

**THE PERFORMANCE OF LOCAL GOVERNMENT AUTHORITIES IN
COLLECTION OF SERVICE LEVY:
THE CASE OF KARATU DISTRICT COUNCIL.**

**By
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**A Dissertation Submitted to Mzumbe University in a partial fulfillment of the
requirements for the award of Master Degree of Science in Accounting and
Finance.**

2014

CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by the Mzumbe University, a Dissertation entitled: **The performance of Local Government Authorities in the Collection of Service Levy: The Case of Karatu District Council**, in partial fulfillment of the requirement for the Award of Master Degree of Science in Accounting and Finance.

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ACKNOWLEDGEMENT

The best result of this research could not be attained without valuable contribution and participation of many individuals to whom I am indebted it is obvious that I cannot thank all people contributed to produce this work in this limited page.

First, I thank my employer, the Director Karatu District Council for giving me a study leave of Eighteen Months to attend the Msc Accounting and Finance Programme.

Secondly, I sincerely would like to extend my thanks and appreciation to my supervisor Prof. J. N. Kirway. Who tirelessly devoted much of his time and intellectual guidance to me throughout the Research. Without his advice and supervision skills the accomplishment of this work could be more difficult.

Thirdly, I also express my thanks to my family especially to Veronica Tarmo, my lovely wife, my daughters Felister, Secilia and Joyce who missed me a lot and sacrificed much throughout my study.

Finally, I greatly acknowledge contributions which others have made to this study several persons from Karatu District Council, Revenue Accountant, Trade Officer and my college mates. Mr Ally, Ms Chaula, Mr Kimango and Mr Daniel. I appreciate the efforts and goodwill expressed by all of them. Actually, it is not possible to mention everyone in this little space but everybody's contribution has highly been appreciated and taken into consideration in one way or another.

Lastly but not least my thanks go to almighty God whom I strongly believe in Him. Glory is to Him forever.

DEDICATION

To my best Friend and wife Veronica my Daughter Felister, Secilia and Joyce.

LIST OF ABBREVIATIONS

KDC	-	Karatu District Council
TRA	-	Tanzania Revenue Authority
LGAs	-	Local Government Authorities
LGCDG	-	Local Government Capital Development Grant
URT	-	United Republic of Tanzania
VEO	-	Village Executive Officer
WEO	-	Ward Executive Officer

ABSTRACT

This study aimed at assessing the performance of Local Government Authorities in collection of service levy and it focused to Karatu District Council (KDC) as a case study .The study used KDC staff, Councilors and Taxpayers in the area of the study Specifically , it aimed at identifying the sources of collecting service levy in the council ,find out whether revenues are collected from these source and examining the procedures used in collecting service levy from these sources and determine how the collected revenue is accounted for .

Data was collected using questionnaires, in-depth interview and through observation Secondary data was collected from various documents of the council and other materials in library through internet services.

The finding were observed to be the main problems were found was lack of tax payers education, lack of revenue registers and outdated Main Act.

The collected data was analyzed using Computerized packages such as Microsoft Excel Findings was based on the objectives of the study .Conclusion was thereafter be given and the study made some recommendations include taxpayers education, maintenance of revenue registers, review of main Act to include non corporate entities in paying the service levy and on how to improve the performance of the council in collecting service levy revenue.

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CHAPTER ONE

INTRODUCTION

1.1 Background Information

The study was concerned with the performance of Local Government Authorities (LGAs) in the collection of service levy. Although there are several sources of revenue for Local Authorities, the study was focused on one source that is Service Levy with special focus to Karatu District Council (KDC). The focus has been put to KDC because it is among local authorities who collect service levy as a major source of revenue (URT Local Government Reform Policy paper, 2003).

Both Municipal Council and Rural Local Government Authorities in Tanzania were established in 1982. Despite the fact that local authorities have fairly extensive power to generate revenue from several sources in the area of jurisdiction under the Local Government Finance Act No 9 of 1982. The performance in terms of revenue generation and collection is still very low (Barnabas, 2002).

As a result many district councils are not collecting sufficient revenue to finance development activities in their areas, for example in some councils, development projects are either being inadequately funded or are neglected altogether. Development projects such as School, Health facilities and Rural Roads are notable examples (URT Local Government Reform Policy paper, 2003).

For Local Authorities to be able to carry out their mandate sufficiently they need financial resources. According to the Local Government Finance Act No 9 of 1982, several sources of revenue are listed, among them are Property Tax, market Fees, Hotel and Service Levy. Service Levy is one of the main potential revenue sources especially where there is a concentration of corporate entities. (Lenguyana, 2004)

Local Governments were introduced in 1982 the Local Government Finance Act of 1982 gave these new Local Governments wide ranging powers to collect revenue from their residents. Local Authorities can raise revenues from the following sources: fines and rents on public buildings, sale of Local Authority assets, user charge, property tax, trade industry, works and service carried by the authority, fees, livestock fees and industrial fees. (URT Local government Reform Policy paper, 2003).

The Service Levy is thus a local tax levied by Urban Authorities under the Local Government Finance Act No 9 of 1982 sec.6 (I) (U) the KDC is one of the council in Tanzania amalgamated from Mbulu District Council in 1999 geographically the KDC is located in northern zone of the country just around to Ngorongoro creator so KDC has a considerable corporate entities and Tourist Hotel which are subjected to payment of Service levy (Lenguyana, 2004).

Like other local and or Urban Authorities the KDC has three basic functions as stipulated in the Local Government (Urban Authorities) Act No 8 of 1982 these are:

- (i) To maintain and facilitate the maintenance of peace, order and good governance within its area of jurisdiction.
- (ii) To promote social welfare and economic well being of all persons within its areas of jurisdiction.
- (iii) Subject to the National policies and plan for Rural and Urban Development, to further the social and economic development of the areas of jurisdiction.

Furthermore, according to section 35 of Local Government Finance Act No 9 of 1982, the spending power of KDC as a council authority are confined to spending for those purposes for which it was established.

1.2 Statement of the Problem

For the Local Government Authorities to be able to carry out their mandate sufficiently they need financial resources despite the fact that they have fairly extensive power to generate several revenue from several sources in their area of jurisdiction under the Local Government Finance Act no .9 of 1982, their performance in terms of revenue generation and collections of Service Levy are still very low.

Although Karatu District Council (KDC) has reasonably a good number of sources of revenue, but still there is a decline of its actual amount collected.

This situation has made the council to become more dependent to the central government grants and in some cases foreign finance donation in implementation of its activities such as Health, Education, Road construction and Water provision rather than relying on its own sources. The service levy is supposed to be one of the major sources of revenue at Karatu District Council (KDC) since the council is surrounded by many tourist hotels. the collection of this levy is limited ,the service levy in local authorities should be the second source in generating revenue when fully exploited, unfortunately, and this is not the case in Karatu District Council.

The study was intended to assess the causes of poor revenue collection of service levy at KDC.

1.3 Research Objectives

1.3.1 General Objective

The overall objective of this study was to assess causes of poor performance of Local Authorities in the collection of Service Levy with particular reference to Karatu District Council (KDC).

1.3.2 Specific Objectives

Specifically, the study intends to:

1. Identify the sources of service levy in the council.
2. Find out whether revenue is collected from those sources.
3. Examine the procedures used in collecting service levy from those sources.
4. Determine how the collected revenue is accounted for.

1.4 Research Questions

The study was guided by the following research questions.

1. What is the source of Service Levy in the Council?
2. Is the Service Levy collected from those sources?
3. What approaches are used in the collection of service levy at the Council?
4. How is the collected revenue accounted for?

1.5 Significance of the Study

Since the objectives of Local Government Authorities cannot be achieved without collection of sufficient funds ,the study findings if adopted will enable them to collect enough revenue .The study will also be useful to both the Central and Local Government Authorities in making policy decision regarding service levy as it will lead to maximization of revenue collection.

Finding of the study will also serve as a stepping stone for future researchers on the same or similar topics by suggesting areas that need further studies to be conducted on. Successful completion of the study will also help the researcher to partially fulfill the requirements for the award of a Master Degree in Accounting and Finance offered by Mzunbe University.

1.6 Limitations of the study

In conducting this study .the researcher encountered the following limitations:

i. Time constraint

This study was carried out for a short period of time because was to do so as to follow the deadline of the academic calendar .Time constraint affected both the quality and quantity of the research study because the researcher had to use fewer respondents and only one Council as a case study.

ii. Financial limitation

Lack of adequate finances affected the quality and quantity of data collected during the study. This hampered the researcher to conduct the study effectively because the researcher was not able to interview as many respondents as compared to if funds were sufficient for conducting the study.

iii. Lack of local empirical literature

Local empirical literature on the subject matter is very limited as a result; the researcher had to use data from other Countries. This may not give a true picture of the situation.

1.7 Scope and limitation of the research

The study was limited to the performance of KDC in its efforts to collect Service Levy .Other source of Revenue and other local authorities are not covered because of time and financial constraints.

1.8 Delimitation of the study

Due to limited resource of time and money the study covered only 10 wards out of 14 wards which make up KDC .These 10 wards provides enough data on the time planned.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The first part of this chapter provides some Conceptual definition such as measuring Local Government Performance, Local Government Structure and Local Government finance in Tanzania. The second part of the Chapter gives the theoretical literature review by looking at Local Government legislation and Structure, Sources of Local Government Revenue, Tax Administration ,procedures of Revenues Collection and the third part of t his chapter reviews the literature critically to provide the foundation of the research. The theoretical literature review shows the relation between the topic under the study and the literatures done by other researcher while the empirical literature review shows how other researchers talked about the topic under the study. This chapter also describe the factors affects the collection of service levy in LGAs as the topic under the study.

2.2 Conceptual Definition

Before proceeding with the empirical analysis of Local Government in collection of service levy .it is useful to briefly explore the measurement of local financial management performance in literature and assess the available empirical research on the relationship between Local Government performance and local Government characteristics.

2.2.1 Measuring Local Government performance

Performance can be defined as a measure of how well an organization meets its objectives given the external constraints placed on it. In the realm of public finance management, budget performance has traditionally been constructed in a relatively

narrow manner as the ability of the public sector to execute its budget in accordance with the original, approved budget plan (Coggburn and Schneider, 2001).

Measuring the broader performance of Local Governments is equally complex. Given that Local Governments are assigned a variety of diverging responsibilities including the provision of adequate Local Government services ,engaging in responsive and accountable governance and assuring sound financial management of the locality's resources (Coggburn and Schneider, 2001).

Although different approaches are used to measure Local Government performance in different countries ,the management or use of financial resources is commonly incorporated as one of the important dimensions within a Local Government 's overall performance assessment .Indeed ,given that the quality of local financial management impacts the local Government 's ability to execute its responsibilities in all other areas.

For instance, Coggburn and Schneider (2001) analyze the relationship between the quality of management and the budget performance of state level Governments in the United States. In their study, Coggburn and Schneider, 2001 quantify a state government 's financial performance as a share of public spending that is spent on state level programmatic priorities.

They find that the quality of state management has a direct effect on state policy commitments, more precisely, better managed states tend to spend more on their programmatic priority areas Coggburn and Schneider, 2001 empirical analysis further reveals that public interest group activity, Government ideology and citizen ideology also have significant effect on the government effects on the government 's performance in funding priorities.

Similarly, Dennis (2004) examines the relationship between a Local Government 's financial management practices and the Local Government's financial performance for a

large sample of municipalities in the United States. In his study a Local Government's performance is measured as the simple average of four fiscal indicators. Local financial management practices are measured based on a survey of the chief financial officers for almost 500 of the sample municipalities incorporating assessments of the local budgeting system, strategic planning system, fall-back system, accounting/reporting system, internal control system, and the local financial leadership system (Dennis, 2004).

2.2.2 Local Government Structure and Local Government Finances in Tanzania

The functions, duties and responsibilities of Local Government councils in Tanzania are defined in the local (Urban and District) Government Acts of 1982. While the legal framework distinguishes between Urban (city, Municipal or Town) Councils and rural (District) councils, all Local Government Authorities are responsible for providing the same set of Government services including primary education and basic health services. Consistent with the functions assigned to the Local Government level in the legislative framework public expenditures in Tanzania are significantly decentralized with almost 20 percent of public spending taking place at the local government level. While local governments are authorized to collect a number of local revenue sources (URT, 2005).

The main source of funding for Local Government Authorities in Tanzania is the intergovernmental fiscal transfer system. Most recurrent local spending (including salaries and other charges) are funded by a set of (formula-based) sectoral block grants and general purpose Grant which are transferred directly from the Treasury into the local government accounts on a monthly basis.

In addition, local Governments also receive a number of earmarked recurrent subventions from line ministries. On the development side of budget, funding for local capital development is provided through the Local government capital Development

Grant (LGCDG) system as well as through a number of sectoral development funds (URT, 2005).

A necessary first step in assessing the quality of local financial management in local Authorities in Tanzania is to agree upon a means of local financial management performance which can tell us how well local Government are managing their financial affair. Whereas the expenditure has traditionally been the main measure of financial management performance at the central Government level.

A local Government Authority as stipulated in the local Government law of 1982 means a District Urban Authority is required by law to elect their representative who are known as Councilor is a chairperson of the ward Executive Committee. It is then the responsibilities of wards citizen to pay taxes so as to finance various services for their existence (URT, 2005).

Local Authorities have a legal obligation in fulfilling their missions to the public (local Government Act No 8 section 54 A of 1982) the question of collecting revenue from the citizen is laid on the hand of a local Authority to make by laws that empower to impose and collect revenue. The effort in revenue collection and realization, gives a high degree of autonomous.

If proper administration of revenue is not fully exercised, the local Authority may find itself depending transfers from central Government and hence more answerability to central Government. Therefore local Authorities should impose strict measures to maximize revenue collection in order be financial strong. The taxes impose by local Authorities are as stipulated under section 6 of the finance Act No 9 of 1982 (URT, 2005).

2.3 Theoretical Literature Review

Service levy is one of the most promising but least tapped sources of revenue to support Urban Authorities in Tanzania and Africa (Baligwa, 2004) However, most of councils in Tanzania do not seem to realize this potential. For example the first by –law to collect service levy in Karatu council was made in 2002 while the main Act provided the collection of service levy since in 1982.

2.3.1 Local Government Legislation and Structure

The Local Government Act of 1982, setting out the framework for functional and fiscal decentralizations, has become a central theme of Government policy. The Government’s vision of the Local Government system is set forth in the policy paper on Local Government Reform of 1998. A number of amendments to the Local Government Act in 1999 gave more authority to District and Municipal councils to approve their plans and budgets (URT, 2005).

In accordance with the public finance Act 2001, Regional Administration and Local Government oversee the local Government system and decentralization process; and the line ministries are responsible for regulator and sector policies.

Tanzania has adopted a two –tier structure of decentralization –though central Government and local government authorities (URT, 2005).

The LGAs have been awarded legal status enabling them to contract services and, subject to ministerial approval, raise borrowing .Tanzania has more than 114 LGAs, which are comprised of District councils and Municipal councils that have autonomy in their geographic area. The police of developed by Local Government function and expenditure to the LGAs is enshrined in the local Government Act and is based on the principles of subsidiary and that ‘finance should follow function. LGA activities include a list of public service including general administration, education, social welfare, public

health, housing and town planning, transport, environment, culture and economic affairs (URT, 2005).

2.3.2 Sources of Local Government Revenues

Local Authorities have three major sources of funding their own revenues, central Government transfers, and development aid .In addition ,user charges and various forms of self_ help activities contribute to the running and maintenance of public service such as primary school and health facilities .These contributions are significant and increasing (Coksey and Mmuya , 2001).

Local Government own revenues represented less than 6% of the total national tax revenues in Tanzania in 2002. However the share dropped in financial year 2003 following the rationalism of local taxes, including abolition of a development levy.

Self –generated revenue in District council are mainly used to finance operational cost, in particular salaries for the lower cadre of local government employees (URT, 2003). The lion’s share of the operational cost in District council however is funded by central government transfer. These transfer funded on average 85-90%of the total operational cost in district councils. With respect to invest, many types of council are completed dependent on transfer from the central level, including donor funding (Semboja and Therkildsen, 2006).

Local Governments in Tanzania finance their assigned expenditure from three main sources: intergovernmental transfers, own source local revenues and donations. Central Government transfers account for nearly 70 percent of local Government revenues; Own-source revenues comprise 20 percent of local Government revenues. And 10 percent local donation.

(i) Government Transfers

Transfers from the Central Government currently amount to around 90 percent of Local Government revenues .the transfers include formulated recurrent (conditional) block grants and equalizing general purpose grants . The conditional block grants help finance granted sectors ,including primary education ,local health services, water, local road maintenance and agricultural extension (URT 2007).

General-purpose grants combine the former “current administration grant” and the compensation grant (provided in compensation of own-source revenues abolished in 2003/4 .The size of general purpose grants is largely dependent on population and the number or rural residents .in total recurrent block grants account for about two –thirds of all intergovernmental transfers (URT 2007).

These are formula – based “Local Government Capital Development Grants” (LGCDG) and ministerial subventions .LGCDGs have been implemented since 2005/6 and provide discretionary funds to LGAs .funding is linked to local Government performance in key areas of financial management, participatory planning, and issues of transparency and accountability (URT 2007).

(ii) Local Government Borrowing

Borrowing currently accounts for a negligible 0.3 percent of local funds is primarily from the Local Government Loan Board (LGLB) a government supported financial intermediary. The LGLB is largely funded from the contributions of LGAs and grants from the central government .LGAs are requested to contribute a minimum compulsory reserve equal to own tax rate base and rates.

However with the system of local taxes and revenues was widely considered inefficient ,inequitable and poorly administered as a consequence local discretion in setting own source revenues was significantly constrained in 2008.10 percent of own –source

revenues which serves as a reserve with the LGLB . LGAs are eligible for borrowing only if the requested reserve is maintained.

However with own-source revenues remaining weak and many LGA being unable to contribute their minimum reserve requirement the LGLB has been unable to cater to the level of loan applications the level of new loans issued in 2008/9 amounted to only TZS 598 million, with loan applications being much higher at TZS 1,244 million.

(iii) Own-Source Revenue

Besides intergovernmental transfers ,own-source revenues raised by Local Governments are limited and include :property taxes and rent ,charges from solid waste collection ,vehicles ,markets, fees including taxi registration ,bus stand ,licenses including road and liquor .various amendments to the Local Government Acts in 2003 and 2004 significantly reduced revenue raising authority of Local Governments. in 2003 the Ministry of Finance announced the abolition of the development levy as well as a number of additional minor local revenue sources, while also limiting the local rate setting discretion for other local revenue source .consequently local revenue collection declined since 2003 and has only recovered since 2008/9 reform measures instituted to transform the current system of Local Government revenues.

2.3.3 Tax Administration

Tax is the main of transferring privately owned resource to public use. Taxes are collected through force, not on voluntary basis in the form of money (Zulkornain, 2004).

In Tanzania taxes were introducing during the colonial times where by each person above the age of 18 was supposed to pay ‘‘Head Tax’’. Tax was formally introduced in 1947 as provider in the 1947 income Tax ordinance (Kasipillar and Mustafa, 2007).

Revenue collected from taxes represents the major funding source for Governmental expenditures. An effective and efficient tax administration system is integral to any country's well being. The proper amount of tax must be collected in a timely manner and the enforcement power of the tax administration must be applied judiciously and in an even handed fashion

2.3.4 Method of Revenues Collection

Local Government tax collection is the responsibility of the council staff and is completely separated from the central government in District councils is it organized around three levels, namely the council headquarters, the wards and the villages. At the council headquarters the responsibility for tax collection rest with the council treasury and Trade officer, headed by the Treasury.

At the ward levels, the responsibility rest with the office of the ward Executive office (WEO) The WEO also handles development issues and law –and –order function at that level. For this purpose the local militia is at their disposal. In wards with greater revenue collector to support the WEO.

At village the responsibility rest with officer of the village executive officer (VEO) the VEO is also responsible for supervising village development activities and for maintaining law and order. In addition, the VEOs often function as village council secretaries. In practice the organization of tax collection varies between council. For instance, in some councils the village level has been excluded from collection, and the task is taken over by the ward level.

2.3.5. Factors Affecting Performance of Local Government in Revenue Collection

Part of the problem raising local Government revenues in Tanzania is persistent public resistance to paying, as evidenced by widespread tax evasion and non-payment of fees

and charges .In the standard economic model of taxpayer behavior the basic assumption is that no one will voluntarily contribute to the Government unless is threatened.

The rate of contribution to public services is affected by factor such as citizen ‘trust in other and the trustworthiness of the Government. in particular three dimension of trust seem to affect compliance (1) trust in the local Government to use revenues to provide the expected services ;(2) trust in the authorities to establish fair procedures for revenue collection; and (3) trust in fellow citizens to pay their share.

2.3.6 Factors Affecting Revenue Collection

The following are the factors that affect revenue collections in local Government Councils;

1. Poor administrative capacity to assess the revenue source.
2. Poor administrative capacity to enforce taxes.
3. Tax evasion and resistance from taxpayers.
4. Corruption, including embezzlement of revenue.
5. External pressure to provide optimistic projections and
6. Political pressure on tax administrators to ‘go easy’ on revenue collection.

Sound financial management systems are powerful instrument for preventing, discovering or facilitating the punishment of fraud and corruption. Important elements are organization and staffing of local revenue administration (Langlois, 2000).

Tax Compliance

Studies on tax compliance have been carried out since the 1960’s it has been studied thoroughly by academics, professional and Government agencies especially in the United state and other western countries (Mariam, 2004) Research on tax compliance can be done in various field such as accountancy, economics, criminal law psychology, and sociology (Fischer and Michael, 1992).

(Alm, 2009) defines tax compliance as the reporting of all income and paying of all taxes by fulfilling the provision of laws, regulation and court judgments. Another definition of tax compliance is a person's of declaring all taxable income accurately, and disbursing all payable taxes income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003).

There are several factor that influence tax compliance such as; gender, education, income, occupation or status, peers; or other taxpayers; influence ,ethics, legal sanction, complexity, relationship with taxation authority ,income source ,perceived fairness of the tax system ,possibility of being audited and tax rate. Factor that influence tax compliance include demographic, income, coast and tax agent (Singh, 2003).

According to Chang and Schultz (2007) enforcement element factors (such as penalty, audit, and tax rates) as having a great influence on tax compliance behaviors. Tax compliance behavior of a taxpayers differ from compliance behavior estimated in economic modes .Tax payers are great influenced by other taxes pays are greatly influence by other tax pays Besides the rate and quality of audit will also influence tax compliance behavior us of taxpayer.

In order to raise the rate of compliance among taxpayers, a range of prevention measures have to be implemented such as tax audit, tax payer census and investigations .A tax audit program me comprise of field and desk audit, and plays a significant role encourage voluntary compliance among taxpayers.

The influence of knowledge on tax compliance has been discussed by (Groenland and Veldhoven (2003) who categorized tax knowledge into two aspect namely knowledge towards the opportunity to evade tax .The level of education of taxpayers is an important factor that contributors to the understanding about taxation.

Tax knowledge has a close relationship with taxpayers ability to understand the laws and regulations of taxation ,and their ability to comply knowledge as one of the factors willingness to comply .the aspect of knowledge that relates to compliance is the general understanding about taxation regulation and information pertaining to the opportunity to evade tax (Singh, 2003).

Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax this will reduce his or her inclination to evade tax payment .Tax knowledge has been conceded as a crucial factor to enhance taxpayer understand of the new system which in turn will help implement is smooth (Eriksen and Fallan, 2006).

Tax knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role tax in national development ,and especially to explain how and where the money collected is spent by the government in a nutshell, there is significant different in tax compliance behaviors between those with knowledge about income tax and respondent without tax knowledge.

2.4 The Concept of Service Levy

Service levy is a demanded charge with no- discrimination to user which is charged by the relevant Local Authorities the levy is charged at a rate of 0.3%of turnover net of VAT for corporate entities.

The entities are obliged to submit their respective turnover to the council. Failure to comply with submission of turnover become difficult to calculate the levy and hence become difficult in raising the demand note.

2.4.1 Importance of Paying Service Levy

It is quite clear that local Authorities are obliged to render social and Economic service to the citizens. These service need to be financed; therefore the citizens responsibilities towards the service provide by local Authority is the payment of various taxes include service levy. Hence the services which are provided by the local Authorities are the return on amount contributed by a taxpayer.

The Service Levy. like other source of revenue is attractive for its potential contribution to increase efficiency in financing service delivery with few exception however the performance and productivity of service levy system in many African countries are still below their potential (Holloway , 2009).

Some of the main problem that encounters in the realization of enough Services levy is the administration of corporate entities submit their turnover but they are under reported ,in the since that not all turnovers are remitted the taxing authority unless and until their financial statements are audited. Also the fluctuation of sales render difficult for the taxing authorities to make estimated amount of turnover.

2.4.2 Services Levy Liability

Another problem in the service levy administration is difficulty in identifying the entities ,which are operating using business names with high sales, compared to other corporate entities,. Here the law needs to give a clear explanation to other corporate entities. Here the low need to give clear explanation as to what is corporate entity as per service levy administration. Otherwise without getting a clear meaning. The authorities are in danger of excluding the important and more reliable tax payer as is it has been experienced in Karatu District Council. This problem of ascertaining tax liability is wide spread in many African Countries.

2. 5 Empirical Literature Review

2.5.1 Service Levy Collection

Once the turnover is submitted on the respective taxing authority the demand notes are prepared, requesting the payer to pay the sum calculated within a prescribe time but even where tax bills are served, they are often unpaid many Council fail to enforce legal proceeding for nonpayment for one thing is seizure of properties for recovery of unpaid amount leads into political problem ,and hence few tax administration are willing to pursue for that matter many Council are being to turn tax collection to private firms working commissions (Dillinger, 2002).

Service levy collection needs to be well administered and cost effective. Therefore collection method need to be improved and tax payers register need it be update continuously .the most promising short-term measure for increase revenue is to improve the collection effort t includes sensitization of citizen through public announcement.

Tax payer education and taking legal action as early as possible .Tax payer identification number is also important in order to identify easily levy defaults.

(Semboja and Therkilden 2006) in the study on resource mobilization in local authority in Tanzania revealed that local Authorities are not able to collect sufficient revenue to finance the operating and maintenance basic service.

In their study they identification several cause of poor revenue collection in local Authorities .Among them the following are considered important for our propose.

The administration of revenue collection has generally been poor.

All the main revenue source (i.e. produce fees and business licenses) is based on fixed rate unit and these are likely to be inelastic.

Certain potentially important source such as service levy have not yet been fully exploited.

2.5.2 Political Influence

In developing countries, and even in developed countries people tend to evade (tax aversion and tax avoidance) paying tax .Even though they have got ability to pay :still they might not be willing to pay a leader who insist in payment of taxes administration in Tanzania ,becomes very difficult if there is a political influence which is negative.

Fore example in Tanzania local Authorities were forced to abolish various taxes under the umbrella of nuisance taxes. But in real sense had political influence in the following election of 2005.Many Levies and taxes were abolished but the service levy remained (The existing taxes.)However abolishing local taxes implies that the substitute will be covered by Government subsidy or with donor funds hence no autonomous of Local Authorities.

2.5.3. Application of By-laws and other Procedures in Revenue Collection

Every source of Revenue in Tanzania local Authority has got its By –law to enable the enforcement of revenue collection ,but most of councils in Tanzania does not operationalize fully these By-law .As a result the councils become as’’ toothless bull dog. This can be found from the website of Tanzania Revenue Authority (TRA) where there is a well organized structure for the purpose of enhancing collection of revenue .

This facilities enforcement of legal action are assigned to different department depending on the nature of revenue source. TRA has a board of Directors, which is headed by a chairman .The Board is responsible for the formulation and implementation

of the police of the Authority. It is also responsible for advising the minister for finance on the policy of the country and tax matter in particular.

The Board consist of ten member ,include the chairman who is appointed by the president .Five member are ex-officio who sits on the Board by virtue of board on the basis of their profession knowledge experience and competence in relevant areas . the commissioner General is the Chief Executive the Authority. He is responsible for the day to day operations of the Authorities subject to the general supervision and control of the Board. Several Heads of Revenue and support department assist the commissioner General .The Head of Department are in turn assisted by Deputy Commissioner at the Head Office level.

From the above organization structure you find that it is well structured .The tax law are administered fully local Authorities have got the finance & Administration committee composing of about eight councilors include the chairman. Also there are 9 Heads of Department but it doesn't possess expert's special revenue collection procedure and techniques.

However, it is evident from the Karatu District Council experience that even local Authorities can adopt some of the procedure especial on the Administration of Tax law without undue influence from politicians. By-laws need to be made such that they allow quick actions like detachment of properties and sale for tax defaulters.

According to (Baligwa, 2004) privatized tax collection (tax tendering) seems to provide a viable response to corrupt bureaucratic collection where leakages between the taxpayer and the revenue office tend to be high. There are two reasons in principle for this. First private collectors have a personal interest in ensuring that their tax agents do a good job.

This is rarely the case for public collectors. Second, private collectors are often better placed to penalize poor performance on the part of their agents, since they are not bound

by public sector job security rules. Nevertheless, it is worth noting that few modern states have granted private collection a permanent status in their revenue generating machinery.

2.5.4 Revenue Collection Risks

Collection of revenue for local Authority is basic function that build capacity of providing services to the public . In essence collection is not simple and easy task, it requires strategic planning for the purpose of achieving the targets and once not achieved variance analysis should be implemented in order to ascertain the causes of such deviations.

The non- realization of budgeted revenue affected the performance of various planned activities. The risks associated with the revenue collection are:-

Credit Risk

This risk the risk that Local authorities' customers may a fail to pay on the due date therefore the liquidity of local authorities is affected.

Bad Debts

This risk is related to debtors failure to pay and this turn to be bad debts and unrecoverable .The main causes of this is laxity in revenue debtors follow up when debtors fall due.

Liquidity Risk

This is that local Authority may fail to meet its obligations when they fall due.

Operational Risk

This is the risk associated with a failure in the LGAs Procedures or control due to external causes or error or fraud within the institution.

Ownership /Management Risk

This is the risk that councilors or senior management might be unfit for their respective roles or are actually dishonest .

2.6. Summary of the Chapter

Therefore the above literature justifies my intention to conduct the research on the potential revenue of Service Levy collection and the obstacles in reaching the budgeted revenue. This study explored the source of service levy and the procedure for collection of Service Levy at Karatu district council

2.7 Conceptual Framework

According Semboja and Therkiden (2006) in their study on resource mobilization in local authority in Tanzania revealed that local authority are not able to collect the sufficient revenue in several reason such as

Poor administration to access revenue source, corruption resistance from taxpayer, Tax evasion, political pressure and tax knowledge.

The limiting factors on the collection of service levy as stated above can be categorized into two groups which are taxpayer constraints and council constraints and council constraints

Tax payers constraints :

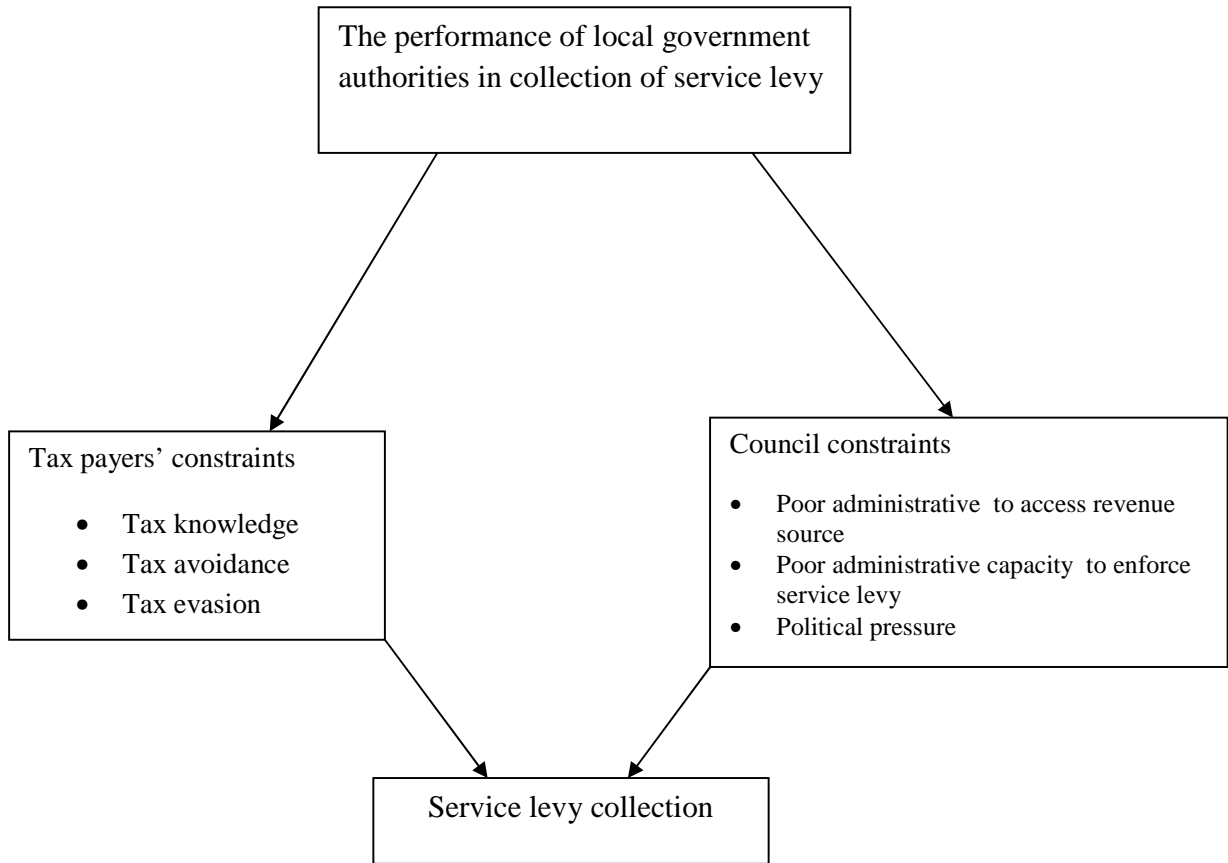
- Tax knowledge
- Tax evasion
- Tax avoidance
- Resistance from taxpayer

Council constraints :

- Poor administration to access revenue source
- Poor administrative capacity to enforce service levy
- Political pressure

The Conceptual Framework showing constraints affecting revenue collection are summarized in Figure 1

Figure 1 : Conceptual Framework



CHAPTER THREE

RESEACH METHODOLOGY

3.1 Introduction

The first part of this Chapter provides the study area of the research while the research design used is given in part two of the Chapter. The third section explain the sample size and how it was selected while Part four of the Chapter describes the data collection methods and the last Part of the Chapter explain how the collected data was processed and analyzed.

3.2. Area of the Study

This study was conducted at Karatu District Council which is the District in Arusha Region, located in the northern of the United Republic of Tanzania. The study was carried out at this area as there are many corporate entities which are subjected to payment of Service Levy but still there is low revenue collection. The study was carried in 10 wards out of 14 wards that make up KDC these 10 Ward are base of Tourist attraction where we can find the corporate entities.

3.3. Research Design

A case study design was employed due to fact that it gives in-depth forms to a single case and so as to cope with the time constrain for the purpose. Moreover, such a design enabled the researcher to economize the little financial recourses that has put aside for the purpose. (Littlechild and shutler 2000) in addition a case study of research design created conducive environment for combining a variety of research tools such as questionnaire ,interview, document and observation in order to conduct in depth inquiry in a case study .

3.4. Sampling Technique

In order to make sure that the selected sample is a representative without duplication, the researcher used different types of sampling procedures depending on the group to be interviewed.

3.4.1 Sample Size

The sample size of the study was comprised of 80 respondents who will include 20 members of staff from finance department, 10 councilors from finance committee and 50 respondents from business enterprises (Taxpayers) the selection of the sample for each group is as shown in a Table 3.1.

Table 3.1: Population of the Selected Sample

Unity of inquiry	Type of sampling	Population	Sample size
DED	Purposive	1	1
Chairman	Purposive	1	1
District Treasurer	Purposive	1	1
Revenue Accountant	Purposive	1	1
Epicor Accountant	Purposive	1	1
Final Accountant	Purposive	1	1
Procurement,	Simple random	4	3
Trade officer	Purposive	2	1
Engineering	Simple random	3	2
Land planning	Simple random	4	2
Accountant	Simple random	21	16
Councilors	Simple random	14	10
Taxpayers	Simple random	70	40
Total		124	80

3.4.2. Sampling Procedures

In a selecting the sample, the researcher used purposefully/ judgment sampling and simple random sampling to select respondents who will represent officers from the council. This approach was suitable as it was based on the position, experience and knowledge of the respondent. Selection of the District Executive Director, the Chairman, the District treasurer, the Revenue accountant, the epicor accountant, the final accounts accountant, and councilors will be made purposefully.

Simple random sampling method was used in selecting some of departments concerned with revenue collection. Procurement, Engineering and land planning department are found to be concerned with revenue collection hence one staff was be selected from each department.

3.5. Data Collection Methods

In the execution of this study, a number of methods were used to collect information depending on the nature of data required.

3.5.1 Primary Data

Primary data was collected through a number of methods. These consist of interviews, self – administered questionnaires and in depth discussions to some of the clients.

3.5.1.1 Questionnaire

Closed and open ended questions were used to get information from District council official's councilors. These questionnaires were self- administered to the respondents. The method gave more freedom to respondents so that they can be free to give their views and opinion regarding the subject of investigation .The questionnaire that was used is attached as Appendix 1.

3.5.1.2. In-Depth Interviews

An interview guide was used to collect information from respondents who are not in a position to use self – administered questionnaire. This method was used in order to obtain detailed information on specific issues such as occupation nature of business and perception on services Levy. Personal interview mainly was used to get information from corporate entities owners. The interview guide that was used is attached as Appendix 2.

3.5.2 Secondary Data

Secondary Data was collected using documentary source from the council such as files, journals, internet and other record from Cash Books , monthly report and final Financial Statements of Karatu District Council (KDC).

3.6 Data Processing and Analysis

The data which is gathered from interviews questionnaires and documents was coded and summarized in order to get information relating to problems of service Levy collection and the way in which such problems is addressed by KDC.

Both descriptive and quantitative statistical methods was used to analyze data in order to provide insight to the problem under investigation .the data was processed by using Computerized packages and Microsoft Excel and presented in tabular form which will give percentages reflecting the attitudes, expectations and perceptions of respondents regarding the improvements in the Service Levy collection.

CHAPTER FOUR

PRESENTATION OF THE RESEARCH FINDINGS

This particular chapter is concerned with the presentation, discussion and analysis of findings. The data collected during the study was checked for correctness, completeness, accuracy, clarity and uniformity. Numerical data was analyzed by computing percentages for quantification purposes. The findings from observation and documentation were analyzed quantitatively and qualitatively. The data was then processed by Microsoft Excel and presented in the tables by using numbers and percentages and then into charts and graphs.

4.1. Mechanisms used to Determine and collect services levy

4.1.1. Mechanisms used by KDC to determine service Levy

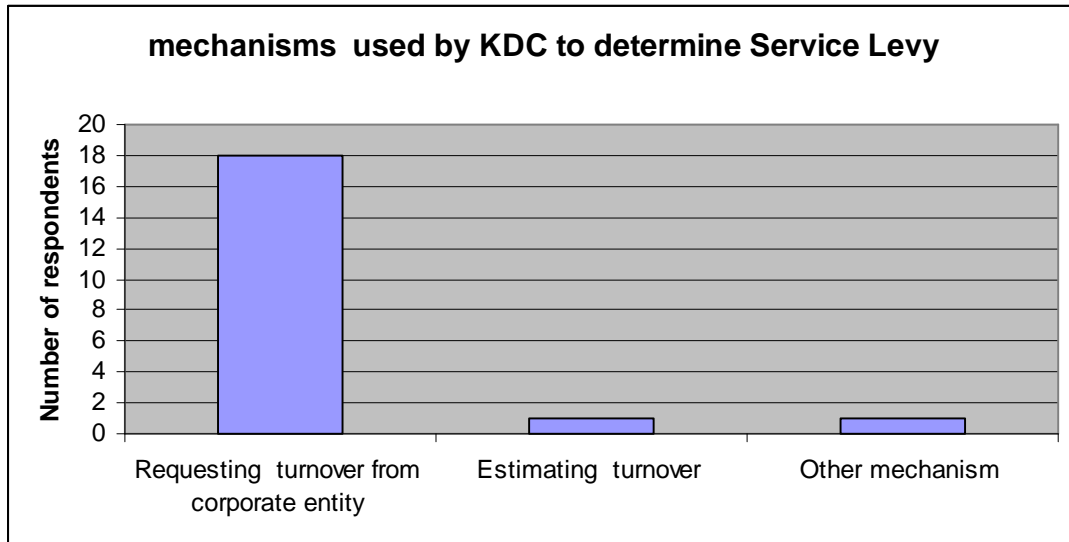
The researcher asked respondents to mention the mechanisms used by KDC to determine service Levy. The objective of asking this question was to establish various ways through which KDC determines what amount is supposed to be paid by tax payers. The feedback was documented as shown in Table 4.1 and Figure 4.1.

Table 4.1: Mechanism used by KDC to Determine Service Levy

	Number of respondents	Percentage
Requesting turnover from corporate entity	18	90
Estimating turnover	1	5
Other mechanism	1	5
Total	20	100

Study Findings, 2013

Figure 4.1: Mechanism used KDC to Determine Service Levy



Study Findings, 2013

According to Table 4.1 and Figure 4.1 above, 90% of members of staff of KDC responded that requesting turnover from corporate entities is the main mechanism used by KDC to determine service Levy, while 5% of respondents said that KDC uses estimation of turnover to determine service Levy, while 5% of respondents mentioned other mechanisms used to determine service Levy. From the results, it is obvious that the turnovers are requested from the tax papers and form a basis for calculating the rateable value.

4.2. Turnover and Expected Results

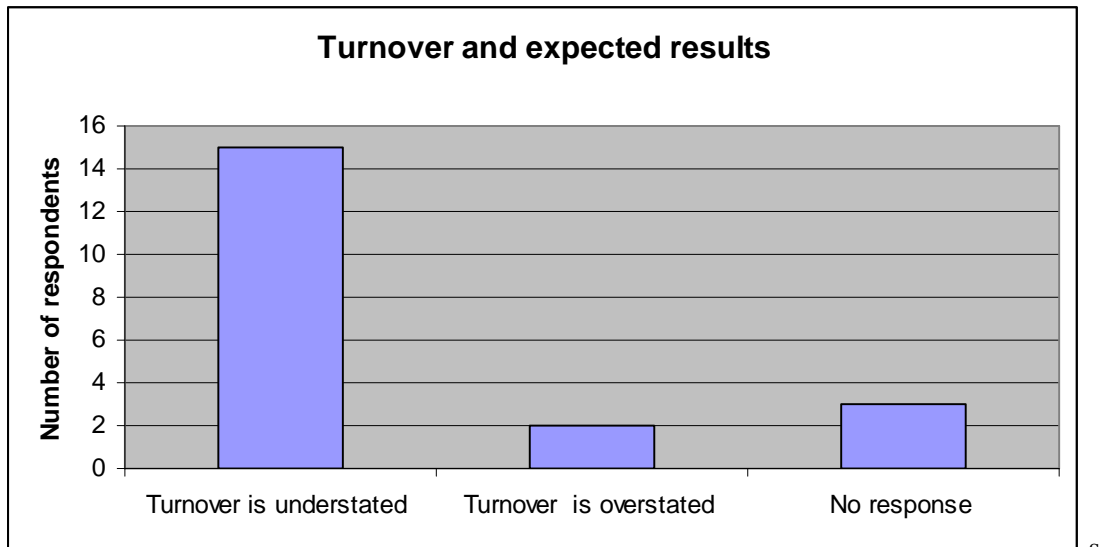
To determine whether estimates are reliable or accurate, a test check was made to see whether the tax payers always submit the turnover without any cheating. The feedback from respondents was documented as shown in Table 4.2 and Figure 4.2.

Table 4.2: Turnover and Expected Results

	Number of respondents	Percentage
Turnover is understated	15	75
Turnover is overstated	2	10
No response	3	15
Total	20	100

Study Findings, 2013

Figure 4.2: Turnover and Expected Results



Study Findings, 2013

According to the findings in Table 4.2 and Figure 4.2, 75% of members of staff of KDC responded that turnover is understated, while 10% of respondents said that turnover is overstated, while 15% of respondents had no response to the demand note as issued by KDC. The findings above show that, in most cases, tax payers tend to understate or not submit their turnover so that they may pay less than what is required, or evade completely.

4.3. Mode used by KDC to collect service Levy

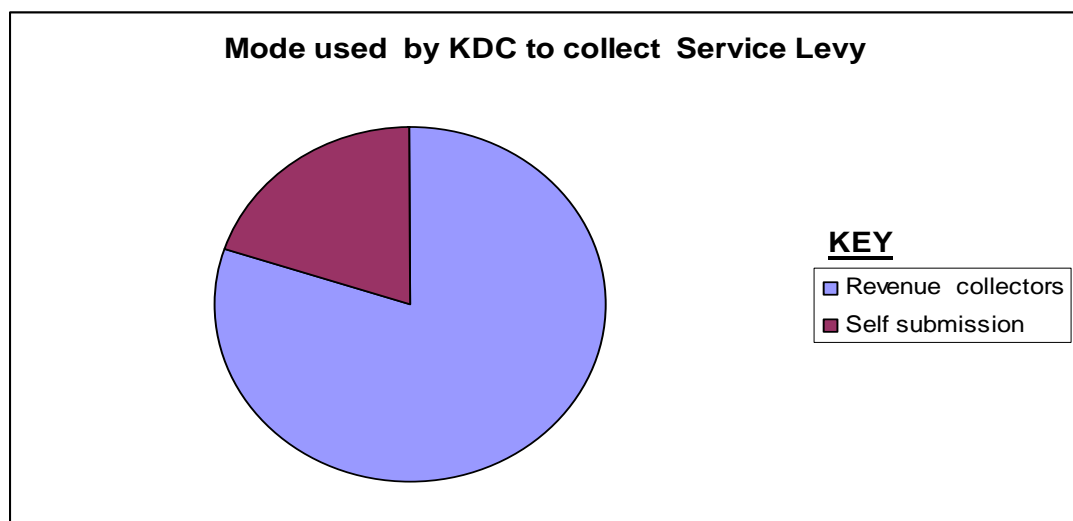
To identify various mechanism used by KDC to collect service Levy, the researcher asked respondents to mention various ways through which KDC collects service Levy. The feedback from respondents was recorded as shown in Table 4.3;

Table 4.3: Mode used by KDC to collect Service Levy

	Number of respondents	Percentage
Revenue collectors	20	80
Self submission	10	20
Total	30	100

Study Findings, 2013

Figure 4.3: Mode used by KDC to collect Service Levy



Study Findings, 2013

Figure 4.3 shows that KDC use two modes to collect Service Levy 80% of respondents mentioned the use of revenue collectors while 20% of respondents mentioned self-submission. The feedback from respondents as shown in the table and figure above, the use of revenue collectors is the main mode used by KDC to collect Service Levy.

4.4. Collection Trend: Budgeted V/S Actual Revenue Collection

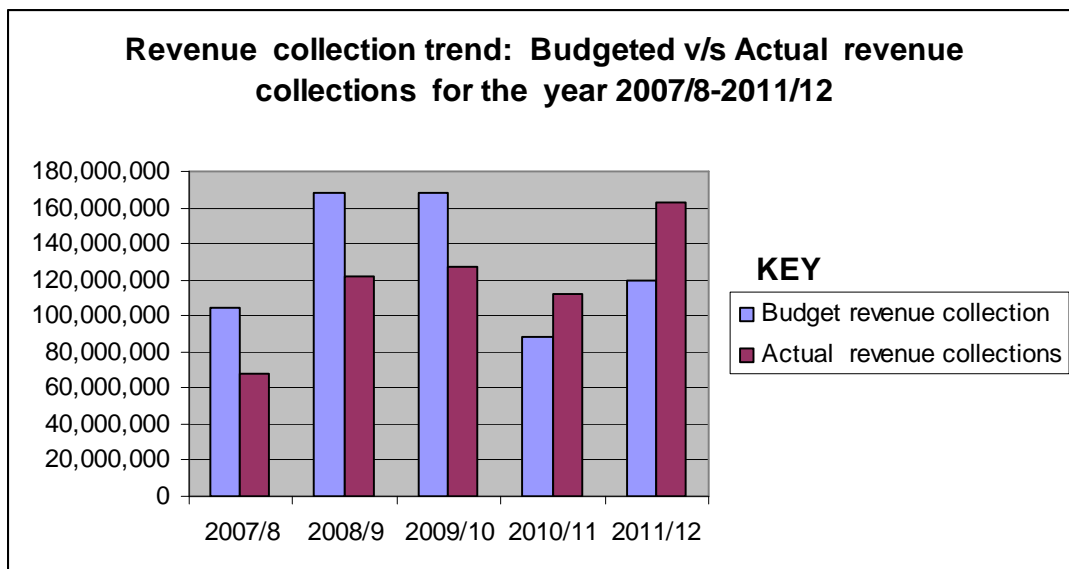
To compare budgeted revenue collections against actual revenue collections at KDC the research analyzed budgeted and actual revenue collections data for the past five years 2007/8 to the year 2011/12. The findings from the analysis were documented as shown in Table 4.4 and Figure 4.4.

Table 4.4: Revenue Trend: Budgeted v/s Actual Revenue Collection

	Budget revenue collection	Actual revenue collections
2007/8	105,000,000	67,912,337
2008/9	168,000,000	121,285,682
2009/10	168,000,000	127,702,657
2010/11	88,080,000	111,949,017
2011/12	120,000,000	163,044,826

Source: KDC Annual Report 2013

Figure 4.4: Revenue Collection Trend: Budgeted v/s Actual Revenue Collection



Source: KDC Annual Report, 2013

The results in Table 4.4 and Figure 4.4 above show that from the financial year 2007/8 to 2011/10 the actual revenue collections collected by KDC were less than budgeted Revenue, collections, while for the years 2010/11 and 2011/12 collections were more than budgeted revenue. These findings suggest that there are factors that hinder KDC in collecting revenues.

4.5. The extent to which KDC has achieved Targets in Service Levy Collection

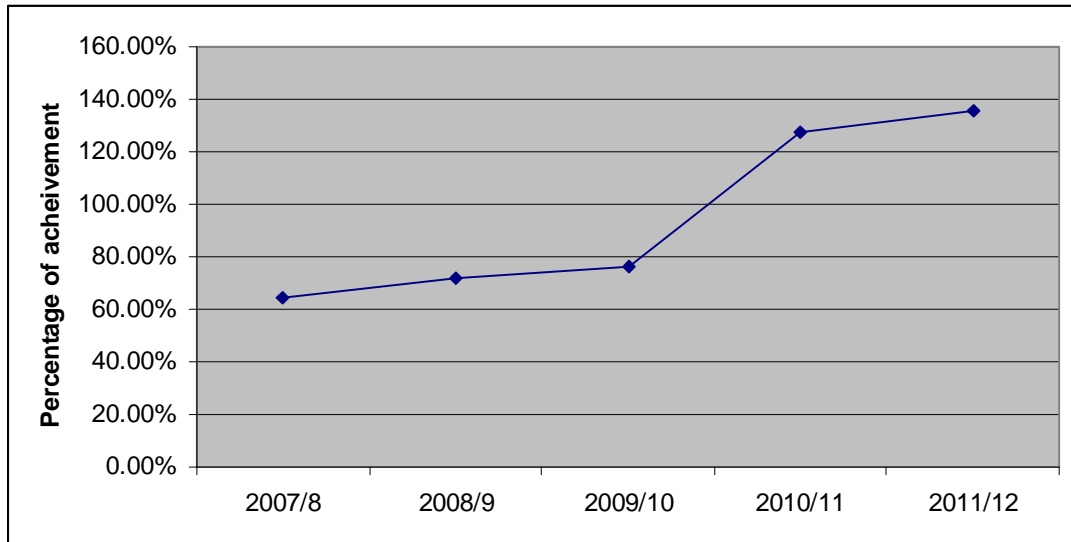
To establish the extent to which KDC has achieved targets in collection of service Levy, the researcher analyzed the data on revenue collections for the years 2007/8 to 2011/12. The feedback from the analysis was documented as shown in Table 4.5 and Figure 4.5.

Table 4.5: Extent to which KDC achieved Targets in service Levy Collection

	Budgeted revenue collections	Actual revenue collections	Percentage
2007/8	105,000,000	67,912,337	64.67
2008/9	168,000,000	121,285,682	72.19
2009/10	168,000,000	127,702,657	76.01
2010/11	88,080,000	111,949,017	127.09
2011/12	120,000,000	163,044,826	135.87

Source: KDC Annual Reports, 2013

Figure 4.5: Extent to which KDC achieved Targets in service Levy Collections



Source: KDC Annul Report, 2013

The extent to which KDC had been able to collect service Levies was shown in Figure 4.5 above as follows; 64.67% (2007/8), 72.19%, (2008/9), 76.01% (2009/10), 127.09% (2010/11) and 135.87% (2011/12). These findings suggest that there has been an increase in Service Levy collections after the year 2007/8. According to the Treasurer, the increment in service Levy collection was contributed by tax payer education which KDC started offering since the year 2009/10. Also, revenue collections before the year 2009/10 were low because there was no a tax payer register which could enable KDC to identify the Service Levy payers, as a result there was over estimation of budgeted revenue collections.

4.6. Causes of Non-Realization of Expected Service Levy

The researcher asked councilors and employees of KDC to mention what they perceive to be the causes of non-realization of expected service Levy collections by KDC. The respondents were asked to mention as many reasons as possible. The findings of the study were documented as shown in Table 4.6 and Figure 4.6.

Table 4.6: Causes Non-Realization of Expected Service Levy at KDC

	No. of respondents	Percentages
Political influence	22	55
Laxity in applying by-laws to defaulters	24	60
Lack of taxpayers education	8	20
Laxity in revenue follow-up	13	32.5
Lack of proper tax payers records	20	50
Lack of motivation among collectors	10	25
The definition of turnover especially for banks	6	15
Lack of willingness and ability to pay	12	30
Fear of creating enmity with the council	5	12.5
Total	40	100

Study Finding, 2013

Figure 4.6: Causes Non-Realization of Revenue Collections at KDC

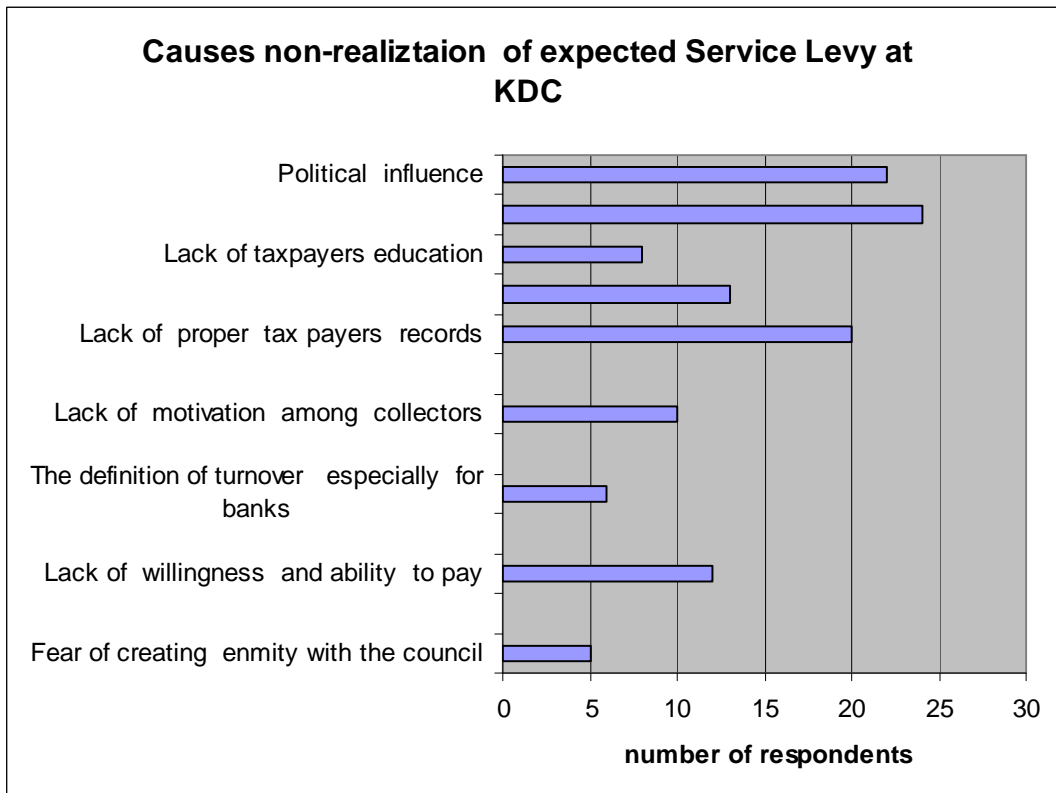


Figure 4.6 above shows that lack of the main causes of non-realization expected service Levy at KDC were, Laxity in applying by –laws to defaulters, lack of willingness or ability to pay Service Levy among tax payers, fear if creating enmity between the council and other institutions or individuals, especially those who contribute to political campaigns, lack of records on tax payers, lack of motivation among collectors , lack of proper definition of revenue especially for banks, lack of awareness on Service Levy among tax payers due to lack of tax paper education, poor follow- up on collection and lack of qualified staff who are trained for revenue collection techniques.

4.7. Effectiveness of KDC Collecting Service Levy

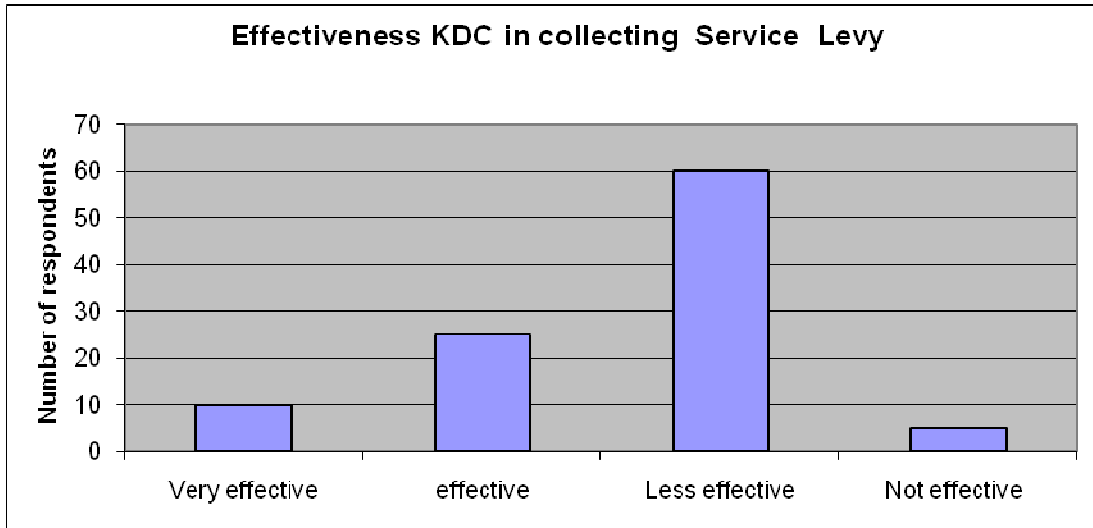
To asses effectiveness of KDC in collecting Service Levy, the researcher asked respondents to rate the effectiveness of KDC in collecting Service Levy, and the feedback from respondents was documented as shown in Table 4.7 and Figure 4.7.

Table 4.7: Effectiveness of KDC in Collecting Service Levy

	Very effective	Effective	Less effective	Not effective
No. of respondents	10	25	60	5
Percentage	10	25	60	5

Study Findings, 2013

Figure 4.7: Effectiveness of KDC in collecting Service Levy



Study Findings, 2013

As shown in Table 4.7 and Figure 4.7 Majority of respondents 65% said that KDC is “less effective” in collecting service Levy, while 25% of respondents said that it is “Effective” in collecting service Levy, 10% of respondents said that KDC is “Very Effective” in collecting Service Levy. These findings suggest that, overall; the KDC is not effective in collecting Service Levy.

4.8. Level of Awareness on service Levy

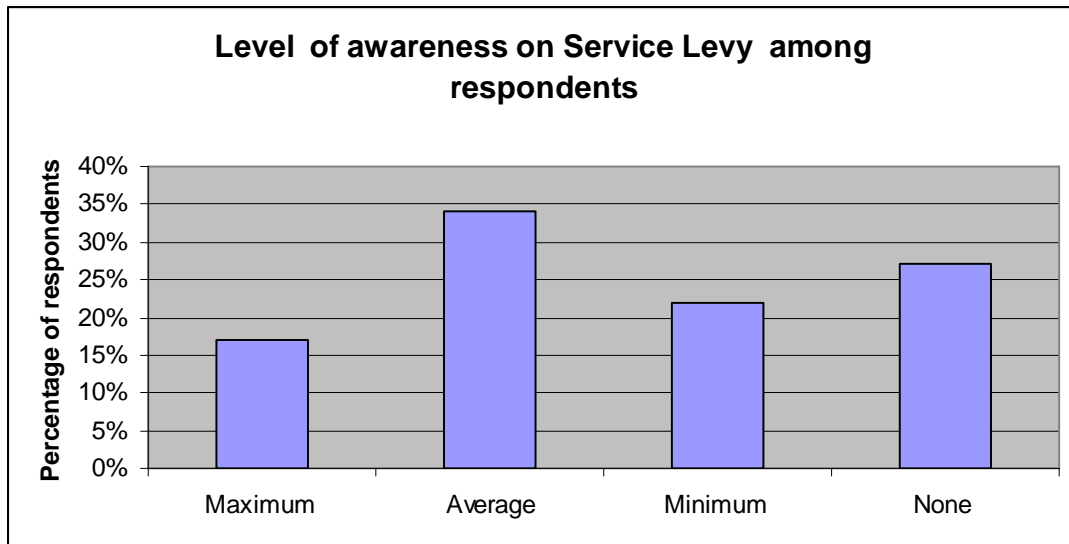
To establish the level of awareness of respondents in Service Levy among respondents, the researcher asked respondents to rate their level of awareness of Service Levy issues. The objective of asking this question was to establish whether or not the level of Service Levy and other revenues collection is determined by the level of awareness of tax payers on Service Levy issues. The feedback from respondents was recorded as shown in Table 4.8 and Figure 4.8.

Table 4.8: Level of awareness on Service Levy among respondents

	Maximum	Average	Minimum	None
Number of respondents	17	34	22	27
Percentage	17	34	22	27

Study Findings, 2013

Figure 4.8 Level of Awareness on Service Levy Among Respondents



Study Findings, 2013

Figure 4.8 above shows that only 17% of respondents said their level of awareness on Service Levy issue tax is “Maximum”, 34% of respondents said their level of awareness on Service Levy issues was “Average”, 22% of respondents said their level of awareness on was “minimum” and 27% of respondents said that they were not aware of Service Levy issues. These findings suggest that majority of tax payers are not aware of service Levy issues and this contributes of non-realization of revenue collections.

4.9. Level of Compliance in paying Service Levy among Tax payers

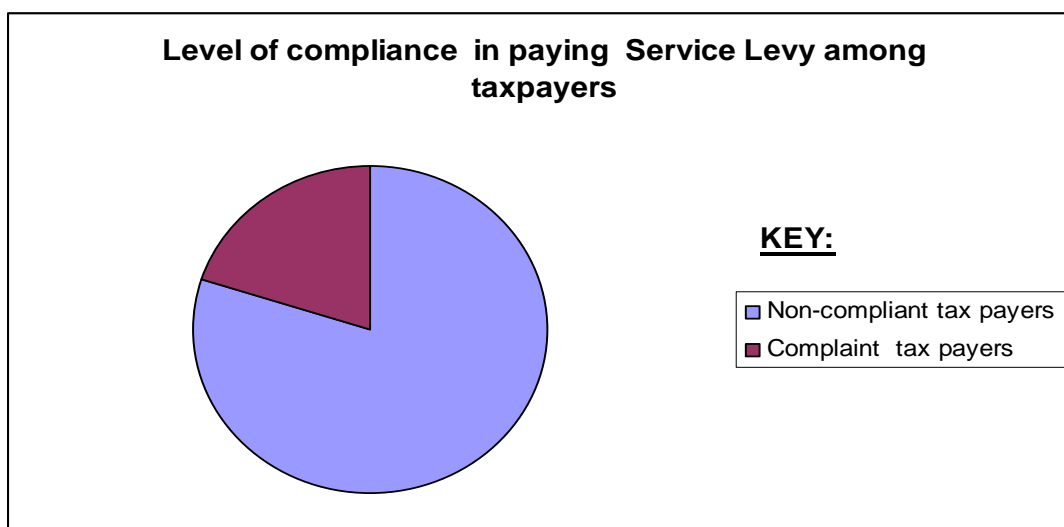
The following data was collected to determine the level of compliance in paying Service Levy among tax payers. (i.e. the willingness to pay service Levy without being followed up, coerced or being threatened with penalties. The feedback from respondents was recorded as shown in Table 4.9 and Figure 4.9.

Table 4.9: Level of Compliance in paying Service Levy among Tax Payers

	Non-compliant tax payers	Complaint tax payers
Number of respondents	80	20
Percentage	80	20

Study Finding, 2013

Figure 4.9: Level of compliance in paying service Levy among Tax Payers



Study Findings, 2013

The result in Figure 4.9 show that 80% of respondents said that tax payers in KDC are not compliant in paying service Levy, i.e. They have the tendency to pay service Levy only after being followed-up, coerced or after or after being threatened with penalties.

Only 20% of respondents said that tax payers in KDS are tax compliant and they paid their taxes willingly. This contributes non-realization of revenue collections at KDC.

4.10 Causes of Low Compliance Rates among Tax Payers

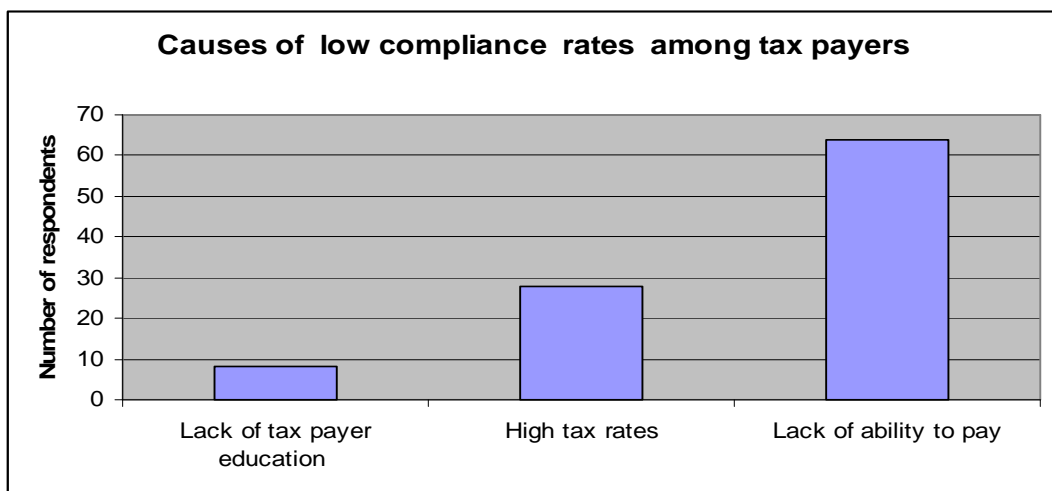
The following data was gathered by the researcher to establish the causes of low compliance among tax payer at KDC .The objective was to find out the reasons why majority of tax payer at KDC do not comply when it comes to payment of Service Levy. The feedback from respondents was documented as shown in Table 4.10 and Figure 4.10.

Table 4.10: Causes of low compliance Rates among Tax payers

	Number of respondents	Percentages of respondents
Lack of tax payer education	8	8
High tax rates	28	28
Lack of ability to pay	64	64
Total	100	100

Study Findings, 2013

Figure 4:10: Causes of low compliance Rates among Tax payers



Study Findings, 2013

Figure 4.10 above shows that 64% mentioned the main cause of low compliance in payment of service levy is due to the fact that they lack the ability to pay those taxes due to low income 25% of respondents said that the low rate of compliance in payment of Service Levy is caused by high rates charged, which do not match the level of their income 8% of respondents mentioned lack of tax payer education as another reason that contributes to low level of compliance in payment of Service Levy. Due to lack of tax payer education, respondents said that some tax payers don't see the importance of paying such taxes.

CHAPTER FIVE

DISCUSSION OF THE RESEARCH FINDINGS

This chapter presents a summary of discussion of findings of the research study.

5.1. Introductions

This chapter scrutinizes the scope and potentials of KDC. This study has been concerned with the performance of KDC in its efforts to collect Service Levy. The trend analysis of collections has been made from 2007/8 and 2011/12. Basically, there were three research questions, which were investigated in the discussion and analysis on the collection of Service Levy.

These were mechanisms in determining and collection of Service Levy; the achievement obtained by the KDC. This chapter provides a summary a summary of findings and recommendations arising from the study.

5.2. Discussion of findings

During the study, the researcher found out that majority (90%) of members of staff of KDC mentioned requesting turnover from corporate entities as the main mechanism used by KDC to determine Service Levy (Table 4.1 and Figure 4.1). also, 75% of members of staff of KDC had the opinion that turnover is understated so as to pay less than what is required. (Table 4.2 and Figure 4.2). There are two modes to collect Service Levy; using revenue collectors and self-submission (Figure 4.3 and Table 4.3).

Trends on actual revenue collections by KDC from the financial year 2007/8 to 2009/10 showed that actual revenue collections collected by KDC were less than budgeted revenue collections, while for the years 2010/11 and 2011/12, collections were more than budgeted revenues. These findings suggest that there are factors that hinder KDC collecting revenues (Figure 4.4 and Table 4.4).

The extent to which KDC has been able to collect Service Levies was as follows; 64.67 % (2007/8), 72.19% (2008/9), 76.01 % (2009/10)127.09% (2010/11) and 135.87% (2011/12). These findings suggest that there has been an increase in Service Levy collections after the year 2008/9. According to the Treasurer, the increment in Service Levy collection was contributed by tax payer education which KDC started offering since the year 2009/10 (Figure 4.5 and Table 4.5).

Lack of the main causes of non-realization expected Service Levy are; laxity in applying by-laws to defaulters, lack of willingness or ability to pay Service Levy, fear of creating enmity between the council and other institutions or individuals, lack of records on tax payers, lack of motivation among collectors, lack of proper definition of revenues especially for banks, lack of awareness on Service Levy, poor follow-up on collection and lack of qualified staff (Figure 4.6 and Table 4.6).

Majority (65%) of respondents said that KDC is “Less Effective” in collecting Service Levy. These findings suggested that, overall, the KDC is not effective in collecting Service Levy, and this suggest that there must be challenges that hinder KDC in collecting Service Levy (Table 4.7 and Figure 4.7). Also, majority of tax payers are not aware of Service Levy Issues and this contributes to non-realization of revenue collections. This can also be attributed to the fact that tax payers in KDC are not compliant in paying Service levy (Table 4.9 and Figure 4.9).

The main cause of low compliance in payment of Service Levy is lack the ability to pay those taxes due to low income, followed by high rates charged which do not match the level of their income and lack of tax payer education. Due to lack payer education, respondents said that some tax payers don't see the importance of paying such taxes (Table 4:10 and Figure 4:10).

5.3. Conclusion

The above analysis has provided a number of insights into the performance of KDC in the collection of Service Levy.

5.3.1. The Existing Mechanisms of Service Levy Collection

The analysis has revealed that the existing modes used in determining and collection of Service Levy is faced with many challenges. Though the turnovers are requested from taxpayers, the turnovers are not reliable since there is a cheat element. Turnovers are understated and others don't remit the turnover. This situation is depicted in Table 4.2.

5.3.2 Trends in Service Levy Collection

The trends in collection of Service Levy from 2007/8 to 2011/12 has shown that there has been an increase in Service Levy collections after the year 2008/9. According to the Treasurer, the increment in Service Levy collection was contributed by tax payer education which KDC started offering since the year 2009/10. Also revenue collections before the year 2009/10 were low because of lack of data due to absence of tax payer register as shown in Table 4.4.

5.3.3. Problem of Determining Turnover for Banks

Among the causes of determining turnover of expected Service Levy was pointed out by respondents to be the problem of definition of turnover for banks. Since the year 2000 to data, all banks in Tanzania are supposed to pay Service Levy as stipulated by council by-laws. According to explanations given by the minister responsible for local government, the Branch deposit was supposed to be the base for calculating ratable value. This situation has reduced to a great extent the expected Service Levy for KDC and other councils in Tanzania.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

This chapter represents the conclusion arrived by the researcher from the findings of the study and the recommendations of the study. The main objective of the study was to assess the performance of Local Government authorities in collection of Service Levy with particular reference to KDC. The study used a case study research design.

Specifically, the study aimed to examine methods used in determining the turnover of corporate entities and then calculate the rentable value, the extent to which KDC has achieved collection of revenues from Service Levy, identify factors that contribute to non-realization of potential of revenues source and provide recommendations for enhancing the methods of improving the situation.

6.1. Conclusion

From the study, the researcher concludes that, the collection of Service Levy by KDC for the period 2007/8 to 2009/10 has not been satisfactory; while the collection trend for the period 2010/11 to 2011/12 has been satisfactory and exceeded expected revenues. This was caused by the implementation of tax payer education offered by KDC to tax payers and the establishment of a register of tax payers. A number of factors which contributed to non-realization of expected Service levy have been addressed.

6.2. Recommendations

In order to improve the performance of KDC and other local governments in collection of service levy, the researcher recommended that the council should enforce compliance of enhancing trust so that citizens may perceive the local government as reciprocating their trust when they feel they are being treated with respect. Aggressive and demeaning

approaches when collecting taxes and fees may actually contribute to increasing tax payer resistance to pay.

It is therefore imperative to establish mechanism for improving the relationships between local revenue administrators and citizens; such as: improved billing and accounting systems, establishing convenient and transparent payment facilities, and strengthening the capacity to follow up cases of non-payment. Citizens should be further encouraged to report misappropriation of revenues and inadequate delivery of services.

Prompt action on such complaints may help convince people that the local authority means business. Furthermore, citizen involvement in identifying problems and setting priorities may promote a greater sense of community involvement. Finally, the cooperation between local government officials, councilors and community leaders in setting common development and management goals could be trust enhancing device.

From the findings of the study, the researcher recommends the following; based on the three research questions together with responses from various respondents, the following recommendations are inevitable for the purpose of getting rid of the weaknesses revealed.

(i) Laxity of Application of Bylaws to Defaulters

Laxity of application of bylaws to defaulters has contributed significantly to non-realization of collection of Service Levy. KDC should make sure that it punished defaulters according to the bylaws. This will help to reduce resistance against paying Service Levy.

(ii) Maintaining Up-dated Register of Tax Payers

It is also recommended that the tax payers register should be maintained and up-dated continuously as well as daily posting of revenue collected. By so doing, KDC will be in a position to extract the list of debtors at any point in time.

(iii) Clarification on Determination of Turnover

The Service Levy, which has not yet been realized depending on the turnover, is that which is to be paid by various banks in Tanzania. There is a great misinterpretation of byways by banks in Tanzania. These bankers are CRDB, NMB, NBC and Exam Bank. These banks have been underpaying the Service Levy since the by-law was enacted in the year 2000. The total branch deposit for the purpose of banks are the turnovers. The by-laws require all institutions to submit turnover to the taxing authority. Therefore, it is recommended that KDC should insist in getting turnover from banks, which will be the basis for calculating the amount.

(iv) Informal Communication

Informal communication with other institutions may create good relationships with KDC. However, there is laxity in responding to the demand note then, it is inevitably that legal action be instituted.

(v) Lack of knowledge on By-laws

The study also revealed that some of staff in Finance Department of KDC don't know the by-laws governing Service Levy collection. It is therefore advised that every member of staff in revenue collection section should understand and be able to explain the by laws to tax payers.

(vi) Review of Acts

The ministry responsible for local Government is advised to review the main Act, specifically the local Government Act No. 9 of 1982 section 6 (i) u to include the bib-entities in the payment of Service Levy.

(vii) Need for further study

These findings give a room for further study. KDC should introduce new study to identify other underling factors that could be important to make Service Levy the leading revenue.

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APPENDIX II: QUESTIONNAIRE

A: Mechanism of collection of service levy by the council staff (Finance Department)

Tick in the box according to your choice.

What criteria are used in determination of service levy to the entity?

Requesting turnover of its income from corporate entities. ()

Estimating turnover of a corporate entities ()

If there other criteria please explain ()

Does the criteria in 1 above give the expected revenue result?

Turnover is understated ()

Turn over are fairly stated ()

Turnovers are overstated ()

If none of the above please explain ()

Who determine the amount of service levy to be paid?

Expenditure accountant ()

Revenue accountant ()

Trade officer ()

If none of the above explain ()

Dou you use a demand note to notify the customer?

(a) Yes ()

(b) No ()

If no what do you use explain

How do you collect the service levy determined as 0.3% of turnover?

Using ward revenue collector ()

(b) Use of agent ()

(c) Using finance department staff ()

If none of the above please explain ()

Is the service levy bylaw known to every service levy payer?

Yes ()

No ()

If no explain

Is there any program to educate service levy payer?

Yes ()

No ()

If yes how often do you carry out your program?

Do the Finance Department Staff all know what is service levy and its bylaw applicable?

Yes ()

No ()

If no explain why?

Please can you suggest some of the means to improve the revenue collection on Service Levy?

B: Questionnaires to Service Levy payers (Corporate Entities)

Is the Service Levy bylaw understood by your organization?

Yes () No ()

If no why explain?

Do your organizations pay the Service Levy to Karatu District Council?

Yes () No ()

If no why explain?

What is your perception on the procedure used by Karatu District Council in the collection of Service Levy?

What is your audited turnover income per year?

What is your general opinion to ensure that Service Levy collection is improved?

Is there any other tax payable to Karatu District Council by your organization?

If yes mention them

**APPENDIX III: IN-DEPTH INTERVIEW GUIDE QUESTIONS TO
TAXPAYERS**

1. Do you have the knowledge of Service Levy payable to Karatu District Council?
2. Is your organization pay the Service Levy yearly, quarterly or half a year?
3. Do you pay the Service Levy on the bases of your audited financial statement turnover?
4. Do you have the knowledge on computing the Service Levy from turnover?
5. Do you pay the Service Levy to KDC through Cheque or cash?