

**BEHAVIORAL ANALYSIS OF TAX COMPLIANCE AMONG SMALL AND
MEDIUM ENTERPRISES (SMEs) IN ZANZIBAR:
A CASE OF CHAKE - CHAKE DISTRICT**

BY,

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**A dissertation submitted in partial fulfillment of the requirements for Award of
the Degree of Master of Science in economics (MSc. ECO) of Mzumbe**

University

2019

CERTIFICATION

We the undersigned, certify that we have read hereby recommend for the acceptance by Mzumbe University a dissertation entitled **Behavioral Analysis of Tax Compliance Among Small and Medium Enterprises in Zanzibar: A case of Chake Chake District**, in partial fulfillment of the requirements for award of degree of Master of Science in Economics (Msc. Economics) of Mzumbe University.

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DEDICATION

This dissertation is dedicated to my Brother; (Mr. Othman Khamis Othman) who laid the foundation to my education and for his inspiration. It is also dedicated to my lovely wife, Hasina Hamad and my son Abdulhamid “May Allah bless you all”

LIST OF ABBREVIATION

GBP	Great British Pound
IMF	International Monetary Fund
MoFP	Ministry of Finance and Planning
OECD	Organization for Economic Cooperation and Development
SMIDA	Small and Medium Industrial Development Agency
SMEs	Small and Medium Enterprises
TZS	Tanzania Shilling
UNU-WIDER	United Nation University World Institute for Development Economics Research
UK	United Kingdom
ZRB	Zanzibar Revenue Board
ZSGRP	Zanzibar Strategy for Growth and Reduction of Poverty
ZIP	Zanzibar Investments Policy

ABSTRACT

Tax is an important source of government's revenue for the implementation of development projects, it also provide principal lens in evaluating a nations capability, power and political settlements within a particular society. However, SMEs tax payers do not fully comply with tax obligation in Zanzibar. Therefore, this study is conducted for the purpose of making analysis of those factors that influence tax compliance behavior among SMEs. The Purposive non probability sampling technique and simple random sampling technique were used to select a total of 54 SMEs in Chake Chake district. Data analysis was done using descriptive statistics and binary probit regression. The study findings indicates that most of SMEs taxpayers' are aware about tax payment but their morale to comply with tax obligation is much influenced by factors such as tax knowledge, tax compliance costs and tax system. Partial understanding of tax laws increased chances of likelihood of SMEs behavior to comply with tax obligation probability of 0.84. As the costs of book keeping and accounting are high decreased the chance of tax compliance behavior by 0.85 while medium costs decreased the chance of tax compliance behavior by 0.8 and low cost reduce the likelihood of tax compliance behavior by 0.7. Travelling costs from business site to the ZRB office of TZS 10,000 or below decreased chance of SMEs to comply with tax obligation by probability of 0.8. Tax payers who perceive low complexity in tax laws increases their chance of likelihood of tax compliance behavior by 0.6 while those who perceive that tax laws are complex to low extent decreased their chance of tax compliance behavior by probability of 0.5. Age of SMEs owner, age of business, size of business and location of business did also influence tax compliance behavior. The researcher concluded that friendly treatment of SMEs tax payers is necessary to enhance and ensure effective tax compliance. Base on findings of this study it is recommended to improve capacity development on training to SMEs tax payers, desire for simpler tax laws so as to encourage voluntary tax compliance among SMEs and the need of having zonal tax stations in order to facilitate tax payment obligation.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

There has been ongoing debate on how big is the problem of tax non compliance and the main focus has been on the consequences of tax non compliance rather than the reasons that influence such problems. According to Kirchler (2007) and Manhire (2015), Tax compliance means that taxpayers behave in a required manner by the tax law without complaints and direct forces from country's Revenue Authority whereas HMRC, (2017) simply defines tax compliance as paying the right tax at the right time, in line with the tax rules. Adimasu and Daare, (2017) found that positive perception of tax payers toward tax system and government expenditures are amongst the factors that encourage voluntary tax compliance. Strengthening level of tax compliance has become a main concern on both advanced and emerging economies from the time of financial crisis of 2008 due to the fact that it improve revenue and as crucial to building strong and trusted public institutions (Keen et, al. 2015).

The World Bank paying taxes (World Bank, 2018) report indicated various global changes of tax compliance indicators in 2018 from 2016 includes that of decrease in number of hours that tax payers take to comply with tax obligation by 5 hours in 2018 and global increase of an average total tax and contribution rate of 0.1 percent. According to the report, the EU and European Free Trade Association (EFTA) is the best performing region with the total tax and contribution rate (TTCR) of 39.6 percent and time to comply of 161 hours/week with stable number of payment indicator of 12 payments. Africa has been ranked as a highest for number of payment indicator of 35.4 payments and a second highest for TTCR of 47.1 percent and time taken of 285 hours/week to comply with tax obligation. In Tanzania it takes total of 207 hours/week to comply with tax obligation as far as the time taken to comply is concerned as an indicator for tax compliance while it has been ranked as of 154 in overall paying taxes having a post filling index of 55 distances to frontier (World Bank, 2018).

Historically, tax collection started during ancient civilizations given the changing patterns of social and cultural structures of human being (Bardopoulos, 2015; Crăciuneanu and Săvoiu 2010) but with the same goal of enabling the government to finance public goods and services in a wider range (Araki and Claus, 2014). Tax revenue are critical component of government resources that forms the major portion of the revenues in almost all economies which is positive related to government spending hence positively influence also on economic growth of various countries (Edame and Okoi, 2014; Takumah and Iyke, 2015; Etale and Bingilar, 2016). The study conducted by Gemmell and Hasseldine (2013) found that, it is important to incorporate behavioral responses of a tax payer for maximum tax collection and reducing the flaw of tax gap.

According to Alm (1999), failure to report or pay tax accurately is being considered as tax non-compliance which involves income splitting, postponement of tax and tax arbitrage across income that faces different tax treatment and that of intentional action taken by taxpayer to reduce their legally obliged tax amount. Furthermore, (Morse, 2015; Onyeka and Nwankwo, 2016) extend that tax non-compliance has adverse effect into national income, with negative significant relation to economic growth.

Tax non-compliance is a wide spread phenomenon and still continues to be a global problem which present a significant cost to both wealthy countries and developing countries as far as resource mobilization is concerned. For example, a study conducted by UNU-WIDER in partnership with ICTD (Cobham and Janský, 2017). 2017) concerning a global distribution of revenue loss result from tax avoidance estimated a global revenue losses of about USD 500 billion annually, whereby the greatest intensity of tax revenue loss occurs in low and lower middle income countries and across Sub Saharan African countries, Latin America and the Caribbean, and South Asia (Cobham and Jansky, 2017). In developed countries for instance, The HM Revenue and Customs (2018), estimated the tax gap of GBP 33 billion in UK for the year 2016- 2017 due to tax payers non-compliance, of which 41 percent was attributed to small businesses, followed by large businesses which make

up 21 percent of the tax gap. The Federal Tax Compliance Research (2016) reports that, the Internal Revenue Service (IRS) in the US estimated the annually level of tax shortfall due to tax payer's non-compliance as USD 458 billion basing on gross tax gap for the tax 2009/10 time frame.

A report of Mobilization of tax revenues in Africa 2018 outlines that Sub Saharan African countries faced a substantial deficit of about USD 230 billion a year in average over the coming five years in funding various social economic investments because of low rate of domestic saving of which underperformance of revenue collection is being considered as the major issue of concern. Although there is with some improvement in tax revenue from 11 percent of GDP in the early of 2000s up to about 15 percent of GDP in 2015, the ratio still indicates shortfall of desired growth level and still remain below that of OECD and other emerging economies and developing countries in comparison (Coulibaly and Gandhi, 2018).

The Speech by the Tanzania Minister for Finance and Planning, presented to the National Assembly for the financial year 2018/19, substantiated a total revenue gap including tax revenue of TZS 5.14 trillion for the financial year 2017/18, the reasons for such underperformance on domestic revenue collection amongst the others were that of tax evasion, difficulties in collecting tax from informal sector, Unfriendly tax environment, high tax rates, unnecessary bureaucratic procedures in tax compliance and high cost of paying tax (MoFP 2018/19). According to Coulibaly and Gandhi (2018) tax revenues are the most important component of domestic resources, and raising them has been at the center of many initiatives and commitments by African governments and their international development partners. Some of these initiatives include the 2002 Monterrey Consensus, the 2011 Busan Agreement, the Addis Tax Initiative launched in 2015 and the Platform for Collaboration on Tax launched in 2016.

As mentioned under the five years third corporate plane of the Zanzibar Revenue Board of (2014/2015 to 2018/2019) that the Zanzibar Revenue Board established by the ZRB act no. 7 of 1996 and lunched it's functions in 1998 for the principal objective of inland government revenue collection, effective tax administration and

ensure that there is stable revenue collection, those functions was previously done by government revenue unit under a Ministry of Finance and Economic affairs. The Zanzibar Revenue Board is an independent government agency which has the responsibility of ensuring efficiency, transparency and accountable in revenue collection under the umbrella of Ministry of Finance and Planning (ZRB, 2014). The main functions the ZRB implement are: 1. To assess, collect and account for all government revenues as in accordance with laws. 2. Advise the Revolutionary Government of Zanzibar on matter relating to fiscal policy and 3. Perform such other functions in relation to the ZRB manage and collect inland tax from tax sources and non tax sources. The main taxes that the Zanzibar Revenue Board collects are motor vehicle registration fees, driving license fees, road development fund, petroleum levy, fuel sector development fund, airport service charge, seaport services charge, stamp duty, tour operation levy, restaurants levy, hotel levy, value added tax (VAT), excise duty, collection from Ministries and contribution from government's parastatal (TAPA, 2009). During the implementation of third corporate plan (2014/2015-2018/2019), the ZRB expects to significantly increase its revenue collection from a monthly average of TZS 19.1 billion 2014/15 to an estimated monthly average of TZS 31.4 billion in 2018/19 and yearly revenue to GDP ratio from 12.6 percent of 2014/15 to 20.1 percent for the year 2018/19 (ZRB, 2014).

1.2 SMEs in Zanzibar

Small and Medium Enterprises account for 95 percent of business on average in most countries of all firms and constitute a major source of employment and generate significant domestic and export earnings worldwide (WTO, 2016; OECD, 2004). Their contribution to Gross Domestic Product is around 35 per cent in developing countries and around 50 per cent in developed countries (WTO, 2016). Small and medium enterprises are also the major business taxpayers in most developing countries and as such their compliance levels directly impact on government tax revenue collections (Gachiku, 2015). In Zanzibar, The ZSGRP III, (2017) is being acquainted with the contribution of SMEs in National economy, it there for outlines that the Zanzibar government aims to pursue the development of SMEs, which is

supported through the Zanzibar investment policy (2003) that identifies and promotes micro, small and medium enterprises that have potential for output expansion, employment generation and which serve both the domestic and export markets for the purpose of transforming the Zanzibar economy to a more diversified and semi industrialized economy through agro and marine product processing and that would serve both the domestic and export markets (ZIP, 2003).

The study of the central register of establishment 2016 reveals that out of all 27,281 interviewed business establishments including small and Medium Enterprises in 2016 only 85 business establishments (about 0.3 percent) did not reveal their registration status for tax collection. Whereas, the remaining 21,735 establishments, about (79.6 percent) were registered with at least one authoritative tax institutions while 20.1 percent were not registered by any authorizing institution, and therefore not legally recognized of their presence (CRE- Zanzibar, 2017).

1.3 Statement of research problem

In developing countries including Tanzania, governments face great challenges on tax revenue mobilization hence huge gaps exist between what the government plans to collect and the actual tax revenue collected comparing to developed countries (Cottarelli, 2011; Mascagni et. al, 2014). Various studies (Coulibaly and Gandhi, 2018; Akitoby et, al. 2018; Epaphra and Massawe 2017; Besley and Persson 2014), indicates that a typical developing economy collects just 15 percent of GDP in tax compared to 40 percent of tax collected by a typical advanced economy. Some of the major reasons for less tax revenue collection in developing economies includes that of slow economic growth, tax base that are hard to reach, insufficient tax administration and management strategies, the use of incentives to attract investment, high compliance costs and low capability of implementing voluntary compliance and unclear tax laws (Bird et, al. (1992); Bahl and Bird (2008). In line with this, Alm and Torgler (2011) emphasizes that voluntary tax compliance would be a government concern for revenue mobilization. Various studies categorizes the notion of tax compliance intention basing on the variation of socio-demographic classes across countries (Remali et. al, 2015; Bobek et. al, 2007; Rosid et. al 2019; Kastlunger et. al

2012; Devos 2008). Generally, tax non-compliance limits government's revenue collection leading to less resource available for investment.

It was estimated that the ZRB could collect tax amounting to TZS 347.29 billion for the financial year 2017/18 while until march 2018, ZRB collected only TZS 238.96 billion equivalent to 69 percent of total tax collection planed for the time frame of July – march 2018/19. This implies that the ZRB planned to collect monthly average of TZS 28.94 billion while in actual it collect monthly average of 26.55 billion hence a monthly average tax gap of 2.39 billion exist for financial year 2017/18 because of tax non compliance (MoFP 2018). (Nyamwanaza et, al. 2014) revealed that, in Zimbabwe SMEs escape tax compliance by paying bribes, keeping two sets of records, relocating to new premises without notifying a tax authority, and temporarily closing businesses during compliance blitz. Masawa (2018) added that in Tanzania SMEs escape tax obligation through reporting incorrect income, delay in submitting of tax returns and they fulfill their tax obligation by force. Therefore, it becomes important to study and explore those relevant factors concerning the tax compliance behavior in Zanzibar.

1.4 Objectives of the study

1.4.1 General objective

The main objective of this study is to analyze factors influencing tax compliance behavior among SMEs in Zanzibar.

1.4.2 Specific objectives

Specific objectives of the study are:-

- i. To analyze the effect of Zanzibar tax system on tax compliance behavior among SMEs.
- ii. To examine the effect of demographic characteristics on tax compliance behavior.

- iii. To analyze the effect of tax compliance costs on tax compliance behavior among SMEs.
- iv. To identify the strategies that can be employed to enhance tax compliance behavior among SMEs

1.5 Research questions

- 1. How does the Zanzibar tax system support tax compliance among SMEs?
- 2. What is the effect of demographic characteristics on tax compliance behavior among SMEs?
- 3. How do the tax compliance costs affect SMEs tax compliance behavior?
- 4. What are the strategies that can enhance voluntary tax compliance behavior among SMEs in Zanzibar?

1.6 Scope of the study

The study focus is on analyzing factors influencing behavior of Small and Medium Enterprises on tax compliance in Zanzibar. This research analyze those determinants influencing the SMEs compliance or non – compliance and evaluate how this could affect the ZRB in enhancing revenue collection at Chake Chake District.

1.7 Significance of the study

The study results are helpful for the ZRB in shading lights for developing relevant tax framework so as to facilitate and envisage SMEs morale to comply with tax obligation. The knowledge drawn from this study would benefit the Revolutionary Government of Zanzibar and the ZRB on designing relevant and suitable tax policies especially for SMEs hence promoting voluntary tax compliance.

The business community also would benefit from this study findings from the knowledge added from underlying factors in regard with tax compliance.

Scholars and researchers have also provided with vital information on the further studies due to fact that the study contribute to potential empirical literature relating to tax compliance literatures.

CHAPTER TWO

LITERATURE REVIEW

2.1 An overview

This chapter provides critical review of the appropriate literatures so as to integrate the appropriate and relative information to the study. By so doing, various literatures relating to tax compliance behavior have been analyzed so as to match between similarities, differences and study recommendations. Both theoretical framework and empirical literatures will be reviewed in order to create understanding on tax compliance and to determine the critical analysis from various studies.

2.2 Definition of key terms

2.2.1 Tax

Tax is defined as a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures” (Kirchler, 2007). Taxes have two components, which are tax rate and tax base. Tax rates can be structured into proportional, progressive and regressive tax while tax base implying the base at which taxes are levied such as transactions, property and income. Since this study analyzes the tax compliance on legal entity therefore the transactions definition which includes sales and transfer of wealth is adopted.

2.2.2 Tax compliance behavior

Kirchler (2007) defined tax compliance in considering the taxpayers’ willingness to pay taxes basing on commitment to pay without complaints, Walsh, (2012) added that the tax payers’ aspiration to comply with tax rules is strongly associated to both personal norms or tax payer’s belief and social norms that exist in a particular society. The World Bank report (2015) indicated that in order to understand behavior there are total of three doctrines that should be considered and which stands as the direction in understanding behavior. These are: 1. Human being makes most

judgments and most choices automatically and not deliberately; and this is called “thinking automatically”. 2. Also how people do something is habitually dependent on what others around them do and think: this is called “thinking socially”. 3. And the fact that individuals are usually share common perspectives on making sense of the world around them and understanding themselves: this is called “thinking with mental models”. Various studies (Admasu and Jerene, 2016; Sapiei et al. 2014; Al-Mamun et al, 2014) have previously done in order to understand various factors that influence tax payers’ behavior toward tax payment.

2.2.3 Small and Medium Enterprises

Small and medium enterprises are named by adjectives indicating size; they are normally divided into classes according to some quantitative measurable indicators such as number of employees, total Assets and total annual sales (Lepoutre and Heen 2006; Berisha and Pula, 2015; European commission, 2015). For instance, according to European commission Small sized business enterprises are defined as those enterprises that employ fewer than 50 persons and with annual turnover or annual balance sheet total that doesn’t exceed EUR 10 million whereby Medium enterprises are those business enterprises that employ fewer than 250 persons and have annual turnover not exceeding EUR 50 or an annual balance sheet not exceed EUR 43 million (European Commission, 2015). There are approximately 35-45 million formal non-agricultural SMEs globally, comprising about 10 percent of the universe of both formal and informal Micro, Small and Medium Enterprises of 400-500 million. Of these, approximately 67 percent, or 25-30 million operate in developing countries, with the largest share in East Asia and Pacific (Kumar, 2017). This study adopts a definition of SMEs as in accordance to the numbers of persons employed by an enterprise as per the Zanzibar SMEs policy (2015), according to the policy; Small enterprises are those enterprises that employ between 5 to 15 persons while Medium enterprises are those enterprises that employ between 20 to 99 persons (Zanzibar SMEs Policy, 2005).

Figure 2.1: Share of formal SMEs between developed and developing economies



Source: Kumar (2017)

In Zanzibar Small and Medium Enterprises cover all independent businesses that have been registered by competent authorities together with registration of ZRB for tax payment with limited number of employee (SMEs policy, 2005). Table 2.1 shows the size definitions of Small and Medium Enterprises in Zanzibar.

Table 2.1. Size definition of SMEs in Zanzibar

Category	Number of Employees	Annual Turnover in TZS Million	Total Assets in TZS Million	Tax Registration	Business Registration
Small	5 – 19	Less than 50	Less than 20	Yes	Yes
Medium	20 – 99	Less than 750	Less than 225	Yes	Yes

Source: Zanzibar SMEs policy (2005)

2.3 Theoretical framework

The study borrowed some important theoretical basis relating to tax compliance behavior. The selected Theories are: - Allingham and Sandmo theory of tax compliance, the slippery scale frame work and theory of planned behavior (TPB). These selected theoretical frameworks provides basis for understanding on the varying levels of tax payer's behavior toward tax compliance. whereby variables

such as tax education, number of tax base, complexity of tax law and tax compliance costs such as travelling costs, book keeping and accounting costs and frequency of submission of returns to ZRB was captured from these theories.

2.3.1 Allingham and Sandmo theory (AS theory)

This theory was developed by Allingham and Sandmo (1972). The aim of this theory was to analyze the taxpayer's decision on whether to comply with tax rule and the extent to which a tax payer avoid taxes by deliberate underreporting. The theory postulated that the tax payer's decision and tax declaration on whether to violet the fiscal law and evade their tax obligation are under uncertainty since the government monitor through an arranged sanctions and audit management. Such tax payer's decision are always determined by estimated costs of tax evasion; for instance, if tax payers perceives that avoiding tax will cost less and that will not be detected by Tax Authority, then a tax payers may choose to violet the laws and evade from tax obligation. According to the theory, taxpayers have a chance to choose between two strategies, these are either 1. Tax payers may declare his exact income received or 2. may declare less than his actual income. Then his payoff for the second strategy depends on whether the tax authority will investigate on him or not, if he has not investigated by a tax authority then he will be clearly better off than under the first strategy, but if tax authority investigate him then he become worse off.”(Allingham and Sandmo, 1972).

The theory outlined the negative relationship that exists between tax evasion, chance of being detected, and the degree of punishment and high costs of procedures linked with tax laws. Allingham and Sandmo (1972), established the theory by opening up the essence of income tax evasion under the assumption that a rational and ethical taxpayers maximizes expected utility, which exclusively depend on their level of income. Once they cheated and caught by a tax Authority, then penalties must be paid and be imposed on the amount of evaded income. A comparative static resulting with the theory is that, when a tax rate goes up, competing income and substitution effects might result in to more or less tax compliance. Therefore substitution effect envisages tax evasion due to the fact that the marginal benefit of cheating goes up

with the rate of tax. Conversely, the income effects restrain tax evasion since a higher rate of tax makes the taxpayer with decreasing absolute risk aversion feel worse-off, and thus decrease risk-taking. The AS theory provides a basis in analyzing tax payer's behaviors by understanding important factors that influence the tax payer's compliance such that of tax rate which may help a government on fiscal policy and planning on efficient allocation of resources through controlling tax rate and tax penalties. This theory is applicable to this study since it exactly provided an important description concerning the tax compliance behavior toward tax obligation. The critique with the AS theory is that, the theory gives slight consideration to non pecuniary factors that also influence decision of tax payers to comply or evade taxes. It need hardly be stressed that in addition to the income loss there are factors that also affect utility if one's attempt at tax evasion is detected. Those factors may be characterized as adversely affect tax payers reputation as a member of community (Allingham and Sandmo, 1972). Costs of operation connected with tax law (tax compliance costs) has been captured from this theory which has been analyzed its effect on tax compliance.

2.3.2 The slippery scale frame work

The slippery scale frame work for tax compliance was advanced by Kirchler, Hoelzl and Wahl (2008). The idea behind this frame work is about tax compliance along two major dimensions which are the power of tax authorities and the trust in tax authorities.

This framework provides suggestion on both the power of tax authorities and trust in the tax authorities as joint dimensions toward enforced or voluntary compliance.

According to the framework the range of tax climate in a particular society can change from in various dimensions includes that of antagonist and synergy tax climates. During an antagonist period both tax payers and tax Authority work against one another where as during synergy climate they work friendly together. The frame work characterized the antagonistic climates as a 'cops and robbers' where by tax system perceive tax payers as robbers who tends to evade tax obligation and who

need to be held in check at the same time, tax payers feels persecuted by a tax authority (cops) and who feel that it's a right time to hide. Such climate makes social distance to large enough with slight respect and slight positive feelings toward tax authority. Individual are then supposed to neglect voluntary compliance and then are probably opt to rational consideration of both cost and benefits of tax evasion. The synergistic tax climate characterized by a notion that a tax Authority perform various services for the sake of community and as such tax Authority is also the part of the same community that serve, there for tax payers feels that they all belong to. This approaches can be described as a "service – client" which ensure transparence on tax procedures and kindly treatment of tax payers. In this tax climate social distance supposed to be very low whereby voluntary tax compliance is likely to be achieved, tax payers are also considered to have less chance of tax evasion and are more likely contribute their effort toward tax obligation. The frame work main assumption is mainly that the way to achieve tax compliance is through increasing the trust and power and as such a change in trust can influence while also change in power can influence trust (Krichler at. al, 2008).

This frame work is useful for understanding two major dimensions of tax compliance, the analysis of important factor such that of trust outlined from the theory helps a tax payer to believe on tax Authority for voluntary compliance. This theoretical frame work is relevant and applicable to this study since the two mentioned dimensions are relative factors to the issues concerning the tax compliance that a researcher intends to analyze. This study considered variables such as complexity of tax law and number of tax bases in order to understand the tax system of Zanzibar in the way that the ZRB maintain its power in influencing tax compliance among tax payers. Various authors such as Mas'ud et. al (2015) and Kogler et, al. (2013), have also conducted studies on trust and power in analyzing tax compliance behavior by testing the main assumption of the slippery scale framework.

2.3.3 Theory of planned behavior (TPB)

This theory was advanced by Ajzen (1991), a central factor in this theory is that of individual's intention to act a given behavior at a specific place and specific time. The theory explained that, behavior of human being is influence much by behavioral intention whereas behavioral intentions are the functions of the following three factors which are 1. an individual attitude toward behavior 2. The subjective norms enclosing the implementation of particular behavior and 3. Perceptions that an individual have in controlling over behavior. The theory extend that, individual's intentions of performing various kinds of behavior can be predicted with high accuracy from his attitude toward the behavior, perceived behavioral control, subjective norms and his intention together with his perceptions of behavioral control that account for considerable variance in actual behavior. Individual intentions of performing various kinds of behavior are assumed to capture the motivational factors that influence certain behavior. They give signal on how hard peoples are willing to act and of how much of an effort are preparing to put forth so as to perform the behavior. It is assumed that the stronger the intention to involve in particular behavior, then the more the likelihood should be its performance. And the performance of most depends at least to some degree of non motivational factors as availability of requisite opportunities and resources such as time, money, skills, and cooperation of others which represent people's actual control over the behavior (Ajzen, 1991). A variable relevant to skills, that is, tax knowledge has been applied in this study as the non motivational factor in order to analyze its influence on tax compliance in steady of attitude and individual's perceptions.

The theory helps in analyzing the human behavioral change in a general sense, in relation to the tax compliance important factors such that of tax payer's attitude would be analyzed to predict tax payer's behavior and identify the significance of tax compliance from a tax payers so that a tax authority can adopt an appropriate system for tax collection which is relevant and applicable to this study objectives. Authors such as Salman and sarjono, (2013); Marandu (2015) and Rosid 2019 have applied the theory of planned behavior in analyzing the tax compliance they found that

subjective norms, perceived behavioral control and complexity of tax system are important components in influencing intention and tax compliance behavior.

The weakness of this theory is that, it explains about human behavior, which is merely be predicted through attitudes, subjective norms, and perceived behavioral to determine intentions and actions, the theory also postulates that behavior is a function of salient information, or beliefs, relevant to the behavior. In fact People can hold a great many beliefs about any given behavior and few can be disclosed at a given moment.

2.4 Empirical review

There are a number of studies, surveys and researches relating to the topic of tax compliance behaviors. Those studies have been conducted at a different period of time and different dimensions and across various geographical locations they are going to be used purposely to provide a general over view relating to the topic of this study. These studies includes:-

Inasius (2015) studied on tax compliance of small and medium enterprises (SMEs) in Indonesia for the purpose of measuring the rate of tax compliance of retailers involved on Small and Medium sized business basing on annual income size ranging between IDR 600 million to IDR 4.8 billion (equivalent to USD 400,000 with the reference of exchange rate during the time that study was done) in Indonesia. The study examined a total of four variables that influence tax compliance; these are the probability of being audited, retailers' perception about tax rates, retailers' tax knowledge and the referral group from a sample of 319 retailers. The study collected primary data using questionnaire tool and the test for hypothesis were done using multiple regression model. The study findings revealed that probability of being audited, tax knowledge and referral group have positive relation with tax compliance however, except that tax knowledge found to have more significant influence on tax compliance, whereby, tax rate found to have negative correlation with tax compliance.

Tilahun and Yidersal (2014) examined factors affecting tax compliance behavior in Bahir Dar city administration of Ethiopia. The study employed primary data collected using questionnaire tool from a sample of 201 out of 1,316 targeted population of unincorporated category A and B business income tax. The one ways ANOVA was adopted for data analysis. The study revealed that penalties, tax payers' perception on government spending, equity and fairness of tax system, change in government policies have significant influence on tax compliance behavior whereby, probability of being audited and gender found to have no significant influence on tax compliance behavior. The study result also show that older peoples comply less once they perceive that there is no equity and fairness in paying taxes and when there is not favorable change in electricity and water rates and change in government policies on fuel prices. Ali an Ahmad (2014) studied on Trust and Tax Compliance among Malaysian working youth, the study applied an administered online survey on youth throughout Malaysia. The partial least squares were used to analyze a sample of 500 respondents from 2,303 usable responses. The results show that one of the two trust variables (Trust in tax system and Trust in tax authority) and tax knowledge are significant determinants of tax compliance. In addition, youth in the registered taxpayers group exhibited a greater level of compliance intention than non-registered youth.

Masawa (2018) conducted a study on determinants of voluntary tax compliance in Tanzania from taxpayer perspectives on SMEs in Dar es Salaam. The study employed quantitative approach; both secondary and primary data from 100 SMEs operating in Dar es Salaam were collected using questionnaire instrument. The variables were measured using perception in the form of ordinal scales that found to be valid and reliable from other studies hence to measure the tax compliance a researcher used ordinal statements in the form of likert scale with 1 = strongly disagree to 5 = strongly agree. Later, the regression analyses were conducted to examine relationship among variables. The finding was that voluntary tax compliance of SMEs in Dar e Salaam city is positively related to service rendered by Tanzania Revenue Authority together with quality of public governance and regulations, indeed the study result show that SMEs do not comply with tax

regulation in greater extent since they report incorrect income, delay in submitting of tax returns and they fulfill their tax obligation by force.

Oladipipo and Obazee (2016) studied on influence of penalties and tax payers' knowledge on SMEs tax compliance in Nigeria. The study employed primary data source collected randomly using questionnaire tool from a sample of 277 out of 400 population size of SMEs in Benin City of Edo state of Nigeria. Then data analysis was done using Ordinary Least Square, the study revealed that education and tax knowledge have positive significance influence on tax compliance whereby, penalty has insignificance influence on tax compliance.

Ali et al (2013) explored the determinants of tax compliance behavior in Tanzania, Uganda, Kenya and South Africa by using tax payers' attitude and perceptions. Data obtained from the Afro barometer survey and the analysis was done by using a binary logit model. Study found that there are some similarities but there are also some differences in those factors that influence tax compliance among four countries. An increase in tax payers' perceptions about difficult of tax evasion found to increase the likelihood of tax compliance in South Africa and Kenya. The result also shows that respondents who were satisfied with public services are more likely to comply with tax regulations across all four countries. However, the study revealed that regular payments to non-state actors for example to criminal gang in exchange for protection decrease the likelihood of taxpayers to comply with tax. In addition to that an individual perceived that their ethnic group treated unfairly is likely to reduce their chance to comply in South Africa and Tanzania. Furthermore, tax knowledge also found to have significant influence on tax compliance in South Africa and Tanzania.

Helhel and Ahmed (2014) Surveyed on factors that affecting tax compliance and tax attitudes in Sana'a, the capital city of Yemen. The study intended to enclose the influence of attitude and taxpayers' consideration on tax compliance through evaluating and ranking those prominent factors that reduce taxpayer compliance. The study collected data from the primary sources through a well designed a questionnaire that distributed to 170 respondents. The study revealed that, the high

rates of tax and unfair tax system are the two most critical factors that associated with tax compliance level. Also insufficiency in tax auditing, tax amnesty, little deterrent and tax penalties have influence on tax payers' decision to comply with tax, while comparisons between gender of respondents found that female are more compliant compared to male and that age didn't found to be a significant factor in general.

Serem et. al (2017) conducted a study for the purpose of making analysis on effect of tax system on tax compliance in Eldorata central business district in Kenya. The study employed primary data collected using a likert scale questionnaire design which distributed to samples of 181 out of 332 respondents that were chosen randomly. Data was analyzed using SPSS computer software and study hypotheses were tested at 0.05 level of significance. The study revealed that level of income has an influence on tax compliance.

Munyentwali (2014) investigated the determinants of tax compliance in both formal and informal sectors in Rwanda. Multinomial Logistic Regression Analysis and the sample under study were made up by 793 respondents. The study finding revealed that tax compliance costs, income level, tax payers' perception on fairness about tax system and rate of penalty found to have statistical significance on tax compliance for formal sectors whereas, perceptions toward government spending and attitude toward taxes found to have statistical influence on tax compliance for informal sectors.

Olaoye et. al (2017) examined the effect of tax administration, tax knowledge and information on tax compliance. A total of 250 samples of firms were selected from Block Moulding firms in Ekiti state of Nigeria. The OLS technique was adopted to analyze the relative predictive power that exists between tax compliance and those variables from a total of 200 retrieved questionnaires. The study revealed that tax knowledge and information have positive statistical influence on tax compliance whereby tax administration found to have no statistical significance on tax compliance.

Admasu and Jerene (2016) examined determinants that influence voluntary tax compliance behavior in self assessment system. The study employed secondary also primary data was collected from a sample of 337 taxpayers I selected five cities of Ethiopia. The data analyzed was done using Pearson correlation matrix and logistic model. The study finding revealed that tax knowledge, perception of fairness on tax system, perception on government spending and simplicity on tax returns have significant influence on voluntary tax compliance behavior.

Adimasu and Daare (2017) conducted study for the purpose of examining the influence of taxpayers' awareness and their perceptions toward tax system on voluntary tax compliance in Ethiopia. The study employed descriptive research design whereby a sample of 337 respondents was chosen randomly. Primary data was collected using questionnaire tool. Data analysis was done using descriptive statistics includes tables and percentage. The study revealed tax payers awareness is a major problem for voluntary compliance, most of tax payers perceived that there is tax rate and penalty rate hence believe that the system of tax is not fair to them. In addition, positive perception of taxpayers on tax system and government spending influenced voluntary tax compliance.

Mukhlis et. al, 2015 conducted study for the purpose of making analysis on the function of tax knowledge and taxpayers education and their influence tax fairness and tax compliance on SMEs on province of East Java in Indonesia. Primary data was employed and collected using well designed questionnaires from a sample of 183 respondents. The partial least square was used for data analysis and the study findings revealed that taxpayer's education has significance influence on tax knowledge and that tax knowledge has positive significance influence tax fairness, tax fairness and tax knowledge were also found to have positive significance influence on tax

Savitri, (2015) examined the role of taxpayers awareness, service quality, expediency of tax identification number and tax knowledge on tax compliance. A survey design was employed for data collection from a total of 100 respondents in Pekanbaru Senapelan tax office in Indonesia. The analysis of data was done using path analysis.

The study revealed that taxpayer's awareness about tax has full mediate role between service quality, expediency of tax identification number and tax compliance. On the other hand, taxpayer's awareness has no mediating role between tax knowledge, tax socialization and taxpayer's compliance.

Mohamad and Deris, (2018) did a study for the purpose of analyzing factors that influence tax noncompliance among SMEs. Primary data was collected from a sample of 150 SMEs using questionnaires in Kuala Lumpur and Selangor, Malaysia. Data were analyzed using SPSS computer software in order to test for reliability, normality, descriptive and correlations of study variables. The study revealed that there is significant relationship between tax compliance and income level of SMEs.

Mutai (2013) investigated on the factors that affect tax compliance among SMEs in Uasin Gishu county in Kenya. Researcher employed triangulation method in utilizing questionnaire survey and interview data collection from Small and Medium Enterprises. The data analysis was done using SPSS computer software. The finding revealed that tax services quality and government spending and perception about fairness on tax system were strongly influence tax compliance among SMEs while the SMEs size found to have negative influence on tax compliance since the increase in of business enterprises lower the tax compliance rate among SMEs in Uasin Gishu County.

2.5 The gap that exist in reviewed literature

All of the reviewed literatures exposed the relevant factors that affect taxpayer's behavior in response to voluntary tax compliance. Chau and Leung (2009) modified Fischer tax compliance model by categorizing those factors as demographic variables, culture variables, attitudes and perceptions, tax system or structure. To the most of the empirical literatures reviewed (includes that of Savitr, 2015; Mukhlis et. al, 2015; Admasu and Jerene 2016 and Olaoye et. al 2017) the variables explained in aforementioned theories (Allingham and Sandmo theory, the slippery scale frame work and theory of planned behavior) that have been used by most of the authors

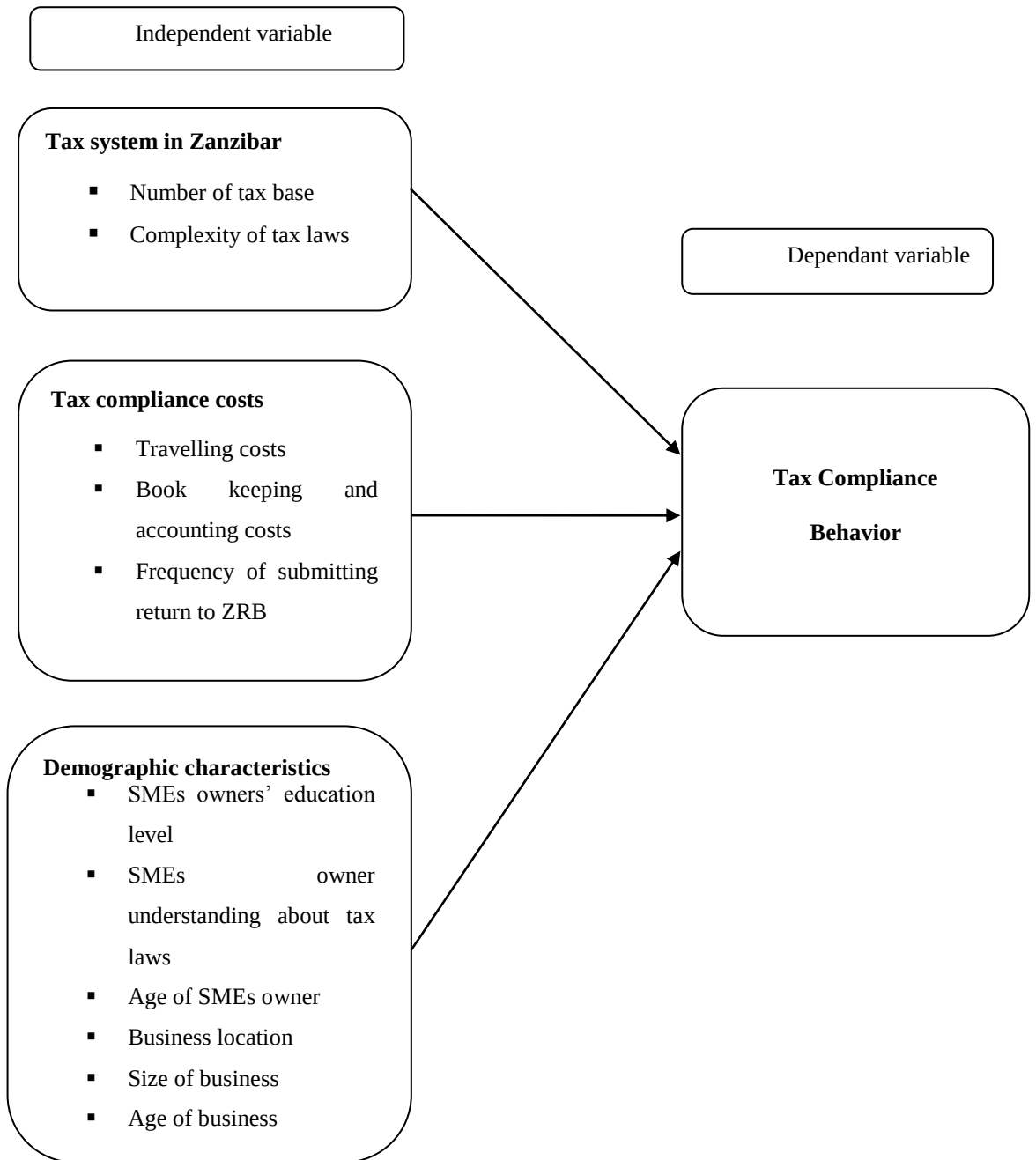
seemed to have significant relationship as far as tax compliance is concerned among Small and Medium Enterprises.

A part from those empirical studies that have been done on tax compliance behavior, the challenge that remain unattended to the best of my knowledge from the reviewed literatures is based on the sense that most of them have not indicated on suitable mechanism that would help both tax payers and tax Authority in solving tax noncompliance. Not only have that, but also among the limited studies that investigated on tax compliance, most of them were conducted in the foreign countries while some are multi country study (Ali et, al. 2013) whereas some of them has been done in transition economies such as Indonesia (Mukhlis et. al, 2015; Inasius 2015) and Malaysia (Ali and Ahmad 2014). Thus this study tries to bridge the existing location gap by investigating tax compliance behavior among SMEs in context of Zanzibar Island.

2.6 Conceptual framework

A conceptual framework is a network, or a plan of interlinked concepts that together provide a comprehensive understanding of a phenomenon or phenomena. It displays the existing relationship of assumptions, expectations and beliefs (Tamene, 2016 and Jabareen, 2009). Conceptual framework explains either graphically or in a narrative form, the main things to be studied-the key factors, constructs or variable and the presumed relationships among them. As far as both theoretical and empirical reviews are concerned in relation to this study, the following conceptual frame work is developed to provide the guidance to the study variable and fulfilling the intended research purpose.

Figure 2.2: Model of Taxpayer Compliance Behavior



Source: Researcher own design (2019)

From Figure 2, tax compliance behavior is the dependent variable while the independent variables which influence tax compliance behavior are composed from tax system, tax compliance costs, SMEs owners' knowledge about tax while some

other demographic characteristics relating to owners' characteristics and business characteristics such as location of business, size of business, age of business and age of SMEs owners have been added in order to understand how they impact on tax compliance behavior. The relationship between these variables can be explained as follows.

2.6.1 Tax compliance behavior:

Tax compliance behavior predicts the reasons of tax payer to comply with or not comply with tax rule (HM Revenue and Customs 2016; Nkwe 2013) given a change in explanatory variables. The influence of explanatory variables would then indicate behavior of tax payer to comply with or not comply with tax rule. According to OECD, (2004) lack of tax knowledge, cost of compliance, perceived inequality in tax system are the factors that drive specific compliance behavior and that, underreporting of business income or failure to report accurately may be termed as the non-compliant behavior that is observed and that need to be addressed. The following were explanatory variable of tax compliance behavior:-

2.6.2 Tax system

This variable has been captured from the slippery scale framework in explaining the power of tax authorities and trust. Nazarov, (2016) explained that the tax system is a set of taxes, fees, duties and other payments, charged in accordance with established procedures. Various authors (Helhel and Ahmed (2014); Admasu and Daare (2017); Serem et. al, (2017); Tilahun and Yidersal (2014); Admasu and Jerene, (2016) have analyzed the influence of tax system toward tax compliance, their study result showed that fair tax system have significant effect on tax compliance. This study focused on complexity of tax laws and tax base as far as tax system is concerned and it expected negative relationship between complexity of tax laws for the dummy that has been used and tax compliance among SMEs.

2.6.3 Tax Compliance costs

A variable relating to tax compliance costs has been captured from the (Allingham and Sandmo, 1972). According to Thiga and Muturi (2015), tax compliance costs covers various components of costs of taxation include social costs, audit costs, travelling costs and others. Social costs are incurred by society in the process of transferring purchasing power from the taxpayers to the government, while the other elements are administrative costs and deadweight efficiency loss from taxation. These costs are cited as costs that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. Munyentwali (2014) analyzed the effect of tax compliance costs on tax compliance. The study result revealed that tax compliance costs are statistically significant affect level of tax compliance behavior. This study covers travelling costs, book keeping and accounting cost and frequency of time taken to submit returns; those variables are expected to have negative relationship with tax compliance behavior.

2.6.4 Tax knowledge

Tax knowledge has been informed by a theory of planned behavior. Various authors have analyzed the effect of tax knowledge (Oladipupo and Obazee, 2016; Ali et, al 2013; Olaoye et, al. 2017; Ali and Ahmad, 2014; Inasius 2015) on tax compliance. They found that tax knowledge had a positive significant influence on tax compliance. Tax knowledge has a very close relationship with taxpayers' ability in understanding the laws and regulations of taxation, and their ability to comply. Walsh (2012) explained that education level enable tax payers to be better informed of tax laws and has positive influence on tax compliance. Education level of SMEs owner, awareness of SMEs owners about tax payment and SMEs owners' understanding about tax law has been used as proxies of tax knowledge to analyze their influence on tax compliance behavior.

2.6.5 Business location

This variable is included in this study to understand its influence on tax compliance. Various authors (Mukhlis and Simanjuntak, 2016; Masawa 2018) found that location of business influence chance to comply with tax obligation. There for this study also intended to also understand if there exists any relationship between site of business and tax compliance behavior. The study expected that urban located businesses comply with tax obligation compare to rural located business.

2.6.6 Size of business

This variable is included in this study in order to understand if being small or medium sized enterprise affect tax compliance behavior of SMEs then the variable has been included in analysis for the purpose of understanding how does the size of business influence chance of SMEs compliance on tax obligation. As far as this study is concerned, the size of business is considered as according to number of employees in a business as in accordance to the Zanzibar SMEs policy (2005). Mohamad and Deris (2018) found that there is positive relationship between SMEs size and tax noncompliance. However, Abdul-Jabar (2009) found no influence between the size of business and tax noncompliance. It is expected from this study that Medium-sized enterprise have high chance of tax compliance behavior than Small business enterprises.

2.6.7 Age of business

This variable is included in this study to understand its influence on tax compliance. A study done by Sapiei et, al. (2014) found that a business operated in long time has a good chance to comply with tax conversely Abdul-Jabar(2009) revealed the influence of business age on SMEs tax compliance is inconclusive.

2.6.8 Age of SMEs owner

Various studies (Engida and Baisa, 2014; Abdul, 2001) found that age of business owner has influence on tax compliance. Therefore this study also intended to analyze

effect of SMEs owners' age on tax compliance behavior among SMEs. This study expected positive relationship between age of SMEs owner and tax compliance behavior.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methods employed in order to collect and analyze data so as to achieve the study objectives. This chapter includes: research design, area of the study, target population, sampling techniques, data types, data collection instrument, data entry and management, model specification and data analysis.

3.2 The Research Design

This study conducted using cross sectional survey design, a suitable design for estimating the prevalence of a behavior in a population (Sedgwick, 2014). Levin (2006) outlined that a cross-sectional survey design is used to determine concurrently exposure and outcomes of the variables from a study population in a particular time on a given geographical area (Levin, 2006).

3.3 Area of the Study

The study is conducted in Chake Chake District located in South Region of Pemba Island in Tanzania. Chake Chake district has geographical coordinates of 5° 15' 0" South, 39° 46' 0" East. It cover the area of 219 km² with a population density of 443.8/km². According to National Population census 2012, Chake Chake district has a total population of 97,249 of which number of Male are 46,411 while Female are 50,838. South Region of Pemba Island has been ranked as the second region in Zanzibar having a large number of Small and Medium Enterprises (SMEs) of which Chake Chake District has large number of establish comparing to Mkoani District (CRE, 2017). Chake Chake district is also convenient for a researcher due to resources limitation in comparing to other districts.

3.4 Target Population

Kothar (2004) defined the target population as the whole organization of characters or items to which a researcher gets interested in generalizing the conclusions. As far

as this study is concerned, the target population involved the Small and Medium Enterprises operated by men and women from 4 shehia from urban of Chake Chake District which are kichungwani, Chanjaani, Wara and Msingini and other 2 shehia from rural of Chake Chake district which are Vitongoji and Wawi.

Chake Chake district has a total number of 62 registered Small and Medium Enterprises 2019/20 financial year (SMIDA- , 2019).

3.5 Sample size and sampling procedures

The study sample population is a portion of Small and Medium Enterprises in Chake Chake district, the study sample represented the entire group of SMEs from them the study data obtained for analysis.

3.5.1 Sample size

Kothar (2004) defines the size of the sample as a number of items to be selected from the universe to constitute a sample. According to Kothar (2004), a sample is selected from a population for the purpose of analysis and it is from this sample population generalizations are made based on an analysis. A sample size should be small enough to make data collection convenient and should be large enough to be a true representative of the chosen population. With regard to the accuracy level, a confidence level of 95 percent is suggested and is normal used.

Since the number of population is exactly known a small sample taken using stratified sampling technique hence the random sampling technique applied from the strata to reduce the number of cases as advised by Taherdoost, (2016). The sample size taken using Stratified sampling technique which is used when the population is divided into subgroups and a random sample is taken from each subgroup, such as the size of company (Taherdoost, 2016).

The sample size of this study obtained using the Slovin's formular (1960). The Slovin's formular is given as follows:

$$n = \frac{N}{1 + Ne^2}$$

Where by:

N= Total population

n= Sample size

e=Error tolerance

$$n = \frac{62}{1 + 62(0.05)^2}$$

$$n = 54$$

Table 3.1 outlines the study sample size basing on the categories of study population.

Table 3.1: Study sample size

Size of enterprises	Small	Medium
Number of persons engaged	5 - 19	20 – 99
Total number of 54 enterprises selected randomly	40	14

Source: Researcher own design

3.5.2 Sampling technique

Dawson,(2002) defines sampling as the process of choosing a smaller and more manageable number of people to take part in the research, and which can be used to generalize the results to the whole of the research population if was chosen careful. This study employed two-stage sampling techniques including purposive and stratified-random sampling techniques. The purposive sampling was used to select 6 shehias from 32 shehias available in Chakechake districts. These shehias include Kichungwani, Chanjaani, Msingini, Wawi, Wara and Vitongoji. Stratified-sampling used to choose from two stratum include small and medium enterprises and then from each stratum respondents were randomly selected making a total of 54 SMEs.

3.6 Type of study

Cross sectional study design is applied. Rationale for selection of this study design is that, it requires a relatively shorter time and cost few resources which helped the researcher to fulfill his work within a short period of time (Levin, 2006). This study intended to apply quantitative research paradigm using a well designed questionnaire

3.7 Data collection method

3.7.1 Types of data and collection instrument

The primary data is employed in this study and was collected from SMEs tax payers from 6 shehias of Chake Chake district. The data was collected using the structured self-administered questionnaires comprising both open-ended and closed-ended questions. Dawson (2002) argues that “questionnaire is the most appropriate data collection method for research”. This study used primary data because they were more reliable, authentic and of great validity comparing to secondary data.

Questionnaire tool is also of low cost, less time consumption, it ensure confidentiality and less bias. However, using questionnaires there is possibility of low response rate, lack of direct contact for clarification in time of filling the questionnaire; there the questions will be short, simple and clear to ensure that it generate general understanding.

3.8 Variable description and measurements

Table 3.2: Variables description and measurements

VARIABLE	NAME OF THE VARIABLE	DEFINITION OF VARIABLE	MEASUREMENT
CTL	Complexity of tax law	Extent to which a tax system in Zanzibar is complex.	5= very great extent; 4= great extent; 3= to some extent; 2= to less extent; 1 = not at all
MORETHA N1TAX	Tax Base	Number of tax bases paid by SMEs	0- If SMEs pays only 1 tax 1- If SMEs pays more than 1 tax

EDC	SMEs owners education	Education level of SMEs owner	1- If non education 2- If primary education 3- If secondary education 4- If tertiary education
UNDSTAXLAW	Understanding of tax law	Level of SMEs owner's understanding about tax law	0- if Full understand 1- If Partially 2- Not at all
TRAVCOST	Travelling costs	Monthly monetary costs in TZS that SMEs owner incur to move from place of business to the ZRB office to fulfill their tax obligations.	1- If Below 10,000 2- If Between 10,000 and 20,000 3- If between 20,000 and 30,000 4- More than 30,000
BKACCOUNTCOST	Book keeping and accounting costs	Level of cost incurred for record keeping and maintaining accounting books	1= Very high costs; 2 = High costs; 3 = Medium; 4 = Low costs and 5 = Very low costs
FREQSUBMRETURN	Frequency of submitting returns to ZRB	Level of cost incurred for time spent to submit return to ZRB	1= Very high costs; 2 = High costs; 3 = Medium; 4 = Low costs and 5 = Very low costs
LOCAT	Location	Site of where business has been located	1 – if urban 2 – if rural
NUMEMPL	Number of employees	Size definition of being either Small or Medium sized Enterprise	1- If small (5 – 19 employees) 2- If Medium (20 – 99 employees)
AGEBUSINESS	Age of Business	Time taken for business operation	1- If less than 1 year 2- If 1 – 3 years 3- If 4 – 5 years 4- If more than 5 years
AGE	Age	Age of SMEs owner	1- If below 15 years 2- If 15 – 64 years 3- If 65 and above
TCOMPL behavior	Tax compliance	Taxpayers obedience to tax laws to ensure correct tax obligations are fulfilled at the right time	1- Comply 0 - Not comply

Source: Researcher own constructs (2019)

The variables presented in Table 2 are those which found in conceptual framework in figure 2.2.

3.8.1 Dependant variable

The dependent variable in this study is tax compliance behavior which is conceptually linked with tax system, compliance costs and tax knowledge which are termed as independent variables.

3.8.2 Independent variable

These include those variables which influence dependant variable. In this study independent variables include complexity of tax law, number of tax base, SMEs owners' understanding of tax laws, travelling costs, book keeping and accounting costs , frequency of submitting returns to ZRB, SMEs owners' education level, location of business, age of business and age of SMEs owners.

3.9 Data analysis

This study involved quantitative data analysis. The research applied SPSS and STATA computer software for description, illustration and evaluate the outcomes. Descriptive statistics involved frequencies of the variables while inferential statistics conducted using the binary probit regression model.

3.10 Data processing

Data processing consists of data cleaning and data reduction. The process included detecting for abnormality, errors and omission, accuracy and consistent during answering of the questions. A researcher assigned some numeric and symbols for the purpose of reducing quantity of data In order to reduce the quantity of data.

A number of graphs, charts and tables have been used to present the findings.

3.11Model specification

This involves the way to which relationship is determined between dependant and independent variables in a model. The model specification outlines the explained variable that is being included in the model or excluded from a regression equation.

Probit model

The binary probit regression model of this study is expressed as:-

$$\begin{aligned} \text{TAXCOMPL}_{\text{behavior}} &= \beta_0 + \beta_1 \text{AGE} + \beta_2 \text{LOCAT} + \beta_3 \text{EDUC} \\ &+ \beta_4 \text{TAXLAWCOMPLCAT} + \beta_5 \text{MORETHAN1TAX} \\ &+ \beta_6 \text{UNDSTTAXLAW} + \beta_7 \text{TRAVCOST} + \beta_8 \text{BKACCOUNTCOS} \\ &+ \beta_9 \text{FREQSUBMRETURN} + \beta_{10} \text{NUMEMPLOYEES} \\ &+ \beta_{11} \text{AGEBUSINESS} + \varepsilon \end{aligned}$$

Whereby,

β_0 = constant

$\beta_1 \text{AGE}$ = Age of SMEs owners

$\beta_2 \text{LOCAT}$ = Location of business

$\beta_3 \text{EDUC}$ = Education level of SMEs owners

$\beta_4 \text{TAXLAWCOMPLCAT}$ = Complexity of tax laws

$\beta_5 \text{MORETHAN1TAX}$ = Number of tax base

$\beta_6 \text{UNDSTTAXLAW}$ = SMEs owner understanding about tax laws

$\beta_7 \text{TRAVCOST}$ = Travelling costs

$\beta_8 \text{BKACCOUNTCOS}$ = Book keeping and accounting costs

$\beta_9 \text{FREQSUBMRETURN}$ = frequency of submitting returns to ZRB

$\beta_{10} \text{NUMEMPLOYEES}$ = Size of business

$\beta_{11} \text{AGEBUSINESS}$ = age of business

ε = Stochastic error term

3.12 Data validity and reliability

3.12.1 Data validity

Validity of research is an extent at which requirements of scientific research method have been followed during the process of generating research findings (Mohajan, 2017). To ensure validity by measuring what is intended to measure, a researcher hired expert for examining and assess relevance of the study questionnaires.

3.12.2 Data reliability

According to Mohajan (2017), Reliability concerns the faith that one can have in the data obtained from the use of an instrument, that is, the degree to which any measuring tool controls for random error.

Reliability of data in this study was influenced by statistical errors due to random sampling of respondents. The researcher minimized such errors by using statistical means that ensured the consistency of results obtained hence increasing the reliability of data.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.1. Introduction

This chapter presents the study findings on the behavioral analysis of tax compliance among Small and Medium Enterprises. The analysis begun with characteristics of respondents then the chapter shows the data findings per study objectives. Descriptive statistics has been used to give the summary of the respondent's characteristics together with the factors that influencing the SMEs tax compliance behavior while regression analysis shows the existing association among independent variables and SMEs compliance behavior.

4.2 Response rate

A total of 54 questionnaires were administered and all of 54 distributed questionnaires were returned, table 4.1 shows response rate;

Table 4.1: Response rate

Issued questionnaires	Returned questionnaires	Response rate (%)
54	54	100

Source: Research finding (2019)

All of the returned questionnaires were then checked and scrutinized to check if there is any missing information. All of the questionnaires were then found to be useful for statistically analysis.

4.3. Demographic characteristics of the respondents

The study takes into consideration demographic characteristics such as sex of business entrepreneurs, age of business entrepreneurs and their education levels.

4.3.1. Demographic characteristics in terms of sex of business entrepreneurs

The results reveals that both male and female entrepreneurs are involved in Small and Medium Enterprises in Chake Chake district. Their participation are presented in percentage as shown in table 4.2

Table 4.2 Sex of the respondents

Sex	Frequency	Percent
Male	36	67
Female	18	33
Total	54	100

Source: Research finding (2019)

Table 4.2 gives the gender distribution of the study sample in which a total of 54 respondents both male and female were selected of which 67 percent were male while 33 percent were female. This variable has been analyzed for the purpose of identifying participation rates between male and female business entrepreneurs in Chake Chake district. The study findings show that majority of Small and business entrepreneurs in Chake Chake district are male who comprises 67 percent. This implies that male dominates the Small and Medium Enterprises which means that males comprise a large number of tax payers.

4.3.2 Demographic characteristics in terms of age of SMEs owners

The study analyzed the age of business owners for the purpose of identification of age of SMEs owners who participates in business. Age variable was categorized as below 15 years, 15 – 64 years and 65 years and above. Table 4.3 presents the result basing on three age categories of labor force participation in Zanzibar context.

Table 4.3 Age of SMEs owners

Age	Frequency	Percent
15 – 64	45	83
above 65	9	17
Total	54	100

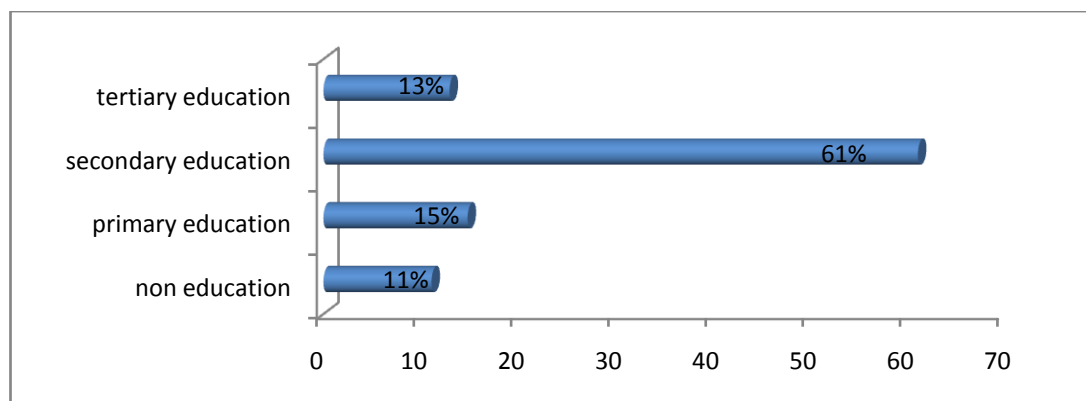
Source: Research finding (2019)

Table 4.3 shows the age of respondents as measured in a number of years. The result shows that the majority of the respondents are in the age group of 15 – 64 comprises 83 percent while the age group of 65 and above are comprises of 17 percent of respondents and there was no observation in the age group below 15. The implication of this finding is that majority of male and female respondents who are involved in SMEs are in proactive age.

4.3.3 Demographic characteristics in terms education of SMEs owners

In this study, the education level was classified into four categories as follows non educated, primary education, secondary education and tertiary education. The study finding on education level is shown in figure 4.1

Figure 4.1 Level of education of SMEs owners



Source: Research finding (2019)

The figure 4.1 represent demographic characteristics basing on respondents level of education, the figure indicates that majority of respondents have secondary education

who comprises 61 percent, followed by those who possess primary education who are 15 percent, followed by those who possess tertiary education who are 13 percent and those who are non educated represent 11 percent. This implies that most of respondents are educated enough to understand the contents issued on study questionnaires and providing relevant information.

4.4 SMEs owners' awareness of paying tax

The study investigated on whether the tax payers are aware of paying tax or not together with the extent to which they are acquainted with tax obligation. Table 4.4 shows the result on SMEs owners' awareness toward paying tax.

Table 4.4 SMEs owners' awareness of paying tax

Awareness of paying tax	Frequency	Percent
Yes or aware	48	89
No or not aware	6	11
Total	54	100

Source: Research finding (2019)

Table 4.4 represent tax payers' awareness of paying tax of which 89 percent of respondents are aware of paying tax while 11 percentage not aware of paying tax. This implies that most of SMEs tax payers in Chake Chake District are likely to have highlight about tax payment and as such the ZRB can utilize this opportunity for developing their knowledge capacity through training about tax and tax information.

4.5 Tax system in Zanzibar

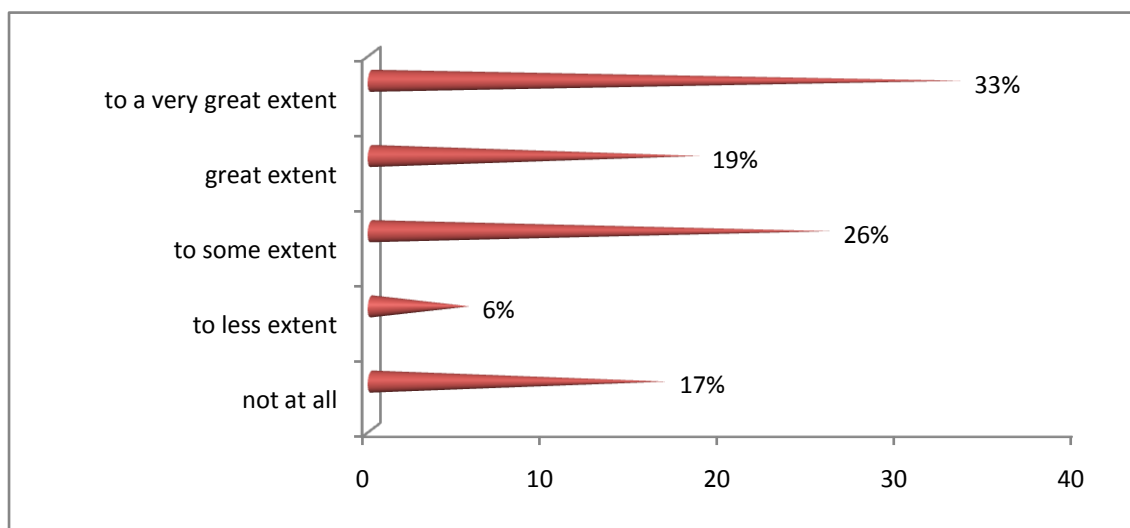
The first specific objective of this study was to analyze the effect of Zanzibar tax system on tax compliance behavior among SMEs. Data has been collected to identify several aspects concerning to tax system in Zanzibar, includes:-

4.5.1 SMEs owners' perception on tax system

To identify whether tax system has kindly treatment among SMEs tax payers or not in Zanzibar, the researcher used a questionnaire to obtain information from

respondents concerning the extent to which the tax system is unfriendly in Zanzibar. Figure 4.2 shows the extent to which respondent agreed on unfriendly tax system in Zanzibar

Figure 4.2 Tax payer’s response on the extent to which tax system is unfriendly



Source: Research finding (2019)

From the Figure 4.2, the study result demonstrated 33 percent of respondents agreed that tax system in Zanzibar is unfriendly in to a very great extent followed by 26 percent of SMEs who agreed that tax system in Zanzibar is to some extent unfriendly. 19 percent of respondents agreed that tax system is unfriendly in great extent while 6 percent of respondents agreed that tax system is to less extent unfriendly in Zanzibar however 17 percent of respondents disagreed on unfriendly tax system in Zanzibar. This implies that most of respondents perceived tax system as unfriendly which could undermine their voluntary response on tax compliance.

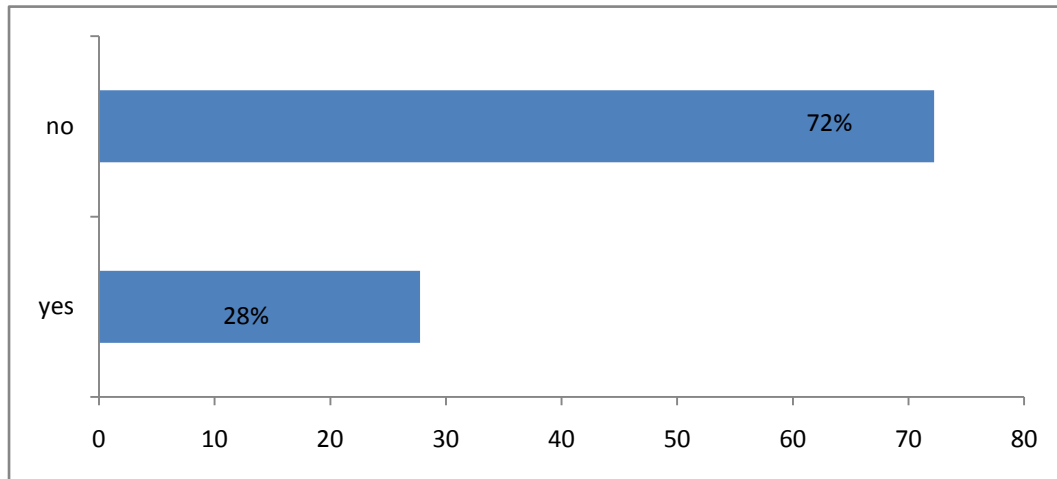
4.6 SMEs owner’s education

SMEs tax knowledge is vital in influencing voluntary tax compliance among tax SMEs tax payers. In analyzing tax knowledge the researcher put into consideration various dimension includes:

4.6.1 Formal tax training

The researcher pay attention to understand if tax payers possess any formal training about tax from Zanzibar Revenue Board, the study result is shown in figure 4.3

Figure 4.3 SMEs owners' formal tax training



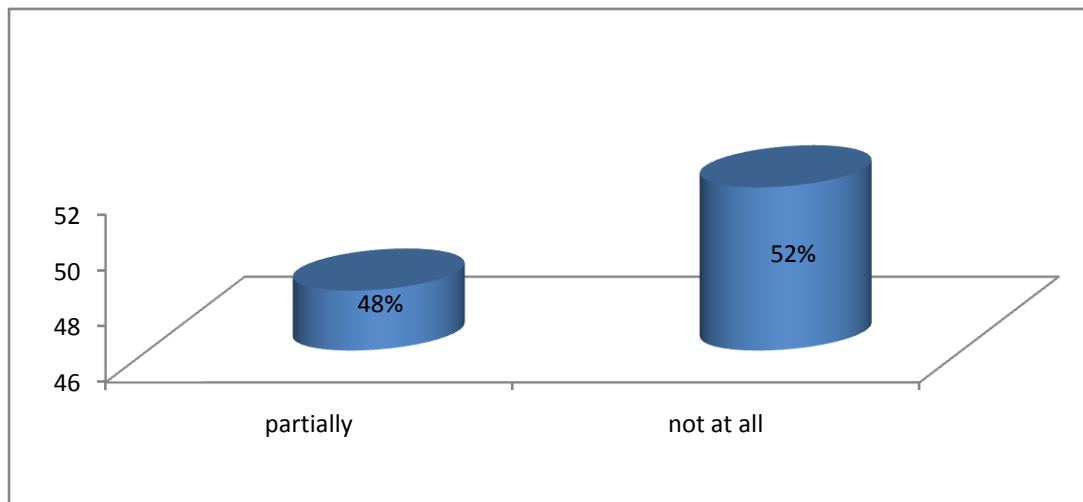
Source: Research finding (2019)

Figure 4.3 shows the study result that 72 percent of respondents do not have formal tax knowledge while 28 percent of respondents possess formal tax knowledge provided by ZRB. This implies that larger number of respondents have not attended to any kind of formal training conducted by the ZRB.

4.6.2 Understanding of tax laws

Researcher was interested to understand SMEs owners' level of understanding of tax laws. This variable was categorized into three level of understanding, these were; Full understanding, partially understanding and not understanding at all. Figure 4.4 shows the results of SMEs owners level of understanding of tax laws.

Figure 4.4 level of SMEs owners understanding of tax laws .



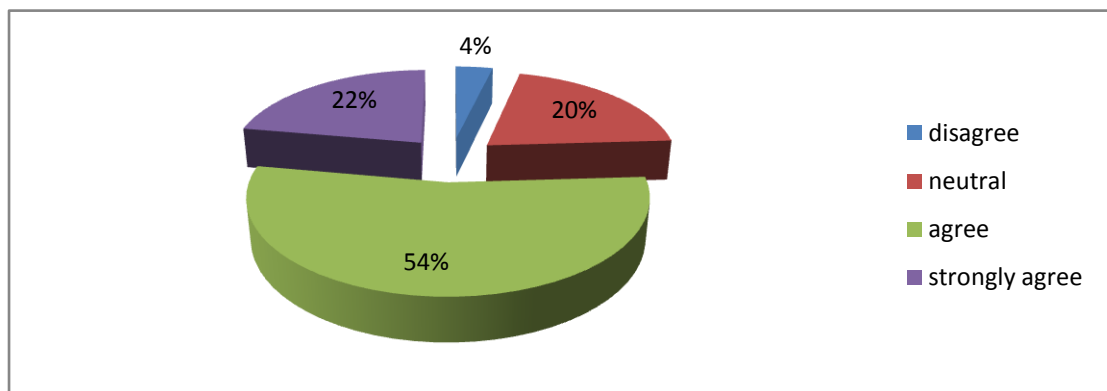
Source: Research finding (2019)

The study reveals that 52 percent of respondents do not understand tax law at all, while 48 percent of them understand tax laws partially and none of respondents understand tax laws in full.

4.6.3. Understanding of tax rules for non tax professional

Respondents were asked on their level of agreement on whether tax rules are not simple for a non professional to understand or not. The study results are shown on figure 4.5

Figure 4.5. Understanding of tax rule for non professional



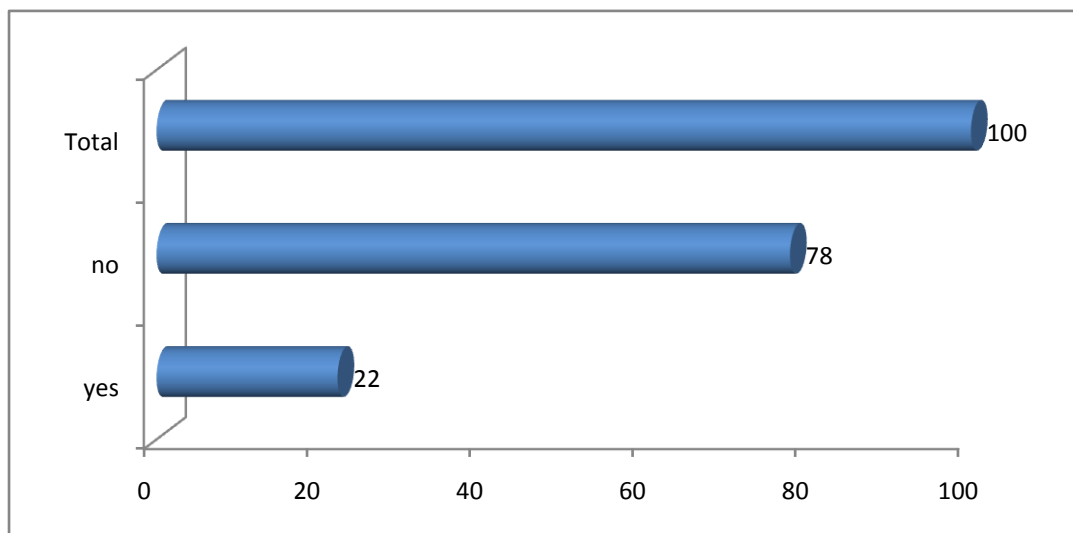
Source: Research finding (2019)

The figure 4.5 shows that majority of respondents (54 percent) agreed that tax rules are not simple for a non professional to understand followed by 22 percent who strongly agreed while 20 percent of respondents are neutral and only 4 percent of respondents disagree that tax rule are not simple to be understood by tax non professional.

4.6.4 SMEs owners' ability to calculate tax for payment

Researcher was also interested to understand if SMEs owners are able to calculate exact tax they are obliged to pay. Figures 4.6 show the results on SMEs owners' ability to calculate their tax.

Figure 4.6 SMEs owners' ability to calculate tax for payment



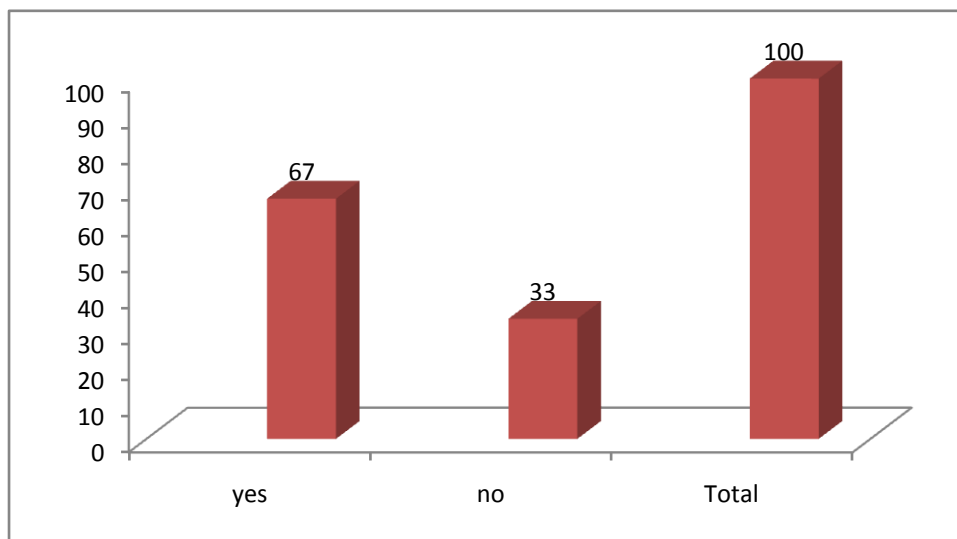
Source: Research finding (2019)

Figure 4.6 show that 78 percent of total respondents are not able to calculate exact tax amount while only 22 percent of total respondents are able to calculate tax amount. This implies that most of taxes payers are not understand how the exact amount of tax to pay they just understand to pay their tax as claimed by tax officers.

4.7 Tax base

In order to understand if tax SMEs pay more than one tax and how does it affect their compliance behavior, then a researcher asked if SMEs pays more than one tax and a total number of tax paid. Figure 4.7 show the study results on tax base.

Figure 4.7 SMEs pays more than one tax



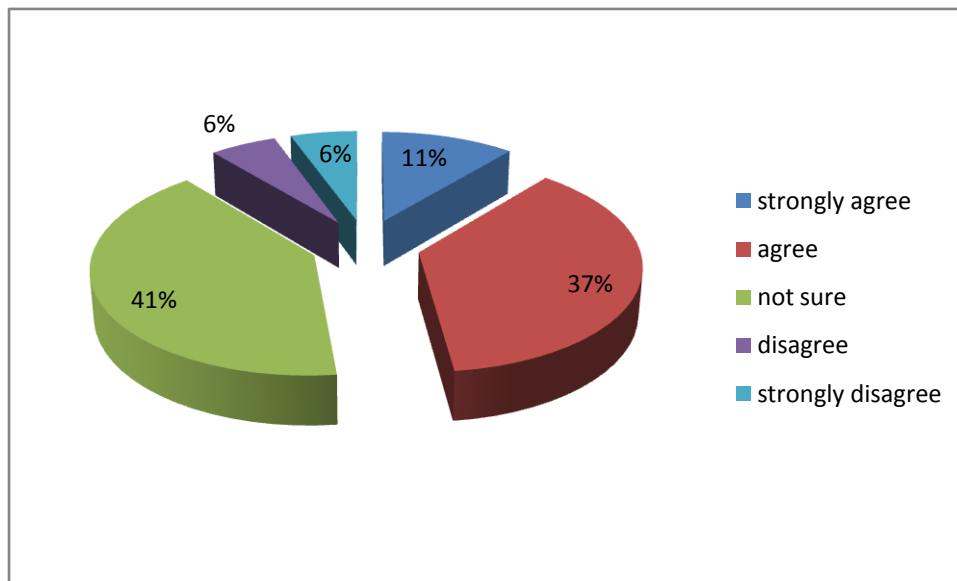
Source: Research finding (2019)

Figure 4.7 show that 67 percent of SMEs pay more than one tax while 33 percent of SMEs pay one tax.

4.8 Strategies to enhance tax compliance behavior.

Researcher analyzed on the need of the strategy to be employed so as to enhance level of compliance behavior among Small and Medium Enterprises. Figure 4.8 show the result basing on SMEs owners' level of agreement on the need of strategies to enhance tax compliance.

Figure 4.8 SMEs owners' agreement on the need to improve tax system

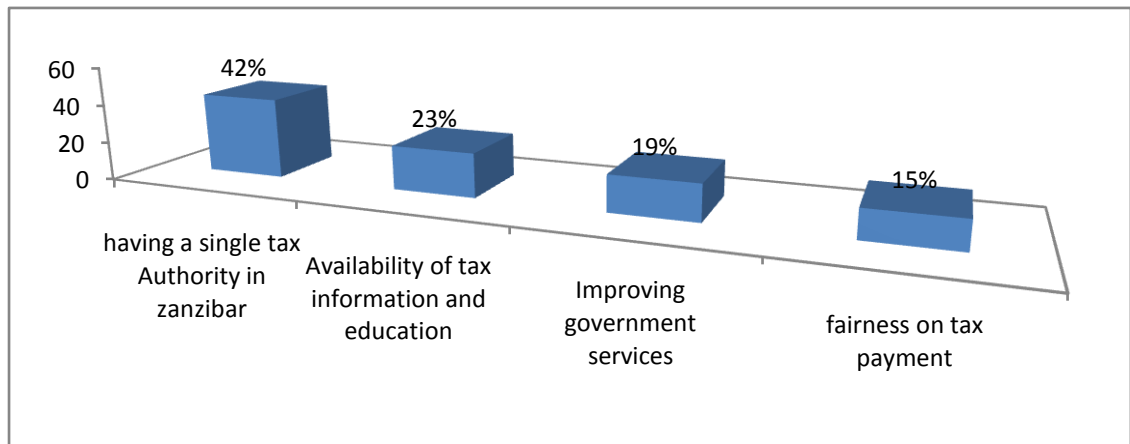


Source: Research finding (2019)

Figure 4.8 show that 41 percent of respondents are not sure on whether there is a need for the strategies to improve tax system, whereby 37 percent of respondents who agreed on the need of improving tax system followed by 11 percent of respondents who strongly agreed while 6 percent of respondents disagreed and 6 percent strongly disagreed on the need of the strategies to improve tax system.

About 37 percent of respondents (comprising 20 respondents) agree and 11 percent (comprising 6 respondents) strongly agreed on the need to improve tax system. And then suggestion to enhance tax compliance is seen in figure 4.9.

Figure 4.9 Strategies to enhance tax compliance behavior



Source: Research finding (2019)

The figure 4.9 shows majority of respondents who agreed on the need of improving tax system suggested that there is a need in Zanzibar to adopt a single tax authority. Respondents claimed that they pay tax twice when the purchase finished goods, intermediate products and raw materials from Tanzania Mainland hence they perceived this as unfair in tax payment within the same country. 23 percent of respondents suggested on the need of dissemination and availability of tax education, 19 percent suggested on the need of improving government services while 15 percent of respondents insist on fairness on tax payment.

4.9 Estimated regression results of Probit model

The probit model results are estimated using STATA software also for testing overall model of fitness for the purpose of checking how well it is in statistical view point, then tests result on statistical significance for each variable which influence tax compliance behavior was described using marginal effect analysis.

4.9.1. Fitness of the model

The results on table 4.5 show that the models had been well estimated from a statistical point of view. The test result for a general model seemed to fit indicating that they are well significant. The ratio of likelihood is also high enough. Probability

of chi square (0.0073) is significance at 5 percent level and Pseudo R^2 (0.5721) which is above 50 percent show that the model is fit well the data.

Table 4.5 Probit regression result

Probit regression	Number of obs	=	54
	LR chi2(23)	=	42.83
	Prob > chi2	=	0.0073
Log likelihood = -16.015519		Pseudo R2	= 0.5721

Source: Research finding (2019)

4.9.2 Result for probit model estimation

In this study the dependent variable which is tax compliance behavior took a value of 1 for comply that is paying the right tax at the right time and 0 for not comply with the tax obligation. Therefore probit analysis is used to predict the probability to which SMEs either comply or not comply with tax obligation given the changes in independent variables under the assumption that error term is normal distributed.

Table 4.6 Probit estimation results

Independent variables	Coefficients.	Std. Err.	P>z
AGE1***	-6.758093	3.724422	0.070
LOCAT1	-2.822394	2.247407	0.209
EDUC1	-0.7350653	1.905222	0.700
EDUC2	-2.661501	2.443264	0.276
EDUC3	0.8389031	1.687136	0.619
TAXLAWCOMPLCAT1	1.81388	1.439581	0.208
TAXLAWCOMPLCAT2	-4.26883	2.735247	0.119
TAXLAWCOMPLCAT3	1.861975	2.079008	0.370
TAXLAWCOMPLCAT4	-1.574792	1.698758	0.354
MORETHAN1TAX1	0.5855811	1.483494	0.693
UNDSTTAXLAW1	2.964322	2.319042	0.201
TRAVCOST1***	-2.743873	1.57162	0.081
TRAVCOST2	-0.7495217	1.349335	0.579
BKACCOUNTCOST1**	-7.379084	3.534057	0.037
BKACCOUNTCOST2***	-3.3272	2.003696	0.097
BKACCOUNTCOST3***	-4.878813	2.789643	0.080
FREQSUBMRETURN1	1.80607	1.866488	0.333
FREQSUBMRETURN2	1.749588	1.454386	0.229
FREQSUBMRETURN3	2.543982	1.77405	0.152
NUMEMPLOYEES2	-2.226396	1.898193	0.241
AGEBUSINESS1	1.313777	1.985367	0.508
AGEBUSINESS2	-1.034777	1.303489	0.427
AGEBUSINESS3	-1.683614	1.39375	0.227
constant	10.71136	5.824754	0.066

Source: Research Finding (2019)

*Significance level at 1 percent, **Significance level at 5 percent

***Significance level at 10 percent

Table 4.6 show that some variables in the model indicate statistically significant in influence on tax compliance. Such variables includes age of respondents which is statistically significant at 10 percent travelling cost (below 10,000) is statistically significant at 10 percent, book keeping and accounting costs (high cost) is statistically significant at 5 percent also book keeping and accounting costs (medium) are statistically significant at 10 percent, book keeping and accounting costs (low costs) was statistically significant at 10percent. These results indicate that all significant variables are less likely to influence tax compliance behavior of SMEs. Nevertheless variables such as business location, education, complexity of tax laws, subject to pay more than one tax, understanding of tax laws, frequency of submitting returns to the ZRB, size of business basing on number of employees and age of business enterprises found to be statistically insignificant in affecting tax compliance behavior in Chake Chake District. The probit estimation result had been used to present coefficients that are not used for interpretation; instead the analysis of marginal effect is used for interpretations of parameters estimates on table 4.7.

4.10 Analysis of marginal effect

The estimation has been done on probit model and coefficients were obtained as shown on Table 4.6 marginal effect is as indicated on Table 4.7.

Table 4.7 marginal effect analysis

Independent variables	dy/dx	Std. Err.	P>z
AGE1*	-0.9301507	0.10935	0.000
LOCAT1**	-0.8388303	0.32134	0.009
EDUC1	-0.2363068	0.48313	0.625
EDUC2**	-0.513015	0.20052	0.011
EDUC3	0.2962905	0.54421	0.586
TAXLAW~1**	0.5942043	0.27772	0.032
TAXLAW~2*	-0.486288	0.14454	0.001
TAXLAW~3	0.6384687	0.48838	0.191
TAXLAW~4	-0.5022175	0.42122	0.233
MORETH~1	0.2089031	0.49625	0.674
UNDSTT~1**	0.8445699	0.32442	0.009
TRAVCO~1*	-0.8292489	0.24247	0.001
TRAVCO~2	-0.2553902	0.40259	0.526
BKACCO~1*	-0.8451689	0.15731	0.000
BKACCO~2*	-0.7527976	0.2401	0.002
BKACCO~3*	-0.7098325	0.1836	0.000
FREQSU~1***	0.5988742	0.36416	0.100
FREQSU~2	0.6183059	0.3950	0.118
FREQSU~3*	0.775286	0.27059	0.004
NUMEMP~2**	-0.5668874	0.26574	0.033
AGEBUS~1	0.4861197	0.60526	0.422
AGEBUS~2	-0.335225	0.3513	0.340
AGEBUS~3***	-0.4609496	0.25065	0.066

Source: Research finding (2019)

*Significance level at 1 percent; **Significance level at 5 percent;

***Significance level at 10 percent

4.11 Interpretation and discussion of the marginal effect

Marginal effect is calculated as the partial derivatives of the non- linear probability function that has been evaluated from each variable. Interpretation of the marginal effect was discussed in considering to both signs indicated to each variable and magnitude of each variable in the model.

4.11.1 Age of SMEs owners

The marginal effect analysis shows that dummy age ranging between 15 – 64 years was statistically significant at 1 percent with the marginal effect value of -0.9301507. Implying that, it has negative influence on tax compliance behavior. This means that SMEs owners with the age ranging between 15 – 64 years old have a chance to decrease tax compliance behavior by 0.93.

4.11.2 Location of business enterprise

Location of business enterprise was statistically significant at 5 percent with marginal effect value of -0.8388303 for dummy Urban. This implies urban located enterprises have negative influence on tax compliance behavior meaning that SMEs locate in urban areas are likely to have chance of decreasing tax compliance behavior by 0.84.

4.11.3 Complexity of tax laws

The marginal effect for the dummy not at all is statistically significant at 5 percent with marginal effect of 0.5942043. This implies positive influence on tax compliance behavior. This means that SMEs which agreed that tax law are not complex at all have a likely chance to increase tax compliance behavior by 0.59.

Whereby, the dummy to less extent is statistically significant at 1 percent with marginal effect value of -0.486288. This implies it influence tax compliance behavior negatively. This means that the SMEs owners who agreed that tax law are complex but to less extent have a chance to decrease tax compliance behavior.

4.11.4. SMEs owner's education

The marginal effect analysis shows that Education level for dummy primary is statistically significant at 5 percent with marginal effect value of -0.513015. This implies a negative influence on tax compliance behavior. This means that SMEs owner with primary education are less likely to comply with tax obligation by.

The marginal effect for the dummy partially understanding of tax laws is statistically significant at 5 percent with the marginal effect of 0.8445699. This implies positive influence of partially understanding of tax laws to tax compliance behavior. This means that SMEs which have partial understanding about tax law have a chance to increase tax compliance behavior by 0.84.

4.11.5. Tax compliance costs

The marginal effect for the dummy travelling cost below 10,000 is statistically significant at 1 percent with the marginal effect value of -0.8292489. This implies that it has negative influence on tax compliance behavior. This means that SMEs who spend TZS 10,000 or below for travelling in order to meet tax obligation has a less probability of tax compliance behavior by 0.83.

Book keeping and accounting costs for the dummy high cost is statistically significant at 1 percent with marginal effect of -0.8451689. This implies that it has negative influence on tax compliance behavior. This means SMEs with book keeping and accounting costs represent high costs has decrease likelihood of tax compliance behavior by 0.85 probability.

The marginal effect for Book keeping and accounting costs for dummy medium costs is statistically significant at 1 percent with marginal effect value of -0.7527976. This also implies that book keeping and accounting costs has negative influence on tax compliance behavior. This means that the SMEs with medium book keeping and accounting costs has a chance to decrease likelihood of tax compliance behavior by probability of 0.75.

Also for the dummy low cost is statistically significant at 1 percent with marginal effect value of -0.7098325. This implies that it has negative influence on tax compliance behavior. This means that SMEs with low book keeping and accounting costs has a chance to decrease likelihood of tax compliance behavior by probability of 0.71.

Frequency of submitting returns to the ZRB is basically a matter of opportunity costs for the time taken by SMEs owner to deals with tax issues.

The marginal effect for the dummy low cost is statistically significant at 1 percent level with marginal effect value of 0.775286. This implies that frequency of submitting return has positive influence on tax compliance behavior. This means that SMEs which incurs low cost in submitting returns to the ZRB has the chance to increase likelihood of tax compliance behavior by 0.78.

The marginal effect for dummy high costs was statistical significant at 10 percent level with marginal effect value of 0.5988742. This implies that it has positive influence on tax compliance behavior. This means SMEs which incurs high cost has a chance to increase likelihood of compliance behavior by 0.6.

4.11.6. Size of business enterprises

The marginal effect of dummy number of employees is statistically significant at 5 percent level with marginal effect value of -0.5668874. This implies that Medium sized enterprises have negative influence on tax compliance behavior.

4.11.7. Age of business

The marginal effect for dummy 4 – 5 years old of business enterprises was statistical significant at 10 percent with marginal effect value of -0.4609496. This implies that business with years old ranging between 4 to 5 years have negative influence on tax compliance behavior. This means that business age of 4 – 5 years have a chance to decrease likelihood of tax compliance behavior by probability of 0.5.

CHAPTER FIVE

DISCUSSION OF FINDINGS

5.1 Introduction

This chapter presents comprehensive discussion of the study findings presented in previous chapter together with particular references obtained from tax compliance behavior of Small and Medium Enterprises.

5.2 Age of SMEs owners

Demographic variable such as age has been researched by various researchers and their findings are mixed along the way. For example (Engida and Baisa, 2014) posit negative association of older peoples and tax compliance, that is elders less compliant whereby, Abdul (2001) found that middle-aged tax payer of male and female work force and female work force are more tax evaders while elders are more complaints. There for this study result concur with that of Abdul (2001) findings because that the middle age (15 – 64 years) found to have high chance to decrease their level of tax compliance behavior as found in table 4.7.

5.3 Location of business enterprise

Previous studies results such as that of Mukhlis and Simanjuntak (2016) indicated a low level of tax compliance on SMEs sector in city of Java province, Indonesia. The same finding is observed by Masawa (2018) whose study findings shown that SMEs located in Dar es Salaam city do not comply with tax laws and regulations to a greater extent as they fulfill their tax obligation by force and delay to submit tax return on time. Therefore, this study finding support that of Masawa (2018) and Mukhlis and Simanjuntak (2016) becauuse SMEs located in urban area of chake chake district found (in table 4.7) to reduce likelihood of tax compliance by probability of 0.84.

5.4 Complexity of tax laws

The study result shows that the way tax system begins to be complex it influence negatively tax payment morale for SMEs. Nazarov (2016) outlined that the concept of tax system is of special importance in term of legal regulation, in addition to that Saad (2014) claimes that complexity of tax system arise due to increased sophistication in tax laws. Various studies for example Nazarov (2016); Admasu and Jerene (2016); and Serem et. al, (2017) found that tax system had statistical significance to tax compliance behavior. Their study result concentrate much on simplicity of tax system and observed that fair tax system had positive influence on tax compliance. In this study a researcher concentrated much on complexity of tax system rather than simplicity of tax system and it can be argued that the study finding of those authors match and support this study result because the way tax law begin to be complex it reduces the chance of SMEs to comply with tax obligation. Also Atawod and Ojeka (2012) found that complexity in tax procedures has positive influence on tax noncompliance among SMEs.

5.5 SMEs owner's education

Education level of SMEs owner has a very close relationship with the ability in understanding the laws and regulations of taxation, and their ability to comply. Different researchers for example Ali and Ahmad (2014); Inasius (2015); Mukhlis et, al. (2015) found that education has a positive and significant effect on tax knowledge and that tax knowledge has positive and significant effect on tax compliance behavior. They argued that tax knowledge has influence on tax morale, they further claim that individual who is more literate becomes obedient before the law not only that but also is a better position to understand about importance of contribution to public spending through tax. This study result shows that primary education possessed by 15 percent of respondents have negative influence on tax compliance behavior. Walsh (2012) outlined that educated SMEs owner may be better informed of tax laws which should influence compliance positively. Primary education level is a lower level for a owner to understand about tax laws and importance to contribute to the national income. SMEs owner who possess a partial understanding of tax laws

have greater chance of complying with tax obligation this implies that once a SMEs owner start to understand about tax laws increase positively chance to comply with tax obligation then SMEs owner who fully understand about tax laws will have the more possibility to increase the of tax compliance behavior. Savitri (2015); Nurkhin et, al. (2018) also found that understanding of tax regulation influence tax compliance chance of tax compliance.

5.6 Tax compliance costs

In this study tax compliance costs includes travelling costs, Book keeping and accounting costs and frequency of submitting returns to the ZRB, these costs found to influence SMEs tax compliance in Table 4.7. IMF (2015) argues that tax compliance costs are hard to be measured but they are significant to tax compliance behavior. Different researches have been done on tax compliance costs for example Munyentwali 2014; Magiya, 2016 revealed that tax compliance costs are statistically significant to affect tax compliance behavior and have negative influence on tax compliance behavior.

The study found that travelling costs reduce the likelihood of SMEs to comply with tax obligation as shown on table 4.7. This study result support the finding of Kumar (2017) who argued that SMEs are less able to cope with costs that arise from trying to access transportation and other costs of doing business.

The same for book keeping and accounting costs, an increase in book keeping and accounting costs found to decrease likelihood of SMEs to comply with tax obligation on table 4.7. Magiya (2016) found that 60 percent of SMEs who keep up to date records and books of account claimed to have too high cost of maintaining their book of accounts and as such it becomes a costs burden to SMEs that influenced their tax compliance behavior. Also Nduruch et, al. (2017) who found that about 84 percent of SMEs in Bungoman county of Kenya hired accountants to file tax returns on their behalf. Therefor, this study result support the study finding of Magiya (2016) and Nduruch et, al. (2017) who found that book keeping and accounting costs influence tax compliance because most of SMEs need to hire for experts in order to disclose

their fact on operation which cost them much money which discourage their tax compliance morale.

Frequency of submitting returns to the ZRB is basically a matter of opportunity costs for the time taken by owner to deals with tax issues.

The study results indicates both cases (low cost and high costs) have positive influence on SMEs compliance behavior, except that, SMEs which typical incur maximum time has a low likelihood to comply with tax obligation while a SMEs with minimum time cost has high likelihood to comply the tax obligations as shown on table 4.7. Most of the literatures for example Gachiku (2015) concentrated much on notion that whether tax payers understand to fill and submit tax returns to tax Authorities rather than the opportunity cost of time spent.

5.7 Size of business enterprises

Either being a Small or Medium sized enterprises, the size definition took into consideration number of persons employed by a particular business as mentioned under the Zanzibar SMEs policy 2005. This study finding on table 4.7 concurs with the study result of Mohamad and Deris (2018) who found that there is positive relationship between SMEs size and tax noncompliance. That is increase in SMEs size also increases the chance of not complying with tax obligation. Also Mutai, (2013) who found that increases in size of business enterprises lower the tax compliance rate among SMEs however Abdul Jabar (2009) found no influence of business size on tax non –compliance.

5.8 Age of business

The business ranging between 4 – 5 years old found to have a chance of decreasing likelihood to comply with tax as found on table 4.7. This study concurs with that of Sapiei et, al. (2014) revealed that business age influence the likely hood of tax non-compliance behavior of a business enterprise, their study found that majority of business operated in a long time had a NILL tax liability while nearly one half of business found to have low tax liability. They suggested that business entity which

have been in operation in a long time had enough experience in dealing with tax related issues hence comply effectively. While Abdul-Jabar (2009) found that the impact of business age on SMEs tax compliance behavior is inconclusive.

CHAPTER SIX

SUMMARY, CONCLUSION AND POLICY IMPLICATION

6.1 Introduction

This chapter presents the study summary, conclusion and recommendations on behavioral analysis of tax compliance among Small and Medium Enterprises; a case of Chake Chake District. It begins with the overall summary of study findings then it follows conclusion and recommendation. The chapter goes further to the policy implication and limitations of the study and areas for further studies.

6.2 Summary

This study analyzed factors influencing tax compliance behavior among SMEs in Zanzibar. The study used a total of four specific objectives on which this summary is based. Those four objectives were: To analyze the effect of Zanzibar tax system on tax compliance behavior among SMEs; to examine the SMES owners' knowledge influence on tax compliance behavior; to analyze the effect of tax compliance costs on tax compliance behavior among SMEs; to investigate the strategies that can be employed to enhance tax compliance behavior among SMEs.

The study findings revealed that most of SMEs in Chake Chake district have awareness about tax payment since 89 percent of SMEs owners responded positively on having awareness about tax payment compared to 11 percent who responded negatively, even though none of SMEs owner possess full understanding of tax laws except 48 percent of them possess partially understanding of tax laws while a larger number of SMEs owners do not even understand about tax laws. In addition to that it found that a SMEs owners with partial understanding about tax laws are in good position of increasing tax compliance behavior.

Again, the study findings reveals that tax system in Zanzibar is not friendly since majority of respondents claimed that the system is unfriendly, in generally 33 percent of respondents agreed that the tax system is unfriendly to a greater extent followed

by 26 percent of respondents who agreed that tax system is unfriendly to some extent and 19 percent of them responded that tax system is unfriendly to greater extent. SMEs owners were discontent on the numbers of tax they are obliged to pay nevertheless 39 percent of respondents agreed that tax payment is not equivalent to their earning followed by 28 percent who agreed that to some extent tax paid is not equivalent to their earning and 22 percent of respondents agreed that tax paid by them is not equivalent to their earning to a very great extent. Furthermore, 54 percent of respondents agreed followed by 22 percent who strongly agreed that that tax rules are not simple to be understood by tax non professional. In addition to that, the study findings show that SMEs owners who perceived that tax laws are complex tend to reduce their chance of tax compliance behavior.

Tax compliance cost is found to have negative influence on tax compliance behavior of SMEs. Travelling costs of TZS 10,000 or below is found to influence of decreasing chances of SMEs to comply with tax obligation. High costs of book keeping and accounting decrease likelihood of SMEs to complying with tax by probability of 0.85 while the way that tax payer cost are medium it decrease the chance to comply with tax by probability of 0.75 and those who have low cost reduce their likelihood of tax compliance behavior by probability of 0.71. That is, an increase in book keeping and accounting cost reduce much on tax payers' compliance behavior.

Frequency of submitting returns to the ZRB found to have positive influence on tax compliance behavior. Those SMEs owners who perceived that the frequency of time taken to comply with tax cost low increases the chance of tax compliance behavior by 0.78, while those who responded that frequency have high costs it increased the chance of tax compliance behavior by 0.6.

Size of business was also found to have an influence on tax compliance behavior of SMEs. Medium sized enterprises found to have a chance of decreasing likelihood of tax compliance behavior by 0.57. Variable location had significant impact on tax compliance behavior of SMEs. The study found that SMEs located in urban area are likely to have chance of decreasing probability of tax compliance behavior by 0.84.

6.3 Conclusion

This study aimed at analyzing those factors that influence tax compliance behavior among SMEs in Zanzibar. Basing on the result presented in previous chapter. The study conclude that most of SMEs owners are aware of paying tax in Chake Chake district except the fact that they lack formal tax knowledge that when tax laws are complex they decreases their chances to comply. In addition to that most of interviewed owners of SMEs claimed on numbers of taxes they are subjected to pay at more than one tax authorities which discourage their tax compliance morale.

6.4 Recommendations and policy implications

Study recommends that the ZRB should intensify tax education by increasing number of sessions in order to enlighten tax payers' understanding on the existing of tax laws and any other tax issues. By so doing, it would also provide a forum for SMEs owners to air out their complaints and major concerns about tax payments.

Zanzibar Revenue Board should consider the need of reducing frequency of submitting return by increasing the number of months for both Small and Medium sized enterprise to submit the returns.

The Revolutionary government of Zanzibar should desire much simpler tax payment mechanism which includes simple tax laws that can easily be understood by even non tax professional so as to enhance tax compliance.

Zanzibar Revenue Board should consider the need of having zonal tax stations in order to facilitate tax payment obligation.

6.5 Limitations of the study

The limitation of this study is that of small sample size is used to represent Small and Medium Enterprises in Zanzibar.

6.6 Area for further study

This study was entirely focused on behavioral analysis of tax compliance among Small and Medium Enterprises in Chake Chake District. The same study can be done through increasing response rate that would capture more accuracy pertaining to SMEs tax compliance behavior in Zanzibar Islands.

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ANNEX: QUESTIONNAIRE

Research questionnaire for Behavioral Analysis of Tax Compliance among Small and Medium Enterprises in Zanzibar: a case of Chake Chake District

Please read and understand this note before filling the form

My dear respondent;

I am Hamad Mfaki Yussuf, a student at Mzumbe University in Morogoro, Tanzania. I am conducting a research on Behavioral Analysis of Tax Compliance Among Small and Medium Enterprises in Zanzibar in a Chake chake district, all of the required information in this study is only for learning purposes and not otherwise. You have been selected to be one among those entrepreneurs to participate in this study in order to obtain your assistance and opinions concerning to different issues that relate to tax compliance behavior among Small and Medium Enterprises. Your honest and full participation in answering the provided questions will help in analyzing those factors that influence behavioral response of Small and Medium Entrepreneurs toward tax obligation. I would like to ensure you that, all of the information that you will provide will be kept confidentially.

There are number of questions ranging from section A to section D, in each case please choose the option that is best fit to the purpose and briefly give your own views whenever required.

SECTION A: DEMOGRAPHIC CHARACTERISTICS

Please, put tick (✓) on appropriate answer from the following questions

1. Sex of SMEs owner

Male

☐

Female

☐

2. Age of SMEs owner

- | | |
|----------|--------------------------|
| Below 15 | ☐ |
| 15 – 64 | ☐ |
| Above 65 | ☐ |

3. What is your level of education?

- | | |
|---------------------|--------------------------|
| None educated | ☐ |
| Primary education | ☐ |
| Secondary education | ☐ |
| Tertiary education | ☐ |

Please, put tick (√) on appropriate answer from the following questions

1. Location of business enterprise

- | | |
|-------|--------------------------|
| Urban | ☐ |
| Rural | ☐ |

2. How old is your enterprise?

- | | |
|-------------------|--------------------------|
| Less than 1 year | ☐ |
| 1 – 3 years | ☐ |
| 4 – 5 years | ☐ |
| More than 5 years | ☐ |

3. What is the number of employees in your business?

- | | |
|-------------------|--------------------------|
| 5- 19 Employees | ☐ |
| 20 - 99 Employees | ☐ |

4. Is your business registered?

Yes

☐

No

☐

5. If yes, which government organ from the following your business was registered?

Only Town council for business license

☐

Only ZRB for tax payment

☐

Both

☐

Any other (please mention).....

SECTION B: TAX PAYER'S AWARENESS AND WILLINGNESS OF PAYING TAX

6. Are you aware of paying tax?

Yes

☐

No

☐

7. If yes, to what extent you are acquainted with the following tax obligations:

NOTE: 1= To a very great extent; 2 = To a great extent; 3 = To some extent; 4 = To less extent and 5 = To no extent at all

1	Registration for tax payment	1	2	3	4	5
2	Filling of returns	1	2	3	4	5
3	Submitting the returns to ZRB	1	2	3	4	5
4	Timely payment of taxes	1	2	3	4	5

5	Correctly reporting of business income	1	2	3	4	5
6	Accurately payment of taxes	1	2	3	4	5

8. If not, how would you agree from the following statements for not paying tax

Note: Note: 1= Strong disagree; 2 = Disagree; 3= Neutral; 4 = Agree and 5= Strongly agree

1	Tax enforcement is very weak	1	2	3	4	5
2	I do not have enough tax knowledge	1	2	3	4	5
3	Tax payment does not correspond to services provided by the government to the society					
4	Tax payment cost much of time and other resources in Zanzibar	1	2	3	4	5

SECTION C: TAX SYSTEM IN ZANZIBAR

1. Please rate by encircling on the following statement on the level of your agreement about the system of tax in Zanzibar

1	The tax system is unfriendly	1	2	3	4	5
2	The tax you pay is not equivalent to your earnings	1	2	3	4	5
3	Tax laws are complicated	1	2	3	4	5

Note: 1 = Not at all; 2 = Less extent; 3 = To some extent; 4= Great extent; 5 =Very Great extent

2. Are you subjected to pay more than one tax?

Yes ☐

No ☐

3. If yes, how many taxes you pay per year?

4. And how much does it affect your intention to comply with tax obligation?

[1] [2] [3] [4] [5]

Note: 1 = Not at all; 2 = Less extent; 3 = to some extent; 4= Great extent; 5
=Very Great extent

SECTION D: TAX KNOWLEDGE

1. Do you have any kind of formal training about tax from ZRB?

Yes ☐

No ☐

2. How do you understand tax laws?

Full ☐

Partially ☐

Not at all ☐

3. Are you able to calculate exact tax you obliged to pay

Yes ☐

No ☐

Please, rate on the following statement concerning to tax knowledge

Note: 1= Strong disagree; 2 = Disagree; 3= Neutral; 4 = Agree and 5= Strongly agree

1	Tax information is not readily available by tax payers	1	2	3	4	5
2	Tax rules are not simple for a non-professional to understand	1	2	3	4	5
3	Reporting procedures are too complex	1	2	3	4	5

Please encircle where appropriate

4. How does lack of tax knowledge affect your level of tax obligation

{ 1 } { 2 } { 3 } { 4 } { 5 }

Note: 1 = Not at all; 2 = Less extent; 3 = to some extent; 4= Great extent; 5 =Very Great extent

SECTION E: TAX COMPLIANCE COSTS

1. How much you spend on average for travelling in order to meet tax obligation per month?

Below 10,000 ☐

Between 10,000 and 20,000 ☐

Between 20,000 and 30,000 ☐

More than 30,000 ☐

2. How does the cost of compliance affect your tax compliance level?

{ 1 } { 2 } { 3 } { 4 } { 5 }

Note: 1 = Not at all; 2 = Less extent; 3 = To some extent; 4= Great extent; 5 =Very Great extent

3. Which of the following costs represent the highest tax compliance cost?

Note: 1= Very high costs; 2 = High costs; 3 = Medium; 4 = Low costs and 5 = Very low costs

1	Book keeping and accounting cost	1	2	3	4	5
2	Time taken in filling returns	1	2	3	4	5
3	Frequency of submitting returns to ZRB	1	2	3	4	5

4. In general, how can you rate the costs incurred when preparing to meet tax legal requirements? [1] [2] [3] [4] [5]

Note: 1 = Extremely high; 2 = High; 3 = Fair; 4= Low; 5 = Very Low extent

SECTION F: TAX COMPLIANCE DECISION

1. Would you voluntarily decided to comply with tax obligation?

Comply ☐

Not comply ☐

SECTION G: STRATEGIES FOR ENHANCING VOLUNTARY TAX COMPLIANCE AMONG SMEs

1. Do you agree that there is a need to improve the tax system in Zanzibar?

[1] [2] [3] [4] [5]

Note: 1 = Strongly agree; 2 = Agree; 3 = Not sure; 4= Disagree; 5 = Strongly disagree

2. If you agree please outline area(s) for improvement

.....

.....

.....

3. Is there any strategies that can be employed to improve the tax compliance behavior among SMEs?

Yes ☐

No ☐

4. If yes, please list down those strategies that the ZRB can apply to improve tax compliance among SMEs

.....

.....

.....

5. List down other challenges (if any) that you think may affect tax compliance among SMEs in Zanzibar

.....

.....

.....

6. What would you recommend in order to address those challenges you have mentioned?

.....

.....

.....

Thank you for your participation!!