

**FACTORS INFLUENCING TAX COMPLIANCE AMONG SMEs
IN MOSHI MUNICIPALITY**

**FACTORS INFLUENCING TAX COMPLIANCE AMONG SMEs
IN MOSHI MUNICIPALITY**

By

JOACHIM S. SOKA

**A Dissertation submitted to the Faculty of Social Science in Partial/Fulfilment of
the Requirement for Award of the Masters of Science in Economic Policy and
Planning of Mzumbe University**

2019

CERTIFICATION

We, the undersigned certify that we have read and hereby recommend for acceptance by Mzumbe University a research report entitled. Factors influencing tax compliance among SMEs in Moshi Municipality in the fulfilment of the requirements for the award of Master Degree of Science Economic Policy and Planning of Mzumbe University

.....

Major Supervisor

.....

Internal Examiner

Accepted for the Board of Faculty of Social Science

.....

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DECLARATION

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JOACHIM S. SOKA

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DEDICATION

I dedicate this work to my lovely daughters and my lovely wife for their love, tolerance, prayers, and financial support.

ABBREVIATION AND ACRONYMS

AFDB	African Development Bank
CAG	Controller and Auditor General
EU	European union
ICT	Information and Communication Technology
IMF	International Monetary Fund
IMF	International monetary fund
LGA	Local Government Authority
OECD	Organisation for Economic Co-operation and Development
SME	Small and Medium Enterprises
TRA	Tanzania Revenue Authority
TSH	Tanzanian Shillings
URT	United Republic of Tanzania
USD	United State Dollar
VAT	Value Added Tax

ABSTRACT

This study was conducted to analyse factors influencing tax compliance among SMEs in Moshi municipality. The specific objectives were to describe socio-economic characteristics of SME owners; examining tax morale and attitude towards the tax system within SME and to analyse factors influencing tax compliance by SME in the study area. A sample of 77 small and medium enterprises was surveyed. Descriptive statistics were used to describe socio-economic characteristics of the SME owners and examining tax morale and attitude towards the tax system by Small and medium enterprises ME owners in the study area. Multiple linear regressions were used to analyse the factors influencing tax compliance by small and medium enterprises owners in the study area. The analysis shows that the study area is dominated with small sized enterprises compared to medium sized industries; with more males compared to females with age range 45 to 60 years old. In addition, the analysis shows that many SMEs in the study area do not have taxpayer education. The analysis also shows that there is high morale to pay tax by SME owners, and the medium enterprise owners showed to have favourable attitude towards tax administration and tax authority while small enterprises owners showed to have an unfavourable attitude. Analysis of factors influencing compliance shows that compliance costs, which involve travelling costs and tax filling cost, reduce tax compliance in the study area. Similarly, the loopholes for tax evasion also reduce tax compliance because SME owners feel easiness of not paying taxes. On the other hand, tax awareness and tax knowledge positively affect tax compliance in the study area. The study requires TRA to increase taxpayer education so as to increase compliance; also, TRA should improve ways of collecting tax so as to reduce compliance cost such as travelling and tax filling which acts as disincentive to tax compliance. Furthermore, TRA could be stricter in tax collection and reduce all loopholes which SME owners might take advantage of and become less compliant. Finally, TRA could conduct seminars on record keeping related to income, expenditure, and tax filling; because such awareness has shown a strong relationship with compliance.

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CHAPTER ONE

INTRODUCTION

1.1 Background Information

Tax, which is used by every government in the world, as a mandatory financial charge is a crucial element in ensuring the provision of public goods and services, distribution of income and wealth among members of the society, economic stability and promotion of social and economic welfare (Pashev, 2005). Various countries in the world have categorized taxes differently based on their different contexts. For instance, most of the developed countries have a broad base (both indirect and direct) taxes whereby tax charges cover the majority of citizens and firms. On the other hand, developing countries are characterised with narrow tax bases (IMF, 2011).

Globally, tax is associated with problems that are mostly caused by the tax administration and management systems, on the one hand, and social, political, and administrative difficulties of taxpayers on the other hand (Rwahigi, 2012). In recent years, several governments have tried to raise revenues by fighting against tax evasion and avoidance and expanding the tax base. Despite these efforts, taxpayers have continued to be non-compliant and tax evasive (Clifford and Amay, 2013). Accordingly, tax evasion and avoidance are destructive to any economy, and they, therefore, deserve a serious consideration both in academic discussions and in policy formulation and implementation (Kundt, 2013).

In the US, tax evasion and avoidance are a national epidemic (Anna, 2010). From 2001 to 2010, about 3.09 trillion US dollars are reported to have been lost due to tax evasion and avoidance hence leading to low government revenue collection (Coolidge, 2012). In the EU, approximately 150 billion Euros per annum were reported to have been lost from each member country (Murphy, 2008).

In Africa, lack of tax compliance is one of the greatest evils confronting many African countries (Fagbemi, 2010). A study by Magner (2000) showed that in Africa, fewer people like to pay taxes than are their counterparts in developed countries.

In Ghana, about 280, both public and private companies caused a loss of about \$ 367million for seven years (2005-2012) due to tax evasion (Anna *et al.* 2010). Furthermore, according to Murphy (2011), in South Africa tax non-compliance was still endemic all over the country. It was further indicated (Fjedstad, 1996) that 12 people were arrested in 2009-2010 and their cases brought to court due to corruption and tax evasion.

According to Rwehigi (2012), Tanzania losses more than USD 151million each year due to tax evasion and other irregularities. TRA (2015) report has shown that tax evasion and avoidance have been increasing over the years. for instance, loses due to tax evasion and avoidance increased from Tshs 680million in the financial year 2009/2010 to Tshs 1.8 trillion in the financial year 2011/2012.

According to Asante and Seidu (2011), Tanzania has remained a great aid dependent and has been slower in investing in its own development because of the lower domestic revenue collection resulted from low tax compliance. IMF Survey (2011) also shows that 70 percent of the revenue is lost due to low tax compliance of small and medium business owners, the informal sector, and large companies. Government has been regulating some or new duties, tariffs and charges to increase government revenue collection, but these have not helped the government much to realise the set revenue collection targets (CAG, 2011). According to Rwehigi (2012), the government has tried to address tax non-compliance loopholes, tax evasion, and avoidance amongst small and medium enterprises with a view of increasing tax compliance, however, the situation of low tax compliance is still persistent.

In the 2014/15 financial year, there were about six initiatives designed to increase compliance. However, in the same financial year, the revenue target was set TZS 11 261.7 billion, but the actual revenue collected was TZS 9918.8 -13824, which was lower by 11.9% (TRA, 2015).

Except for the financial year 2011/12, e tax collection has persistently been below the set target (URT, 2015). Furthermore, in the same financial year 2014/15, the Tanzanian Government through TRA enacted various strategies and initiatives aimed at increasing voluntary tax compliance, reducing tax collection inefficiency, and in turn increasing revenue collection (TRA, 2015). However, TRA (2015) showed that low the level of voluntary tax compliance has remained at 50% in the country.

Despite the existence of laws, rules, and regulations requiring the Tanzanian people to fulfil their all tax obligations, tax avoidance and tax evasion have been a problem According to Nzioki and Rawlings (2014), it has not been easy for the revenue authority to motivate all taxpayers to abide by rules and regulations.

Furthermore, small and medium enterprises in Tanzania face different direct and indirect taxes. Direct taxes include corporate income tax, property tax, and tariffs, whereas indirect tax consists of sales tax and Value Added Tax (Mungaya *et al.*, 2012). Unlike for the salary workers whose taxes are deducted from their salaries, collecting taxes from small and medium enterprises that often need to assess, report, and pay their taxes from their own business has been a challenge (Christensen *et al.*, 2001). Small and medium enterprises have been facing impediments in doing their business operations. Some of these include payment of provisional taxes, stamp tax, sales tax, payroll levies, corporate tax, and local government charges, which cumulatively contribute to non-tax compliance or avoidance to compensate for the costs incurred in sustaining their businesses (Mungaya *et al.* 2012)

1.2 Problem Statement

Small and medium enterprises are the basis for indigenous entrepreneurship and breed all the many other small investments (Ojochogwu and Ojeka, 2012). There is,, therefore, a need for formulating ideal tax policies to ensure voluntary tax compliance, which will lead to economic growth and proper utilization of resources (Kamleitner *et al.*, 2012). However, as noted by scholars (e.g. Calcopietro and Massawe, 1999; Mungaya *et al.* 2012), taxes have been a constraint to small and medium enterprises, creating a disincentive to tax compliance.

According to Martin and Gomes (2014), if the taxing structure is not well formulated, it creates a burden to taxpayers that end up closing their businesses. Most of the small and medium businesses complain about the vagueness of tax laws, high tax rates, and lack of incorporated fiscal strategy, which are contained in collective taxes, local taxes, and fees when determining overall tax burden (Mungaya *et al.*, 2012).

Despite these challenges, it is well recognised that revenue generated from taxing small and medium businesses is a crucial source of revenue to enable the government to provide and redistribute resources for the economic growth of the nation (Ojochogwu and Ojeka, 2012). Therefore, there is a need for making policy makers well informed about the factors that influence tax avoidance and evasion by small and medium businesses in Tanzania.

Many of the studies on tax avoidance and evasion among small and medium businesses in Tanzania have focused on the impact of tax and tax system on the growth of these businesses (see, for example, Mungaya *et al.*, 2012). Other studies have examined the effect of tax avoidance and its link to corruption and governance in local governments in Tanzania (See, for example, Fjeldstad, 1996).

According to URT, (2015), TRA has successfully implemented a computerized tax administration system (e-TAX) that simplifies tax compliance and contributes to enhanced effectiveness and efficiency of tax collection from the small, medium, and large businesses and firms within the country; however, taxpayers are still not complying with prevailing tax payments.

In addition, the existing studies on tax compliance, have not examined the factors influencing the business owner's compliance with tax laws when trading in the country. Likewise, the existence of similar studies in other countries, such as Hove and Hove (2016) in Zimbabwe, Nzioki and Rawlings (2014) in Kenya and Atawodi and Ojeka (2012) in Nigeria, cannot explain well the tax system of Tanzania due to differences in the system of governance, culture, and tax laws in these countries.

Furthermore, studies conducted in Tanzania such as Tanzi (2011) looked at tax laws and policies of Tanzania and their effects on voluntary taxpayer compliance; Fjeldstad (2001) analysed corruption, uncollected tax revenue and its effects on tax compliance; Ali and Fieldstad (2014) analysed the growth of information and communication technology (ICT) and its influence on tax compliance.

None of these studies analysed the behavioural intentions of taxpayers' compliance with tax payments in which the behavioural intentions are influenced by the morale and attitude of taxpayers in the given prevailing environment. Moreover, behavioural intentions depend on issues influencing them directly, such as taxpayer education, fines, and penalties, loopholes for evasion, and compliance cost. Therefore, the study current study was conducted to analyse the factors influencing tax compliance in Moshi municipality to fill in the knowledge gap referred to in this section.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of this study was to analyse the factors influencing tax compliance in Moshi Municipality.

1.3.2 Specific objectives of the study

- i. To examine socio-economic characteristics of small and medium business owners in the study area;
- ii. To examine tax morale and attitude towards the tax system by the small and medium enterprises in the study area.
- iii. To determine the factors that lead to non-tax compliance by small and medium business owners in the study area

CHAPTER TWO

LITERATURE REVIEW

This chapter presents the theoretical review, empirical review, and conceptual framework on the factors influencing tax compliance. This review helped the researcher to see how the research questions had been addressed by other researchers and what they have proposed.

2.1 Theoretical Literature Review

2.1.1 Definition of major terms

2.1.1.1 Tax

Tax is an involuntary charge imposed on a corporation or an individual and which is compulsory for all levels of government in order to fund government activities (Alm and Melvik, 2010). Tax is paid with no corresponding income in terms of goods and services from the government to respective taxpayers. OECD (2013) defines taxes as obligatory transfers of resources from the rest of the whole economy to the government.

2.1.1.2 Tax base

The tax base is an amount of income, which is used to compute a tax liability, and the tax liability formula is tax base multiplied by the tax rate (Robe, 2013). The rate of tax imposed varies in accordance with the type of tax and the tax base total. Items such as a tax on an income, a tax a prize and a tax on an estate are each designed using various tax rate schedules (Robe, 2013).

2.1.1.3 Local taxes

A local tax is a tax imposed by a local government authority (LGA) such as a municipality, a town, or a city. This tax is generally collected in the form of property tax and is normally the revenue, which is used to fund local civic services such as sewer maintenance, garbage collection, and other services. Local tax establishes a connection between the authority in which a tax is levied and the area in which tax

benefits from the local services funds are enjoyed. Furthermore, the tax base should be identifiable with the local authority area in which taxes should be paid by the residents (Robert, 1994). That is, local taxpayers should be aware of the tax amounts due to them. This allows local people to assess the efficiency of local government services in terms of how much value they get for the money they pay (Rober, 1994).

2.1.1.4 Tax evasion

Tax evasion is an attempt shunning away from tax responsibility (wholly or partially) by evading paying taxes. It is also an illegal act since it involves making false statements such as underreporting income and profits (Cobham and Alex 2005).

Tax evasion is one of the tax noncompliance forms that refer to the failure to pay taxes (Sandmo, 1972). According to Jackson (1986), tax evasion is a purposeful and wilful rehearsal of not exposing full chargeable returns so as to pay low amounts of taxes. It is the breaking of the tax law, whereby a taxpayer refuses to pay tax or reduces tax liability by making deceitful or incorrect claims on the earnings tax form.

Tax evasion is a worldwide occurrence that has persisted for a long time and has continued to pose tax enforcement challenges to tax systems and federal governments. Dollar, (2001) define tax evasion as a decrease of tax accountability by removing certain items from the taxpayer's income. According to Dovan (2009), tax evasion is an unlawful practise whereby there is a global avoidance to pay the, for instance, in EU people caught evading paying true tax liability are generally subjected to charges on illegal practices and subjected to considerable penalties. Tax evasion includes non-declaration of financial assets in offshore financial accounts, trade mispricing, deception VAT, bribing tax officials, and misuse of tax incentives by incorrectly blaming eligibility (Frozen, 2012).

2.1.1. 5 Tax avoidance

An individual or business to decrease the tax burden by taking advantage of the loopholes within the laws (Fuest and Riedel, 2009) can also define tax avoidance as the legal use of tax laws. In other words, tax evasion is an illicit non-payment of

taxes by individuals, companies, and trusts which normally involves taxpayers deliberate misrepresenting of the actual state of affairs to the tax system to minimize their tax burden (Hove and Hove, 2016).

Tax avoidance is not carrying any punishment in the law. Where the tax authorities detect such a practice, the only remedy is to modify the law to expunge the loopholes and the weak point in the laws that permit the possibility of tax avoidance. Tax avoidance is further defined by Swamy (2001) as the organisation of taxpayers' relationships using tax protection in the tax laws, and keep away from tax trap in the tax laws, so as to pay lower tax than what is supposed to be paid. Therefore, the taxpayer pays less by taking advantage of the benefit of the gaps in the tax laws. In addition, according to Swamy (2001), if tax avoidance reaches a certain extent, it becomes tax evasion (Bolnik, 2004). In the view of Riedel and Fuest (2009), tax avoidance is legally taking advantage of tax-loopholes to condense tax. As Alm (2012) states, tax avoidance can carry the form of earns splitting, tax delay, and tax arbitrage across earnings that involve different tax treatment.

2.1.1.6 Tax compliance

Tax compliance refers to gratifying all tax responsibility as directed by the law freely and completely (Mnenwa and Maliti, 2008). Tax compliance can also be defined as an act of to file returns, declare all taxable earn correctly and payout all payable taxes in a stipulated period without having to remain for follow up actions from the tax authority (Aladebe, 2010). Tax noncompliance on the hand is an array of activities that are critical to the state's tax authority that could comprise tax avoidance and tax evasion IMF (2011). Tax avoidance and tax evasion, according to Martin and Gomes. (2014) are considered as forms of tax noncompliance as they portray a variety of activities that amount to deteriorate decline of tax collection by state's tax authority

Furthermore, tax compliance can be considered as a procedure of following the country's tax scheme McGraw (1991). From an individual point of view, tax

compliance is considered as a decision of maximizing income (McGraw and Scholz, 1991).

2.1.1.7 Voluntary compliance

According to Saad (2012), voluntary compliance is the judicious filing and reporting of essential tax information, the truthful self-evaluation of taxes exceptional and judicious compensation of those taxes with no indictment achievement. Tax management is meant to promote voluntary tax obedience (Scheiner, 2001) and therefore decrease tax holes, thus is, the distinction between taxes paid and the exceptions for the entire taxes and taxpayers. Compliance could be encouraged by attending to central government expenditures; individuals' payment of taxes because they are charged for the goods and services supplied by the government in the sense of infrastructures such as the construction of roads, hospitals, and other development projects (Crawford and Freedman, 2010).

The existence of benefits that depend on the quantitative and qualitative criteria may consequently boost the probability of taxpayers complying voluntarily, without intimidation or additional enforcement measures. According to Fjestad (1996), voluntary compliance is determined by indicators such as judicious filing of any needed earning, transparent and faithful reporting of earnings and tax charges, and judicious payment of tax obligation.

2.1.2 Effects of tax evasion and avoidance

According to Swamy, (2001), tax evasion and avoidance cause damage to the public resulting to poor tax compliance which could potentially paralyze various sectors of the economy such as the health, education, agriculture, and other government responsibilities. According to Muhammed (2012), the basic principle of taxation is to collect revenue efficiently and effectively, using strategies, which are suited to every country's environment and managerial capability of the authorities dealing tax evasion and avoidance.

Furthermore, Robert (1994) posit that the poor payment by tax officials, legal loopholes, aspiration of being rich, bureaucratic and lack of professional ethics are the main drivers of poor tax compliance among taxpayers.

Richardson (2006) observed that people are increasingly not paying taxes because they believe what they get is less than the taxes to be paid. Engida and Bauja *I.* (2014) noted that people are likely to evade pay taxes when taxes charged are not commensurate to their earning, tax rates are too high, and when the government is not using taxpayer's money prudently, and when the burden of taxes falls to taxpayers' low business returns and salary returns. In addition, as for the tax rate, YitZhaki and Etzioni (1986) argue that evasion is fundamentally a self-determining of the tax rate. While a tax evader is considered a criminal, a tax avoider is considered as a just and elegant taxpayer who makes use of a loophole in the tax laws to decrease tax burden (Atawodi and Ojeka, 2012).

Tax evasion and avoidance cause severe repercussion on the economy as they prevent governments from effectively engaging in productive projects and resulting in dilapidating the tax base, leading to a widening national budget deficit. Persistence tax evasion practices may result in serious government revenue shortfall leading to non-realization of the government economic and social development goals. Moreover, when tax evasion is at a higher degree, the tax rate automatically becomes higher; this is required to compensate for the revenue loss (Engida et al., 2014). In addition, raising tax rates, make few taxpayers pay more, leading a close of businesses (Richard, 2010). High tax rates also raise the tax load leading to the reduction of disposable income of the taxpayer (Saez et al., 2012).

Nevertheless, the intensity of the tax rates could not be the solitary factors influencing people to pay taxes; the arrangement of the whole tax structure has an effect as well (Magner, 2000). For instance, the existence of a higher tax rate, particularly on customs duty and pay as you earn can make people use legal or illegal ways of evading tax (Coolidge, 2012).

Furthermore, tax evasion is a common phenomenon in both developing and developed countries (Watson, 2005). However, in developing countries, tax evasion is more extensive because these countries' economies depend on few large ventures, few wealthy people and low tax morale of taxpayers as well as the use of fewer tax revenues on development matters. This is contrary to the developed countries where the payment of taxes is due to intrinsic motivation, i.e. people are ready to pay taxes willingly (Schneider, 2006). According to James and Alley (2004), tax evasion and tax avoidance in Tanzania are the two twin evils that of poor tax compliance among taxpayers. Similarly, Antwi (2015) argues, tax evasion practices in the public administration, such as District Councils, municipal, and cities contribute to poor tax compliance.

2.1.3 Tax compliance Overview

Contemporary tax authorities and their organisation are constructed on the standard of voluntary compliance, meaning that taxpayers are expected to comply with their fundamental tax commitment with limited enforcement measures from revenue officers (IMF, 2005). In practice, voluntary compliance is achieved through a system of self-evaluation, whereby taxpayers with logical entrance advice from the tax management, compute their own tax burden, complete their tax income, and present earnings and payments to the tax management (IMF, 2005). According to Bolnick (2004), voluntary tax compliance is extremely imperative in the tax management system in Tanzania. The scholar revealed that tax compliance is prejudiced by a consciousness of tax laws, business knowledge, the integrity of workers, and training requirements.

Moreover, due to the significance of voluntary tax compliance, awareness of tax laws among all taxpayers are required recovering government revenues. Anna (2010) observes that tax awareness is very important in promoting voluntary tax compliance. Therefore, in order to improve domestic tax collections, tax authorities are required to provide tax education to taxpayers and incorporate tax education in Tanzanian school curriculum to facilitate voluntary tax compliance and building tax

confidence. Tax awareness can help taxpayers recognise the significance of tax and therefore keep an appropriate accounting record for tax payments.

McGree (2006) identified three kinds of tax compliance which are: reporting compliance, payment compliance, and filing compliance. These three kinds of tax compliance show how tax compliance is complicated but very potential. On the other hand, OECD (2001) classifies compliance into management compliance and technical compliance. Freinsten (1991) defined management compliance as complying with procedures that need the use of tax laws in paying taxes. He further defined technical compliance as reporting compliance, which is more practical in a prevailing environment.

Moreover, thorough check-up or audits, taxpayers will be able to obtain information on tax laws, rehearsal and rectify mistakes as well as reducing confusion in tax computations. Optimal tax audits and check-up need highly capable staff in order to rectify mistakes but also compute proper tax for taxpayers (Chijoriga, 2012). Moreover, experience around the world has shown that the most important factor for effective tax management is clear acknowledged at the highest levels of political authorities on the significance of tax and readiness of administrative practices on tax collections (Chijoriga, 2012).

The presence of taxpayers with various payment decisions such as the Banks, supermarkets, internet, ward offices, and easy filing assistance on-line or at shopping malls could reduce the actual compliance cost together with unexpected non-compliance. The African revenue authorities have already been doing well on this score by looking upon and improving service at all levels through different training and provision of tax knowledge on voluntary tax compliance to their businesspersons (Chijoriga, 2012).

2.1.3.1 The individuality of SMEs' tax compliance behaviours

A number of studies have been conducted on tax compliance behaviours of universal taxpayers. The collection of taxes in some cases is done under business environment

in which there are few entities (auction marts) which collect taxes on behalf of the government. Although these entities they do collect taxes on the business environment, still they are vital revenue collectors on behalf of the government (Marziana, 2010). According to James and Alley (2004), business tax compliance is significant to the fiscal stability of the governments because the main sources of the government's tax collections, involving taxes on earnings, taxes on expenditure, returns tax preservation, and employment taxes are composed and paid by businesses.

Furthermore, James and Alley (2004) show that business tax evasion in broad-spectrum and value-added tax (VAT) obedience, in particular, has received little attention.

2.1.3.2 Culture and tax compliance of small and medium enterprises

Small and medium enterprises have been accepted as heterogeneous in terms of business size, business period, and the sector in which they drive (Pope, 2005). Nevertheless, there is increasing recognition of cultural aspects of tax administration. According to Alabede (2011), the cultural surroundings of small business individuals are so different, and that the way taxes are collected varies according to taxpayers' cultural environment. Furthermore, there are differences in tax attitudes across countries, thus each country trying to find better means of collecting taxes and reducing tax evasion with the aim of improving tax compliance. That is to say some people have positive attitudes on the means imposed in collecting taxes while others have negative attitudes on the means imposed by the government in collecting taxes.

The devious attitude was marked out as deeply entrenched in the social networks of Marxist in a given country, which in turn prejudiced their tax compliance behaviours. However, SMEs workers who consider themselves as citizens and patriotic are extra enthusiastic in donating just before taxes are levied on them as opposed to those do share similar enthusiastic attitudes.

Alabede (2011) also indicates that cultural background as is an important forecaster of these kinds of disobedience because tax Moreover, to avoid finger pointing, an addition useful input is to learn compliance behaviours of Small and medium enterprises. This is because the cultural values are fixed in an individual's mindset and which is taken for granted by other people. According to Dornstein (1976) cultural surroundings of small and medium enterprises depending on tax attitudes and perception of paying tax toward the tax system. Nevertheless, if taxpayer perception towards tax system is negative bad result in nontax compliance tends to be low.. As Ojochogwu (2012) observes, taxpayers who have been in the country for a long time are more likely to be compliant.

2.1.4 Tax Policy and extent of Voluntary Compliance between SMEs

Studies suggest that generally, small taxpayers under the standard scheme of taxation are differentiated based on the compliance needs, the charge of compliance and tax rate. Minimizing the compliance charge and tax rate boost income of small enterprises and raises government's tax collections, provided that the easy requirements for small and medium enterprises minimize the extent of the informal economy and addresses noncompliance of registered taxpayers (Schoonjans, 2011).

Typically, SMEs have to work in harsh authoritarian surroundings with the enforcement excess of the regulatory organisation, several taxes, burdensome importation processes, and high harbour costs that frequently cause an excessive burden on their incomes. Unsuccessfully performing tax system leads to low efficiency, high collection costs, low level received taxes and poor distribution of resources (Farzbod, 2000). Currently, pragmatic verification obviously indicates that tax returns of medium and small sized businesses are excessively exaggerated by these compliance costs (Schoonjans, 2011).

2.1.5 Taxation of Small and Medium Businesses

Small and medium enterprises are an essential part of the taxpayer population in any country around the world. Therefore, in the case of non-tax compliance among Small

and medium enterprises, particularly the self-employed may lead to a reduction of tax collections potential and increases tax administration costs (OECD, 2014). To encourage compliance, several countries address this problem by adopting simple methods of the tax system for SMEs and implementing committed compliance scheme (Crawford and Freedman, 2010).

In the EU, the criterion of categorizing a Small and medium enterprise for taxation purposes relies on the level of business returns. The levels of returns are different across economies (OECD, 2004).

2.1.6 Small and Medium Enterprises

Research has established that small and medium scale enterprises play a role in speeding up development in rural areas and reduce urban immigration and the problems of overcrowding in big cities. This is because they have little competition in their local markets because goods and services are cheaper in rural areas than in urban areas. As a result, many investors are attracted to invest in a rural area in order to discourage rural-urban migration and thus to lead to even development between the two areas (Smith, 2010).

Additionally, the production processes of the small and medium enterprise are typically labour intensive and they, therefore, provide an advantage to big manufacturing firms whose operations extremely depend on raw materials sourced locally (Kasipillai and Ariff, 2002). Furthermore, SMEs need lower start-up capital than do big businesses (Smith, 2010). Moreover, the relationship between employee and employer in Small and medium scale enterprise is mostly informal (Slemrod, 2001). In any country, small and medium enterprises are a key sector based on its heterogeneity in size from small, big, and to highly paid professionals and extensive manufacturing enterprises (Swamy, 2001).

The contribution of Small and medium scale enterprises to the economy remain profitable in both developing and developed countries, and this is because SMEs is an engine to the larger firms to grow due to uses of raw materials from those

enterprises. (Ericksen and Fallan, 1996). Furthermore, small and medium scale enterprises are rapid and flexible and are close to their consumers (Frozen, 2012).

Generally, small and medium scale enterprises are considered as an engine of innovation because of entrepreneurial activities such as risk-bearing, novelty, job creation, finding new opportunities and the commercialization of their operations have a link to the success of many countries around the world in general (Dovan, 2009). It is therefore argued that any country that aspires to remain innovative must facilitate Small and medium scale enterprises to grow because they enhance rivalry and free enterprise and therefore promote economic and aggregate productivity growth (Namsonge, 2014).

Moreover, small and medium scale enterprises are more productive than large firms. However, financial markets and different institutional failures hamper the development of small and medium scale enterprises (Namsonge, 2014). Therefore, the presence of financial market and institutional improvements, and government financial support can boost economic growth and hence general development of SMEs and of the whole nation in general (Iyer, 2010). According to OECD (2004), SMEs are in three categories; micro-enterprises are those enterprises with 10 or more employees and the turnover of more than 2,000,000 Euros. Small enterprises are enterprises with 50 or more employees and have a turnover of more than 10,000,000 Euros. The Medium enterprises are enterprises with 250 or more employees and have a turnover of more than 50,000,000 Euros (see Table 2.1) enterprises;

Table 2.1 Micro, Small and Medium enterprises

Category	Employees	Turnover
Micro	10 or more	More euro 2,000,000
Small	50 or more	More euro 10,000,000
Medium	250 or more	More euro 50,000,000

Source: OECD (2004)

According to the Tanzania SMEs Development Policy of 2003, SMEs include micro-enterprises, as the latter category covers a large proportion of enterprises in Tanzania. Furthermore, even if the term SMEs is used, this implicitly covers also the micro segment (hence, the Policy’s coverage is the de facto MSMEs). Moreover, countries in the East African Community (i.e. Kenya, Tanzania, Uganda, Burundi, and Rwanda) all use the similar fundamentals of the capital venture, earnings; and a number of employees. Small and medium enterprises are defined by multiple standards, the magnitude of capital employed in machinery, workforce directly engaged, and sales returns (URT, 2015).

According to SME Policy (2002), small business is an enterprise with a capital investment ranging from TZS 5 to 200 million and could employ between 5 and 29 workers. On the other hand, a medium business is an enterprise with a capital investment ranging from TZS 200 to 800 million with between 50 and 99 workers (URT, 2015).

Table 2.2: Definition of SMEs by the United Republic of Tanzania

Category	Employees	Capital investment
Microenterprise	1-4	Up to 5million
Small business	5-29	5million - 200million
Medium business	50-99	200million – 800million

Source: URT (2015)

2.2 Theories

Taxation theories point out that the collection of more tax revenue needs revenue authorities to repair lower marginal tax rates, high penalty rate and strengthen tax check-up or assessment (Alm, 2001). From theories and rehearsal, increasing tax compliance needs more check-ups (Fjelstard, 2004). Optimal tax audits and check-up need highly capable staff (Alm, 2001).

According to Alm (2001), taxpayer compliance has principally been seen from three perspectives; the general economic deterrence models, deterrence theory, and fiscal

psychology. Deterrence theory is focused on the special effects of sanctioned intimidation on illegal and unwanted performance. Nevertheless this has problems of categorizing Sanction, and on how effectively it affects and spells out the tool by which the effect takes place. The economic deterrence model addresses the problem of deterrence theory for example by using a practical approach to measure sanction intimidation (Trivedi, 2005).

Tax Compliance Theories are a variety of judgments concerning the good ways of promoting tax obedience. Many small and medium scale businesses are unlikely to pay taxes if there is no incentive of doing so. Few businesses think that the best method of promoting obedience is to increase motivation. Others think that the best way of promoting obedience is to increase the penalty (Arachi and Santaro, 2007). Tax compliance theories can be narrated in viewed from different perspectives, namely psychology based theories, economic based theory, and plan behaviour theory.

2.2.1 Planned behaviour theory

The factors that influence tax compliance are analysed using a theory of planned behaviour. According to Ajzen (1991), the planned action is dependent on behavioural intention, which in turn, depends on attitude towards behaviour, subjective norms, and perceived behaviour control. The perceived behavioural control refers to an individual's perception of tax compliance. If the individual perceives that tax procedures are so difficult to comply with, they tend to evade paying taxes as opposed to fair tax procedures systems (Myles et al., 2010).

In this study, a planned action was looked at on whether to avoid or evade taxes (Feinsten, 1991). Moreover, the attitude towards paying or not paying tax depends on culture, confidence and trust in the tax system (Alm, 2010). In addition, if society morale is low and attitude towards tax system is poor, then the individual will be more likely to avoid paying taxes (McGraw, 1991). The planned behaviour theory emphasizes that the paying of tax by individual or organisation is intrinsic.

If the culture of paying tax is from within an individual, then the paying of tax becomes very natural and easy.

On the other hand, if the paying of tax does not come from inside an individual or organisation, the paying of tax becomes very difficult. Actually, the most important aspect under this theory is the emphasis on the importance and need of building the culture of paying tax in young children, right from schools (Mukasa, 2011). When they grow up, they will have developed the culture of paying taxes in their hearts. In most developed countries, unlike in developing countries, individuals have the culture of paying taxes voluntary without any coercion (Mukasa, 2011). This could be because of the education on the importance of paying tax provided to citizens early in life (Fallan and Eriksen, 1995).

The principle of planned behaviour concerning paying or not paying taxes is premised on the attitude and perception of individuals towards tax compliance. Holding other factors constant, if an individual feels that tax compliance cost is high, the attitude would be inclined toward avoiding that burden. Conversely, when an individual feels that the cost of compliance is low there would be no incentive for avoidance. In addition, if knowledge and education an individual are high, his/her behaviour would be positively shaped and make him/her more responsible for civic duties, more law-abiding, and more compliant to tax laws.

On the other hand, if tax fines and penalties are low, the individual tends to avoid tax because the marginal cost of complying will be greater than the marginal benefit, holding other factors constant. Similarly, if the perceived opportunity for tax evasion were high, the individual would be motivated to be non-compliant since it encourages him/her to avoid tax. Together with individual characteristics, the factors that are associated with the level of tax morale and attitude towards the tax system have some influence on tax compliance.

2.2.2 Economic theory

Economic based theory focuses more on motivation. The theory proposes that taxpayers are influenced by economic reasons such as earnings maximization and the likelihood of detection (Trivedi, 2005). Small and medium scale enterprises are influenced by the low tax rate in order to improve tax compliance. Furthermore, an increase in penalties and audits for non-tax compliance improves compliance (Trivedi, 2005).

In economic theory, the willingness to pay tax depends on the economic capability of an individual or organisation. An organisation or an individual who earns more in business is more likely to pay taxes than is the case with one who earns less. The willingness to pay tax is more economic oriented rather than is intrinsic motivation, as shown earlier. As a study by Hove and Hove (2016) indicates, the paying of tax in the organisations that are earning much becomes easier and, in most cases, the paying of tax is done immediately. In this regard, the most important aspect is to create a good business environment that would enable taxpayers to earn more incomes and become endowed with financial resources that would help them pay taxes as required.

2.2.3 Psychology theory

Psychology theory refers to a state of affairs when taxpayers are influenced by emotional factors to comply with their tax commitments (Trivedi, 2005). They are entrenched on taxpayers' principles and morals. Therefore, the psychological theory proposes that taxpayer may obey to pay tax voluntarily; however; the possibility of detection of those who are not compliant is minimal. In contrast with economic theories that emphasise on increasing of inspection and penalties as a way of boosting obedience, psychology theories emphasise on moderating a person's attitudes towards tax structure.

According, taxpayers may be prevented from tax evasion through economic theories for fear of punishment and the feeling that they are under a moral obligation to pay taxes; hence, tax compliance (Cobham, 2005). While the Psychology theory in one way or another can resemble the planned behaviour theory; the only difference could be that the planned behaviour theory is a long-term process. It may start from childhood while the psychology theory can begin at any stage (Trivedi, 2005)

It is assumed that the taxpayer under the psychology theory is willing to pay the tax due to psychological disturbances imposed on him. For instance, if an individual has been penalised for not paying tax in time, then next time he/she would know that if he does not pay the tax; the same problem would happen to him/her (Cobham, 2005).

Alabede et al. (2011) point out that individual taxpayers pay taxes and therefore comply with tax payment when a certain force is used (penalty). Penalty on taxes plays an important role in promoting people to pay taxes voluntarily knowing that if they are late in paying taxes then penalties will be imposed on them.

2.2.4 Quid pro quo (tax morale)

Tax morale is the main factors of determining the level of compliance for tax collections in most less developed countries (Gomes and Martins, 2014). Tax morale is an intrinsic behaviour of paying taxes as a civic responsibility (Fuest, 2009). Additionally, tax morale is extraordinarily significant in the whole system of tax management and plays important roles in minimizing tax evasion through motivating soft tax compliance. A taxpayer who is intrinsically motivated to pay taxes will pay taxes willingly (Gomes and Martines, 2014) Furthermore, tax morale is defined as a conviction in promoting the community by paying taxes (Frozen, 2012). It is defined as the presence of an intrinsic motivation to pay taxes. The individual taxpayer may prefer to pay or evade taxes in order to maximize his own utility (Torgler and Schneider 20). The main emphasis according to Torger and Schneider (2009) is that the desire of the taxpayer to pay tax or to avoid paying taxes is coming from the internal thinking and perception he/she posses regarding not paying tax.

The positive thinking of an individual on the importance of paying tax results to timely and continuous paying of the tax. On the other hand, the negative thinking on taxes results to evasion from paying taxes. Education on the importance of taxes on the development of the nation plays an important role in motivating taxpayers to pay taxes willingly (Crawford and Freeman, 2010). In reality, taxpayers' readiness to pay taxes varies widely in both developed and developing countries across the world (Fjelstad et al., 2012).

It is argued that citizens anticipate several varieties of services or benefits in return after paying taxes. However, governments fail to provide social services such as hospitals, schools and others due to corruption, poor management of funds, and egotism. If this happens, people are not ready to pay taxes and hence lead to low tax compliance to the government (Pashev, 2005). When taxpayers pay taxes as required, and the government does not use the taxes paid properly, it is obvious that the taxpayers would not see the benefits of paying taxes. As a result, tax evasion would be severe in such a country (Pashev, 2005).

In addition, the construction of better roads, hospitals, and improvement of other infrastructure motivates taxpayers to pay taxes willingly and sustainably (Coolidge, 2012). Proper supervision of the taxes paid by taxpayers would result in the proper use of taxes. People expect good service once they pay their tax, but if the government spends taxpayers' money in ways, which contrary to what was required by the citizens, the citizens lose their morale of paying tax and hence fall into tax evasion with a low collection of revenues (Marziana, 2010).

Nevertheless, it is normally argued that taxes should be provided to the authority if and only if the authority provides the amenities/services corresponding to the taxes paid (OECD, 2013). Poor transparency and accountability in the provision of social service lead to public mistrust and hence discourage the taxpayer. This situation enhances the readiness to evade taxes (Kirchler et al., 2007).

Moreover, according to Schneider and Torgler (2007), the conception of tax morale can typically be understood as the moral principles of SMEs taxpayers in terms of paying their taxes. It is also closely associated with taxpayers' moral related to their individual's responsibilities. According to Torgler and Schneider (2007), people know that tax is an important tool for building the country; nobody is motivated to pay taxes. The low awareness of SMEs taxpayers should be regarded as the largest factor causing low tax compliance.

SMEs taxpayers need to be educated on the importance of paying taxes (Jackson and Miliron, 1986). Most of the SMEs taxpayers are not aware of the importance of paying taxes. If these SMEs are educated on the importance of paying taxes in building the national economy, it is obvious that tax evasion cases would be reduced in a particular country (Ojochogwu, 2012). Additionally, willingness of SMEs taxpayers to fulfil their responsibility does not only come from good tax services by government, it also comes from their self-awareness that by paying taxes they may help the country financing development programs such as construction of the roads, construction of Hospitals and construction of industries and other projects (Kundt et al, 2013).

In so doing, looking at tax compliance inconvenience, it is not solitary by inspecting tax arrangement or tax laws (outside factors) that have constantly been focused by most of the researchers, but also by identifying tax ethics and tax morality of Small and medium scale taxpayers (inside factors). Furthermore, the analysis of SMEs taxpayers' morals towards their compliance could support the policy making in order to improve tax revenue in the countries (Alabede, 2011). Another important point, according to Alabede (2011) is that the improvement of tax revenues in countries will be effective if SMEs taxpayers are being implanted with the spirit of paying taxes in their respective governments.

The number of SMEs in most countries is higher than other enterprises could; and for that matter, the amount that could be obtained from SMEs as a result of paying taxes could be much higher even compared to other big enterprises (Engida, 2014).

According to Engida (2014), a choice between evasion and tax compliance is not merely completed in the views of sanctions, but also on the views of a set of attitudes and standards. Furthermore, behaviour can be predicted by attitudes and subjective norms. Therefore, if the tax attitude becomes worse, it would be easy to predict higher tax evasion and hence, the moral costs of behaving illegally (Saez, 2012).

2.2.5 Tax attitude

Attitude signifies positive or negative appraisal that an entity embraces of the subject (Pope, 2005). Therefore, a taxpayer with a positive attitude to the direction of tax evasion tends to be poor compliant, while taxpayers with negative attitude in the direction of tax evasion tend to be extra compliant. The attitude of taxpayers plays an important role in tax compliance. Positive attitude towards paying of taxes puts an organisation or individuals on better position of paying taxes willingly (Pope, 2005). On the other hand, the negative attitude of taxpayers results in few opportunities of the willingness of taxpayers to pay taxes.

However, taxpayers with a positive approach to the tax system or innocent to the tax authorities will, therefore, be extra compliant. According to Kirchler et al. (2008), tax attitude generally depends on the perceived utilization of the money collected and consequently are linked to tax knowledge. As observed previously, researches on the influence of the non-economic aspects on tax obedience are limited; this is why it is difficult to get data that can be used for comparison purposes amongst countries.

The disbursement of tax is the mandatory duty of all citizens (Frozen, 2012). According to Fallan and Eriksen (1996), the taxpayer's attitude towards tax scheme has an influence on reinforced desire toward tax evasion and compliance.

According to Christensen (2001), taxpayers have a less favourable attitude towards tax scheme. As a result, the level of compliance is low. The dimension of attitude towards tax evasion comprises the attitude to one own tax evasion which is referred to tax morale, the impartiality of tax system, attitude to another people's tax evasion

and attitude to the common offence are contributing to low tax compliance (Alabede et al., 2011).

2.2.6 Tax penalties and fines

The tax penalty is a disciplinary appraisal that the tax law compels against an act that is prohibited, or for the failure of carrying out a required act such appropriate filing of return or filing of incorrect or underestimated income (Mukasa, 2011). Moreover, if SMEs taxpayer is needed to file an income and not succeed to do so in a particular time, he/she could be penalized (Saad, 2012).

The arrangement of a penalty system may possibly vary from one country to another (Chijoriga, 2012). Therefore, each country has its own structure of penalty rates basing on the individual tax evasion. Additionally, the penalty rates for each tax are categorized with different types of evasion such as timely filing, non-filing underreporting, bookkeeping of invoices and receipts (Fjestad, 1996). Therefore, the penalty rates applied to different types of taxpayers depend on evaded tax behaviours.

Moreover, if the few taxpayers committed the intended evasions, the penalty rate becomes higher than that of unintended evasions (Dollar, 2001). Furthermore, if the country has similar tax systems that authorities take legal action against an intentional and hateful tax evader and make him/her accountable after-tax audit. Therefore, the system may play a vital role in raising the level of penalty rates for tax evasion behaviour (Dovan, 2009).

According to Kundt (2013), the relationship between fines and tax compliance are inconsistent. Some findings show that fines are partially higher related to tax compliance than audit likelihood is (Atawadi and Ojeka, 2012). Therefore, by keeping steady the estimated value of tax while changing audit probabilities and fines for non-compliance showed that compliance rose significantly with more fines compared with higher audit likelihood (Murphy, 2008).

Furthermore, the fine that is too low can be perceived as a needle to the authorities and that authorities seem weak and powerless in managing crimes and thus discouraging truthful taxpayers (McGraw, 1991). Moreover, when a fine is too high, the tax system would be apparently unfair and unjust, and taxpayers would use any opportunity to avoid paying their taxes (Doran, 2009). Generally, in most countries, fines are comparative to the evaded tax (Doran, 2009).

Therefore, the higher the penalty, the higher the discouragement that offers the potential of tax evasion. On the other hand, fines should be sufficiently high to decrease the predictable value of tax evasion and to assure its prevention effect on SMEs taxpayers (Doran, 2009). Furthermore, a theoretical economic model commenced by Sandmo and Allingham (1972) has evidently denoted that penalties and audit probability have an effect on tax obedience. When there are higher penalties and the impending audit likelihood the bigger the hindrance for prospective tax evasion, therefore, if the taxpayers are conscious of the offences they are committing whilst evading tax and the effects of being noncompliant taxpayers, maybe a decrease their propensity to avoid tax.

Although tax fines and penalties also enable the paying of taxes, it is still not a good way of making individuals pay taxes (Yitzhaki, 2002). This is because those who are fined or given penalties will find a way of escaping those fines and penalties. This may happen through corruption; the businesspersons may bribe those who are collecting taxes and still the government may not collect sufficient amount of tax for the development of different infrastructures (Engida and Baisa, 2014). The best means of motivating individuals into paying taxes is the provision of education on the importance of paying taxes and its advantages to the national economy as well (Engida and Baisa, 2014).

2.2.7 Tax education and knowledge

Tax knowledge is the level of consciousness or kindliness of the taxpayers to tax legislation (James and Allen, 2004). Tax knowledge is defined as the processes by which taxpayers become conscious of tax laws and other types of tax related

information (Calcopietro, 1999). Furthermore, the level of formal education received by SMEs taxpayers is imperative to factors that contribute to the understanding of tax requirements, particularly concerning with registration and filing requirements (Ali and Fjeldistad, 2014).

Majority of the small and medium business have a low education background, and for that reason, they have no enough skills and capacity of accessing online tax register and earnings (Frozen, 2009). Additionally, for those with contemporary education, they still have no computer skills that may possibly facilitate them in utilizing the online services for tax register and proceeds (Saad, 2009). Moreover, most of the small and medium enterprises have no conscious of business start-up regulation and taxation procedures due to inadequate effective information on distribution tactic on government policies. Therefore, due to lack of access to precise information the small and medium business become non-compliant (Kipilyango, 2012).

According to Martin and Gomes (2014), tax compliance is positively associated with education. Moreover, good tax compliance may need specific tax knowledge that an overall education level cannot give out (Kircher, 2007). For instance, income tax compliance might depend on a broader understanding of the present tax laws and the taxability of different types of SMEs income. Consequently, tax knowledge for SMEs is necessary as an influencing factor on tax compliance (Smith et al. 2010).

According to Fallan and Eriksen (1996), with a logical understanding of the tax laws, SMEs are willing to respect the tax scheme; as a result, they are more willing to pay the tax than escaping it.

Moreover, individuals become educated in the aspect of tax planning, tax rule and others. According to Kasipillai et al. (2003), tax knowledge enhances an individual's consciousness and morals to minimizing their tendencies of tax noncompliance. In order to raise the level of tax compliance, tax knowledge for SMEs plays a very important role (Richardson, 2006; Kirchler et al., 2008). Therefore, people should be provided with tax education so that each one has sufficient knowledge of tax system.

According to Richardson (2006), tax education is the only effective and efficient tool promoting taxpayer's compliance. Additionally, if SMEs taxpayers understand the fundamental conception of taxation well, they become willing to comply (Marziana et al., 2010).

Furthermore, previous studies have shown that tax knowledge has a very close association with taxpayers' capacity for grasping the regulation and laws of taxation and their capacity to obey (Pope, 2005). Tax education to Small and medium scales enterprises becomes essential while there is an intention of rising tax collections in a particular country (Saad, 2012). In order to raise the voluntary tax compliance amongst entrepreneurs in the Small and medium scales sector, and at the same time maintaining the economy, principles of taxation and tax knowledge are constantly being provided to these entrepreneurs (Pashev, 2005).

According to Richardson (2006), tax education is essential in increasing public awareness particularly on taxation laws, the function of tax in the national development, particularly the description of how and where the money collected is spent by the federal government. Therefore, knowledge from this study justified the decision of using tax education as a mechanism of enhancing voluntary tax compliance among SMEs.

Furthermore, many taxpayers may not pay their tax regardless of their tremendous income made (Rwahigi, 2012). Such individuals are unlikely to pay taxes if they lack awareness and knowledge (Robert, 1994). In Tanzania, NBS (2003) shows that taxpayer education comprises all programs that create wakefulness to tax laws and taxpayer commitment such as radio, workshops, television and website. These factors make the SMEs more compliant.

2.2.8 Perceived opportunity for tax evasion

The perception of the taxpayers regarding the fairness of the tax system is acknowledged as an imperative factor that can have an important influence on tax compliance behaviour (Jackson, 1986). According to Iyer (2010), the tax scheme is

perceived as unnecessary by the SMEs. Therefore, this may lead to being less victorious, and thus encouraging SMEs taxpayers to engaging in disobedient behaviours. However, the perceptions of SMEs taxpayers are strongly connected with knowledge and experience gained from consciousness on tax matters and tax knowledge did influence the level of tax obedience (Kircher, 2007).

The compliance attitude of the SMEs taxpayer is exaggerated by the factors from the outside environment of the taxpayer, such as the local area of the business, trade and economic situation existing on the market such as demand and supply (Chijoriga, 2012). These factors influence the competitive advantage and consequently generating the perception that non-compliance with tax is the way out. It is also exaggerated by interior factors such as sociological factors and psychological aspects (Clifford and Amayi, 2013).

Furthermore, attitudes and perceptions of taxpayers are additional psychological factors to tax knowledge levels that represent external factors (Schneider and Torgler, 2007). Additionally, a study by Trivedis and Chung, (2003) linked further perceptions and attitudes of taxpayers with their age and gender as opposed from Fagbeni (2010) who narrates the assortment capacities of taxpayers with their tax knowledge intensity.

However, it is difficult to resolve the tax compliance level of different taxpayers basing on the age and gender due to the fact that various capacity of taxpayer's knowledge intensity between one taxpayer to another (Feinsten, 1991). Furthermore, according to Kundt et al. (2013), there is a likelihood of the unwillingness of taxpayers to reply to the questionnaire truthfully due to the risk of compromising their real income. Consequently, a review technique in scrutinizing tax compliance can be difficult to describe the real situation of taxpayers.

Additionally, to improve the SMEs taxpayer's compliance, one must target at improving the SMEs taxpayer capacity to overcome the forces from those factors as mentioned above, hence creating a good constructive tax compliance behaviour and attitudes (Frozen, 2012). On the other hand, SMEs with good performance in

business and hence, better income would enable him/her in paying taxes more appropriately (Frozen, 2012).

The SMEs might be willing to pay taxes, but they may fail because what they get is not sufficient for them to pay for their living and still pay government taxes. Education on how they may increase their earnings and understanding the rules and regulations of taxation is also very important as far as the improvement of tax revenues is concerned (Erisen and Fallan, 1996).

Furthermore, trust for SMEs is a foundation for social cooperation and voluntary compliance with laws and rules that might potentially be beneficial to everyone (Fagbemi, 2010). Moreover, Fagbemi et al. (2010) showed three scopes of trust which seem to change SMEs compliance: (i) faith in the government to make use of revenues to deliver expected services, (ii) trust in government to set up fair procedures for revenue assemblage, and (iii) trust in other people to disburse their share. These influence individual taxpayer's perception of the reliability and responsibility of the revenue administration if the tax assessment is not provided (Pashev, 2005).

Moreover, Richardson (2006) showed that SMEs taxpayers are more expected to readily comply with the decisions of tax administration hence when the authorities enact procedures in a fair way the taxpayers are authorized to contribute in the process of making decisions. According to Magner, et al. (2000), when SMEs find that the tax procedures are fairer their attitude toward tax system could be positive and hence high compliance level.

Furthermore, one of the major doctrines of the taxation scheme is intended fairness or equity, which could have been attained through three dimensions. These include horizontal equity in which individual with the same amount of income or prosperity group should pay the same quantity of money as taxes, vertical equity and the taxes paid increase as the amount of tax base increases (Richardson (2006). Furthermore, the perceived fairness of the tax scheme has an influence on the partiality towards tax avoidance (Richardson, 2008).

2.2.9 Tax compliance cost

A compliance cost is spending of money in compliant with government necessities such as regulation or legislation (Mohamed, 2010). Furthermore, compliance costs usually comprise all costs connected with compliance with the law as well as administration and planning. The intensity of compliance costs falling on a taxpayer may possibly be such that the taxpayer would decide to avoid tax in order to compensate for what is observed as unnecessary compliance costs (Dollar, 2001).

This tax scheme is complex with many processes such as licensing. These make it hard and costly for the small and medium business to act in good trust. Furthermore, it presents compliance costs that are considered higher for small and medium enterprises because of their low income (Dovan, 2009). Therefore, the broad knowledge in terms of education and tax specific knowledge contribute to the capacity and readiness to conforming or avoiding paying taxes (Antwi, 2015).

Additionally, tax specific knowledge would be useful in raising compliance and consequently facilitate small and medium business owners to conform and raise their readiness to comply (Bolnick, 2004). Small and medium scales are to be found in different parts of the country, urban and rural areas (Calcopietro, 1999). Although tax offices, on the other side, are not in convenient locations, which implies that taxpaying by Small and medium scales is required to move from their position of business to the appropriate tax offices for them to fulfil their tax commitment (Pope, 2005).

Nevertheless, distance from tax offices might also affect the psychology of the SMEs taxpayer and create massive problems that are also the main part of the tax compliance costs. Moreover, the farther the distance between the SMEs place of business from the tax office the higher the carrying costs and consequently the higher the compliance costs (Pope, 2005).

The costs which SMEs taxpayers incur when they are complying with tax commitment, for instance, the time occupied to fill tax returns and travelling costs, costs of employing tax accountants which result to the uncertainty of meeting all tax rules. The higher the compliance costs, the higher the probability of non-tax compliance (OECD, 2003).

According to Pope (2005), compliance costs do not appear to be declining over time. Tax compliance costs are important for Small and Medium Enterprises in most Organisations for Economic collaboration and improvement (OECD) of the tax authority. Hence, they are predominantly high in absolute terms to the extent of the business, whether measured by based on earnings, income, and number of workers or any other alternative (Alabede, 2011).

Schoonjans et al. (2011) argue that SME taxpayers could face economic difficulty, because of proportionately higher compliance cost. Moreover, high tax compliance costs may explain why SMEs' tax compliance levels are lower than expected, as many of these business enterprises may perceive the tax systems to be unfair (Namsonge, 2014).

Generally, the small and medium enterprises bear higher compliance load due to the monotonous compliance procedures, which are needed by tax authorities (Dovan, 2009). Important knowledge regarding procedures characteristic to tax laws is needed. Nevertheless, this is disputed because tax laws are liable to change frequently (Clifford and Amay, 2013), are more difficult and confusing than laws and regulations in general (Coolidge, 2012). Therefore, the laws are more prone to be unstated by non-professionals' (Kirchler, 2007).

According to Kirchler (2007), there a relationship between the size of a business and its intensity of tax compliance costs. This is because small businesses have a moderately higher tax compliance cost compared with big businesses. Hence, larger SMEs enjoy the economies of scales compared to small SMEs (Coolidge, 2012).

2.2.10 Demographic factors (individual characteristics)

Demographic factors may have consequences on tax evasion and avoidance that cannot be underestimated. On the side of gender, Small and medium enterprises owned by females are more compliant as opposed to male-owned SMEs (Richardson, 2006). Evasion of taxes is a more unpleasant behaviour to female SMEs taxpayers as opposed to male on the other side (James and Alley, 2004). The occurrences of new independent (people who can earn and taxed) non-traditional generation (those who already in a tax base) seem to be lowering the compliance gap between male and female SMEs taxpayers.

With reference to age, older taxpayers are likely to be more compliant than the younger taxpayers are (Richardson, 2006). Moreover, younger taxpayers are extra risky seeking and less responsive to penalties while older taxpayers are reported to be reluctant to take risks and are more reactive to sanction (Rwahigi, 2012). Likewise, taxpayers who aged more than 65 years are more compliant with taxes (Feinstein, 1991). According to Milliron and Jackson (1986), there is a positive relationship between age and taxpayers' compliance.

Furthermore, Trivedi (2003) indicate that older taxpayers are more compliant, as opposed to younger taxpayers. According to Dollar et al. (2001), the occurrence of a female in the Parliament is an indication of a statistically significant negative consequence on corruption and hence the promotion of high compliance. Moreover, a similar study by Swamy et al. (2001) showed that the higher the numbers of women in parliament, the lower the corruption issues leading to high compliance.

There is a different trait between males and females that have already been recognised in numerous ways such as market, home, charitable trust event that refer to decision-making, negotiating, and charity giving. Additionally, Valev and Torgler (2006) show that there is a difference between women and men on tax issues, and women appear to be more tax compliant compared to men even if both men and women work in the same environment. Furthermore, women are more compliant than is the case with men in fulfilling their tax commitment (Torgler, 2007).

2.3 Empirical Literature Review

Atawodi and Ojeka (2012) conducted a study on factors that affect tax evasion and avoidance between small and medium enterprises in North Central Nigeria by looking on various compliance variables. The study establishes that high tax rates and complex filing procedures are the essential factors causing non-compliance by Small and medium enterprises. Other factors, such as numerous taxation and lack of appropriate clarification influence tax compliance among small and medium enterprises.

Hove and Hove (2016) conducted an examination of the causes of tax avoidance and tax evasion in Zimbabwe. The study used descriptive statistics and discriminant analysis. Descriptive statistics were used in analysing the level of tax morale and attitude towards the tax system, and discriminant analysis was used to analyse factors influencing tax avoidance and evasion. The results show that SMEs are more likely to default from tax payment than large-scale corporations are.

Antwi et al. (2015) analysed the effect of demographic features of small and medium entrepreneurs on tax compliance in Ghana. The study used descriptive statistics in analysing, where different tax avoidance and evasion variables were presented against different demographic variables. The variables were gender, age, education, marital status, business venture, and tax payment status. Gender variable showed that men are more tax compliant since their businesses were formal and registered as opposed to women businesses whose businesses were informal, indoor, and unregistered business.

The study also found that age variable had a positive effect on compliance. Furthermore, the study found that education variable had a positive effect on compliance since educated people like to maintain social status by acting as educated people who are expected to behave with civility. Nzioki and Rawlings (2014) investigated factors affecting tax compliance in the real estate sector in Kenya. The Theory of Planned Behaviour guided the study. Multiple linear regression was used in the analysis where the dependent variable was compliance level and was regressed

against the effect of tax compliance cost, tax education and knowledge, fines and penalties, and perceived opportunity for tax evasion. The findings from this study show that high compliance cost and perceived opportunity for tax evasion had a negative association with compliance, while tax education and knowledge; and fines and penalties had a positive relationship to compliance

Another study by Atawodi and Ojeka (2012) titled, “factors that affect tax compliance among small and medium enterprises in North Central Nigeria,” found that lack of morale from the taxpayers to pay taxes voluntarily was some of the factors that affect tax compliance. Other factors include bad business environment and ignorance. A study by Anna et al. (2010) insisted that most organisations or individuals evade paying taxes because they have no morale of doing so.

Furthermore, they have little education on the importance of paying taxes to the government. They insisted that paying of taxes should be from the internal of an individual self and not from the use of force.

A study by Clifford and Amayi (2013) titled, “The effects of taxpayer’s education on voluntary tax compliance among SMEs in Mwanza city Tanzania”, concluded that SMEs would be more willing to pay taxes voluntarily if education on the importance of paying taxes was provided to them. A study by Mohamed (2010), in Malaysia, found that taxpayers with a positive attitude towards taxes have a negative attitude towards tax evasion and are more compliant.

Kirchler (2007) studied the attitudes to tax evasion and reported that many individuals who are mainly benefiting from it ignore evasion. According to Marziana (2010), penalty rates had a positive relationship with tax evasion, a connotation that higher rates of tax would motivate individuals to cheat. Namusonge et al. (2012) assessed the consequence of fines and penalties on tax compliance between small and medium enterprises. The study indicates fines and penalties have a positive effect on tax compliance. Furthermore, a number of studies suggest that an increase in penalties could have an adverse consequence on Small and medium scales (Kirchler, 2007).

Moreover, a research conducted by Chijoriga (2012) to 15 Israel students that comprise 8 women and 7 men to test the students particularly on tax knowledge concluded that females are less likely to comply with tax laws as opposed to males. Nevertheless, the gender variable is still debatable on the compliance problem. Various studies on social psychological research show that females are more likely to comply with tax laws than males (Sekaran, 2010).

2.4 Conceptual Framework

Tax evasion and tax avoidance are influenced by variables that shape the behaviour of an individual perception towards paying tax; these include tax compliance charge, tax knowledge and education, tax fines and penalties and perceived opportunity for tax evasion, individual characteristics of sex, age, marital status, education, and experience. In addition, tax avoidance and aversion are affected by tax morale and attitude towards the tax system as can be seen in Figure 2.1.

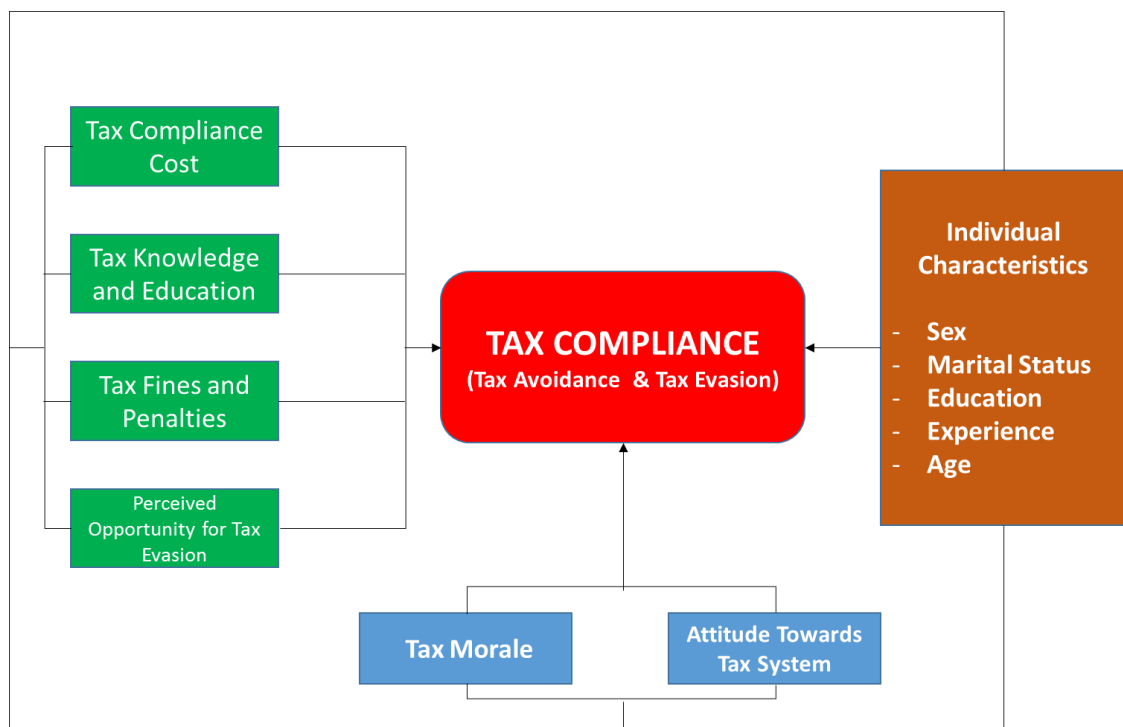


Figure 2.1 Conceptual Framework

2.5 Hypotheses

H₀: There is no significant difference in tax morale and attitude towards a tax system between small and medium enterprises in the study area.

H₁: There is a significant difference in tax morale and attitude towards the tax system between small and medium enterprises in the study area.

H₀: Tax compliance variables of compliance cost, fines and penalties, a loophole for evasion and tax awareness and knowledge do not have a significant effect on tax compliance.

H₁: Tax compliance variables of compliance cost, fines and penalties, a loophole for

CHAPTER THREE

METHODOLOGY

This chapter presents a methodology that was used to analyze factors contributing to tax compliance in the study area. The first subsection presents a description of the study area, followed by a subsection of research design and methods of data collection.

3.1 The Study Area

The study area was Moshi District in Kilimanjaro region. Moshi is located 3.3616°S 37.3466°E; the district is bordered to the north by Moshi Rural District, to the east by Mwanza District and to the south and west by Manyara Region. In the 2012 census, the population of Moshi Urban District was 184,292. Moshi Urban District is administratively divided into 21 wards. Figure 3.1: A map showing the location of the study area.

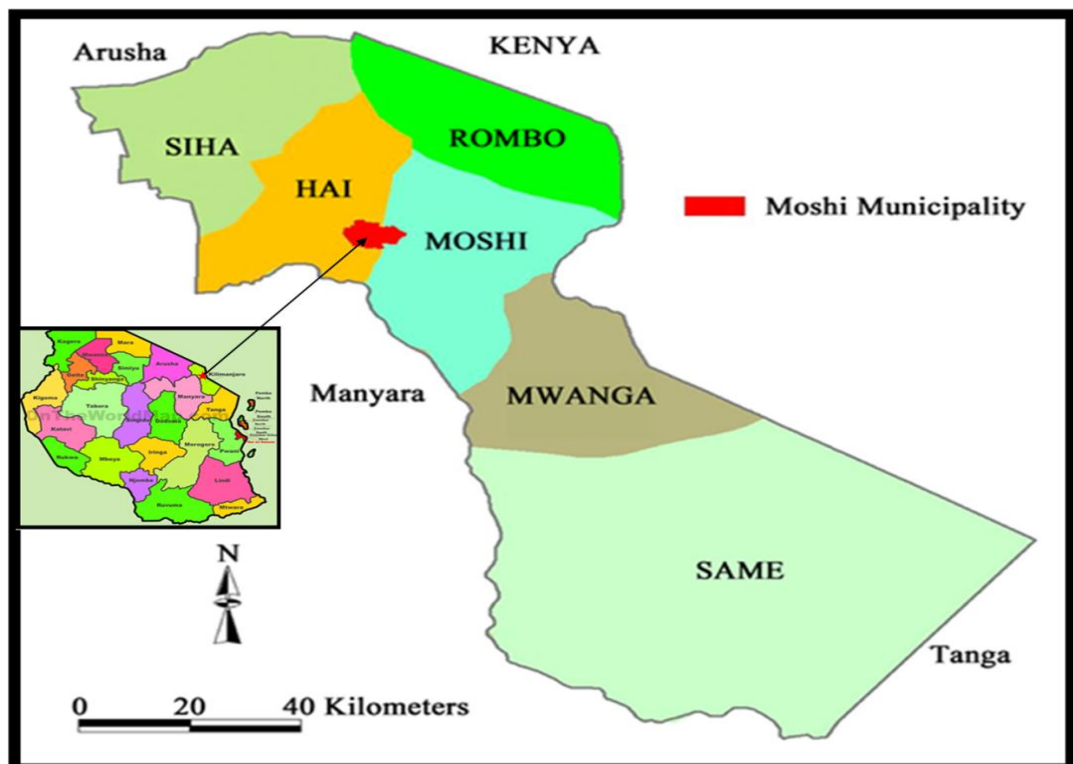


Figure 3.2 Map of Kilimanjaro region

3.2 Research Design and Sampling Procedure

The district was purposively selected because it has a substantial number of small and medium enterprises that range from tourism companies, agriculture, manufacturing, services, and others. Simple random sampling was used to select the wards in which among 21, 10 wards were randomly selected from Moshi Municipality. The selected wards were Kiboroloni, Karoleni, Boma Mbuluzi, Bondeni, Mfumuni, Karanga, Korongoni, Majengo, and Soweto. Similarly, simple random sampling was used to select 77 small and medium enterprises used in the study. The sample size was calculated using the formula shown below.

$$\text{Total Sample Size} = \frac{Z_{\alpha/2}^2 \cdot K(1 - K)}{e^2}$$

Where,

K = The proportion of small and medium producers in the study area

e = the margin of accepted level of error (this study $e= 5\%$ which implies the sample size will be estimated with a 95% level of confidence)

$Z_{\alpha/2}^2$ = The z value of probability for a score to be normally distributed
($Z_{\alpha/2}^2=1.96$)

Note: According to URT (2012) in Tanzania among all enterprises approximately are small and medium enterprises, while the remaining 11% is large.

Therefore,

$K = 89\% = 0.89$ Proportion of small and medium producers in the study area

Hence,

$$\text{Total Sample Size} = n = \frac{1.96^2 * 0.89(1 - 0.89)}{0.05^2}$$

$$n = \frac{1.96 * 0.89 * (0.11)}{0.0025}$$

$$n = \frac{1.191884}{0.05^2}$$

$$= 76.7536 \approx 77$$

3.3 Data Collection

3.3.1 Primary Data

Primary data were collected using a questionnaire. The questionnaires were used to collect different types of information, including characteristics of individual business owners, economic variables, tax evasion, and proxy of tax compliance variables. The in-depth information of all variables is as presented in the analytical framework subsection.

3.3.2 Secondary Data

Secondary data were also collected from documents including a review from earlier studies on the topic, from books, journals, reports, and some documents from relevant authorities such as TRA and Moshi Urban District office.

3.4 Study variables and their measurement

In analysing factors influencing tax evasion and tax avoidance, it is important to depict socio-economic characteristics of owners of the small and medium business in the study area. In this objective, descriptive statistics were used to present information on socio-economic variables.

The variables include characteristics of individual business owners such as gender, age, the level of education, marital status, owners' experience in doing business and owner's tax education. In addition, the analysis included economic variables such as capital invested in the business, the type of ownership, the venture type, and the number of enterprises owned by the owner.

Depending on the nature of the variable, different statistics measures were used including, measures of central tendency namely, mean, median, and standard deviation. These were used to present continuous variables, while proportions in terms of percentages were used to present categorical data.

3.4.1 Tax morale and attitude towards the tax system within small and medium enterprises in the study area

This objective analyses the intrinsic motivation of a taxpayer to pay tax and his/her attitude towards the tax system. In so doing, descriptive statistics were used to present the information. The method used was similar to that of Hove and Hove (2016). In the analysis, eight questions were administered, which aimed at measuring morale and attitude. In this study, similar to the technique used by Hove and Hove (2012) the first four questions were set to measure tax morale and included seven response categories of strongly unacceptable, unacceptable, slightly unacceptable, neither acceptable nor acceptable, slightly acceptable, acceptable and strongly acceptable. The responses were presented in percentages of the business owner's response to each category. To get an in-depth depiction of the study area, the result of each question was compared between small businesses and medium business. The chi-square test was to determine if there was any statistical difference between the groups in each question.

Another set of four questions measured attitude towards tax system. Similar to tax morale, seven response categories were used, which include strongly untrustworthy, untrustworthy, slightly untrustworthy, neutral, slightly trustworthy, trustworthy and highly trustworthy. Similarly, the responses were presented in percentages of the business owner's response to each category. In addition, the comparison was made between small business owners and medium business owners. Chi-square test was used to see if there is any statistically significant difference between each responsive category in each question.

3.4.2 Factors influencing tax compliance by small and medium business owners in the study area

In the analysis of factors, influencing tax compliance by small and medium business owner's multiple linear regression was used to predict tax compliance in the study area. The multiple linear regression models were defined, as shown in equation (1).

$$Z_i = f(C_i; X_i, \varepsilon_i) \quad (1)$$

Where,

Z_i = Tax compliance level

X_i = Small and medium enterprise owner's characteristics

C_i = Tax compliance variables

ε_i = Error term

Expanding equation (1) gives equation (2).

$$Z_i = c_0 + \alpha_1 \gamma_{1i} + \alpha_2 \gamma_{2i} + \alpha_3 \gamma_{3i} + \alpha_4 \gamma_{4i} + \beta_1 x_{1i} + \beta_2 x_{2i} + \beta_3 x_{3i} + \beta_4 x_{4i} + \beta_5 x_{5i} + \beta_6 x_{6i} + \beta_7 x_{7i} + \varepsilon_i \quad (2)$$

3.5 Measurement/quantification of the variables

3.5.1 Dependent variable

Tax compliance level

This variable was measured by two questions which the first being 'Does your enterprise files its tax return on agreed time' and 'Does your enterprise pay the accurate amount of taxes on agreed time'. The response to each was never or sometimes or neutral or often and very often. For each question, the number of individuals who replied on each category was counted and later divided by the total sample to get the average number. The average figure was used as a proxy for tax compliance level.

3.5.2 Individual Characteristics Variables

Age in years

The owner's age was presented as the number of years. The sign of the coefficient of this variable was expected to be positive. This implies that, as age increases, tax compliance was expected to increase. According to Richardson and Sawyer (2001), young taxpayers are less compliant than do older taxpayers is that older taxpayers are financially independent than younger ones who are active and zealous to acquire wealth by not allowing most of their hard-earned profits to be taxed away.

Sex of the business owner

Sex of the business owner was presented in the form of a dummy variable where 1 represents male, and 0 represents female. The sign was expected to be positive for males and negative for females. According to Antwi *et al.* (2015), many women in African societies used to be involved in the informal sector that used to be underground or indoor business activities. The activities include dressmaking, hairdressing and so forth, which were not exposed to tax authorities as opposed to their male counterparts whose businesses were outdoor activities such as metal fabricating, motorbike dealing, woodworks, and others, which were exposed to tax authorities.

Marital Status

Marital status was presented in the form of a dummy variable where one represents married and 0 not married. Other groups were not used in regression because there were few or no observations. The sign of the coefficient was expected to be positive for a married person. This is because other studies (see, for example, Richardson and Sawyer, 2001; Asante and Seidu, 2011) found that the married individual taxpayers were more compliant than was the case with singles. The situation is contributed by the fact that married individuals have a more responsible attitude as opposed to unmarried individuals (Houston, 2001).

Education Level

Education level was presented in the form of dummy variables where 1 represents Primary; 2 represents secondary; 3 represents post-secondary non-degree and four represents First degree and above. It was expected that as the education level increase, tax compliance would increase According to Antwi *et al.* (2015), education is expected to increase compliance because, in society, highly educated people do not want to be confronted by the laws and being socially humiliated.

Experience

Experience in business was measured by the number of years an individual has been operating the business. The coefficient sign was expected to be positive or negative; reasons being owners with less experience may not be aware of the loopholes of avoiding taxes compared to more experienced business owners. On the other hand, owners with less experience may want to avoid taxes to accumulate saving for building their business, unlike experienced owners who are already well established in business.

Type of ownership

Type of ownership was measured by using a dummy variable, 1 representing individual ownership and 0 = partnership. The coefficient was expected to be negative due to a reason that the motives of evading tax can be higher for an individual who has to self-monitor his or her income compared to motives in a group since groups are used to have formal contracts and continuous auditing.

3.5.3 Tax Compliance Variables (Dependent variable)

This variable was measured by using proxy variables similar to the technique used by Nzioki and Rawlings (2014). This variable was measured by two questions, the first being ‘do business files its tax return in time’, and ‘does business pays the right amount of taxes on time?’ The response to each was never or neutral or often or very often, and sometimes. Moreover, for each question, the number of individuals who replied very often, often, or never was counted and later divided by the total sample

to get the average number. The average figure was used as a proxy for tax compliance.

Tax Compliance Cost

This variable was measured by two questions including ‘How does the business owner rate the cost of filing tax return’ and ‘how does the business owner rate cost of travelling to file a tax return.’ The response to each question was either expensive or reasonable. Similarly, for each question, the number of individuals who replied expensively, or very expensive, or neutral, or affordable or very affordable was counted and later divided by the total sample to get the average number. The average figure was used as a proxy for tax compliance cost.

Penalties and Fines

This variable was measured by using three questions, including ‘does the business owner think the penalty rates are very low and he/she can afford to pay the penalty?’ ‘Does the business owner think the enforcement by TRA is weak?’ And ‘Does business owner think the penalty is lower than his /she tax saving due to noncompliance with tax laws?’ For each question, the number of individuals who replied agree, or disagree, or strongly agree, or neutral, or strongly disagree was counted and later divided by the total sample to get the average number. The average figure was used as a proxy for tax penalties and fines.

Perceived opportunity for tax evasion

This variable was measured by using three questions including ‘does business owner think he might not report his real income and TRA can be tolerant without any serious punishment,’ ‘does the business owner think TRA has limited capability to investigate all income reported to them, and therefore business owner has a chance of not reporting the exact income,’ ‘does business owner feel the chances of being caught for not declaring the exact income is very low’. For each question, the number of individuals who replied agree, or disagree, or strongly agree, or neutral, or strongly disagree was counted and later divided by the total sample to get the average

number. The average figure was used as a proxy for the perceived opportunity for tax evasion.

Tax education and knowledge

This variable was measured by using five questions. The questions included does business owner knows how do declare actual income from all sources to TRA, does the business owner knows how to keep records and documentation pertaining to income and expenditure, does the business owner understand that he/she should pay taxes at the prescribed period from the day he/sh, ie issued a notice; does the business owner know that he/she must have a taxpayer identification pin; does the business owner knows which income should be included and excluded in determining taxable income. For each question, the number of individuals who replied agree, or disagree, or strongly agree, or neutral, or strongly disagree was counted and later divided by the total sample to get the average number. The average figure was used as a proxy tax education and knowledge.

Table 3.1: Description of the variables

Variable		Description	Expected Sign
Tax compliance level	Z_i	Likert scale	Dependent
Tax knowledge and education	γ_1	SME owner's awareness of tax and its management	+
Tax compliance cost	γ_2	SME owner rates cost of taxation	-
Tax penalties and fines	γ_3	SME owner weighs tax fines and penalties	+
Perceived opportunity for tax evasion	γ_4	SME owner feel easy to avoid pay taxes	-
Age of the business owner	x_1	Number of years	+
Sex of the business owner	x_2	1= Male, 0 = female	+
Marital Status (1=	x_3	1= married, 0 =otherwise	+/-
Education level	x_4	(1= Primary; 2= Secondary; 3= Post-secondary non-degree; 4=First degree and above)	+/-
Experience in business	x_5	Number of years SME owner doing business	+/-
Type of ownership	x_6	1= Individual ownership; 0= Partnership	-

CHAPTER FOUR

RESULTS AND DISCUSSIONS

This chapter presents the results and discussion for the study. The first subsection presents descriptive statistics that provides the depiction of the characteristics of the study area. The second subsection presents the examination of tax morale and attitude towards tax system among small and medium enterprises in the study area. Finally, the chapter ends with a subsection that presents the analysis of factors influencing tax compliance by small and medium enterprise owners in the study area.

4.1 Description of Social Economic Characteristics of Small and Medium Enterprises Owners in the Study area

Seventy seven (77) SME owners of Moshi Urban District were involved in the survey. among these 29 percent were of the age ranging from 18 to 45 years old; 49 percent ranged from 46 to 60, while 22 percent were above 61 years old. This age distribution of SME owners concurs with other similar studies such as that of Hove and Hove (2016) whereby the largest group belonged to middle age while other groups of elderly and young age had 25.5 and 22.4 percent respectively, which portrays the same proportions with this study. Similarly, Nzioki (2015) found similar age distribution where middle age was the modal group.

Further, it was revealed that among the respondents, 77 percent were males and 23 percent were female. This finding is similar to the findings of other studies such as Thiga and Muturi (2015) and Nzioki (2015) whereby more than three-quarters of the respondents were males. According to Atawodi and Ojeka (2012) in most of the sub-Saharan African societies, background favours more males and marginalize females especially in accessing funds needed for capital to start a business since in many cases women do not have the collateral needed to secure loans to start a business.

the study findings in Table 4.1 indicate that, the majority of the respondents about 72 percent had at least first degree, followed by 12 percent who had a secondary school education, 7 percent had certificate while the remaining had either primary education

or no education at all. In other studies, such as Aryeetey and Ahene (2004) and Nzioki and Rawlings (2014) indicated a similar finding whereby 67 percent of the SME owners had a higher level of formal education. This finding shows that most of these businesses especially medium enterprises require a certain level of knowledge in management and planning which in a way hinders individuals with a low level of education who are the majority of them end up with either micro or informal enterprises.

Table 4.1: SME owner’s characteristics

Variable	Percentage
Education Level	
First degree	72%
Certificate	7%
Secondary school	12%
Primary school	5%
No school	
Age	
18 to 45 years	29%
46 to 60 years	49%
61 years and above	22%
Sex	
Male	77%
Female	23%
Experience	
Experience ≤ 5 years	15%
Experience ≤ 10 years	34%
Experience >10	52%
Total SME	77

The study findings in Table 4.1 indicate that majority about 75 percent had small enterprises, and 25 percent had medium businesses. In other similar studies, including Antwi *et al.* (2016), Martin, and Gomes (2014), majority of the respondents in the study area had small enterprises because most of the citizens in developing countries are characterised by low income. According to Pope, (2005), a financial problem such as the development of an investments plan, paying off debt and balancing a chequebook have a major impact on small enterprises ability to raise capital and make a smart judgment about the management of the business.

Unfortunately, many low-income enterprises were never trained regarding basic financial literacy. Most of them learnt it from their parents and did not receive any training from anywhere (Kipilyango, 2012).

Table 4.1 shows that majority of the SME owners, above 52 percent, had more than 10 years of experience; while 34 percent had experience ranging from 5 to 10 years and 15 percent had less or equal to 5 years experience in the business. The finding shows that most of the respondents are well experienced in business and y are more likely to understand how tax and tax system works with respect to their businesses.

This shows that about 69 percent of the sampled respondents reported having received education on taxes from Tanzania Revenue Authority either directly or indirectly through media such as television and radio. On the other hand, about 31 percent reported not to have received taxpayer education from the Tanzania Revenue Authority. This finding implies that the majority of the people in the study area do not have sufficient knowledge about taxation. According to Martin and Gomes (2014), tax education is important in increasing public awareness in areas related to tax laws, and tax role in the development. It is important in understanding how tax is allocated. According to Kasipillai (2003), this raises awareness of small and medium enterprise in complying with rules and regulation of tax systems.

4.2 Objective 2: Examination of tax morale and attitude towards the tax system within small and medium enterprises in the study area

This section analyses the intrinsic value of an SME owner and his/her attitude towards tax payment. Several questions of measuring tax morale and tax attitude were administered to 77 respondents.

4.2.1 Examination of tax morale

The SME owners were asked to respond to what they were thinking when trading commodities or providing services with friends or neighbour d without reporting it to TRA. The findings in Table 4.2 show that among medium enterprises owners about 63 percent thought that it was strongly unacceptable and 37 percent thought it was

unacceptable. This implies that medium enterprises owners were of the view that not reporting was generally unacceptable. For small enterprise owners, there were mixed results whereby 64 percent thought it was unacceptable, 14 percent said it was strongly unacceptable, and 5 percent said it was slightly unacceptable. On the other hand, 12 percent thought it was acceptable, while 5 percent were neutral about the question. Chi-square value of 0.001 shows that there was a highly statistically significant difference in the question of not reporting exchange of commodities to TRA.

Table 4.2: Trading commodities or services with someone such friends or neighbour and not reporting it to TRA

SME	Strongly unacceptable	Unacceptable	Slightly unacceptable	Neutral	Acceptable	Total	P-Value
Small	14%	64%	5%	5%	12%	58	0.001
Medium	63%	37%	0%	0%	0%	19	
Total	26%	57%	4%	4%	9%	77	

On the question of how does the SME owner think about reporting their main income fully but then again excluding small separate income, Table 4.3 shows that 68 percent of SME owners interviewed thought it was strongly unacceptable and 32 percent, though it was unacceptable.; None of them was on the neutral or on the acceptable side. However, for small enterprise owners, there were mixed results whereby 28 and 41 percent thought it was strongly unacceptable and unacceptable respectively; while 9 percent thought it was acceptable, and 21 percent were neutral.

From the chi-square value of 0.013 it can be seen that in the study area there was a statically significant difference in the opinion between small and medium enterprises owners regarding whether it was acceptable or not to report the main income (income from primary activities) fully but then again excluding small separate income (income from other sources which is not primary).

Table 4.3: Reporting your main income completely but excluding small separate income

SME	Strongly unacceptable	Unacceptable	Slightly unacceptable	Neutral	Acceptable	Total	P-Value
Small	28%	41%	2%	21%	9%	58	0.013
Medium	68%	32%	0%	0%	0%	19	
Total	38%	39%	1%	16%	6%	77	

On the question on how does SME owner think about receiving payment in cash for a job/trade but not reporting it to TRA? In Table 4.4, among the medium enterprise owners, 79 percent thought it was strongly unacceptable, and 21 percent thought it was unacceptable while none thought it was acceptable and none was neutral. However, similar to previous questions, small enterprises owners had a mixed thought in which 34, 31 and 14 percent thought it was strongly unacceptable, unacceptable, and slightly unacceptable respectively; while 2, 12, and 2 percent thought it was slightly, acceptable, and strongly acceptable respectively and only 5 percent were neutral. From the chi-square of 0.039, it can be seen that in the study area, there was a significant difference in opinion between small and medium enterprises owners on whether not reporting is acceptable.

Table 4.4: Receiving payment in cash and reporting it to TRA

SME	Strongly unacceptable	Unacceptable	Slightly unacceptable	Neutral	Slightly acceptable	Acceptable	Strongly acceptable	N	P-Value
Small	34%	31%	14%	5%	2%	12%	2%	58	0.039
Medium	79%	21%	0%	0%	0%	0%	0%	19	
Total	45%	29%	10%	4%	1%	9%	1%	77	

The fourth question on measuring the morale of SME owners in the study area sought to understand how SME owners perceive the idea of cheating on taxes if they had a chance. Table 4.5 shows that among the interviewed SME owners, 95 percent said it was strongly unacceptable, and 5 percent said it was unacceptable; for small enterprise owners, 57 percent said it was strongly unacceptable, while 7 and 5

percent it was strongly acceptable and acceptable respectively while only 3 percent were neutral. The Chi-square value of 0.000 shows the existence of a significant difference between small and medium enterprises owners in the study area on cheating on tax if one gets a chance.

Table 4.5: Cheating on tax if you get a chance

SME	Strongly unacceptable	Unacceptable	Slightly unacceptable	Neutral	Acceptable	Strongly acceptable	N	P-Value
Small	57%	22%	5%	3%	5%	7%	58	0.000
Medium	95%	5%	0%	0%	0%	0%	19	
Total	66%	18%	4%	3%	4%	5%	77	

4.2.2 Examination of tax attitude

In measuring attitude, four questions were asked. The first question asked how SME owners trust Tanzania legal system. Both small and medium enterprise owners in the study area strongly thought that Tanzanian tax system was either trustworthy or untrustworthy. This implies that the level of trust is very low in both groups whereby for both small and medium enterprise combined, 21 percent thought TRA was untrustworthy, while only 3 percent in small enterprise thought TRA was trustworthy, 2 percent thought TRA was strongly trustworthy, and 16 percent of the medium enterprises were neutral. However, between the groups, as can be seen, there was a statistically significant difference with a chi-square of 0.033 implying that there is a difference between small and medium enterprises in the study area in the degree of trust toward Tanzania legal system.

Table 4.6: SME owners how they trust Tanzania legal system

SME	Strongly untrustworthy	Untrustworthy	Slightly untrustworthy	Neutral	Slightly trustworthy	Trustworthy	Strongly trustworthy	N	P-Value
Small	55%	31%	7%	2%	0%	3%	2%	58	0.033
Medium	37%	21%	21%	16%	5%	0%	0%	19	
Total	51%	29%	10%	5%	1%	3%	1%	77	

The second question measured the attitude of SME owners who were asked if they trusted the Tanzania government at all levels related to revenue collection and its expenditure. In this matter, the majority (40%) of small enterprises owners strongly thought that the government was untrustworthy and 53 percent thought the government was trustworthy. for medium enterprise, about 26 percent thought the government was slightly trustworthy, and 5 percent thought it was trustworthy. However, about 42 percent of the medium enterprises were neutral on the matter. Statistically, with a chi-square of 0.000, there was a significant difference between small and medium enterprises in the study area on the trust of the Tanzanian government in terms of the discipline of collecting revenue and the appropriate use of it.

Table 4.7: SME owners were asked if they trust Tanzania government at all level

SME	Strongly untrustworthy	Untrustworthy	Slightly untrustworthy	Neutral	Slightly trustworthy	Trustworthy	N	P-Value
Small	40%	53%	5%	2%	0%	0%	58	0.000
Medium	5%	5%	16%	42%	26%	5%	19	
Total	31%	42%	8%	12%	6%	1%	77	

The third question in measuring attitude towards the tax system was the level of trust by TRA tax administration. As shown in Table 4.8, most (33%) of the small enterprise's owners were on the view that TRA tax administration is untrustworthy while 26 percent of the medium enterprise owners were of the view that TRA tax administration is trustworthy. About 4 percent were neutral on the issue. This implies that in the study area there is little trust in TRA tax administration by small enterprise owners while for the medium there was a good level of trust. The difference between small and medium enterprises in the study area on the trust of TRA tax administration was highly statistically significant with a chi-square of 0.000.

Table 4.8: Level of trust by TRA tax administration

SME	Strongly untrustworthy	Untrustworthy	Slightly untrustworthy	Neutral	Slightly trustworthy	Trustworthy	Strongly trustworthy	N	P-Value
Small	55%	33%	3%	3%	0%	5%	0%	58	0.000
Medium	21%	0%	0%	5%	42%	26%	5%	19	
Total	47%	25%	3%	4%	10%	10%	1%	77	

On the question of the level of trust to TRA officials by SME owners, the results show that 36 percent of small enterprises owners trusted while 21 percent of medium enterprise owners did not trust TRA. This implies that in the study area, small enterprises owners had little trust in not only TRA tax administration but also TRA officials as well, unlike medium enterprise owners who were in favour of the matter. The difference between small enterprises owner and medium enterprise owner on trust towards TRA officials was highly significant at chi-square of 0.000.

Table 4.9: Level of trust TRA officials by SME owners

SME	Strongly untrustworthy	Untrustworthy	Slightly untrustworthy	Neutral	Slightly trustworthy	Trustworthy	Total	P-Value
Small	52%	36%	7%	2%	0%	3%	58	0.000
Medium	11%	11%	11%	5%	42%	21%	19	
Total	42%	30%	8%	3%	10%	8%	77	

4.3 Factors Influencing Tax Compliance by SME owners in the Study Area

The results on factors influencing tax compliance in the study area are presented in Table 4.10. Regression diagnostics were conducted to ensure that the assumptions of regression were not violated. The diagnostic tests performed were Shapiro Wilk test for normality of error term, Cameron and Trivedi's decomposition of IM-test for checking constant variance of the error term, and Variance Inflation Factor (VIF) test to check for multicollinearity. The results of all the tests are presented in Appendix 1

section. For all the tests, the results show that the regression did not violate the OLS assumptions.

The results of multiple linear regression analysis in Table 4.10 show the R-squared of 0.852. This shows that the model accounts for about 85.2 percent of the total variation of data collected in the study area. The F-value of the results is 0.000 showing that the model is highly significant, implying that the model has a strong predictive capability.

Table 4.10: Factors influencing tax compliance

Variables	Coefficient	P value
Age (1= Age ≤ 45 years; 0= Otherwise)	-0.0814	0.539
Age (1= Age > 60 years; 0= Otherwise)	0.0892	0.487
Sex (1=Male; 0=Female)	0.4436	0.017**
Education	-0.1757	0.367
Education	-0.0797	0.661
Marital	0.4990	0.007***
Business Ownership	0.0019	0.985
Receiving taxpayer education	0.3661	0.005***
Compliance cost	-0.0619	0.016**
Fines and Penalties	-0.0291	0.222
Loophole for evasion	-0.3801	0.000***
Tax awareness and knowledge	0.0714	0.012***
Tax morale	-0.6501	0.0501**
Tax attitude	-0.3461	0.2602*
Constant	4.9606	0.000***
Number of observations		77
F(12, 63)		30.73
Prob > F		0.000
R-squared		0.852

The multiple regressions were employed to predict tax compliance in the study area. The prediction variables are based on tax compliance and household characteristics variables.

Excluding fines and penalties, all other variables related to tax compliance were significant, and the sign concurs with the expectations. The coefficient ($\beta = -0.0619$,

$p < 0.05$) of compliance cost has a significant negative relationship with tax compliance in which a unit increase in tax compliance cost decreases tax compliance by 0.06 units. This implies that as SME owner feels there is a high cost of documenting tax returns and high cost in terms of travelling and tax-filing individual tends to become less tax compliant. This finding concurs with the findings of a study by Slemrod *et al.* (2002) who found a similar effect of cost and tax compliance and established that high cost of compliance was a disincentive for paying taxes.

The coefficient ($\beta = -0.3801$, $p < 0.01$) of loophole for tax evasion also had a significant negative relationship with tax compliance in which a unit increase in a loophole for tax evasion decreases tax compliance by 0.38 units. This finding shows that as SME owner finds it easy to pay tax, the highly motivated, he/she becomes in not complying with paying taxes. Similar findings were reported by Hove and Hove (2016), and Nzioki and Rawlings (2014) who revealed a highly significant relationship between tax compliance and opportunity for tax evasion that act as the incentive to small and medium enterprises owners of not paying taxes.

In these studies, scholars found that as individual feels that the tax authorities are not strict about individuals not paying their taxes without any serious consequences or when they feel tax authorities are not having enough capacity of investigating income or taxes reported by individuals; the outcomes are making such individuals less compliant.

The coefficient ($\beta = 0.0714$, $p < 0.01$) of tax awareness and knowledge had a significant positive relationship with tax compliance whereby a unit increase in tax education and knowledge increases tax compliance by 0.07 units. This implies that as SME owner acquires more tax education and knowledge, individuals become more willing to pay taxes.

This finding is similar to the findings in other studies (e.g. Pope, 2005; Kasipillai *et al.*, 2003; Nzioki and Rawlings (2012) which revealed that individuals are more likely to become tax compliant when they are more aware of tax related issues.

Moreover, among the characteristics variables of SME owners that were hypothesized to influence tax compliance, sex of the SME owner and marital status had a significant influence on tax compliance. The findings show that for sex variable ($\beta= 0.4436$, $p<0.05$) holding other factors constant, a male SME owner is more compliant by 0.44 units as opposed to a female SME owner. This finding shows that in the study area, males are more likely to be tax compliant than is the case with female SME owners.

This concurs with Antwi *et al.* (2015) who found that women in sub-Saharan Africa are less compliant to tax due to the fact that most of them operated in the informal sector, which is used to be underground. In micro-enterprise, which most women participate such as tailoring, hairdressing and others, which operate informally, and these businesses are not exposed to tax authorities compared to male counterparts whose businesses are outdoor and in a larger scale such as small or medium enterprises that are more exposed to tax authorities.

Likewise, the study shows that married SME owners are more likely to be tax compliant compared to unmarried SME owners. For marital status variable ($\beta= 0.4990$, $p<0.01$) holding other factors constant a married taxpayer is 0.5 units more tax compliant compared to the unmarried taxpayer. Richardson and Sawyer (2001) and Asante and Seidu (2011) had similar results and concluded that married individuals are expected to have a more responsible attitude compared to unmarried individuals. Due to this, married individuals are expected to be abiding by civic responsibilities, including paying taxes.

On the other hand, the study found that fines and penalties not to have statistical significance on compliance. According to TRA (2015), this might be caused by business owners perceiving the rates of fines and penalties as being very low and therefore having little influence on their behaviour. Therefore, this implies that the law-making body should revise the laws by increasing penalties and fines to the point that is just enough in influencing the behaviour of compliance. The coefficient for negative morale in paying taxes was found to be -0.6501. This coefficient was

statistically significant at 5 percent level of significance. This means that for a unit increase in tax compliance for those with positive morale there were 0.6501 units decrease in a tax compliant for those with negative morale.

The findings signify that positive morale in paying taxes results in tax compliance as opposed to negative morale. The coefficient for negative attitude in paying taxes was found to be -0.3461. This coefficient was statistically significant at 10 percent level of significance. This means that for a unit increase in a tax compliant for those with the positive attitude there were 0.3461 units decrease in a tax compliant for those with a negative attitude. The findings signify that positive attitude in paying taxes results into tax compliance as opposed to a negative attitude.

Somewhat surprisingly, the education level of SME owner appeared not to be statistically significant. Despite that, education was expected to have a positive influence on compliance (Antwi *et al.* 2015) factors such as the desire to accumulate wealth might force them into behaving in a way that is not expected for an educated individual to behave.

Similarly, age was also found not to be statistically significant. Despite that, the study was expected to have similar results as those in a study by Richardson and Sawyer (2001). The cited study shows that young taxpayers were less compliant than older taxpayers with a claim that older taxpayers tend to be financially independent than younger ones who are active and zealous to acquire wealth by not allowing most of their hard-earned profits to be taxed away; this might not be the case in the study area.

In addition, the type of ownership was not statistically significant. This might be because ownership of a business being either 'individual ownership' or 'partnership' does not influence compliance because of other factors such as perceived consequences of not paying taxes, education, and the like.

From the findings and hypothesis testing results in Appendix 2, the study has gathered sufficient evidence to reject the null hypothesis that tax compliance variables such as compliance cost, fines and penalties, a loophole for evasion, tax awareness, and knowledge do not have a significant effect on tax compliance.

Therefore, the study accepts the alternative hypothesis that tax compliance variable has significant effects on tax compliance in the study area.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

The study was carried out in Moshi Urban district to investigate the factors influencing tax compliance

5.1 Summary

The study was carried out in Moshi Urban District to investigate the factors influencing tax compliance. The main objective was to analyse the factors influencing tax evasion and tax avoidance in the study area. The specific objectives were to describe socio-economic characteristics of small and medium business owners in the study area; to examine tax morale and attitude towards tax system within small and medium enterprises in the study area, and to analyse factors influencing tax compliance by small and medium business owners in the study area.

This study provides new knowledge on the issues of tax compliance. This in contrast to studies such as Clifford and Amay (2013); Fjeldstad (1996) and Fagbem (2010) which looked at issues related to tax laws and policies of Tanzania and their effects on voluntary taxpayer compliance; corruption and its effects on tax compliance; growth of information and communication technology (ICT) and its influence on tax compliance. This study analysed the behavioural intentions of the taxpayer on compliance with tax payment; whereby the behavioural intentions are influenced by morale and attitude of taxpayers in the given area depending on issues influencing them directly such as taxpayer education, fines and penalties, loopholes for evasion, and compliance cost.

5.2 Conclusions

It can be concluded that in the study area, there is a high level of tax morale among SME owners. Although there is a significant difference in the degree of morale between small and medium enterprises owners; in the study area, both groups show high morale of paying taxes, reporting their income correctly without falsifying or

hiding any information and strongly thinking that cheating on tax had adverse effects.

However, for tax attitude, small enterprises had a negative attitude towards the tax system and tax authority. For trust in Tanzanian government at all levels, small enterprise owners had a negative attitude while medium enterprise owners had a positive opinion. As for trust on TRA tax administration and officials, small enterprises owners had no trust while medium enterprises owners trusted TRA tax administration and officials.

Also, based on regression analysis, it can be concluded that compliance cost, which involves travelling costs, and tax-filing cost reduce tax compliance in the study area. Similarly, the findings of the third objective show that loopholes for tax evasion also reduce compliance because if SME owners find it easy that one can fail to pay taxes with impunity then they are more likely not to comply with tax payment. On the other hand, tax awareness and tax knowledge positively affect tax compliance in the study area.

5.3 Recommendations

The following are recommendations basing on the study findings.

There is a need for the government, stakeholders, and policy makers to devise realistic measures to encourage tax compliance of SMS's taxpayers. Furthermore, in order to increase tax compliance in the study area, TRA must increase taxpayer education, conduct seminars on record-keeping related to income, expenditure, and tax filing because such awareness has a strong relationship with compliance. Moreover, TRA should be stricter in tax collection and reduce all loopholes which SME owners might take advantage of in terms of becoming less compliant.

Additionally, Small and Medium Enterprises should be charged lower amounts of taxes so that they will have sufficient funds for other activities that would lead to business growth. Thus, this would help SMEs to get better prepared to survive in a competitive market. Lastly, TRA or another researcher should further investigate the

reasons for the unfavourable attitude of small enterprises towards TRA tax administration and TRA officials so as to improve trust and eventual improve tax compliance.

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APPENDICES

Appendix 1:

1 Test for normality

H₀: Residuals are normally distributed

H₁: Residuals are not normally distributed

Table 1: Shapiro-Wilk W test for normal data

Variable	Observation	W	V	z	Prob>z
R	77	0.96161	2.527	2.025	0.2143

The results of Shapiro-Wilk W test form normal data show that there no sufficient evidence to reject the null hypothesis

Therefore, the residuals are normally distributed.

2 Test for homoscedasticity

H₀: The residuals are homoscedastic

H₁: The residuals are heteroscedastic

Table 2: Cameron and Trivedi's decomposition of IM-test

Source	chi2	d.f	p
Heteroscedasticity	76.06	70	0.2899
Skewness	21.32	12	0.0459
Kurtosis	0.85	1	0.3557
Total	98.23	83	0.1215

The results of Cameron and Trivedi's decomposition of IM-test there is no sufficient evidence to reject the null hypothesis that the residuals are homoscedastic.

Therefore, the residuals are homoscedastic.

3 Test for Multicollinearity

Table 3: Variance Inflation Factor

Variable	VIF	1/VIF
Loophole for evasion	4.72	0.212
Education (1= Above secondary school; 0=Otherwise)	3.10	0.323
Sex (1=Male; 0=Female)	2.82	0.355
Education (1= Primary school; 0= Otherwise)	2.02	0.496
Age (1= Age \leq 45 years; 0= Otherwise)	1.70	0.590
Receiving tax education (1= Yes; 0= Otherwise)	1.60	0.623
Tax education	1.47	0.679
Marital (1= Married; 0=Otherwise)	1.45	0.692
Age (1= Age $>$ 60 years; 0= Otherwise)	1.34	0.747
Business Ownership (1= Private Ownership; 0= Partnership)	1.19	0.843
Compliance cost	1.16	0.862
Fines and Penalties	1.09	0.916
Mean VIF	1.97	

The mean VIF is 1.97. From the rule of thumb multicollinearity exist if means VIF is at least 4. Therefore from the given value of VIF there was no a problem of multicollinearity.

Appendix 2

H₀: Compliance cost, fines and penalties, loophole for evasion and tax awareness and knowledge have no significant effect in tax compliance.

H₁: Compliance cost, fines and penalties, loophole for evasion and tax awareness and knowledge have significant effect in tax compliance.

Hypothesis 1 testing

Compliance cost	=	0
Fines and Penalties	=	0
Loophole for evasion	=	0
Tax awareness and knowledge	=	0
F(4,64)	=	22.52
Prob > F	=	0.000

Appendix 3

QUESTIONNAIRE

Question number:

Ward:

Enterprise's name:

Respondent's name:

Phone number:

Date of interview:

Time of the interview:

SECTION 1

BUSINESS OWNER SOCIO-ECONOMIC INFORMATION

For the following write the most appropriate number in the box provided

1.1 Age of business owner

1. below 18yrs

2. 18-29yrs

3. 30-39 yrs

4. 40 yrs and above

1.2 Sex of the respondent

1. Male

2. Female

1.3 Education level

1. No school

2. Primary school

3. Secondary school

4. Certificate

5. Diploma/ Advance
Diploma

6. First degree and above

1.4 Marital status

1. Single

2. Married

3. Divorced

4. Widowed

5. Separated

1.5 Business ownership

1. Private ownership

2. Partnership

1.6 Experience in business

1. from 5 to 10yrs

2. from 10-18 yrs

3. from 18-39yrs

4. from 40 yrs and above

1.7 Have you ever received any tax education?

1. Yes

2. No

SECTION 2

TAX MORALE AND ATTITUDE TOWARD TAX SYSTEM QUESTIONS

2.1 Measuring tax morale

For the following tick the most appropriate in the space provided

Tax morale questions	Response category						
	1	2	3	4	5	6	7
Trading commodities or services with someone such friends or neighbour and not reporting it to TRA							
Reporting your main income completely but then again excluding small separate income							
Receiving payment in cash for a job/trade but not reporting it to TRA							
Cheating on tax if you get an chance							

Key: 1= strongly unacceptable, 2= unacceptable, 3= slightly unacceptable, 4= neither acceptable nor acceptable, 5= slightly acceptable, 6= acceptable and 7= strongly acceptable

2.2 Measuring attitude towards tax system

For the following tick the most appropriate in the space provided

Attitude towards tax system questions	Response category						
	1	2	3	4	5	6	7
Trust in Tanzania legal system							
Trust in Tanzanian government at all levels							
Trust in TRA tax administration							
Trust in TRA officials							

Key: 1= strongly unfavourable, 2= unfavourable, 3= slightly unfavourable, 4= neither favourable nor unfavourable, 5= slightly favourable, 6= favourable and 7= highly favourable

SECTION 3

TAX COMPLIANCE QUESTIONS

For the following tick the most appropriate in the space provided

3.1	Level of tax compliance	Never	Sometimes	Neutral	Often	Very Often
	Does your enterprise files its tax return on agreed time					
	Does your enterprise pays the accurate amount of taxes on agreed time					

3.2	Cost of tax compliance	Very Affordable	Affordable	Neutral	Expensive	Very expensive
	How do you rate the cost of documenting tax return?					
	How do you rate travelling costs related to filing tax returns?					

3.3	Fines and penalties	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Do you think the fines and penalty rates are low that you can easily afford to pay them?					
	Do you think TRA enforcement is very weak?					
	Do you think penalties and fines are lower than your tax saving when you do not comply paying taxes?					

3.4	Perceived opportunity for tax evasion	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Do you think you may not report your actual income and TRA can be tolerant without serious repercussions?					
	Do you think TRA has limited capacity investigate all incomes reported which creates an opportunity for individuals not to report actual income?					
	Do you think a chance of being caught not declaring actual income is very low?					

3.5	Tax education and knowledge	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
	Do you know how to declare income from all sources to TRA?					
	Do you know how to keep records and documentation pertaining income and expenditure?					
	Do you understand that you should pay your taxes on prescribed day of the notice?					
	Do you know you must have TIN?					
	Do you know which income should be included and excluded when determining amount of your taxable income?					