granted to manufacturing industries in Tanzania have necessity to the government. This implies that not all exemptions granted to manufactures have benefit to the government. According to Controller and Auditor General Ludovick Utuoh: “The nation is losing a lot of money under the tax exemption policy. I think the government needs to review this policy” (Tanzania government review 2008-2009).

Second, study consider to finding out whether VAT exemptions contribute in tax evasion in manufacturing industries in Tanzania hence affecting VAT compliance. 10 Respondents (tax expertise) were asked whether they strong agree, agree, they don't know, they disagree or they strong disagree that, some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions). Results were presented and analysed on Table 4. Results on Table 4 shows that out of 10 respondents 7 (70%) respondents they strong agree that some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions), 2 (20%) respondents said they agree that some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions), and 1 (10%) of respondents said he disagree that, some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions). Findings revealed that manufacturing industries in Tanzania use VAT exemption granted to them as a loophole to evade tax by mixing some of standard rates goods/services as an exempt goods/services so as to understate their taxable standards sales and they overstate their taxable standards purchases, then they prepare monthly VAT return with low VAT liability in order to make super-profit. Findings revealed that manufacturing industries in Tanzania use VAT exemption granted to them as a loophole to evade tax by mixing some of standard rates goods/services as an exempt goods/services so as to

understate their taxable standards sales and they overstate their taxable standards purchases, then they prepare monthly VAT return with low VAT liability in order to make super-profit. Exemptions provide an avenue for evasion by opening the door to intention misclassification of goods by taxpayers (Bird, 1992)

Lastly, under third objective study aimed to examine effectiveness of administration of VAT exemptions granted to manufacturing industries in Tanzania. Respondents were asked to state whether they strong agree, they agree, they don't know, they disagree or they strong disagree that, there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania. Results were presented and analysed on Table 5. Results on Table 5 shows that out of 10 respondents 6 (60%) respondents they strong disagree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, 2 (20%) respondents said they disagree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, 1 (10%) respondents said he don't know that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, and 1 (10%) respondents said he agree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania. From the findings, this implies that there is ineffectiveness of tax administration in monitoring and control of VAT exemptions granted to manufacturing industries in Tanzania.

In the view of third objective, findings of this study revealed that VAT exemptions granted to manufacturing industries in Tanzania affect VAT compliance in manufacturing industries in Tanzania.

Challenges in Administering VAT from Industrial Sector

As per interview conducted to TRA staffs, TRA staffs were asked to mentioned challenges they facing when Administering(collecting) VAT from Industrial Sector. TRA staffs mention Structure of economy (informal economy), Poor invoicing and Bookkeeping requirement, Tax evasion, Poor planning of VAT when administering,

Low motivation of Tax Officials and taxpayers, and Poor and few working facilities as a problems/challenges they face when collecting/administering VAT in industrial sector in Tanzania.

VAT Compliance from Industrial Sector

TRA staffs were also asked to mentioned Issues that TRA/Government can do to increase VAT compliance from Industrial Sector. They mentioned the following issues; Increasing Taxpayer Education, Increase Taxpayer Audit, Increase Penalties to taxpayer evader, Improve System for filling VAT returns, Increase working equipments, Tax laws reform to combat VAT fraud, and Increasing training to TRA staff.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0. Introduction

This chapter is organized into five major parts. The first part provides introduction to the research and highlights the summary of study, the other part provides the overall conclusion to the study while another part highlights the recommendations and the last part points out suggestions of areas for further studies.

5.1. Summary of the Study

The study was on the factors affecting VAT compliance in industrial sector in Tanzania. There were three objectives in this study. The first objective was to examine the VAT rates used in Tanzania. The second objective was to assess the multiplicity of tax laws in Tanzania and the third objective was to find out whether VAT exemption contribute in tax evasion in industrial sector in Tanzania

To meet the research objectives, three research questions were formulated consistent with the stated objectives, basing on these questions the main data collection instrument (semi-structured questionnaire) was developed. The first research question was; Is the current Tanzania VAT rate (18%) high?. The second research question was; Do multiplicity of tax laws complicates VAT return filling ?. And the third research question was; Does VAT exemptions contribute in tax evasion in industrial sector in Tanzania? Also interview was conducted to five selected TRA staffs, TRA staffs were asked to mention problems/challenge they face when administering/collecting VAT from industrial sectors in Tanzania, also TRA staffs were asked to mention issues that TRA/Government can do in order to increase VAT compliance in industrial sector.

The study expected to help both the Tanzania Revenue Authority and Taxpayers. It is therefore expected to provide benefits to the researcher in respect of award of master

degree and the community at large. The study was also expected to help other researchers who may wish to go deeper into conducting further research in the same field.

Researcher faced a problem of securing all data and information needed for the study, because many respondents felt as wastage of time as their views would have no/little change to the study, but the researcher managed to explain to them the motives of the research and how the study will be beneficial to them through the recommendation. Also there was delaying of in return of questionnaire. And English language as the major tool of communication between the researcher and respondents, some respondents were not comfortable with English.

The study attempted to examine different literatures related to the factors affecting VAT compliance in manufacturing industries in Tanzania, highlight the methods used to measure VAT compliance in revenue collection. The study had limited source of literature review due to lack of literature since the problem under research discussed by few researchers.

The study was limited to the factors affecting VAT compliance in manufacturing in Tanzania. The methodology of this study undertakes a data reduction process into fewer categories, which creates a problem of reliability or consistency in text classification. This was because as a researcher, had the freedom to choose what words or coding classification to use. Furthermore, validity of variables was another major difficulty, since there were only valid to the extent of measuring the researcher's construct. Consequently, the results obtained might not be generalizable beyond the data set and also the sample. This study was conducted using technique of qualitative and quantitative research. The study used questionnaires interview, documentation, the semi-structured questions were used to collect data. Selected case study was TRA Kinondoni Tax Region, Tanzania because the researcher assured with data access since is working in the same tax region.

The target population was 3 manufacturing industries from Kinondoni Municipality in Dar-es-salaam region with 10 respondents at each industry making a total number

of 30 respondents, in which all 30 respondents responded. Also only five (5) key informants staff from TRA-Kinondoni tax region at VAT department were interviewed. Other data were collected at the TRA website.

The findings of this study may serve as provoking resource that can inspire other researchers' curiosity to conduct research in deep in other areas related to VAT Compliance. The results were expected to contribute to the implementation of policies and structures that facilitated revenue collection, the findings of this research were expected to contribute the useful information for policy and decision makers in their efforts to improve revenue collection in Tanzania.

5.2. Findings

5.2.1. VAT Rate (18%) and Abuse of VAT

Results of the findings revealed that out of 30 Respondents, 20 (66.7%) respondents they said they strongly agree that, Basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT, and 8 (26.7%) respondents they said they agree that, Basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT, and 2 (6.7%) respondents they said they disagree that, Basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT. This shows that most of respondents they agree that, Basing to the income of Tanzania citizens, current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT

5.2.2. VAT Rates (18%) Forces Firm to Operate Informal

Results of the findings revealed that, out of 30 Respondents, 19 (63.3%) respondents they strongly agree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, and 9 (30%) respondents they agree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, 1 (3.3%) respondent don't know

that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers, and 1 (3.3%) respondent disagree that, High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way (they transact informal) so that to get more customers.

5.2.3. Need to Change VAT Rates (18%)

Results of the findings shows that out of 30 respondents, 18 (60%) respondents strongly agree that there is a need for the Government to change the current VAT standard rate, 6 (20%) respondent agreed that there is a need for the Government to change its current VAT standard rate, 2 (6.7%) respondent said they don't know that if there is a need for the Government to change its current VAT standard rate, also 3 (10%) respondent disagree that there is a need for the Government to change its current VAT standard rate, and 1 (3.3%) respondent strong disagree that there is a need for the Government to change its current VAT standard rate. The finding implies that there is a need for the Government to change its current standard VAT rate.

5.2.4. New VAT Rate

Results of the findings shows that out of 30 respondents, 5 (16.7%) respondents suggested VAT rate of 10%, 5 (16.7%) respondents suggested VAT rate of 14%, 18 (60%) respondents suggested VAT rate of 15%, and 2 (6.7%) respondents said no need for the Government to change the VAT rate used (So they have suggested the VAT rate to remain 18%). The study reveals that the need to reduce the rate of VAT is highly required for taxpayer.

5.2.5. Multiplicity of Tax Laws

Results of the findings shows that out of 30 Respondents, 23 (76.7%) Respondents said that they strongly agree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns, 5 (16.7%) Respondents said that they agree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns, and 2 (6.7%) respondents said they disagree that Multiplicity of tax laws in Tanzania complicates on filling of VAT returns.

5.2.6. Benefit of VAT exemptions to the Government

Results of findings shows that out of 10 Respondents, 7 (70%) respondents strongly disagree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government, 2 (20%) respondents disagree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government, 1(10%) respondents said he agree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government. Finding shows that 9 (90%) respondents disagree that all VAT exemptions granted to manufacturing industries in Tanzania have benefit to the government.

5.2.7. Contribution of Tax Exemptions in Tax Evasion

Results on the findings shows that out of 10 respondents 7 (90%) respondents strongly agree that some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions), 2 (20%) respondents said they agree that some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions), and 1 (10%) of respondents said he disagree that, some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions). Findings revealed that manufacturing industries in Tanzania use VAT exemption granted to them as a loophole to evade tax by mixing some of standard rates goods/services as an exempt goods/services so as to understate their taxable standards sales as well as overstate taxable standards purchases, then they prepare monthly VAT return with low VAT liability in order to make super-profit.

5.2.8. Administration of VAT Exemption in Industries

Results on findings shows that out of 10 respondents 6 (60%) respondents they strongly disagree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, 2 (20%)

respondents said they disagree that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, 1 (10%) respondents said he don't know that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania, and 1 (10%) respondents said he don't know that there is effective tax administration that monitor and control VAT exemptions granted to Manufacturing industries in Tanzania.

5.2.9. Challenges in Administering VAT from Industrial Sector

The study use 5 TRA staffs from VAT department at Kinondoni tax region, out of 5 TRA staff, all 5 (100%) TRA staff mention Structure of economy (informal economy), Poor invoicing and Bookkeeping requirement, and Tax evasion as a problems/challenges they face when collecting/administering VAT in industrial sector in Tanzania. And out of 5 TRA staff, 4 (80%) TRA staffs say the problem/challenge is working facilities. Also out of 5 TRA staff, 3 (60%) TRA staff said that problem is Poor planning of VAT when administering VAT from industrial sector. Lastly out of 5 TRA staff, 2 (40%) TRA staff said that the problem/challenges is Low motivation of Tax Officials and taxpayers. Findings revealed that Structure of economy in Tanzania is not formal as most of traders they have not registered with VAT or they not issuing receipts so it make hard to some of manufacturing industries to account for VAT at each stage of production, Hence it is hard to control VAT from informal sector of economy. Also findings shows that there is poor invoicing and bookkeeping to most of taxpayers as required by law so this lead to problem on administering/collecting VAT revenue from taxpayers hence poor compliance, although there is punishment for those who do not keeps records proper but taxpayer benefit more for not keeping records that paying the penalties. And findings shows that Tax evasion is also a major problems in administering VAT in manufacturing industries, because also taxpayers here they sees it is better to pay low penalties when seems to evade tax while they are benefiting a lot when evade tax, so they see it better to evade even if they will be caught than not to evade at all. Findings then shows Working equipment is other problems on administering VAT in

manufacturing industries, this is TRA have few Vehicles to visit all taxpayers on time, it have few Personal Computers to each required staff, then few and small office to accommodate all staffs and taxpayers at time. And Lastly findings revealed that other problems to administer VAT on manufacturing industry is poor planning of the TRA/Government because TRA/Government do not make good plan so as to administer and control all VAT registered taxpayers, example TRA it do not have even a reports on all manufacturing industry.

5.2.10. VAT Compliance from Industrial Sector

The study use 5 TRA staffs from VAT department at Kinondoni tax region. Out of 5 TRA staff, all 5 (100%) TRA staff mention Increasing Taxpayer Education, Increase Taxpayer Audit, Increase Penalties to taxpayer evader, Improve System for filling VAT returns, Increase working equipments, And Tax laws reform to combat VAT fraud as an issues to consider so as to increase VAT compliance in industrial sector. And out of 5 TRA staff, only 4 (80%) TRA staff suggest that Increasing training to TRA staff will increase VAT compliance to industrial sector in Tanzania. Findings revealed that TRA staffs suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to increase day to day taxpayer education because TRA have taxpayer education department but it have few number of staffs as compared to the needs of taxpayers. Also Findings revealed that TRA staffs suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to increase Tax Audit to the manufacturing industry because most of taxpayers they have not audited for each year of income, but procedure requires that all companies that have criteria to be audited are supposed to be audited for each month so as to monitor and to control revenue collection hence increasing taxpayer compliance. And finding Findings exposed that TRA staffs suggest that in order TRA/Government to increase VAT compliance in manufacturing industry it suppose to increase penalties for tax evader because now days it have been revealed that it is normal practice for taxpayer to evade tax because of not at all to pay penalties or sometimes they are paying low penalties than that they have evade. Then Findings exposed that TRA staffs suggest that in order

TRA/Government to increase VAT compliance in manufacturing industry it suppose to improve system for filing VAT returns, because taxpayers do not comply with the laws because there is VAT return filing system which is not working appropriate. Also TRA staffs suggest that TRA is supposed to Increase training to its staff in order to increase VAT compliance in manufacturing industries, because staffs do not have new techniques for controlling and monitoring VAT like taxpayers who have new modern techniques for evading tax. Lastly TRA staffs suggest that in order to increase VAT compliance in manufacturing industries Government must reform tax laws so as to combat fraud, because most of taxpayers do not comply with tax laws by using those laws as loophole for not complying.

5.3. Conclusion

The following conclusion are drawn from the study, the Tanzanian VAT standard rate (18%) is high regarding the income earned by the consumer, therefore because of this high standard rates forces manufactures to transact informal with the citizens, and sometimes abuse of VAT on the other hand this affect compliance of manufacturing industries.

In Tanzania there is Multiplicity of tax laws which complicate compliance when filling VAT return

Not all exemptions granted to manufacturing industries in Tanzania have necessity to Government, also Tax administration is not effective in monitoring and controlling VAT exemptions granted to manufactures, on the other way manufacturing industries use VAT exemptions granted to them as the means of evading tax by mixing the exempt with standard rate products to overstate their purchases or understate their sales. Directly VAT exemptions affect VAT compliance of manufacturing industries in Tanzania.

VAT is an appealing way to raise revenue. In its purest form, it taxes only final consumption. Because it is collected at stages through the supply chain, scope for

wholesale evasion, such as can exist with a retail sales tax where all the revenue is collected at the point of sale to the final consumer, is limited. But many difficulties remain which limit its effectiveness in practice. VAT is complex to administer, and depends for its operation on careful auditing and enforcement. Evasion remains a problem. Rate differentiation and the use of exemptions create welfare-reducing distortions as well as adding to complexity. The important factors for a good VAT system include a single tax rate, a broad tax base with few exemptions, and modernization of procedures for enforcement and compliance (Nishiyama, 2012)

5.4. Recommendations

Literacy campaigns to improve the individual taxpayer's ability to understand Value Added Tax. Government should increase education to both taxpayer and tax officials, because Tax compliance is the obedience to the provisions of the tax laws. Compliance is not a one-way traffic flow. Both the tax authority and taxpayers are obligated to comply with the provisions of the law. There is non-compliance when taxes are imposed arbitrarily, administered without following set rules or standards and people are subject to penal sanctions without due process. An absolute compliance would mean that the taxpayer, tax authority and their advisors would do the right thing at the right time. What a good day that would be in the history of a nation. We must be realistic enough to concede that it is impossible to have an absolute compliance since we are not all angels.

Improve tax administration including good planning of VAT collection in industrial sector. The government through TRA should establish a special team of tax officials in each tax region that deals with issues of industrial sector. Also Government through TRA should increase day to day training to its staff so as to learn new techniques to cope with taxpayers.

Introduce different measures toward collection methods used for non fillers like closing their business premises (industries), increasing penalties since most of taxpayers nowadays do not comply with the notice of offence issued to them. Such

measures will discourage non filers thus forcing them either to pay the penalties imposed to them or comply with the law.

Increase Tax payer audit routine, the taxpayer audit function plays a critical role in the administration of tax laws in all countries. In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers books and records, and other information.

Remove or Reduction of VAT exemptions, Government should remove of most of the exemptions and zero- and reduced-rating of goods and services which add so much complexity and distortion to the current system

5.5 . Policy Implication

Review of Value Added Tax (VAT) Act

To review the Value Added Tax act (VAT) with the view to changing it to conform to international best practices. The Government will probably need to the proposals of the private sector stakeholders on critical review of the VAT Act including reduction of VAT rate, Minimizing VAT exemption thus increase of VAT compliance.

Review of Tax Laws

To review tax laws and regulations to avoid multiplicity of the tax laws hence increasing tax compliance. This is because multiplicity of tax laws cause double taxation and complications in paying tax then non-compliant of taxpayers. Two or more laws that have effect on the same income should be reduced (remaining with one law) so as manufacturing industries and other taxpayers adhere and comply hence render proper amount of tax required conveniently and promptly.

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APPENDICES

Appendix I: QUESTIONNAIRES

QUESTIONNAIRES FOR MANUFACTURING INDUSTRIES AND TAX EXPERISE (TAX CONSULTANTS)

RESEARCH QUESTIONNAIRES 2013

I am a student from Mzumbe University studying Masters of Account and Finance. I am doing research as part of fulfilment of my Masters studies. The questionnaire is focused on taxpayers (industrial sectors) who are VAT registered from Kinondoni tax region. The purpose of this questionnaire is to investigate factors affecting VAT compliance in industrial sector in Tanzania. All the questions are opening ended in which your opinion would highly be appreciated.

Kindly respond to the questions attached as accurately as possible. The information you give is strictly confidential. The researcher will not disclose the identity of the respondent under any circumstances. You are requested to read the questions careful and tick the correct answer accordingly.

To be answered by respondents from Manufacturing Industries

1. Basing to the income of Tanzania citizens, Current Tanzania VAT standard rate of 18% is high hence cause abuse of VAT.
 - i. I strongly agree ()
 - ii. I agree ()
 - iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()

2. High standard rate of VAT of 18% in Tanzania encourage firms to conduct their business in informal way.
 - i. I strongly agree ()
 - ii. I agree ()

- iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()
3. There is any need for Government to change the VAT rate.
- i. I strongly agree ()
 - ii. I agree ()
 - iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()
4. If you want the Government to change the VAT rates, indicate your suggesting rate?
- i. 10% ()
 - ii. 12% ()
 - iii. 14% ()
 - iv. 15% ()
 - v. 16% ()
 - vi. 17% ()
 - vii. No need to change ()
5. Multiplicity of tax laws in Tanzania complicates filing of VAT return.
- i. I strongly agree ()
 - ii. I agree ()
 - iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()

To be answered by tax expertise (Tax consultants)

6. All VAT exemptions granted to manufacturing industries in Tanzania have necessity to the Government
- i. I strongly agree ()
 - ii. I agree ()
 - iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()
7. Some of manufacturing industries in Tanzania use VAT exemptions granted to them as the means of evading tax (Abuse of exemptions)
- i. I strongly agree ()
 - ii. I agree ()
 - iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()
8. In Tanzania there is strong tax administration that monitor and control VAT exemptions granted to Manufacturing industries.
- i. I strongly agree ()
 - ii. I agree ()
 - iii. I don't know ()
 - iv. I disagree ()
 - v. I strongly disagree ()

***This marks the end of this questionnaire.
Thank you very much for your cooperation***

**Appendix II: PERSONAL INTERVIEW WITH STAFF OF TANZANIA
REVENUE AUTHORITY**

1. What problems/challenges do you face when collecting/Administering VAT from Industrial sectors?

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2. What things/issues do you think that TRA/Government can do so that to increase VAT compliance/collection from industrial sector?

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