CHALLENGES FACED BY TAXPAYERS IN USING ELECTRONIC FISCAL DEVICES IN TANZANIA, A CASE STUDY OF SELECTED TAXPAYERS IN NYAMAGANA DISTRICT, MWANZA CITY.

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CHALLENGES FACED BY TAXPAYERS IN USING ELECTRONIC FISCAL DEVICES IN TANZANIA, A CASE STUDY OF SELECTED TAXPAYERS IN NYAMAGANA DISTRICT, MWANZA CITY.

BY

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A dissertation Submitted to School of Business in Partial Fulfilment for the Requirements of the Award of Master of Business Administration (Corporate Management) Degree of Mzumbe University

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CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation titled to challenges faced by taxpayers in using electronic fiscal devices in Tanzania a case study of selected taxpayers in Nyamagana District, Mwanza city, in fulfilment of the requirements for award of the degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

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Major supervisor

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Internal Examiner

Accepted for the board of ……

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DEAN/DIRECTOR, FACULTY/DIRECTORATE/SCHOOL/BOARD

DECLARATION

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

Signature…….

Date……

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DEDICATION

I dedicate this work to my family for parental care and moral support during the whole period of my study. This work is also dedicated with much love and due care to my adorable fiancé Shayna Omary, who dedicated her time to encourage and support me during my studies and as a matter of fact she missed my love and care.

LIST OF ABBREVIATIONS AND ACRONYMS

EFDs Electronic Fiscal Devices Machines

TRA Tanzania Revenue Authority

VAT Value Added Tax

ETR Electronic Tax Registers

KRA Kenya Revenue Authority

ITA Income Tax Authority

EJ Electronic Journal

DI Destination Inspection

FOB Free On Board

ABSTRACT

The aim of this study was to examine the challenges faced by taxpayers in using Electronic Fiscal Devices in Tanzania, a case study of selected taxpayers in Nyamagana District, Mwanza City. Researcher planned to look at the challenge facing taxpayer following the introduction and use of electronic taxation collection system in Tanzania especially in Mwanza City.

The research adopted both quantitative and qualitative approaches and used descriptive and explanatory research designs. A sample size of 205 respondents, selected through stratified random sampling and purposive sampling, was used to provide data through questionnaires and in-depth interview. In addition, some data were collected through documentary review. The quantitative and qualitative data were analysed using descriptive statistics and thematic analysis respectively.

Findings indicated inherent challenges; lack of education, high cost of the device, lack of sufficient technical experts, persistent power outage, and time loss on device operation. The device is to some extent effective according to TRA observation but still raise some reservations to tax payers.

Although, there are reservations from tax payers, TRA acknowledge that the devices are useful in different ways. Thus, the research recommends various ways to address the challenges and the reservations to improve the effectiveness and usefulness of the devices.

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CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.0 Introduction

This chapter addresses the introductory part of the research. It basically includes background of the study, statement of the problem, significance of the study, and scope of the study.

1.1 Background of the study

Electronic Fiscal Device (EFD) is a machine designed for use in business for efficient management control in areas of sales analysis and stock control systems which conforms to the requirements specified in the regulation and dully registered. The device is called fiscal device due to the fact that it is intended to trace the economic activities of every business organization for tax purposes and report to TRA, thus ensuring accurate approximation of tax returns. Many countries in the world today including Tanzania have special laws in place that make it obligatory for anyone who is selling goods or services to consumers to use cash registers (approved by tax authorities) that have special security features that enable the authorities to check in a reliable way the tax that the retailer has to pay (Mmanda, 2010). In addition, the machines keep the information for not less than five years. After all, it is the government that pays for the machines. However, the VAT registered businesses have to buy them first but when they install them, the costs are deducted from the VAT the businesses are supposed to pay to TRA. It is only when the amount is paid that the businesses start paying VAT.

The government through the Tanzania Revenue Authority (TRA) introduced Electronic fiscal Device (EFD) with the main aim of enhancing VAT Compliance.
This was introduced in the Finance Act, 2010 to replace electronic cash Registers that seemed to be inefficient to meet the objectives. With the use of this Electronic fiscal Devices TRA expects to obtain tax information automatically from the tax payer, but previously TRA used to get sales information of various business

organizations by checking manually, a practice that was subject to high risk of fraud and it was hard to get complete information because of issues like double bookkeeping

TRA through implementing the (EFDs) machines expected the result of efficient time management for compliance monitoring and adequate information for other taxes administration, minimization of tax disputes and simplification of tax refunds as well as increased tax revenue collection legally in order to enhance customer service. The device is used by all VAT registered traders including manufacturers, whole sellers, retailers of each category and other traders appointed by the Commissioner to be eligible persons for registration as EPDs users (Mmanda, 2010). The use of Electronic fiscal printer (EFP) and Electronic signature device (EFD) are protected and guided by section 5 of the revenue collection act of Tanzania.

According to Weru et al, (2013) at a time when the ETR machines were introduced by KRA most of the businesses or tax payers and services providers rejected them. Many people and tax payers rejected to use the machines and some of the cases are in the court.

Mmanda, (2010), Duke, (2013), Weru et al, (2013) and Elive, (2011) did a similar study and tried to look on advantages, disadvantages, principles, and the strategies of Implementation of using Electronic Fiscal Devices Machines. Apart from the above scholar investigation coverage, this research study went further into the study of challenges faced by tax payers in using this Electronic Fiscal Devices Machines.

1.2 Statement of the problem

Taxation is a very important source of income of any government for her development and provision of social services. Therefore it is compulsory for every business person as a tax payer and the society in general to pay, a right tax amount on the right time to enable the government to meet the cost of social services provision (TRA handbook). Thus, introduction of the EFDS machines to taxpayer has been seen as an effective way to solve the problem of non- compliance and raise government revenue. The government requires all the businesses to pay tax, but there

have been tax avoidance by many people, as a result, government had to take several measures to ensure that all information reaches TRA.

The introduction of electronic fiscal devices (EFDs) aimed at enhancing voluntary compliance and ease operation of the VAT and the Income Tax Law by TRA tax officials (Mmanda, 2010). Although government show the advantages and disadvantages in operating EFDs system to both small and larger taxpayers, government have failed to show the challenges facing the taxpayers in using these EFDs. Therefore this study examined the challenges facing taxpayers in using Electronic Fiscal Devices machine.

1.3 Research objectives

1.3.1General objective

The overall objective of this study was to assess the challenges faced by taxpayers and the effectiveness in using Electronic fiscal devices machines in Tanzania.

1.3.2 Specific Objectives

In order to achieve the main objective noted above the following specific objectives were examined:

- To analyze the challenges of using Electronic fiscal Devices by taxpayers.
- To assess the effectiveness of Electronic fiscal devices in tax collection in Tanzania.
- To examine the benefits of Electronic fiscal devices to the tax payers.
- To suggest measures that should be instituted to overcome the challenges associated with Electronic Fiscal Devices

1.4 Research Questions

In addressing the specific research objectives, the study was guided by the following research questions;

- What are the challenges of using Electronic fiscal devices by taxpayers in Tanzania?

- What is the effectiveness of Electronic fiscal devices introduction in tax collection in Tanzania?
- What are the benefits of Electronic fiscal devices to the tax payers?
- What measures may be instituted to overcome the challenges?

1.5 Significance of the study

The study could be used by the TRA management to review the tax system and procedures in relation to the tax collection and help the management to know the challenges faced the taxpayer in using the (EFDS) machine during the collection of tax. Secondly, the study provides reliable information which can help the TRA management to formulate the new policies, strategies and improve settings of tax collection. Also research findings could be used to develop better service delivery on EFDs machines which may increase revenue collection in Tanzania.

The study may also give feedback to TRA on promoting the performance of TRA, building institutional capacity of TRAs in Tanzania and other developing countries in the world. Besides the study may be a basis for dialogue between policy makers and TRA stakeholders on the role of EFDs machines in enhancing the empowerment and sustainability of TRAs which play a vital role improving revenue collections in Tanzania.

The research will help the future researchers as part of their reference and direction towards achievement of their enquiries in the similar studies.

1.6 Delimitation of the study

The study was basically on the assessment of challenges faced by tax payer and the effectiveness of using Electronic fiscal devices machine. The major investigation was done at Nyamagana Council taxpayers to assist the researcher’s easy access to information. Nyamagana District has been purposely selected because of accessibility and availability of data.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This part deals with literature review. Literature review is concerned with materials related to the problem. And the purpose of doing literature review is to make the researcher familiar with the problem to enable him or her come up with the sources and the nature of the problem through the experience gained from the literature and other research work from other researchers.

2.1 Definitions of the key terms

Electronic Fiscal Devices Machine (EFDS) refers to a machine designed for efficient business management controls in areas of sales analysis and stock control system and which conforms to the requirements specified under the value Added tax (EFDS) Regulation 2010, Income tax (EFDS) Regulation of 2012.

EFDs under ITA were introduced by Section 27 of the Finance Act, 2012 which repealed and substituted Section 80A of the ITA.

Lately, the issue of Electronic Fiscal Devices (EFDs) has captured headlines. We have witnessed shop owners close their shops to protest against EFDs, the Tanzania Revenue Authority (TRA) has issued statements and the Government was recently forced to hold a meeting with the business community on the issue.

The EFDs has captured my interest and I would like to share with readers a few things, on what the legality of the devices is, who is supposed to use the devices, the consequences of not using them and whether one day we can wake up and simply find them out.

Let us start with the legality of the Electronic Fiscal Devices. The regulations cited below and what is found in TRA's website define "Electronic Fiscal Device (EFD)" as "a machine designed for use in business for efficient management controls in areas

of sales analysis and stock control system and which conforms to the requirements specified by the laws".

It is important to note both the Value Added Tax Act, Cap. 148 (VAT Act) and Income Tax Act, Cap. 332 (ITA) provisions for EFDs, as such one may say there are two types of EFDs; that is EFDs found under VAT and EFDs found under the Income Tax Act (ITA). Now, one may ask: what is the legal basis of both types of EFDs? In other words are EFDs which are the talk of the day having any legal justification or is it the Commissioner General of TRA who simply woke up one day and started demanding that people should have EFDs.

EFDs under VAT were introduced by the Finance Act, 2010 which amended the VAT Act. The amendment required taxable persons to issue 'fiscal receipts or fiscal invoices' printed by an electronic fiscal device bearing the contents specified under the Value Added Tax (Electronic Fiscal Devices) Regulations, 2010. That being the case, it is obvious that EFDs under VAT are based on the provisions of the VAT Act and the Regulations which I have just cited.

EFDs under ITA were introduced by Section 27 of the Finance Act, 2012 which repealed and substituted Section 80A of the ITA. The substituted section imposes a mandatory obligation on all persons who sell goods or render services or receive payments on the goods sold or services rendered, the value of which is not less than five thousand shillings to issue fiscal receipts or fiscal invoices by using electronic fiscal devices.

The Commissioner has the power to exempt any person or class of persons from issuing such receipts or invoices or even from acquiring the EFD. Apart from the ITA, the minister has issued the Income Tax (Electronic Fiscal Devices) Regulations, 2012 (ITA Regulations) under section 129 of ITA to regulate EFDs found under the ITA.

Having learned about the legal basis of EFDs, the next question is: who is required under the law to use EFDs? Based on the provision of section 80A of ITA cited above

together with the ITA Regulations, every person conducting business on Tanzania Mainland and Zanzibar, and who receives payment of an amount not less than five thousand shillings must use EFDs to issue receipts or invoices under the ITA unless that person is exempted by the commissioner from using or acquiring the EFD.

It is established that the Commissioner has set the annual turnover of Tanzania Shillings fourteen million as threshold for persons who are supposed to be using the EFDs however the existence of the threshold lacks literature backing and support. As for VAT, it is mandatory for taxable persons who reach the annual turnover of Tanzanian forty million shillings to be registered for VAT and also acquire and use EFDs in the taxable transactions.

Both Regulations (VAT and ITA) impose an obligation on the users of EFDs to continuously use the devices and in case of any fault, a report to that effect must be sent to TRA and the supplier within twenty four hours. The law also requires every user to have an inspection booklet where in case of any failure; the time of failure must be recorded. It is not clear if any of the users has complied with these two requirements, unfortunately the penalties are severe.

Before we look into the consequences of non-compliance with the law, it is fair to note that the Commissioner has enormous power under the Regulations, including the power to investigate the user, the power to seize the device etc.
As the consequences of non-compliance, under both VAT and ITA, it is a criminal offence not to use the EFD whose punishment is the fine of Tanzania Shillings three million or twelve months imprisonment or both. Tampering with the device attracts a penalty of not less than Tanzania Shillings one million or three months imprisonment or both.

In addition, once it is established that the user has fraudulently used the EFD under VAT, the user will pay tax due plus a fine which is twice the tax due. Under the ITA, the first time offender is subjected to a fine of five per cent of the amount in the manual receipt, the second time is fined 10 per cent of the manual receipt (see section

21 of the Finance Act, 2013).

In conclusion, it may be argued that the EFDs are based on the provisions of the laws which were passed by the Parliament and are not an order of the minister or Commissioner alone.

As such, it is not easy to find the EFDs out of use unless the laws are amended or repealed. Non-compliance is not a good option because the fines and or penalties are severe and may cost the business of the taxpayer.

Fiscal memory devices are electronic devices used for control of a country's tax revenues. Currently they are widely used in many countries around the world, including Russia, Bulgaria, Serbia, Romania, Republic of Macedonia, Albania, Poland, Moldova, Bosnia and Herzegovina, Kazakhstan, Armenia, Georgia, Kenya, Tanzania, Malawi and Ethiopia. Fiscal memory devices have following categories:

- Electronic cash registers
- Printers, fiscal printers
- E-Signs, Electronic signature devices

Both of which contain fiscal memory and Electronic Journal (EJ), Fiscal memory itself is a kind of memory that is certified by appropriate government body. This Encrypted module is usually in the form of an IC on the Electronic circuit. Electronic journal is a kind of encrypted memory module which is readable using the fiscal device (ETR, FP). These memory modules are the normal SD and MicroSD cards but in an encrypted format which cannot be read like normal formats on a personal computer. Once this Electronic Journal is initialized in a fiscal device, it is assigned a fiscal serial number so as to assure it’s not reused in another fiscal device.

The use of fiscal devices in the world can be divided into three main categories:

- Offline operating electronic fiscal devices with built-in fiscal memory (so called first generation fiscal devices);
- Electronic fiscal devices with Internet connection capabilities to the revenue authority central server (so called second generation fiscal devices);
- Electronic fiscal devices with Internet connection capabilities and latest use of various encryption methods for digital signing of each issued receipt (third

generation fiscal devices).

Due to the main disadvantages which the first generation fiscal devices are having i.e. easy manipulation, lack of control from the tax office, no printing of fiscal receipts etc., the second generation fiscal devices are becoming more and more popular and many countries are changing their fiscal requirements and moving to Internet enabled fiscal devices (mostly using GPRS network) and implementing the so-called online Information and Tax Collection System.

Such kind of second generation fiscal devices are eliminating most of the problems which their predecessors were having. All fiscal cash registers and fiscal printers are connected online through the Internet to the central server and thus send their reports and/or fiscal receipts in predefined time intervals. However these devices still have some black holes which are used by the majority of tax payers who are cheating and not paying their taxes. Such are: printing of fake fiscal receipts, manipulation of daily reports before they are sent to the tax office etc.

This is why the third generation fiscal devices were introduced and are running successfully currently in several countries in the world. Devices of this kind are very similar to the second generation devices but an additional software security is used for digital signing of every fiscal receipt. The third generation fiscal devices are eliminating all previously known issues and giving additional security to all tax agencies which are using such systems. Each fiscal receipt is digitally signed using unique signature printed either in the form of a 2D Bar Code or various characters depending on encryption rules in place. The tax administration can easily and quickly check if the issued receipt is authentic and correct.

Tax payer is an individual or entity that is obligated to make payments to municipal.

Taxation is a very important source of income of any government for development and provision of solid services

Tax is a financial charge or levy imposed by the state to an individual citizen and non citizen that is usually payable in monetary for which the government need no offer equivalent direct compensatory services or lender an individual account on how it utilized the revenue (Mponguliana, 2005).

Tax evasion is the process of trying to minimize tax liability or eliminate tax liability by breaking or contravening with the tax laws. This means that the person applies fraudulent practices with intension of minimizing the tax liability. Practices include preparation of false books of account, furnishing a false return of income by understating or omitting the income or overstating the expenses, giving the false information to the commissioner on matters affecting tax liability *(Ibid*)

Contrary to tax evasion, **Tax avoidance** is the practice of conducting or arranges ones business affairs in such a way that leads to payment of a lesser amount of tax no tax at all, without breaking/contravening or interfering with any of the tax laws or rules (Mponguliana, 2000)

2.2 Theoretical Literature Review

2.2.1 Tanzania taxation system

Taxation is one of the oldest functions of the Tanzanian government in running her affairs. By definition, a tax is a compulsory contribution from a person to the state to defray the expenses incurred in the common interest of all without any reference to the special benefits conferred. It is a compulsory contribution or payment for the support of governmental or other public purposes.

2.2.1.1 Brief History of Taxation in Tanzania

Tanzania adopted and periodically reformed the colonial tax systems starting with the poll tax which was introduced by the British in the early 20th century. Reforms that were done post-colonial era include introduction of sales tax in 1969, enacting of new income tax legislation in 1973, amendment of the existing tax legislation to revise the tax bases and rates, abolition of some excise duty in 1979 and export duty in 1985/86, and re-introduction of previously abolished excise duty in 1989.

In recognition of the continued poor functioning of the tax system and the need to look at the tax system as a whole, the Government appointed a Tax Commission in October 1989. The Commission's primary task was to study and review the central and local government tax system and its administration, and make recommendations to the government. Specifically, it was to recommend changes to the existing tax system to widen the tax base, enhance revenue collections, and promote greater efficiency of production in the economy. The Commission's report was presented to the Government in December 1991.

The commission recommended, among other things, broadening of tax bases by taxing fringe benefits and improve compliance by more effective enforcement, reduction of individuals' and companies' income tax rates and apply the rates on broader bases, making adjustments for the effects of inflation, replace a multiple-rate structure of sales and excise taxes by a value-added-tax (VAT) and a limited number of excises on traditional excisable goods and luxury items, simplifying the customs duties by reducing the number of rates, and reducing exemptions from both customs and sales taxes. This "low-rate, broad-base" strategy was considered to be more consistent in practice with both efficient resource allocation and equity than the "high-rate, narrow-base" pattern that had dominated the Tanzanian tax system in the past.

Apart from the cost of running the government, normally there are some services which have to be met by the state. Imperatively government have to provide social services, maintain law and order, ensure defence and a horde of other undertakings which the free market cannot provide or which the state feels are better provided by itself. In this regard the government has to raise revenues to cater for such expenses thus, government finance is all about budgeting the revenue and expenditure of government. The government financier normally has five sources to choose from namely: taxes, the sale of goods and services, grants, the creation of new money and borrowing. There is no universal formula of how the government should raise such revenue to cater for government expenses, but in most cases the government relies on taxes as a major means of raising such revenue. Therefore, out of the five sources

from which the government can raise her revenue, taxation is a handmaid for raising revenue to meet government expenditure (Kessy 2015).

Thus, taxation is the primary source of revenue at all levels of government. Therefore by all standards taxes are inevitable due to their inherent advantages over other sources of revenue. For example, grants result into loss of liberty for the grantee government; the creation of new money is inflationary in nature; borrowing is to shift the burden to future generations; but by imposing taxes the government is not indebted to the taxpayers since there is no quid pro quo as to tax and the government is not obliged to render individual account on how it has spent her money, but rather to spend that money for the benefit of the people. In carrying out this function (of raising revenue), government formulate tax policies, enact tax laws (statutes), and translate these policies and statutes into the desired tax structure and administer its attainment (Kessy 2015).

2.2.1.2 Types of taxes

Basically there are two types of taxes. Each type is classified according to the legal and effective incidence to the final payer. These two types are direct and indirect taxes.

- **Direct taxes**

  These are taxes levied directly on people's income from employment, business or ownership of property and an investment. The impact and incidence of the tax falls on the same person i.e. incidence cannot be shifted to another person e.g. corporate tax, Pay As You Earn (PAYE) and withholding taxes.

- **Corporation Tax**

  This is a tax, which is paid from corporate profits. Companies or entities have to prepare final accounts, which must be approved by authorized Auditors, and Accountants recognized by both NBAA and TRA. These accounts are submitted to TRA on the prescribed accounting date .All companies whether resident or non-resident are required by the Income Tax laws to file an estimate of income within three months after the start of its accounting year.

The firm is supposed to pay tax based on four instalments. Six months after the accounting period, the firm must file a final tax return to TRA. The current corporation tax rate is 30%.

- **Individual Income Tax**

  Individuals include sole traders and salaried people who are taxed at progressive individual income tax rate, which varies from the lowest marginal rate of 14% to the top marginal rate of 30%. However, for a non-resident individual the applicable rate is 20%, which is charged on the total income. The table below shows the current resident individuals tax rates.

2.2.2 Introduction of Electronic Fiscal Devices (EFDs)

The Tanzanian Government since 1st July 2010 introduced an Electronic Fiscal Device (EFD) System aiming at enhancement of tax compliance. The System is being implemented in two phases with the first phase planned to cover all VAT registered taxpayers countrywide based on their turnover. In view of this decision, all VAT registered traders are obliged to ensure that they use the System as prescribed in Value Added Tax (Electronic Fiscal Devices) Regulations, 2010.

According to Regulation 10 (2) of the value Added Tax (Electronic Fiscal Devices) Regulations, 2010 all taxable persons are not allowed to conduct or operate any business undertaking within Mainland Tanzania without using Electronic Fiscal Devices. In order to minimize the cost of implementing the regime, the Government meets the cost of purchasing the devices by refunding.

2.2.2.1 Refunds to Outgoing non-citizen Passengers

With effect from 1st January 2012 the Government through TRA started to process and makes VAT refunds to eligible outgoing non-citizen passengers who are departing to foreign destinations by using the Julius Nyerere International Airport or Kilimanjaro International Airport. The value for the goods subject for refund is TZS 400,000/=

2.2.2.2 Excise Duty on locally manufactured goods

Excise duty is levied on certain specified goods and services for soft drinks, beer, wines, spirits, mobile phone services, plastic shopping bags, satellite television services, cigarettes and petroleum products. The duty is charged either at specific or ad-valorem rates depending on the type of goods. Currently there are five ad-valorem rates: 7%, 10%, 20%, 30% and 120% (the highest rate of 120% is imposed on shopping plastic bags for the purposes of protecting the environment).

Most of the locally manufactured goods are charged excise duty at specific amount for a given number or quantity. The items that are charged excise duty at specific rates include Cigarettes, wines, spirits, beer, soft drinks (including bottled drinking water) and petroleum products.

2.2.2.3 Taxes on International Trade

The Customs and Excise Department administers all taxes on international trade, which are:

- Import Duty,
- Excise Duty on imports and,
- Value Added Tax on imports.
- **Import Duty**

  The East African Partner States have adopted the Common External Tariff that is applied throughout the region from 1st January 2005. The process of harmonizing the external tariff has resulted into changes in tariff rates and even tariff codes in certain areas. The rates applicable with effect from 1st January 2005 are:

  0% for raw materials, capital goods, pharmaceuticals, hand hoes and agricultural implements, 10% for semi-finished goods 25% for final consumer goods or finished commercial goods.

  However, there are some sensitive goods which attract more than 25% duty rate, these include yoghurt and cream containing sweetening matter, cane or beet sugar and chemically pure sucrose in solid form, sacks and bags of a kind used for the packing of goods and worn clothing and other worn articles.

- **Excise Duty on Imports**

  Excise duty is levied on certain specified imported goods like wines, spirits, cigarettes, petroleum products and saloon cars and specified non-utility vehicles which are aged 10 years or more from the date of manufacturing. The duty is charged either at specific or ad-valorem rates depending on the type of goods.

- **Value Added Tax on Imports**

  VAT is levied on all goods and services imported into the country unless such goods or services are specifically exempted. All importers must pay VAT regardless of whether or not registered for VAT. However, the importer who is registered for VAT can claim as an input tax in his business, the VAT paid on the imported goods and VAT or imported services the input tax is treated as reverse charge hence added to the value.

- **Destination Inspection Fee**

  Following the introduction of Destination Inspection (DI) in July 1st 2004, imported goods are not subjected to inspection at the country of origin but at their destination. In order to complement the DI, mobile scanners were acquired whereby all containerized cargo is categorized as red, yellow and green channel. Those in the red channel are subjected to physical verification while those in yellow channel are scanned. Containers in the green channel are released immediately. All imported goods regardless of their value are required to be inspected at a fee of 0.6% on Free on Board (FOB) value.

2.2.3. Taxpayers compliance towards challenges

The understanding of taxpayers 'compliance towards challenges faced by taxpayer in using of EFD machines is an important stage to consider in describing how traders behave toward the institution and the use of EFDs machines. Taxpayer behaviour in response to tax compliance can be described through five theoretical foundations 'schools of thought' referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatments; and (5) political legitimacy (Field stand, Schulz-herzenberg and Sjursen, 2012).

Economic Deterrence: The basic point advanced by theorist of this model is that, taxpayer's compliant behaviour is influenced by factors such as the tax rate, the probability of being detected and penalties imposed by the state (Backer, 1968).The economic analysis thus concludes that since compliance decisions are based on an assessment of costs and benefits, high probabilities of detection for non-compliance and large penalties for discovered violators would encourage greater compliance, hence maximizing tax revenue streams.

This theoretical principle of economic deterrence has been widely adopted by tax administrations in developing countries where good governance has not fully been established when developing strategies that rely principally on penalties and the fear of getting caught when not paying the required tax (Fjeldstand, Schulz-herzenberg and Sjursen, 2012).

Economic deterrence model relies upon a wide range of major assumptions that are generally unrealistic for determining behaviour (The problem is thus one of rational decision making under uncertainty whereby tax evasion either pays off in terms of lower taxes or subjects one to sanctions. This implies that if detection is likely and penalties are severe few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial noncompliance (Andreoni et al. 1998).

For example, it is assumed that all people respond to a change in any one variable in an identical and predictable manner; that all taxpayers have a full knowledge of the probability of being audited; and that all taxpayers have the same level of risk preference (McKerchar and Evans 2009: 175). In spite of this, the theoretical principles of economic deterrence have been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught. There is, however, some evidence to support the relevance of deterrence strategies to addressing non-compliance (McKerchar and Evans 2009). For example, the fear of getting caught, or the probability of detection, has been found in

some contexts to be an effective strategy to induce truthful behaviour. On the other hand, 'moral' factors have also been found to influence this decision.

2.2.4 Fiscal Exchange

The fiscal exchange theory suggests that, the presence of government expenditures may motivate tax compliance from the tax payers (Moore, 1998). According to Moore (1998), tax compliance among society increases with perception of the availability of public goods and services being developed in relation to the tax paid. They suggests that government can increase tax compliance by providing goods and services that citizens prefer in a more efficient and accessible manner, emphasizing that taxes are necessary for the receipt of government services.

Accordingly, taxpayers are concerned with what they get in return for their tax payments in the form of public services. In this perspective, taxation and the provision of public goods/ services become catalysts to taxpayer in compliant to the tax paid (Fjeldstad and Semboja, 2001). This theory is more practical and acceptable than the previous one (economic deterrence) because, it advocates individual's willingness to comply without direct coercion. Furthermore, it serves the government from high collection costs resulting from enforcement measures. The main argument of this theory is that bargaining over taxes is central point to building relationships of accountability between state and society, based on mutual rights and obligations, rather than on coercion (Fjeldstad, at el., 2012).

2.2.5 Social Influences

It is said that, human behaviour in the area of taxation is influenced by social interaction in much the same way as other forms of behaviour (Snavely, 1990). Compliance behaviour and attitudes towards the tax systems may therefore be affected by the behaviour of an individual's reference group such as relatives, neighbours, and friends. If a taxpayer knows many people in his group who evade taxes, his commitments to comply will decline. On the other hand, social relationships may also help motivate individuals to comply and shy away tax evasion behaviour in fear of the social sanctions imposed once discovered (Grasmick, 1982).

This theory to a large extent, support the fiscal exchange theory and negate the economic deterrence theory. The society with government advocating good governance has better chances to comply with laws and orders including tax laws and vice versa.

2.2.6 Comparative Treatment

This theory suggests that, individuals are more likely to comply with rules if they perceive that the system determining those rules is impartial (McKerchar, and Evans, 2009). Citizens may not consider their relationship with the state in a vacuum where both parties are actors. Likewise, they may not think about their fellow citizens without considering their own relationship with the state (D'Arcy, 2011). If the state treats certain groups preferentially, this may distort the citizen's relationship with the state and the group receiving favours. This theory is more related with the exchange theory because it addresses inequities in the exchange relationship between the government and taxpayers that results in improved compliance behaviour.

2.2.7 Political Legitimacy

Legitimacy is described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, for the common good (Tayler, 2006). According to the political legitimacy theory, tax compliance is positively related to perceptions about the government's trustworthiness. Researchers have suggested that, the group identification deriving from national pride fosters cooperative behaviour and willingness to pay taxes (Torgler and Schneider, 1984).Political legitimacy theory is also related to social influence theory and comparative treatment theory and, all support fiscal exchange theory while negate the economic deterrence theory. With exception of the first theory, the remaining four theories work towards enhancing individual's freedom and willingness to pay taxes voluntarily.

Cascio (1986) states that electronic device processing methods make use of computers in determining the amount of tax to be remitted to government. He further

argues that this method is more reliable and fast as compared to the manual data processing method. Electronic device processing method is less time consuming, less costly, more accurate and faster as compared to the manual data processing method.

According to Liden and Adams (1992), older employees usually favour the use of manual methods in determining the value of tax while the younger employees usually favour the use of electronic devices citing the above benefits. They went saying that, younger generations usually have positive attitudes towards the use of electronic devices while older generations have negative attitudes towards the use of electronic devices unless there is a perceived need. The same study attributed the low usage rates to low levels of familiarity.

According to Liden and Adams (1992) older individuals do not respond as well to rapid change as their younger counterparts unless the change is gradual overtime. A study by Arthur, Winfred and Hart (1990) identified a positive relationship between educational ability and familiarity with these electronic devices. The authors suggested that employees with low educational ability levels might consciously opt not to become familiar with these electronic devices due to the challenging nature of the technology.

2.2.8 Prospect Theory

A rapidly growing body of literature has developed that challenges the descriptive validity of the most basic assumptions of expected utility and other models of choice (Casey and Scholz, 1991). Kahneman and Tversky (1999) have formulated a more descriptive model of choice under conditions of uncertainty, called “prospect theory.” This theory diverges from the expected utility model by considering the contextual presentation or frame of a decision as a factor influencing the choice of decision makers. The frame of a decision includes its presentation, references points, alternatives, outcomes, and their probabilities of occurrence.

Prospect theory recognizes that individuals have limited cognitive abilities and the theory envisions an editing step on the decision process that helps the decision maker

simplify the process. In the editing step, the decision maker may simplify the decision by attending to only some factors, ignoring others, and encoding aspects into meaningful forms such as gains or losses, Most applications of prospect theory in the tax compliance research area have examined the violation of the expected utility tenet of description invariance called the reflection effect (gain/loss framing effect). That is, the same outcome can be edited as either a gain or a loss depending on the reference point presented in the decision frame, and a different decision is likely depending on the frame adopted.

Prospect theory proposes that individuals will display a value (utility) function that is concave for gains and convex for losses, with the latter being steeper than the former. The shape of this value function suggests that individuals will be risk averse for gain frames and risk seeking for loss frames, where risk averse is defined as preferring a certain choice over a risky choice of equal or greater value (Kahneman and Tversky, 1999).

The framing effect described by prospect theory is by no means „considered to be universal (Tversky and Kahneman, 1992). It is merely descriptive of how some individuals will behave some of the time. Other factors, such as social norms, ethics, and personal characteristics, may affect how a decision is edited and thus affect the ultimate decision made.

2.2.9 Deterrence Theory

The primary theoretical framework in economics for the study of noncompliance has been deterrence theory. This framework assumes that taxpayers rationally perform a cost- benefit analysis of noncompliance taking into consideration the value of the marginal tax dollar and the risks of sanctions (Carroll, 1992). Since deterrence theory emphasizes cost-benefits that are based on expected outcomes of choices, it can be considered an outcome- processing theory (Carroll, 1992). Consequently, taxpayers make compliance maximize their utility.

Within this classical view of decision making, choices are considered to be motivated by self-interest (Hodgson, 1998). That is, individuals are thought to promote their own interests instead of the interests of others. Ethical values are seen as interfering with rational behaviour and utility maximization (Etzioni, 1998). Sociological research, however, has broadened the notion of utility to include concern for social duty as well as self-interested goals.

Thus, in classical deterrence theory, taxpayers choose a compliance level that maximizes utility (what is best for the taxpayer), and in sociological models, this choice also considers the social obligations and self-image of the taxpayers as well (Scholz, 1995).

2.2.10 Ability to Pay Theory

The most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay. It appears very reasonable and just that taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than that of person B, the former should be asked to pay more taxes than the latter.

It seems that if the taxes are levied on this principle as stated above, then justice can be achieved. But our difficulties do not end here. The fact is that when we put this theory in practice, our difficulties actually begin. The trouble arises with the definition of ability to pay. The economists are not unanimous as to what should be the exact measure of a person's ability or faculty to pay. The main viewpoints advanced in this connection are as follows:

Ownership of Property: Some economists are of the opinion that ownership of the property is a very good basis of measuring one's ability to pay. This idea is out rightly rejected on the ground that if a person earns a large income but does not spend on buying any property, he will then escape taxation. On the other hand, another person earning income buys property; he will be subjected to taxation. Is this not absurd and

unjustifiable that a person, earning large income is exempted from taxes and another person with small income is taxed?

Tax on the Basis of Expenditure: It is also asserted by some economists that the ability or faculty to pay tax should be judged by the expenditure which a person incurs. The greater the expenditure, the higher should be the tax and vice versa. The viewpoint is unsound and unfair in every respect. A person having a large family to support has to spend more than a person having a small family. If we make expenditure as the test of one's ability to pay, the former person who is already burdened with many dependents will have to' pay more taxes than the latter who has a small family. So this is unjustifiable.

Income as the Basics: Most of the economists are of the opinion that income should be the basis of measuring a man's ability to pay. It appears very just and fair that if the income of a person is greater than that of another, the former should be asked to pay more towards the support of the government than the latter. That is why in the modern tax system of the countries of the world, income has been accepted as the best test for measuring the ability to pay off a person.

2.2.11 Factors influencing taxpayer behaviour

Compliance refers to the degree to which taxpayers meet their obligations under the tax law. This is not just an issue of technical compliance, but the building of taxpayer behaviour or a taxpayer culture in which compliance to the spirit of the tax law is commonly perceived as a positive social value (SARS 2011: 2).

Behavioural sciences focus on the consensual aspects, termed ‘tax morale’, in an attempt to explain the positive motivations for compliance (Cummings et al 2005). Feld and Frey (2007, 2010) argue that citizens and the state appear to develop their fiscal relationships according to a psychological ‘tax contract’ that establishes fiscal exchange between taxpayers and tax authorities. This relationship, however, reaches beyond pure exchanges, and involves relationships and loyalties between the

'contract partners'. This has laid the foundation for compliance models that include factors such as:

- People's sense of moral obligation to pay;
- Their perception of the tax system's fairness and, in particular, the perception that other taxpayers are also paying; and
- The extent to which taxpayers believe that the government spends their tax money wisely, and/or spend it on public goods that will benefit the taxpayer (Andreoni et al 1998; Frey and Feld 2002).

Accordingly, the factors affecting compliance behaviour are an intersection of individual values and norms, societal values and norms, the belief in the fairness of the system, the ease of compliance, the speed and accuracy of detection of non-compliance (i.e. the likelihood of getting caught), the speed and accuracy of corrective measures and the severity or impact of the deterrent measures (SARS 2011: 3).

More specifically, factors that determine whether and to which extent taxpayers comply with their tax obligations include:

- The magnitude of the tax burden;
- The costs of being tax-compliant, e.g. the time required to register for taxation or to fill out tax forms;
- Taxpayer knowledge, i.e. skills that allow the taxpayer to pay taxes, including an understanding of why paying tax;
- Sticks, i.e. the probability of being detected and punished for non-compliance
- Carrots, i.e. the direct benefits that taxpayer registration entails, for instance in providing access to specific services such as passport, driver license etc.
- Norms, i.e. the intrinsic factors that induce the taxpayer to pay taxes 'voluntarily' 'Voluntary' compliance is promoted by fair and transparent treatment of taxpayers by the tax administration, and by the way tax revenues are spent.

Several of the factors listed above are interconnected (Misch et al 2011: 28). For instance, low compliance costs (b) are not sufficient if taxpayer knowledge (c) is lacking. Even if compliance costs are low and if taxpayers have developed a sufficient understanding of taxation, tax compliance also requires sticks (d) and carrots (e), factors that motivate taxpayers to become 'voluntary' compliant (f), or a combination of (d), (e) and (f). Furthermore, changes in tax policy and tax administration may affect tax compliance through effects on (a) – (f). This implies that a combination of policy and administrative measures is likely to be required to enhance taxpayer compliance depending on the specific constraints in place. For instance, if taxpayers have sufficient knowledge of the tax system, including laws and regulations, furthering taxpayer education may have little impact on tax compliance (ibid: 29). The need for taxpayer education, however, is likely to differ substantially between different segments of taxpayers, and may be more acute for smaller taxpayers than for larger corporations. Thus, measures to enhance tax compliance and build a taxpaying culture need to be tailor-made for different segments of taxpayers and the specific constraints they face.

It explains the links between factors impacting on tax compliance and three sets of interventions, namely (i) tax policy, (ii) tax administration and (iii) interventions outside the tax system (Misch et al 2011: 29). For instance, tax policy directly impacts on compliance costs by the complexity of the tax laws. Further, tax policy is one key determinant of the effective tax burden. The tax exemption regime is likely to impact on the non-exempted taxpayers' willingness to pay. Thus, changes in tax policy may be important to build a taxpaying culture characterized by broad-based (quasi-) voluntary compliance. This also applies to tax administration. Compliance costs, for example, depend on the complexity of procedures for taxpayer registration and tax payment. Further, compliance is likely to be affected by the tax enforcement regime, whether it is perceived to be corrupt or fair and transparent. A range of factors outside the tax system are also likely to impact on taxpayer behaviour and the building of a taxpaying culture, including how tax revenues are spent and the extent to which taxation mobilizes citizens' political engagement and is reflected in the general public debate.

2.2.12 Effectiveness or Ineffectiveness in the use of Electronic Fiscal Devices

The effectiveness or ineffectiveness in the use of Electronic Fiscal Devices (EFDs) as legal tool for enhancement of tax collection is a critical business environment issue that the government, private sector and the development partners should not continue to ignore (The Guardian 2012).

According to preliminary findings of a study conducted in Morogoro, Iringa, Njombe and Dar es Salaam, the use of the devices among VAT registered business as much as it enhances and simplifies VAT collection, poses numerous challenges that need to be addressed urgently, otherwise business would continue to suffer affecting the national economy adversely. The research on the challenges facing VAT users of Electronic Fiscal Devices (EFDs) cites numerous areas, which need urgent attention (The Guardian 2012).

According to the study, the suppliers of EFDs have a pact with Tanzania Revenue Authority (TRA), which is not binding enough for them to offer best services to traders who report frequent breakdowns. For example, TRA requires EFDs suppliers to be close to customers but this is just a request and not a binding requirement (The Guardian 2012).

“A supplier is required by regulations to repair reported faulty within 24 hours but this is not enforced anywhere in the law. In upcountry where suppliers don’t have agents, this is also impossible to implement—and does not take into account the geographical dynamics of Tanzania,” said one of the researchers, Ambakisye Mulungu.

Compared to Kenya, Malawi and Rwanda the price of a standard EFD is too high in Tanzania. In as much as TRA refunds the amount used to buy the first EFD by a VAT registered business, traders feel the pinch, because they have to dig into their capital or running expenses for the amount at first (The Guardian 2012).

Another researcher, Dr Stephen Kilemile, points out that to traders; the devices pose

challenges such as lack of knowledge on use of EFDS. “There is little knowledge on instructions and regulations. At the same time EFD language, in fact tax language is in English. Not all traders are conversant with English and it is high time tax language is translated into Kiswahili for better understanding,” he said (The Guardian 2012).

For example, some traders don’t know how to deal with typing error problems, as once you print a receipt; the information cannot be erased from the device. Many traders don’t know what to do as they don’t use professional accountants. Most of the EFDs in use upcountry are of low quality and don’t explicatively indicate the country of origin. “Other challenges include battery problems, network failure, and printer failure. Many EFDs also issue substandard receipts –that simply fade away after some days,” he said. Many traders are forced to use manual receipt books at times due to failure of the EFDs. The study indicated that a sizable percent of business people using the devices are not conversant with tax laws, and regulations. “This calls for the government to ensure tax laws are translated in Kiswahili and TRA website should have a Kiswahili version,” notes the study (The Guardian 2012).

According to the survey most traders are not happy with the implementation of EFDs because of the many hurdles involved. At a meeting convened by TCCIA, Morogoro traders agreed it was their cardinal duty to pay taxes but the tax man must make it possible for them to pay taxes smoothly without unnecessary hurdles. The study, which is being undertaken by Pamoma, is financed by Business Environment Strengthening for Tanzania - Advocacy Component (BEST AC).

2.2.13 Impact of Electronic Fiscal Devices on revenue collections

The Tanzania Revenue Authority (TRA) has started evaluating whether the installed Electronic Fiscal Devices (EFDs) have managed to improve tax collection. The TRA Deputy Commissioner Generose Batayunga said this week that evaluations are going on, and once completed, TRA will issue a statement on what has been noticed (Chiwambo 2011).

The installation of the new devices started in July last year but up to now, though it is compulsory for all VAT registered businesses to install and employ the new technology, about 11 000 out of over 18 000 thousand have installed the new machines. “There is progress so far in installation. 11, 465 out of the 18,180 VAT registered businesses have installed the devices (Chiwambo 2011).

The problem is that when we started the exercise, the machines were not available in abundance but now we have more than what we need in the market,” said Protas Mmanda, TRA’s Director for Taxpayer Services and Education at a news conference in the city (Chiwambo 2011).

So far there are over 23, 850 devices, about 5000 more than what the market at present requires. Four international companies signed contracts with TRA to fabricate the machines so far brought to the market. “Therefore, there is no reason for other business to fail to comply with requirements to install the new technology since it benefits both businesses and the revenue authority (Chiwambo 2011).

“The remaining 7000 registered VAT businesses were supposed to have installed already but they haven’t yet complied. As a revenue authority, we are auditing all registered VAT businesses from Wednesday just to ensure that they comply,” said Mmanda. TRA gave April 08, 2011 plus four more days – up to April 12 as addition time for those that could have bought the machines on April 08 to get time to install them- to ensure that everybody has complied. Though TRA adopts the format of auditing and giving more education to the businesses, certain businesses might end up paying penalties due to failure to comply with EFDs use that was passed into law last year. Due to failure by 7000 VAT registered businesses and perennial power shedding that has affecting most businesses that rely on electricity for production, there might not be much difference in revenues collected before the installation and after the installation. Generally, the machines manufactured and supplied in the country were from two Italian firms, Customs Engineering SPA and RCH-SPA, and two Bulgarian firms, Datecs Ltd and Incotax Systems Ltd, who are said to be the best devices so far. “These machines are good in that once you enter information TRA

gets information after 24 hours and if one tampers with the information, the machine reports everything. In addition, the machines keep the information for not less than five years," says Batayunga.

After all, it is the government that pays for the machines. However, the fact that the information entered can't be reversed and that it keeps the information for at least five years, the machines are good. Businesses that are doing well can get loans if the information is given to banks and at the same time TRA's duty of following up revenues is simplified as every 24-hours information is made available to the authority. However, Batayunga called upon buyers of products in shops or stores to ensure that they get EFDs receipts that bear the value of money that they have paid if the revenues are to be raised. Failure to do so, despite that the new technology will encourage tax compliance since information sales is made available to TRA, it won't boost revenue collections as TRA anticipates, the official underlined (Chiwambo 2011).

2.2.14 Local government taxation in Tanzania

The four most important local government taxes in Tanzania are (1) development levy (poll tax), (2) crop cess, (3) business licenses and (4) sales taxes, market fees and charges (Semboja and Therkildsen, 1992; Semboja, 1995). Poor tax compliance is a major problem regarding these taxes. It is not uncommon that half or more of the taxes that should be collected are unaccounted for (Semboja and Therkildsen, 1992).

However, there are significant variations in collection rates between these tax bases. There are also significant variations between councils. For example, among the 82 district councils in Tanzania, the lowest collection rate, as a percentage of potential tax revenues, was estimated to 26.4 per cent in 1989, and the highest 89.4 per cent (Tax Commission, 1991). According to Semboja and Therkildsen (1992), the councils with lowest tax collection rate seems to be concentrated in regions with a low agricultural potential (i.e., Mtwara and Lindi), while regions with extensive cash-crop production (i.e., Mwanza) have a much higher collection rate.

The Indian Ocean Newsletter (no. 726, 6 July 1996:1) refers to corruption and tax evasion in Tanzania as the country's two major ills. Wastage, corruption and mismanagement in the public sector have grown significantly since the late 1970s.

According to Mukandala (1983:261), the civil service is "increasingly riddled by corruption and embezzlement of public funds". The Auditor General's reports from the 1980s show that this trend continues to grow (Semboja and Therkildsen, 1992: 1 103). The problem exists at all levels in the public sector. In the context of tax collection these issues are, however, particularly pressing, given the need to raise more tax revenues. A reduction in efficiency in this branch of government is likely to mean that fewer returns are processed and when individuals' living standards are squeezed; their incentive to accept bribes in lieu of collecting taxes is increased.

Apart from the factors discussed above, the way in which Tanzania has organized its local government tax system has contributed to an increase in the transaction costs of tax enforcement. For example, the local tax system is characterized by:

- An excessive number of different taxes with different rate structures which dilutes the expertise of tax administrators, since a small staff of ten have to administer most of the taxes.
- The tax law is written in a confusing way, and manuals to consult are often absent.
- Weakness of legal sanctions to enforce punishments on either taxpayers or collectors who do not comply with the law.
- The information available to tax administration to check and cross taxpayers is often scarce. Since populations are mobile, it may be problematic to trace many personal taxpayers. Since much trading is informal, there is often very litter documentary evidence to provide a basis of investigations. Thus, tax inspectors may have few weapons with which to investigate non-compliance.

Each of these factors increase the costs of raising a given tax as well as limiting the array of taxes which can be profitably levied, i.e., yield positive net revenues (Besley, 1993). Traditional tax systems were often sustained by a combination of commitment

to other individuals in the community, and the tangibility of benefits from taxation. Neither motive may be so strong for taxes levied by the present local and central administrations. Non-compliance may also have contagious effects, as some taxpayers regard it as unfair that they should have to pay taxes when others do not (see, e.g., Bordignon, 1993). It is similarly the case that dishonesty on the part of tax collectors may not be punished by cultural sanctions.

2.2.15 Nature of Taxation in Mwanza

The Tanzania Revenue Authority (TRA) in Mwanza Region collected a total of Tsh34.3 billion in tax revenues during the five months of July-November this financial year, which was within a whiff of the set collection target of Tsh34.7 billion. The collection was nonetheless more than a third of the Tsh 91.1 billion set for the Region by the Government in Dar for the 2011/12 financial year. The Mwanza Customs & Excise Department is required to collect Tsh66 billion of that amount, with the Domestic Revenue Department chipping in with Tsh23.4 billion of the set target.

Lusana asserted that, “despite this triumph, there also are a number of challenges” still facing the Regional Authority. He named the challenges as including the 20 per cent of potential tax payers who still haven't acquired the voluntary tax compliance habit; ringleaders among the business community who make a hobby of tax evasion, and traders who are yet to clamber aboard the Electronic Fiscal Devices 'train' using same to record their day-to-day business transactions!

Tax fudging is still on a high rate, fuelled by the culture among customers of routinely not demanding receipts for the goods and services they purchase. This is compounded by traders who do not issue receipts as a matter of course-- and. worst still, do not make use of the statutorily required Electronic Fiscal Devices (EFDs).

Other identified challenges are the great number of informally-conducted businesses; failure to register business that need to be registered; lack of full or accurate business records, and abuse of statutory tax exemptions. All the foregoing lead to difficulties

not only in arriving at more accurate tax collection estimates, but also at collecting the full taxes as due from the taxpaying communities!

As it is today, TRA-Mwanza is doing block management on a quarterly basis in order to make sure that domestic revenues are controlled, with minimum or zero-tax revenue losses! The assistant Mwanza TRA manager, Musa Kifunta, said that, during the first half of FY-2011/12, 1,093 traders in Mwanza Region were visited by TRA, when 32 new businesses were registered for value-added tax (VAT) purposes.

2.3 Empirical Literature Review

There are a number of studies on electronic fiscal devices. The following section presents a number of studies from developing countries.

Mmanda, (2010) in his study, "Introduction of Electronic Fiscal Device (EFD) machines" is good in that once you enter information TRA gets information after 24 hours and if one tampers with the information, the machine reports everything.

Research study conducted in Kenya by the Kenyan Revenue Authority on the effectiveness of electronic tax registers in the processing of Value Added Tax returns concluded that about 91% of organizations in the motor industry in Kenya have acquired these devices and employees who work for these companies have developed positive attitudes towards these devices.

Gray (2001) in his research report 'Enhancing transparency in Tax administration in Madagascar and Tanzania' addressed the following: Company tax is perceived as a single most evaded tax followed by VAT and personal income tax, complicity of tax officials is seen as the biggest single factor in tax evasion, coming ahead of excessive tax rates, political intervention, and administrative weakness, Moreover the principal factor in tax evasion is seen to be deficient information and education of taxpayers, ahead of "taxpayer mentality" and inadequate service equipment (e.g. means of transport). The main practices of noncompliance are considered to be sales without

bills or receipts, and under invoicing, ahead of understatement of turnover and fraudulent deductions against VAT.

Magutu, (2010) in his study "the Effectiveness of Electronic Tax Registers in Processing of Value Added Tax Returns, Perspectives from Registered VAT Taxpayers in Kisii Town, Kenya," aimed to assess the effectiveness of Electronic Tax Registers (ETRs) in the processing of Value Added Tax returns. The study intended to determine the extent to which the Electronic Tax Registers are being used by the taxpayers, the problems encountering in using them as well as get possible solutions to the problems. The study sought to establish if the Electronic Tax Registers had increased the speed at which taxpayers processed their VAT returns and if there were any associated costs in the processing of VAT. The study findings revealed that Kenya has witnessed significant changes in many aspects of its economy over the last four decades, but like most developing countries, it has had to contend with the common problems that plague tax systems of developing countries.

Secondly, the timely billing of the monthly VAT returns is attributed to many factors. Nyasha, et al (2012) in their study dealt with attitudes of employees towards the use of fiscal electronic devices in calculating value added tax (VAT) this was a case study of motor industry in Zimbabwe, the research sought to find the attitude of motor industry employees in Zimbabwe towards the use of fiscal electronic device. The findings of the study revealed that fiscal electronic devices had positively impacted on the motor industry through improvements in tax collection; saves time in tax collection, reduces direct contact between tax collectors and hence minimizes corruption. Moreover, the study found out that employees with low educational level find it difficult to use fiscal electronic devices because they lack know how on how best to use them. Employees also negatively perceived the use of fiscal electronic devices because they are not aware of the method and some are just resistant to change that is given and will reject to use the advanced method.

Naibei, et al (2011) in their research work "Impact of Electronic Tax Registers on VAT Compliance" had the purpose of assessing the impact of use of Electronic Tax

Registers (ETRs) on Value Added Tax (VAT) compliance among private business firms in Kisumu city, Kenya. A sample of 233 private firms was selected from a population of 590 private firms using stratified sampling technique. Empirical results reveal that effective and regular use of ETR has a significant impact on the Value Added Tax (VAT) compliance. Based on the research findings the study concluded that use of ETR has a significant impact on VAT compliance in Kenya.

Sacks (1991) developed a theory, which advocates that males tend to display positive attitudes towards the use of these devices, regardless of the level of familiarity, while females' attitudes become more positive as the levels of familiarity increases. Brief (1998) argues that females tend to be resistant to the use of fiscal electronic devices while males accept to the change in the motor industry. In contrast, a survey conducted by Baack and Brown (1991) advocate that older adults are less likely to accept change than their younger counterparts.

Most of researcher identified a positive correlation between experience with electronic devices and attitudes towards them. Not surprisingly, negative experience with these electronic devices correlated with negative beliefs and attitudes towards the technology. Employees with positive experience also espoused positive attitudes towards the devices.

2.4 Research Gap

Most of the studies discussed above showed that there was effectiveness of electronic tax registers in the processing of VAT and however, most of these studies were conducted outside Tanzania. Most studies focused on looking how government failed to accomplish the desired revenue collection. This study therefore, intends to find out the challenges faced by taxpayer in using Electronic Fiscal Device Machine – a case of taxpayer in Nyamagana District, Mwanza City.

2.5 Research Model

The research model enumerates the key areas which the research study centres and reviews or develops logical and basic concepts based on it. For this study, the key

conceptual areas or points for the research centred on the effectiveness, benefits, challenges and measures to address these challenges associated with use of Electronic Fiscal Devices.

From the literature reviewed a research model for the study is developed, the model indicates that the effectiveness of electronic fiscal devices may result to a number of benefits. The model also shows that there are a number of challenges in using electronic fiscal devices and some measures have to be developed to overcome these challenges.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods and techniques that were employed to carry out this study. In particular, this chapter highlights the research design, the area of the study, target population, sample size, the sampling techniques, the sources and methods of data collection and analysis. It also presents validity and reliability of data as well as ethical considerations.

3.1 Research approach

The study adopted a qualitative research approach which is concerned with quality. The approach answers the why and how of human opinion and experience information that is difficult to obtain through quantitative oriented method of data collection.

This approach was helpful on the question of the quality service offered by EFDs machines, where the approach was helpful in giving in-depth reasons which marked the challenges faced by taxpayers using EFDs machines.

Also, the research adopted a quantitative approach on the question of what EFDs affected the businesses in Tanzania. Thus percentages were compared to determine the perceived large impact of the machines.

3.2 Research Design

A research design is a plan that guides the researcher in achieving the desired outcome by providing basic direction (Burns & Grove, 2003). The function of a research design is to ensure that the evidence obtained enables the researcher to effectively address the research problem as unambiguously as possible. This study used a descriptive and explanatory research design to guide the study and provide answers to the problem. The research design was adopted because manipulation of variables was limited and thus not possible (Burns & Groves, 2003).

The research study was also concerned with obtaining information (description) concerning the current status of the phenomenon through views of respondents' experiences (Easwaran& Singh, 2010). Thus, the study also applied qualitative approach to investigate other parts of the research problem. The use of both quantitative and qualitative approaches for social research has been recommended by several researchers like (Saunders, 2007) and (Kothari, 2004). Laws, (2003) argued that "participatory methods are clearly of great value for development of work and it was quite straight forward to advocate for these and explains how to use them". Thus, these approaches were enabling the researcher to obtain better understanding of the phenomena under study.

3.3 Area of the Study

The study was conducted in Nyamagana district Mwanza region. It involved registered taxpayers using EFDs. Mwanza is situated in Lake Zone of northern Tanzania bordering in the South shores of Lake Victoria. It covers approximately 1348/square kilometres. The study was conducted within the region because it is the second largest city in Tanzania in terms of population and large cultural mix from other parts of Tanzania. The economy in Mwanza region is dominated by smallholders' agriculture employing 85% of the region's population and is complemented by an expanding fishing sector. Other economic activities in the region are manufacturing, retail trade, hotels/restaurants, transport services, mining and small cottage industries (Nyamagana Municipality Business Report, 2013).

3.4 Population of the study

The population of this study comprised of taxpayers registered by TRA to use the EFDs and the TRA officers who are the operators. The Municipal economic activities which contribute in tax paying are manufacturing industry, retail trade, hotels/restaurants, transport services, mining and small cottage industries, (Nyamagana Municipality Business Report, 2013). Nyamagana Municipal has areas for buying and selling goods and services which are taxable these are; Pamba, Mbugani, Rwagasore, Mahina-kati and Mkolani.

3.5 Sampling Techniques and sample size

3.5.1 Sampling Techniques

Sampling is that part of statistical procedure concerned with the selection of individual observations (unit of analysis) intended to yield some knowledge about the population concerned, especially for the purpose of statistical inferences (Kothari, 2008).

Kothari (2008), recommends that if the population from which a sample is to be drawn, does not constitute a homogenous group as in this study then stratified random sampling should be applied in order to obtain a representative sample. Thus, this research used stratified random sampling and purposeful sampling designs (techniques) to obtain the respondent for questionnaire survey and interview respectively.

(i) Stratified random sampling

Stratified random sampling technique was implemented. Firstly there was identification of the types of businesses for the particular group taxpayer within Nyamagana District (such as manufacturing, services, trading and multi-sector combination).The targeted population of this study comprised of manufacturing industry owners, retail or wholesaler traders, transport owners, mining and small cottage industries only. This technique is also in line with concept of dividing respondents based on their demographic characteristics that is underpinning this research effort. Hence, using this sampling technique, 12 operators were proportionately selected from each ward to form the study sample.

(ii) Purposive sampling

The researcher used purposive sampling to select 5 officers from each TRA department, Mwanza Branch, for in-depth interview because the researcher believed that they were a reliable source of information for the study. The selection involved personal judgment by the researcher's perception that they were in the better position to provide the information for the study.

3.5.2 Sample Size

A sample size is a subset of the target population from which inference can be made (Kothari, 2008). The choice of methods to be used to determine a sample depends on several factors such as representativeness, the diversity of the target population and researcher's preference. Since the target population of taxpayers and TRA officers in Nyamagana District is diverse and have different identifiable strata (wards), this research used Roscoe (1975) rule of thumb of greater than 30 and less than 500 respondents. That is 50 tax payers were selected from each category and total sample size of 200 (40x5) from a population size of 623from five wards of Nyamagana District, was established. The wards from which the sample was drawn were Pamba, Mbugani, Rwagasore, Mahina-kati and Mkolani. The TRA officials were only interviewed. The details population and sample sizes are shown in table 3.1.

Table 3. 1. Distribution of the Expected Sample size

S/N	Category of population	Population size	Expected sample size
1	Taxpayer in trading (buying and selling)	138	50
2	Taxpayer in services; saloon, barber shop, and restaurant	145	50
3	Taxpayer in manufacturing (bakery, bride making, breweries, and soft drinks like Coca-Cola and Pepsi	127	50
4	taxpayer in multi-sector combination	131	50
	TOTAL	623	200

Source: Researcher's Construction (2015)

3.6 Data Collection methods

Data are facts and other relevant materials, past and present serving as basis for research study and analysis (Krishnaswami and Ranagnatham, 2006). Primary data were collected from tax payers, TRA managers and tax officials through questionnaires and interviews. Secondary data were collected from documentary reviews as the best method of secondary data collection.

3.6.1Questionnaires

The researcher obtained the data using questionnaires. The standard questions were formulated in relation to tax payer use of EFDs. The data were collected afresh from the original source. The questions were distributed to taxpayers to be filled by them. This technique was appropriate because the respondents who were not easily approached could be reached conveniently. The researcher used both open ended questions and closed ended questions questionnaires. The Open ended questions questionnaire did not limit the respondent' responses, questions were asked and the respondent was free to answer through spaces left below each question.

Closed ended questions limited the respondents' responses as questions were asked and alternative answers were provided from which a respondent had to choose the right type of response presented by each question. The questionnaires were firstly pre-tested with experts and few respondents from the study area (Nyamagana district), for clarity and completeness and their comments were incorporated in the final version. The researcher distributed a total of 140 questionnaires to taxpayers and collected them later at a time agreed with the respondents.

3.6.2 In-depth Interview

The second primary data collection instrument was semi-structured in-depth interview. According to Kothari (2008) interview is a face conversation whereby an interview asks questions and respondents provide the answer. Thus, this research collected qualitative data from TRA staff and tax payers using the In-depth Interview. The guiding questions on each research objective were prepared in advance as indicated in the interview protocols. Interviews were appropriate to use because of their ability to collect more diverse information which was obtained from the TRA officers. In essence, this method involved oral questions or discussion and there was a direct contact between a researcher and TRA officers. This method was conducted in order to get relevant information from respondent. This helped the researcher to be flexible in asking questions, get immediate answer, helpful to bring healthy information and to save time of TRA officers.

3.6.3 Documentary Review

In this study, secondary data were obtained from documentary reviews of various reports, therefore data were collected from TRA reports through internet, relevant articles appearing in different mass media and TRA magazines, written documents handout in order to obtain relevant information for the study.

3.7 Data Analysis Plan

This study used quantitative and qualitative techniques to analyze the collected data from questionnaire and interview respectively.

For quantitative data, descriptive statistics were used to analyze and present the data from questionnaires. Summaries of percentages from itemised responses were compared and evaluated and interpreted as per the objective. In particular, the researcher generated frequency tables as means of presenting data by the assistance of SPSS software package version 17.0.

Qualitative data from interview scripts, notes and statements were systematically coded and classified into broad descriptive categories namely: exploring themes, meanings and/or issues through words or quotations that emerged from the information gained in the interview. These data were further linked to the research objectives/questions to generate meaningful patterns on the study topic.

3.8 Ethical considerations

The Ethical considerations in this research were addressed by adhering to the Code of Ethics for Research as is provided by Mzumbe University. In addition, the following was implemented: The researcher firstly obtained a letter from Mzumbe University for introduction to the management of TRA in Mwanza before the commencement of the study. Permission to conduct the research was requested from Nyamagana Municipality Officials and their permission to distribute questionnaires to taxpayer within Nyamagana District.

Informed consent was obtained from all the participants prior to administering the questionnaires. A participant was informed of the purpose of the study and was told that participation in the research is voluntary.

To ensure anonymity, the collection of the consent forms was undertaken separately from the questionnaires. Participants were informed of the purpose of the study. The respondents were not being required to provide their names or any other form of identification. The respondents were also assured that the research is for academic purposes only and that the information collected will be treated confidentially (i.e. respondents remain anonymous). No risks were foreseen in this study at this stage. The researcher was also available for any queries from participants.

The researcher was accurate when constructing data collection instruments. For instance, most questions were in multiple choice closed formats so as to give room to select the best choice that suits them. This in turn helped respondents to answer accurately the question at hand.

In addition, high standards in the execution of research was maintained by means of focusing on implementing the proper referencing and acknowledgement of sources of information and avoiding plagiarizing of any information.

3.9 Validity and reliability

The quality of research depended on the design of research instruments as well as application of these instruments in data collection process in the field. There are several criteria or tests used for judging the quality of any empirical research. These include validity and reliability (Headlam& MacDonald, 2005; Easwaran and Singh 2010). How each of these tests were achieved is discussed here under.

3.9.1 Validity

The Researcher was concerned with both external and internal validity. Validity is the degree to which the study findings can be generalized to the entire population (Thomas & Nelson 2001). Every effort was made to ensure that the collected data was valid and accurate while adhering to all ethical considerations. Furthermore, since this research was not a statistical study and the aim was to sample widely, external validity was achieved by analytical generalization of comparing research evidence with the existing literature.

3.9.2 Reliability

Reliability is concerned with the accuracy of the actual measuring instrument or procedure (Joseph et al, 2003). In the words of Ary et al (1990), reliability also refers to when the research instrument is administered several times under the same set of conditions, and then similar results obtained. In this research, reliability was achieved by first pre-testing structured questionnaires and semi structured interview protocols with five respondents from the target population and experts in the field to obtain consistency and accuracy. Their comments and suggested corrections were

incorporated in data collection instruments and re-tested prior to developing the final versions of research instruments for use in the field.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION

4.1 Introduction

The chapter presents the findings of the study and gives a discussion of the findings. This is because the interpretation and discussion of the presented data is very important to bring a clear meaning of the research findings and avoids distortion and the possibility of drawing misleading conclusion (Adam and Kamuzora 2008, p, 229). The data in research examined the challenges facing by the taxpayers and effectiveness in using Electronic fiscal devices machines in Tanzania. The presentation of this chapter is arranged in line with the research objectives that guided the study which include:

- To analyze the challenges of using Electronic fiscal Devices by taxpayers.
- To assess the effectiveness of Electronic fiscal devices in tax collection in Tanzania.
- To examine the benefits of Electronic fiscal devices to the tax payers.
- To suggest measures that should be instituted to overcome the challenges associated with Electronic Fiscal Devices

In this chapter the background characteristics of respondents are firstly presented to set the scene and provide a clear picture of the nature of people that participated in the study.

4.2 Background of respondents

The data collection captured some characteristics of the respondents in order to allow the researcher to compare or discover trends between different characteristics of the respondents. In addition, some characteristics were captured in order to justify the validity of the collected results. The characteristics include response rate, gender, age, education and business period of operation.

4.2.1 Response Rate

A total of 205 questionnaires were sent out to participants in the study and 175 were returned complete and useable. This represents 87.5% response rate which is excellent because it is above industry standard of 40- 60% (Mugenda and Mugenda 2003). Therefore, quality research outcome was ensured.

4.2.2 Characteristics of respondents

4.2.2.1. Gender of respondents

Table 4.1 shows that 51.4% of the respondents (tax payers) were male and 48.6% were female. These results suggest that the sample is fairly representative and captured a wide spectrum of tax payers that patronize TRA.

Table 4. 1.Gender of respondents

Gender	Frequency	Percent
Male	90	51.4
Female	85	48.6
Total	175	100.0

Source: Field data (2015)

4.2.2.2 Age of respondents

Table 4.2 shows that 35.4% of the respondents (tax payers) were of age between 31 to 40 years, 24.0% aged 40-50 years and 21.1% were aged between 21 to 30 years, 13.7% above 50 years and 5.7% were 18 to 20 years. These results suggest that the research covered a broad spectrum of tax payers from Nyamagana district.

Table 4. 2. Age of respondents		
Age	Frequency	Percent
18-20 years	10	5.7
21-30 years	37	21.1
31-40 years	62	35.4
40-50years	42	24.0
above 50 years	24	13.7
Total	175	100.0

Source: Field Data (2015)

4.2.2.3 Education of respondents

Table 4.3 shows that 43.4% of respondents (tax payers) were of secondary level education 28.6% have diploma qualifications, 20.6% have Advanced Diploma / University degree and 7.4% have Masters' degree. These results suggest that slightly ever 50% of tax payers are well educated and one would expect them to understand tax matters easily.

Table 4. 3. Education of Respondents		
Education level	Frequency	Percent
Secondary education	76	43.4
Ordinary Diploma	50	28.6
University degree/Advanced Diploma	36	20.6
Master's degree	13	7.4
Total	175	100.0

Source: Field data (2015)

4.2.2.4 Period of business operation

Table 4.4 shows that 55.4 % of the respondents (tax payers) have been operating their business for less than 2 years, 29.7% for 3-5 years (29.7%) and 14.9% for over 5 years. These results further indicate the majority (55.4%) tax payers are relatively new and have yet to get used to the use of new technological services.

Table 4. 4. Period of business operation		
Duration business operation	Frequency	Percent
0-2 years	97	55.4
3-5 years	52	29.7
Above 5 years	26	14.9
Total	175	100.0

Source: Field Data (2015)

4.3 Research findings

This study had four objectives and the results of each objective are discussed next.

4.3.1 Challenges facing taxpayers using Electronic Fiscal Device (EFD)

Personal in depth interviews were held with several selected tax payers and these focused on challenges they face in the use of EFD. The following issues emerged.

4.3.1.1. High cost

First, most of the tax payers indicated that the first challenge they meet using EFD is its high cost. The interviewee said;

"....it is sad to see the government charging us TZS 600,000 to 800,000 per EFD device while one can purchase the device at TZS 100,000 in China."

They indicated charging a tax payer 600,000 to 800,000 in one lump sum for a small device purchased from China at about 100,000 is far too high and it is not easily affordable by a small business operators. They indicated that it is discouraging and unfair. To them, they would have preferred to pay much less or at least pay it off in instalments over a period of time.

4.3.1.2. Lack of education

The second challenges tax payer encountered with use of EFD was lack of education about the device. The interviewee complained that:

"....the device is new and TRA has not provided enough time to learn and master it and I think it is not a good device."

They complained that there was little education campaign given to the new EFD users by TRA. Essentially they blamed TRA not making effort to market the seemingly good device because of that tax payers held a negative attitudes towards the device and do not like it. This is probably one of the reasons the tax payers have formed a negative attitude towards its proper use.

4.3.1.3. Time consuming operations

The third challenge tax payers voiced was that the use of EFD is time consuming. The interviewee argued;

....when you enter data in the device you spend a lot of time and customers are not patient to wait you complete the operation before you leave data entering and save the customer. You need to stop because if you wrongly enter data you cannot correct it."

Tax payers believe that it takes too much of their time to enter the required information in the device. They further indicated that the EFD does not give them the option to reverse entry or change what data has been entered even though entry may be made by mistake. That inflexibility is causing slow usage or fear of purchase of the machine.

4.3.1.4. Power outage

The fourth challenge raised by most interviewees (tax payers) is the intermittent power outage (power failure or cut off or its in availability in such situation tax payers are not able to enter the required data). The interviewee said;

"....this device seems to be useful in developed countries where power supply is regular and predictable. In Tanzania, we experience irregular power cut and mostly without prior information. In addition, when power supply is back the device takes time to boot."

The issue of concern was that when power returns, it takes too much of their time entering the required data of their transactions made in the trading day. They believe in such power cut period, because, the device is rendered useless and so its supposed benefits of fast and real time entry transaction becomes meaningless. They suggested

that it would be beneficial to have device that runs on alternative source of energy such as solar, or back up battery.

4.3.1.5. Lack of technical support

Another challenge taxpayer's encounter in using EFD is that they are few mechanics to repair the device, when it gets spoilt. The interviewee reported that;

".....the device may get a problem which requires one to wait until TRA officials get time to attend the device. This means you need to stop the business and wait for the device maintenance. How much do you lose when you stop selling and who repays for the loss?"

This challenge does in some ways deter the taxpayers from full utilization of the device.

The TRA officers acknowledged that these challenges do exist. However, they commented that, when introducing a new technology or system challenges such as those mentioned by tax payers are expected. Nevertheless they admitted that the implementation exercise was not properly executed. They further acknowledge that they ought to have developed an education campaign to market the benefits of EFD to the tax payers and future uses.

4.3.2 Assessment of the effectiveness of the electronic fiscal device in tax collection

For this objective, interview was held with both selected tax payers and TRA officials on whether they believed the device is achieving its intended purposes/ objectives.

4.3.2.1. EFDs are effective

Regarding the aspect of tax maximization TRA indicated that, the introduction of EFDs has improved tax collection to make revenue available for carrying government services. The TRA official said;

".....it is much easier to indentify who did not pay tax or use the device since we monitor each device separately and identify problems. We can see all users of the devices through the device mac address. We normally see taxpayers who fail to use

the device properly. However for those not registered we cannot monitor their tax payment behaviour."

They however remarked that there are still a lot of tax payers that are not fully using the EFD to maximize tax collection.

In contrast, tax payers merely commented and accepted that it is a government procedure or duty to increase tax collection; however some of the benefits of tax collection are not being passed to them and other needy Tanzanians. One of a tax payer reported that;

"....we pay tax but we don't see any changes in social services, we see officials gaining and we continue to suffer as a community."

4.3.2.2. Fast tax assessment

In terms of speedily method of making tax assessment and remittance, TRA officials commented that meeting objective is possible provided the tax payers are complying. The TRA official said:

"....meeting objective is eminent when taxpayers comply. Data collection is affected by power outage and we do not have a solution on that."

But they however admit that the unpredictable power cut is not making tax payers submit their tax records on time. It is a challenge they are acknowledging. The tax payers also concurred with that observation but added TRA should have procured a device that has backup power storage to ensure that the EFD is operational all the time for them to process their transactions speedily and real time. A tax payer said:

"...TRA collect a lot of money and therefore they can purchase a device with power backup which can operate all time."

4.3.2.3. Increase in tax collected

Next, TRA officials commented that the EFD introduction is effective because since introduction there has been a steady increase in revenue collection from tax payers and that they hope as they try to address the associated challenges tax collection will increase even more. TRA official said:

"....we have witnessed an increase in revenue collection following the introduction of the device and if we address the challenges we will improve tax collection and revenue even more."

TRA further commented that as far as they were concerned they are doing their ultimate best to maximize tax revenue collection for the government. How, where and when the collected tax revenue is utilized is not in their hands. To them they are good tax collectors and using tools like EFD helps to make their work easier.

4.3.3 Benefits of Electronic fiscal devices to the tax payers

4.3.3.1. Electronic Fiscal Device assists in easy keeping of records and in tax collection

Table 4.5 indicates that 79.4% of the respondents (tax payers) agree/ strongly agree that the Electronic Fiscal Devices (EFD) assist tax payers in easy record keeping and tax collection. On the other hand 10.9% disagree/strongly disagree to that statement and 9.7% are neutral. These results suggest that EFD from TRA benefits both the tax payers and the government in speedy tax collection.

Table 4. 5. Electronic Fiscal Devices assist in easy keeping of records

Responses	Frequency	Percent
Strongly agree	66	37.7
Agree	73	41.7
Neutral	17	9.7
Disagree	11	6.3
Strongly disagree	8	4.6
Total	175	100.0

Source: Field Data (2015)

4.3.3.2. The benefits in using electronic fiscal devices

Results (Table 4.6) shows that 83.4% of the respondents disagree /strongly disagree that EFD offers a lots of benefits such as simplifying work of recording keeping and saving time, 10.3% agree /strongly, agree with that statement and 6.3% are neutral.

These results suggest that the majority of (83.4%) of tax payers do not seem to see the beneficial aspects of EFD possible/ because TRA has not marketed the system well to the tax payers and Hence, they have a negative perception of the EFD.

Table 4. 6. Benefits of using Electronic Fiscal Devices to respondents

	Responses	Frequency	Percent
	Strongly agree	6	3.4
	Agree	12	6.9
	Neutral	11	6.3
	Disagree	79	45.1
	Strongly disagree	67	38.3
	Total	175	100.0

Source: Field Data (2015)

4.3.3.3. Relationship between Tax registration and use of Electronic Fiscal Devices

Table 4. 7. Speed of making tax assessment with Electronic Fiscal Devices

	Responses	Frequency	Percent
	Strongly agree	6	3.4
	Agree	8	4.6
	Neutral	6	3.4
	Disagree	135	77.1
	Strongly disagree	20	11.4
	Total	175	100.0

Source: Field Data (2015)

Table 4.7 shows that 8.0% of the respondents (tax payers) agree/strongly agree that the use EFD enables them to make speedy processing of tax amount to be paid to TRA, 88.5% disagree/ strongly disagree with that statement and 3.4% are neutral. These results suggests the tax payers have not realized that EFD simplifies their work

of processing tax bills or they do not want to use the device to see its benefits or feel this device is a nuisance. This probably stems from the way the EFD was introduced to the tax payers. This observation was summed up by one tax payer.

"This EFD is the device that was introduced by TRA by force. They just want to know every transaction we conduct on our business so that they (TRA) make maximum tax collection. So most people like me really do not like it even though when used, it makes the assessment of tax payable fast".

This comment shows that, yes the EFD is speedy but tax payers have a negative attitude towards its benefits.

4.3.3.4. Electronic Fiscal devices had positively impacted both the tax payers and TRA

Table 4.8 shows that 79.5% of the respondents (tax payers) agree/ strongly agree that the EFD has a positive impact on both the tax payers and TRA, 13.1% disagree/ strongly disagree with that statement and 7.4% are neutral. These results suggest the majority (79.5%) of the tax payers can see the possible benefits the device has on their tax of providing information to TRA and fast tax bill assessment. These results are however in sharp contrast with the previous data in tables 4.5 to 4.7 implying it is negative attitude issue on the part of tax payer.

Table 4. 8. Electronic Fiscal devices had positively impacted both the tax payers and TRA

	Responses	Frequency	Percent
	Strongly agree	68	38.9
	Agree	71	40.6
	Neutral	13	7.4
	Disagree	9	5.1
	Strongly disagree	14	8.0
	Total	175	100.0

Source: Field Data (2015)

4.3.3.5. Taxpayers attitudes toward Electronic Fiscal Devices

Table 4.9 indicates that 7.4 of the respondents (tax payers) agree /strongly that they have a positive attitude towards the presence and use of EFD, in their tax assessment, 89.2% disagree/ strongly disagree to that statement and 3.4% are neutral. These results clearly suggest that the majority (89.2%) of the tax payers have a negative attitude towards the EFDs. So there is a need to develop a training/ education program to change their perception towards a device that is seemingly for their benefit and the country at large.

Table 4. 9. Taxpayers attitudes towards use of Electronic Fiscal Devices

Responses	Frequency	Percent
Strongly agree	6	3.4
Agree	7	4.0
Neutral	6	3.4
Disagree	127	72.6
Strongly disagree	29	16.6
Total	175	100.0

Source: Field Data (2015)

4.3.3.6. The use of Electronic Fiscal Devices is fair to the tax payers

Table 4.10 shows that 5.2% of the respondents (tax payers) agree /strongly agree that the use of EFD is fair to the tax payers, 90.9% disagree strongly disagree to that statement and 4.0% are neutral. These results again suggest that the overwhelming majority (90.9%) of the tax payers view the EFD as unfair way of getting them to keep tax assessment information. This stems from the fact that the device (EFD) is closing coop holes of tax evasion and so they feel, by forcing them to disclose of the sales figures and other tax assessment information is unfair. They just do not want to pay their due tax and this device is not giving them that possibility.

Table 4. 10. The use of Electronic Fiscal Devices		
Responses	**Frequency**	**Percent**
Strongly agree	4	2.3
Agree	5	2.9
Neutral	7	4.0
Disagree	140	80.0
Strongly disagree	19	10.9
Total	175	100.0

Source: Field Data (2015)

4.3.3.7. Electronic Fiscal Devices are Efficient and reliable

Table 4.11 shows that 60.0% of the respondents (tax payers) agree/ strongly agree that the use of EFD is more reliable and fast way of their tax assessment compared to the manual data processing method, 13.8% disagree/ strongly disagree with that statement and 26.3% are neutral. These results suggest the majority (60.0%) of the tax payers agree that the use of EFD is far superior than the manual method. Thus negative perception or reaction towards EFDs is attitudinal and probably cultural problem. This is because Tanzanians do not like to pay taxes and this EFD is denying them that possibility. This observation was summed up by comment from one tax payer:

"Frankly speaking, I used to have problems of keeping records for tax assessment. It was stressful to compile the information manually from my receipts and associated documents /reports. But now with EFD, it is easy, simple and fast. The bad part about it is that I do not like to pay too much tax to the government".

The comment above clearly shows that the EFD is beneficial and what is required is education to the tax payers about its benefits for the country at large.

Table 4. 11. Electronic Fiscal Devices are Efficient and reliable		
Responses	**Frequency**	**Percent**
Strongly agree	23	13.1
Agree	82	46.9
Neutral	46	26.3
Disagree	19	10.9
Strongly disagree	5	2.9
Total	175	100.0

Source: Field Data (2015)

4.3.4 Measures to be instituted to overcome the challenges associated with use of EFD

Finally, an interview sought possible suggestions from both TRA officials and the tax payers on how to overcome issues related to EFD usage. These are presented in the next sections.

4.3.4.1. Provide education to tax payers

The first suggestion by both TRA and tax payers was the need to educate existing tax payers and potential new business start-up especially on how to use the device, and the benefits of collecting and entering tax data into the EFD. It was believed it would create an atmosphere of honest and fairness to the EFD users.

4.3.4.2. Subsidise or remove import tax

The EFD is found to be expensive and so tax payers suggested that the government should remove import duty or subsidize it. In that way tax payers would find it easy to purchase and encourage other people to acquire and use.

4.3.4.3. Liaison officer

The last suggestion made to TRA by tax payers was the need to have a liaison officer who operate as public relations personnel to regularly visit tax payers, listen to their concerns on the use of the EFD especially when there is power outage, as well as provide opportunity for some officials to ask questions in an informal environment.

4.3.4.4. Maintenance centre

The tax payers further suggested the need for TRA to have repair/maintenance resource centre to help those tax payers facing technical problems with use of EFDs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the research findings as well as conclusions on each research objective as given in chapter 4. Conclusions are also drawn on the findings presented in the chapter. The chapter further presents recommendations based on the views of the respondents from research findings. Finally, it makes suggestions for further research and these were based on gaps identified in the body knowledge that were found but could not be addressed in this research due to its scope and time constraints.

5.2 Summary

The first objective of the study intended to analyse the challenges of using Electronic Fiscal Devices. The research revealed that the majority of tax payers encountered challenges in the use of Electronic Fiscal Device (EFD). These include high cost of purchase of EFD of 600,000 to 800,000 which abnormal too high for most tax payers poor or low education of tax payers by TRA and time consuming for entry of trade data for tax assessment. Another challenge was intermittent power shedding that made the EFD almost un-operational for many days in a week. These challenges pose enormous burden on tax payers which have created a negative attitude towards the device. These results highlighted the problems that can occur when implementation of change is not well planned and managed especially when it is on large scale as was introduction of EFD.

The second research objective assessed the effectiveness of EFDs in tax collection. The study findings indicated that EFDs have made progress in achieving the overall goals of TRA that included maximizing tax collection, speedy tax assessment and collection on the part of TRA. It also resulted in fast and real time entry of tax assessment information and overall increase in tax revenue. Both TRA and tax payers acknowledged that overall the EFD was effective despite the challenges it is facing.

The third objective examined the benefits of EFDs to taxpayers. The research study findings revealed that the majority of the tax payers agreed that the EFD assisted them in keeping tax records, had positively impacted both tax payers and TRA in terms making tax assessment relatively easy, and that EFD was an efficient of tax assessment and promoting tax payers to know the tax cycle. In contrast, the majority of tax payers could not relate well with benefits of using EFD especially its speedy advantage of tax assessment and simplification of end of mouth / quarter tax assessment.

Furthermore, the study indicated tax payers had a negative attitude towards the use of EFD for it denied tax payers the opportunity to avoid tax. The tax payers also viewed EFD as an unfair method of assessing tax payers. These findings highlight tax payers will always complain to the government when new method of tax assessment and collections are implemented. Nevertheless the results indicated that both TRA and tax payers concurred that if EFD is well planned and implemented its outcomes benefit both the government tax payers.

The last research objective suggested measures to be instituted to overcome challenges associated with use of EFDs. The study findings revealed several measures that could be taken to overcome challenges / or resistance to the implantation and use of EFD were suggested by both TRA and tax payers. These in order of importance included reduction of purchase price of EFD to encourage more users, conducting nation-wide education campaign on EFD, and provision of machine repair facilities to assist those tax payers who experience problems with EFD.

5.3 Conclusion

This research has established that the use of EFD for recording tax information and making fast data update in Tanzania is good method of tax assessment compared to the manual method. Its full utilization can be achieved when education campaign and provision supporting services about EFD are made clear to tax payers by TRA. This requires setting a conducive environment where concerns of both parties are addressed.

5.4 Recommendations

Several areas have been well identified in this research for improving EFD usage by tax payers. These are presented in the next paragraphs.

First, the research found that EFD was poorly implemented and this has resulted in the creation of negative attitude by tax payers towards TRA. The HR department in TRA should develop and deliver an education program to tax payers on weekly basis to reduce their negative perception and make it clear that EFD is a way of simplifying tax assessment. This will not only encourage more people to use EFD but also create a better tax payer-TRA relationship and improve TRA's image in the community.

A majority number of tax payers are not positive about the use of EFD. Research is needed to identify factors that have created that negative perception. This well to provide information needs for policy changes.

Finally, the study revealed that most of the tax payers do not met enter their tax data into EFD during power shedding. This results in accumulation of un-posted tax information to TRA. This has also created the feeling of tax payers that the use of EFD is time consuming. The payers should install a solar based source of alternative energy. This will ensure that EFD is operating 24 hours a day and enable tax payers to enter tax data information in real time.

Another concern raised by tax payers is that TRA officials only visit taxpayers for tax audit. This has created a rather non-friendly relationship. TRA officials should establish a public relations (PR) department to regularly visit taxpayers, talk to them and get comments or suggestions on different aspects of tax assessment and collection. This will create a better working business relationship between TRA and tax payers. It also helps TRA to know what is on the ground rather than operate from "Ivory tower" kind of approach. That is, they should practice management by working around and be pro-active in identifying tax payer's needs.

5.5. Suggested areas for further research

Several areas have been identified for future research. This study investigated challenges in the use of EFD in Tanzania among tax payers in Nyamagana district. There is need to extend this same study to other districts in Tanzania before generalization. There is also need to examine factors that influence the adoption of new technology in government operations such as TRA. Also there is need to assess customers' satisfaction with quality of service delivery by TRA to tax payers.

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APPENDIX I

QUESTIONNAIRE

Dear Respondent,

My name is YUNUSU .K. SIRAJI and I am a graduate student at the Mzumbe University (MU), studying for Masters degree in Business Administration (MBA).I am carrying out research project on: Challenges faced by taxpayers in using Electronic Fiscal Devices in Mwanza. The study is on the use of Electronic Fiscal Devices Machines in Mwanza city.

This research requires me to do a survey using a Questionnaire. I have identified you as one of my valuable respondents for this survey. Kindly spend few minutes of your time in answering all the questions in the following questionnaire and make appropriate comments where required. Please note that they are no right or wrong answers to any of the questions and all that you are required is to give your views or experience to each question. Be assured that all your responses will be treated with the utmost confidentiality.

At the end, return the completed questionnaire to a person who gave it to you

Should have any concern regarding this questionnaire, please do not hesitate to contact Mr. Yunusu K Saraji by mobile phone: + 255765642778 or email: yunususiraji@gmail.com.

Thanks you for your time and cooperation

Yunusu K Saraji

A: RESPONDENT'S PROFILE

Please, tick or fill appropriate space in each question

1. Name of the Respondent (Option)

2. Gender Male

Female

3. Please, specify range of years in which your age belongs.

(a).18-20 years

(b).21-30 years

(c).31-40 years

(d) .40-50years

(e).above 50 years

4. The highest level of education of respondent (Please tick the appropriate box)

- Secondary education
- Ordinary Diploma
- University degree/Advanced Diploma
- Master's degree

- For how long have you been in business
  - 0-2 years
  - 3-5 years
  - Above 5 years

Please, tick the number which best describes how you agree or disagree on how electronic fiscal devices assist taxpayers in Tanzania

1. Strongly agree, 2. Agree, 3. Neutral, 4. Disagree, 5. Strongly disagree

		1	2	3	4	5
6	The Electronic Fiscal Device assist in easy keeping of records and in tax collection					
7	There are a number of benefits in using electronic fiscal devices like simplifying work and saving time					
8	Tax Registers had increased the speed at which you can process the amount of tax to be paid by the use of Electronic Fiscal Devices					
9	Electronic Fiscal devices had positively impacted both the tax payers and TRA					
10	There is a positive correlation between experience with electronic devices and attitudes towards them					
11	The use of Electronic Fiscal Devices is fair to the tax payers					
12	The use of electronic fiscal devices is more reliable and fast as compared to the manual data processing method					

13. What are the benefits of using Electronic Fiscal Devices?

- ……
- ……
- ……
- ……

- ……

14. What challenges are you facing in the use of Electronic Fiscal Devices?

- **……**
- **……**
- **……**
- **……**
- **……**

15. What measures should be instituted to overcome the challenges on the use of electronic fiscal devices

- ……
- ……
- ……
- ……
- ……

Thank you for your Cooperation

APPENDIX II

INTERVIEW PROTOCOL FOR TRA OFFICERS

- Please tell me your experience in dealing with taxpayers in the use of EFDs from your Institution
- What does the law state about the use of EFDs
- What was the aim of introducing EFDs machines
- What are the benefits obtained in adopting electronic fiscal devices
- What are the challenges you incur during implementing this devices
- What are challenges facing taxpayer in the use of EFDs
- What ways do you use to identify factors that hinder taxpayer in using the EFDs

Thank You for Your Cooperation