

**TANZANIA REVENUE AUTHORITY TAX AUDIT UNITS: DOES IT  
PROMOTE VOLUNTARY TAX COMPLIANCE?**

**A CASE OF MWANZA TAX REGION**

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PROMOTE VOLUNTARY TAX COMPLIANCE?  
A CASE OF MWANZA TAX REGION**

**By  
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**A Research Report Submitted in Partial Fulfillment of the Requirement for the  
Award of Degree of Master of Business Administration in Corporate Management  
(MBA - CM) of Mzumbe University**

**2014**

### CERTIFICATION

I, the undersigned certify that I have read and hereby recommend for acceptance by Mzumbe University the dissertation entitled: ***Tanzania Revenue Authority Tax Audit Units: Does It Promote Voluntary Tax Compliance? A Case of Mwanza Tax Region*** in fulfillment of the requirements for the degree of Masters of Business Administration of Mzumbe University.

.....

ROCKE ALEX MUHABE

Major Supervisor

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Internal Examiner

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Dean, School of Business

## **DECLARATION AND COPYRIGHT**

I, Emmanuel Cyril Moshi, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any university for similar or any other degree award.

**Signature.....**

**Date.....**

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## **ACKNOWLEDGEMENTS**

I am so grateful to express my sincere gratitude to all who facilitated the production of this research report.

I would like first, to extend my heartfelt gratitude to my supervisor Mr. Muhabe who is a lecturer of Mzumbe University. He persistently guided this work from proposal stage up to the report. If it is a mature and useful report it is because of his quality supervision.

## **DEDICATION**

I dedicate this research report to my parents Mr. and Mrs. **Cyril Moshi** and to all my family members for their great support during the time of my study.

## **LIST OF ABBREVIATIONS AND ACRONYMS**

|      |                                                        |
|------|--------------------------------------------------------|
| GDP  | Gross Domestic Product                                 |
| IRS  | Internal Revenue Services                              |
| OECD | Organisation for Economic Co-operation and Development |
| SME  | Small and Medium Sized Enterprises                     |
| SPSS | Statistical Package for Social Sciences                |
| TRA  | Tanzania Revenue Authority                             |
| URT  | United Republic of Tanzania                            |
| VAT  | Value Added Tax                                        |

## ABSTRACT

The collection of tax revenue from the public in low-income countries is very difficult because of low voluntary tax compliance (Coolidge 2010). Hence, tax revenue collection is costly, involving heavy enforcement measures such as use of fines, penalty and sometimes employing court brokers in collecting tax arrears. On ensuring effective and efficient tax collection Baurer (2005) believes that the tax audit services must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. This study assess if tax audit units do promote voluntary tax compliance at Mwanza Tax Region (MTR).

The sample size of 120 respondents was purposively selected from the list of taxpayers available at MTR. The study utilizes interview and questionnaire methods to obtain primary data from respondents. However, secondary data were obtained through use of documentary review such as published and unpublished reports of MTR. Descriptive analysis was conducted to enable the researcher to summarize the collected data and organize in a way that the researcher was able to answer the research questions. The use of different tools like tables, graphs and percentages or means will be utilized, also where necessary further analysis was conducted.

The findings shows that tax audit unit do provide advanced rulings to explain tax consequences of the proposed transactions to taxpayers mean of 1.59; Tax audit units do assist taxpayers in detecting and deterring non-compliance for taxpayers mean of 1.61; The business enquiries addressed by business auditors to taxpayers the results shows mean of 1.66 which mean the statement has been agreed. The causes for non-compliance by taxpayers at Mwanza are; business activities are now very competitive hence low income so not paying tax gives relief; it's better to take the risk as its minimal to be detected; the system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity; it requires too much time to complete tax returns, and the paid taxes are not used properly so not paying tax become an option all these factors scored the mean less than 1.5.

The  $\beta$  value is 0.035 which proves there low positive relation as the value of  $R^2$  tells us that the independent variables (tax audit unit services) can account for 10.2% (0.102) of reported sales. That is to say, in other words, only 10.2% of reported sales can be influenced by tax audit unit services. Therefore the study concluded that tax audit unit services have significance effect to the reported sales by tax payers.



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## **CHAPTER ONE**

### **PROBLEM SETTING**

#### **1.0 Introduction**

Taxation is one of the important elements in managing national income, especially in developed countries and has played an important role in civilized societies since their birth thousands years ago (Lymer and Oats, 2009). It has been considered as a major source of income and governments are taking responsibilities of ensuring its collection is of success. To increase the efficiency of collections, governments have formed institutions which are direct dealing with revenue collection, for example in Tanzania the Tanzania Revenue Authority (TRA). In executing its responsibilities, TRA formed the tax audit units which are responsible among others to prepare correct tax returns from a client which helps to identify the correct tax liability. Khwaja et al (2011) shows that, tax audit are used to detect and redress individual cases of noncompliance and that promote voluntary compliance by increasing the probability of detection and penalties for noncompliant taxpayers.

This chapter covers eight sections, the introduction, background of the problem, statement of the problem and the objective of the study. The chapter also covers research question of the study, scope of the study, significance and limitation of the study and lastly the organization of the study.

#### **1.1 Background of the Problem**

Governments worldwide need resources in form of revenues or taxes to perform various functions both social and economic activities. Those activities includes; education, health, infrastructure, security and the like (Chaudhry, 2010). In less developed countries, taxation contributes close to 80% of total government revenue (Bird et al 2008). Taxes and charges are paid by individuals and companies in order to cover the costs of providing social services to community and running the Government (Slemrod, 2003).

The collection of these revenues may be of low cost if the government may involve its citizens and all members of the community to contribute and pay taxes, levies, duties and

various licenses payments (Bird *et al*, 2008) voluntarily. Even though the governments are required to be small so that can enhance efficiency service provision, high tax compliance is necessary for efficiency and equity as well as for the development of social capital. As Cowell (1990) noted *“the issue of evasion is, unlike other illegal activities, inseparably bound up with the instruments of fiscal control that the government attempts to use in carrying out its economic policy.”* While reducing evasion improves the government’s revenue, it is a broader issue for the development of a civil order (Knack and Keefer, 1997). Lack of voluntary tax compliance compels revenue authorities to use costly and coercive methods for tax enforcement (Fjeldstad and Ranker, 2003).

Tax has existed since earliest stage of human era (Bahl et al 2003). From the beginning as it is today many of these payments were involuntary and had to be forced out of the taxpayer (Murphy 2008). It was traditionally held that individuals pay taxes only because of economic consequences of detection and punishment. The reason for this is that taxes levied had more to do with giving the comfortable leaving and ensuring the dictatorship of the ruling class and that cause individuals to hesitate to pay taxes that is being non-compliant to tax payment.

Moreover, the collection of tax revenue from the public in low-income countries is very difficult because of low voluntary tax compliance (Coolidge 2010). Hence, tax revenue collection is costly, involving heavy enforcement measures such as use of fines, penalty and sometimes employing court brokers in collecting tax arrears. Same with Coolidge, Mittone (2006) argued that in less developed countries, it seems that not all taxpayers comply with tax laws. This is because of not only the tendency of tax evasion but also lack of tax education they have (Bird *et al.*, 2008). In view of that, many revenue authorities in less developed countries have introduced taxpayer services through the publications of manual on taxation procedures specifying taxpayers rights and obligations, creation of an information system including a website and telephone centre, persuasion, organization of awards to taxpayers, classification of taxpayers according to the level of compliance and fulfillment of their civic responsibility, simplification of tax procedures and taxpayer education provision in order to increase voluntary tax compliance (Massala, 2009).



On ensuring effective and efficient tax collection Baurer (2005) believes that the tax audit services must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. The tax audit services as well as administration must balance its educational and assistance role with its enforcement role (Farzbod, 2000). The rationale behind the whole system of tax is consistent with two of the three major theories of tax namely; the ability-to-pay principle and the equal distribution principle. These two principles stress equality and fairness. While the ability-to-pay talks that individuals should be levied taxes based on their ability to pay; the equal distribution principle suggests that income, wealth and transaction should be taxed at a fixed percentage; that is, people who earn more and buy more should pay more taxes if provided with taxpayer education and other services, but will not pay a higher rate of taxes (Pope & Abdul-Jabbah, 2008).

The taxpayer audit function plays a critical role in the administration of tax laws. In addition to their primary role of detecting and deterring non-compliance, tax auditors are often required to interpret complex laws, carry out intensive examinations of taxpayers' books and records, while through their numerous interactions with taxpayers operating very much as the "public face" of a revenue body (Fjeldstad, 2006). These factors, as well as the sheer size of the audit function in most revenues bodies, provide a strong case for all revenue bodies paying close attention to the overall management of the tax audit function and, in particular, to the strategies and methods used for recruiting, developing and managing individual audit staff (OECD, 2006).

Over the last two decades, Tanzania has been reforming its tax system in a drive to secure more reliable financing for development and reduce dependence on foreign aid for example establishment of Tanzania Revenue Authority (TRA) in 1995.

As many country around the world many people and companies see no shame in avoiding paying tax and where small enterprises will find it beneficial to remain outside the formal tax economy (Kibuta 2011). Outreach measures have been included in the government's reform efforts to enable citizens to better understand their obligation to pay taxes. Though the measures introduced to the public it was difficult to achieve the intended objective due to misconception among tax payers that the exercise of paying tax is exploitation

rather than being necessary contribution to the national development. The establishment of TRA was among others aimed to promote voluntary tax compliance to the highest degree. In doing that TRA formed a tax audit units that helps in assessing tax liability of a client and promote the voluntary tax payment.

However tax professionals have opposing opinion on the tax audit (Niu 2010). Niu (2010) shows the two arguments that, some say that an audit has a positive impact. They argue that after an audit, especially when an audit results in additional tax liabilities, a firm may think that the tax authorities are closely monitoring its activities and may feel that it will be caught again if it attempts to conceal revenue. For this reason, the firm may report higher sales revenue than it would have otherwise reported had it not been audited. Other tax professionals argue the opposite. They say that after an audit, a firm may think that it is less likely to be selected for re-audit in the future, which may provide the firm with incentives to cheat. Therefor this study is essential for the examination of tax audit units in promoting voluntary tax compliance at Mwanza Tax Region (MTR).

## **1.2 Statement of the Problem**

Coolidge (2010) shows that compliance cost can be a caused by taxes (profit tax, VAT, payroll taxes, or other taxes) and procedures (tax accounting, submission of tax returns, tax inspections). Considering our study, the cost that relate with procedure may be reduced by audit unit, hence encourage customers or tax payers pay their tax voluntarily.

Khwaja et al (2011) argued that tax audits are used to detect and redress individual cases of noncompliance. It is a direct and most straightforward influence of audits on compliance and revenue collection.

Khwaja et al (2011) also shows that audits promote voluntary compliance by increasing the probability of detection and penalties for noncompliant taxpayers. This impact critically depends on a properly designed audit selection strategy focusing on high-risk taxpayers. Similarly, audits provide a good opportunity for the tax administration to educate taxpayers on their legal obligations or bookkeeping requirements, thereby improving future compliance.

Furthermore Dilip and Swapan (2002) explained that tax audits are unique opportunities for tax administrations to gather information on both the health of the tax system (by measuring the share of noncompliant taxpayers and the amount of unpaid taxes) and the evasion techniques used by taxpayers.

*The actual collections for taxes at Mwanza Tax Region have been exceeding the targeted for three years consecutive*, Mwanza regional TRA manager, Jeremiah Lusana said during the fifth annual Taxpayer Day on the fringes of the Fiftieth Independence Anniversary of 'Tanzania Mainland, 9/12/2011 (Methew, Daily news 9<sup>th</sup> Dec.2011). Lusana asserted that, “despite this triumph, there also are a number of challenges” still facing the Regional Authority. The challenges mentioned includes the 20 per cent of potential tax payers who still haven't acquired the voluntary tax compliance habit; ringleaders among the business community who make a hobby of tax evasion, and traders who are yet to clamber aboard the Electronic Fiscal Devices 'train' using same to record their day-to-day business transactions. The argument of Lusana can also be supported by the TRA- Mwanza Tax Region performance report of 2008/09 and 20/2011 which shows the 75% and 80% of revenue collected respectively to be from voluntary payment while 25% and 20% of revenue collected resulted from audit and enforcement activities such as fines and penalties.

Moreover, tax compliance is not considered on the perception of not being able to pay at all but also filling false returns that may results to increase in tax liability of taxpayers after tax audit services and that tax audit information may be required for computation of the assessable income as well as to ensure that the compliance of tax laws and regulations is proper. Therefore, the study aims at assessing if tax audit units promote of voluntary tax compliance.

### **1.3 Research Objective**

The research objective of this study was divided into two main types, that is; general objective and specific objectives.

### **1.3.1 General Objective**

The general objective of the study was to assess if tax audit units do promote voluntary tax compliance at Mwanza Tax Region (MTR).

### **1.3.2 Specific Objectives**

- i. To explore types of services provided by the tax audit unit to taxpayers at Mwanza Tax Region
- ii. To explore the causes for non-compliance by taxpayers at Mwanza Tax Region
- iii. To assess the influence of tax audit unit in enhancing voluntary tax compliance at Mwanza Tax Region

### **1.4 Research Questions**

- i. What are the types of services provided by the tax audit unit to taxpayers at Mwanza Tax Region?
- ii. What are the causes for non-compliance by taxpayers at Mwanza Tax Region?
- iii. What is the influence of tax audit unit in enhancing voluntary tax compliance at Mwanza Tax Region?

### **1.5 Scope of the Study**

This study focusses on the contribution of TRA audit units in promotion of voluntary tax compliance. Tax audit can be carried as extension of normal financial audit carried by external auditors of the companies or as a consultant services provided by accounting firms.

However, this study concentrate the tax audit as a service provided by tax official aiming at assessing of the tax required which may include disclosure of all significant accounting practices employed n organization, a report in financial accounts ( statement of financial position, income statement and other accounts and schedules which are parcel of financial reports). The study covers taxpayers (medium and small) and TRA employees at MTR.

The study therefore identifies kinds of services provided by tax audit unit to taxpayers, causes for taxpayer not to comply voluntarily and the influence of tax audit unit in enhancing voluntary tax compliance.

### **1.6 Significance and Limitation of the Study**

The study provides facts regarding the contribution of tax audit unit in promoting voluntary tax compliance and highlight measures to be taken for the successful promotion of voluntary tax compliance.

The findings from this study may be used by TRA to improve revenue collection and services to all stakeholders while paying for the services they receive voluntarily hence low cost of collection. This study also allows the researcher to the fulfillment of Master degree in Business Administration (Corporate Management) requirements at Mzumbe University.

During conducting this study the researcher faced the following limitations;

**Slow returns of questionnaires:** Some of questionnaire distributed to the respondents were not returned. This is because some respondents had traveled, away until when fieldwork ended. However, the researcher used the returned scripts as well as information obtained through other methods such as interviews to make judgments.

### **1.7 Organization of the Study**

This study is about assessing if tax audit units do promote voluntary tax compliance. In general the study covers five chapters, chapter one set the introduction of the study while its literature both theoretical and empirical being covered under chapter two.

The methodology followed where means of data collection and the analysis process is explained and then chapter four presents analysis and discusses the findings of the study. Lastly the study presents the summary of the findings, gives the conclusion in each specific objectives and provide the recommendations under chapter five.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter discusses the literature about tax audit units and voluntary compliance. The chapter covers the definition of key terms, the theory of the study, theoretical literature on tax compliance and tax assessment. Also the chapter covers the empirical literature about the tax audit and voluntary compliance, the chapter also shows the conceptual framework and lastly the research hypothesis.

#### **2.1 Definitions of Key Concepts**

The following concepts are used in this study and have the meanings attached to them as hereunder;

##### **Taxpayer**

The taxpayer is referred to any person who has a chargeable income during a year (Chijoriga, 2012).

##### **Taxpayer Services**

Taxpayer services concern with set of measures undertaken by the tax administration that are designed to assist taxpayer in complying with tax laws (Cummings *et al*, 2005).

##### **Compliance**

Compliance implies timely filling and reporting of required tax information, the collect self-assessment of taxes owed and the timely payment of those taxes without enforcement action (Lymer and Oats, 2009).

##### **Voluntary Tax Compliance**

Voluntary tax compliance refers to self-assessment of a taxpayer on his/her tax ability and then remit relevant amount of tax to the government (Fjeldstad, 2006).

Jackson and Milliron (1986) and Kirchler *et al* (2007)) defined voluntary tax compliance as *taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions, relief and rebates and pay all taxes on time*. In contrast with tax

compliance, tax non-compliance is defined as taxpayer's failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure. Non-compliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler *et al*, 2007).

### **Tax audit**

A tax audit is an examination of whether a taxpayer has correctly assessed and reported his/her tax liability and fulfilled other obligations (Cummings *et al*, 2005). Tax audits are often more detailed and extensive than other types of examination, such as general desk checks compliance visits/reviews or document matching programmers. These are, of course, exception to this rule conditions and approaches vary from country to country (OECD, 2006). To the tax administration, tax audit refers to the examination of tax returns by concerned tax officials primarily with respect to checking as timely arrival, inclusion of all required forms and attachments and arithmetical accuracy (Fjeldstad, 2006).

"Tax audit" means to audit an assessee's accounting and other documentary evidences to prepare the correct tax return as well as to prepare the statements showing the detailed computational working for different heads of income or items in tax return and other required evidential statements regarding allowances and disallowance for deductions and all these are to be followed by an audit report giving the auditor's opinion about the degree of correspondence between the information content in the tax return and regulatory provisions of the existing tax laws (Cummings *et al*, 2005).

### **Tanzania Revenue Authority (TRA)**

This is the authority which is mandated to collect all central government revenue. Taxation is the most reliable and sustainable source of government finance that is why Tanzania Revenue Authority (TRA) was established under the Parliamentary Act No.11 of 1995 and eventually started its operations in July 1996 with the aim of enhancing revenue collection with the following main functions; (a) Assess, collect and account for all central Government Revenues; (b) Administer effectively and efficiently all the Revenue Laws of the Central Government; (c) Advice the Government on all matters

related to fiscal policy; (d) Promote voluntary tax compliance; (e) Improve the quality of services to the taxpayers; (f) Counteract fraud and other forms of tax and fiscal evasion; and (g) Produce trade statistics and publications (URT, 2008).

## **2.2 Tax Over view**

Tax is a compulsory payment from an individual to the state. According to TRA-Handbook (2008) Taxation is important part of the fiscal policy of Government. Through Tax the governments raise its revenue required for recurrent and development expenditure. Citizen of any country have a civil obligation of paying taxes to the government so as to enable it to meet the cost of providing social and economic services. Tax is imposed by government on either income, expenditure or capital asset for which taxpayer receives nothing specific in return.

Tax has several basic principles, namely equity, certainty, convenience and efficiency. Lymer and Oats (2009) explained *Equity principle* as means a tax system should be fair among individuals and taxes should be levied based on taxpayers' capacity. Horizontal equity means that taxpayers with the same income or wealth should pay the same amount of tax (tax burden) while vertical equity means that taxpayers with high income (capacity) should pay higher tax (tax burden); The second principle is the *Certainty principle* which is defined as a taxpayer knowing his or her tax liability and when and where to pay the tax. It relates to the simplicity of the tax systems so that the taxpayers are easily understood and capable of calculating their tax liability. The third principle is the *Convenience principle* which relates to how people pay their taxes or engage with the tax system. For example, people more conveniently pay tax by it being deducted at source rather than paying a large amount of tax annually (Lymer and Oats, 2009). The introduction of electronic filing is another example of a facility provided by the tax authority to ease the method of filing tax returns. The forth principle is the *Efficiency principle* which refers to how the tax authority collects the tax revenues and can be divided into two subsections: administrative efficiency and economic efficiency. Administrative efficiency refers to the costs involved when collecting tax revenues. The more a tax costs to administer, the less of the money raised is available to the government to spend.



The administrative cost should be as small as possible to achieve desirable economic efficiency (Lymer and Oats, 2009). Economic efficiency referring to tax should not interfere with the working of the markets. For example, the introduction of a new tax or increase on the tax rates should not distort or affect taxpayers' behaviour (i.e. from compliant to less compliant) (Cummings *et al*, 2005).

Furthermore taxes can be classified into two main types: direct and indirect taxes. Direct taxes mean the burden (incidence) of tax is borne entirely by the entity/individual that pays it, and cannot be passed on to another entity/individual for example, corporation tax and individual income tax (Yilmaz & Coolidge 2013). Indirect taxes are typically the charges that are levied on goods and services (consumptions); for example VAT (Value Added Tax), sales tax, excise tax and stamp duties. Indirect taxes are not levied on individuals, but on goods and services. Mansor *et al*, (2005) contended that customers indirectly pay this tax in the form of higher prices. For example, it can be said that while purchasing goods from a retail shop, the retail sales tax is actually paid by the customer. The retailer eventually passes this tax to the respective authority. The indirect tax actually raises the price of the goods and the customer's purchase by paying more for that product. Unlike indirect tax, direct taxes are based on 'ability to pay' principle but (by being very obvious to the taxpayer) they sometimes work as a disincentive to work harder and earn more because that would mean paying more tax.

### **2.3 Tax Audit Services Over view**

Cummings *et al* (2005) argued that historically, the audit function conducted by public accountants has been associated with this activity of attesting to financial statement. Tax audit which is expected to be performed by public accountants can be thought of as extension of this "attest function". For tax purpose, one assesses a liable to file a return to the concerned assessing officer with supporting documents sometimes called for by the assessing officer under the tax law producing the same (Fjeldstad, 2006). In this context, the question of tax audit may arise. Generally, an audit will examine the issue seen as most significant to achieving an accurate assessment of a taxpayer's tax liability.

Typically, these issues will include any indications of significant unreported income (for example, as these suggested by a very low ratio of net/gross business income ratio computer from a taxpayer's return) or potentially over – claimed deduction items that may be apparent from an examination of a taxpayer's tax return and other information (Slemrod, 1998). As well as income tax returns and other reporting, this includes supporting documents, which the taxpayer should normally have. The audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises etc (OECD, 2006). Additionally, De Simone *et al* (2012) find that the auditor's economic dependence on the client improves accrual quality, suggesting that auditors are more conservative with their influential clients due to reputational concerns.

### **2.3.1 Tax/Revenue Assessment**

Assessment is the determination of the amount to be paid in respect of a particular revenue item and raising a formal notification of the amount to be the basis for its determination, the due date and mode of payment among other to the tax payer. An assessment must be based on a clearly defined tax base and must reflect the rates applicable a tax base. The assessment exercise helps Governments to keep a record of the amount and due date for payment of the respective revenue items assessed, the name, location and other details of the taxpayer (Fjeldstad, 2003).

The assessment exercise requires first the identification of suitable assessors and then training them before embarking on the assessment exercise. A good revenue system must have a team of well-trained assessors whose main responsibility is to prepare, raise, and distribute assessments in line with the regulatory and policy framework for Local and central Government (Gordon, 2010).

Effective assessment should put into consideration the following principles according to De Simone *et al* (2012); a) *Ability to pay*: This principle has to be exercised in that the taxpayer should be able to pay the tax assessed on him. The ability to pay is determined by earned income, disposable income, expenditure and domestic obligations of the taxpayer; b) *Simplicity*: The type of tax, method of assessment and collection must be simple and understandable by both the taxpayer and the tax collector.

Mugume (2006) asserted that, a good tax should be one which is easy to understand that to say, the tax payer must be able to know the exact amount to pay and when and how much to pay without any difficulty. Complicated taxes tend to lead to disputes, delays, and high collection costs in terms of time and resources. Organizing assessments basing on the principles ultimately improves on the Local revenue collection hence service delivery and the reverse is true; c) *Elasticity*: This element should exist in assessment under Local revenue collection to improve on the tax base and taxes should change directly with change in the tax base and the reverse is true, hence the revenue is generated.

## **2.4 Theories of Tax Compliance**

Various opinions exist about the best ways to improve tax compliance (Kastlunger *et al.*, 2009). Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way is to increase incentives, while others believe the best way is to increase penalties (Chaudhry, 2010). Tax compliance theories can be broadly classified into two. They are; economics based theories and psychology based theories.

### **Economic Based Theories**

They are also known as deterrence theory and they place emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers (i.e. they are influenced by economic motives such as profit maximization and probability of detection) (Chaudhry, 2010). As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximizes their expected after tax returns after adjusting for risk. This process is referred to as “playing the audit lottery” by Kiabel and Nwokah (2009). Therefore according to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased.

### **Psychology Theories**

Psychology theories on the other hand posit that taxpayers are influenced to comply with their tax obligations by psychological factors. They focus on the taxpayers’ morals and ethics.

The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax or revenue systems (Chaudhry, 2010).

#### **2.4.1 Factors Affecting Compliance Behavior**

There are two broad approaches to the problem of tax compliance that is the one developed from economic rationality, using the economic analysis, while the second is concerned with behavioral issues and draws heavily on concepts and researches from other disciplines, such as psychology and sociology (OECD, 2006). Economic and behavioral approaches are sometimes regarded as competing explanations (Valeria, 2004). The economic approach identifies economic factors that affect the tax compliance behavior as follows; a) Financial burden: There appears to be a relationship between the amount of tax owed and compliance behavior.

For example if a business owner has a tax liability that can easily be paid, he/she may be willing to comply. However if the liability is large, potentially threatening the viability of the business, the owner may avoid paying it or trying to adjust the data reported so as to incur a smaller (but incorrect) tax liability (Palil, 2010); b).

The costs of compliance: Costs of compliance are the common costs a taxpayer has to incur in complying with tax obligations for example, time taken to complete tax returns, costs of hiring tax accountants, psychological costs such as stress, arising as a result of uncertainty that one is not sure that he/she has met all of the tax rules.

The list is not exhaustive. The higher the compliance costs, the higher the chance of non-compliance (OECD, 2003); c) Incentives: Giving taxpayer incentives may have a positive effect on tax compliance (Kirchler *et al*, 2007). The behavioral scholars identified behavioral factors that affect the compliance behavior as follows:- i) Individual differences for example, gender, age, education level, moral compass, industry, personality, circumstances and personal assessment of risks; ii) Perceived inequity. Tax payers who believe that the system is unfair or who have personal experiences of unfair treatment are less likely to comply iii) Perception of minimal risks.

If a taxpayer has the opportunity not to comply, and perceives that there is only a minimal risk of being detected he/she will take the opportunity (Kirchler *et al*, 2007) iv) Risk taking. Some people view tax avoidance/tax evasion as a game to be played on and on. They would like to test their skills in avoiding being caught (OECD, 2006).

The compliance attitude of the taxpayer is affected by the factors from the external environment of the taxpayer, for example, the nature of the business, industry and economic conditions prevailing on the market such as demand and supply. These are the factors that affect the competitive advantage hence creating a perception that non-compliance to tax is the solution. It is also affected by internal factors, such as sociological and psychological factors (Clifford and Amayi, 2012). This suggests that to improve the taxpayer compliance, should target at improving the taxpayer capability to overcome the forces from those factors as outlined above, hence creating a positive tax compliance behavior and attitudes (Roak and Stephen, 1994). However, Lackson and Miliron (1986) listed the main factors that have influence as ethics, legal sanctions, complexity of the tax laws, and relationship with the tax authority, level and reliability of income sources, perceived fairness of the tax system possibility of being audited and the level of tax rates.

## **2.5 Voluntary Compliance Overview**

Tax compliance level can be identified by looking on the compliance indicators; here one can examine the percentage of the tax revenue to the GDP (OECD, 2004). An increased percentage of tax revenue in relation to the GDP signifies an increase in the level of tax compliance. Public opinion indicators are the perceptions of people towards the taxation systems and taxes (Khwaja et al 2011). Other compliance indicators are; percentage of income that is reported for the taxation purposes and the program impact indicator. Here, one may assess the impact of specific programs or initiatives on the compliance.

Coolidge (2011) argued that to examine the trend, in the compliance aspects, for example registration, and filing of the return, correct reporting of the income and expenses, as well as the payment of the correct amount of tax can be used as measures of voluntary compliance.

The trends should be examined or compared on the basis of percentage, rather than additional revenue generated, by application of the specific compliance strategy or comparing the percentage of tax revenue collected through enforcement activities such as audit, penalties and fines, to the total revenue collected, with that paid voluntarily. Tax compliance level may be identified by looking on tax gap. Tax gap represents the difference between the actual revenue collected and the amount that would be collected if there were 100 percent compliance (Coolidge and Domagoj 2009).

Generally, voluntary compliance with the tax laws has some advantages over forced compliance. Even the taxpayers themselves stand to gain through voluntary compliance. They may be for example served from unnecessary penalties; fines; other sanctions and the possibility of lower tax rates being adopted.

Also voluntary tax compliance has economic advantage to the authority in the sense that costs of collection will be low compared to forced compliance. The success or failure of the tax departments depends on the cooperation of both the taxpayer with their advisors on one hand and departmental staff on the other. Taxpayer's advisors may be either practicing Lawyers or Accountants.

The number of professional Accountants and Lawyers is currently inadequate although it is rapidly increasing so that voluntary compliance is likely to improve and eventually to be retarded to the maximum in the future (Coolidge and Domagoj 2009).

In order to achieve maximum voluntary compliance there is need to educate all parties concerned in this juncture of revenue collection. Some of the ways in which education can be provided includes interviews; radio and television programs; seminars; publication and other Medias. An organized taxpayers assistance programs are very necessary to the achievement of maximum voluntary compliance.

### **2.5.1 Factors Affecting Voluntary Tax Compliance**

Aim of these factors is to estimate the reasons for non-tax compliance in order to improve tax revenue collection. Voluntary tax compliance is a function of large set of variables such as demographic variables, tax education, perception on tax fund, tax rate etc.

Descriptions of the variables that had been tested if they effect voluntary tax compliance are:

***Attitude towards tax:*** Attitude represent the positive and negative evaluation that taxpayer hold of object. Taxpayer with positive attitude towards tax evasion are often found to be less voluntary compliant than taxpayer with negative attitude. Attitude towards tax evasion often too many citizens are found to be quite positive (Kirchler et al., 2007). The compliance attitude of the taxpayer is affected by the factors from the external environment of the taxpayer, for example, the nature of the business, industry and economic conditions prevailing on the market such as demand and supply.

These are the factors that affect the competitive advantage hence creating a perception that non-compliance to tax is the solution. It is also affected by internal factors, such as sociological and psychological factors. This suggests that the model to improve the taxpayer compliance, should target at improving the taxpayer capability to overcome the forces from those factors as outlined in the model above, hence creating a positive tax compliance behavior and attitudes. Kirchler *et al.*, (2007) listed the main factors that have influence as ethics, legal sanctions, complexity of the tax laws, and relationship with the tax authority, level and reliability of income sources, perceived fairness of the tax system, and possibility of being audited.

***Tangible benefits and perception on the uses of tax fund:*** Studies on the relationship between the specifics of actual government spending and tax compliance, particularly on tax evasion, are very limited. Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. People pay tax when they expect a certain return, in circumstances where perceive taxes to be unfair and receive few tangible benefits in return for taxes paid, only coercive methods of enforcement can generate revenue. The perception of limited tangible benefits in return for taxes paid, seem to legitimate tax evasion.

**Tax rate and tax amount:** Kirchler *et al.*, (2007) said that, any attempt to avoid or evade tax may be caused by the factors like; higher tax rates and frequent changes in tax rates such as in sales tax and import duty; withholding tax; VAT 18%, Corporation tax 30% and many others. It is encouraging that Tanzania tax rates should have been reduced and rationalized. The current tax rates appear to be fairly low and reasonable but still there is a need for improvement to the extent possible. Where the effective tax rates are fairly low and reasonable it will be a major cause for voluntary tax compliance and ultimately tax evasion and avoidance will be retarded.

Also too many taxes are difficulty to comply with correctly due to lack of knowledge of the detailed provisions of all the Tax laws, too many due dates and too many returns to complete; accounting staff shortages and other different problem in the tax laws hinders voluntary compliance. It is also been encouraged that, there is a need for improvement.

**Punishment for tax evader:** When the punishment such as penalty and fines are too low could be perceived as indicator that the authorities are weak and unable to control non payer. Punishment that are inappropriate because a taxpayer voluntary made a mistake result from ambiguous tax law, this reduce voluntary tax compliance. Palil, (2010) argued that, low prospects of being detected and low punishment of tax evaders can lead to the expansion of tax evaders group. The more tax evaders a person know who are not caught and punished, the more likely he will also join the group of tax evaders (induced evasion). It can be said that, where tax evaders are caught penalties and fines should be a sufficient alternative means as stated in the “*Tanzania Income Act, 2006*”, (Section 100-109) explains various penalties, interest and fines. That is why in some other complex cases of evasion, prosecution policy should be adopted against the offenders.

**Inefficiency of Tax Administration:** Dilip and Swapan (2002), argued that administrative inefficiency, collusion with taxpayers and bribery of tax officials are likely to influence taxpayers in evading taxes and thereby small tax base. Financial constraints, inadequate working tools and lack of staff motivation also do not encourage tax compliance whereby income may go untaxed and tax collection is delayed for several reasons.



Inadequate training and experience of tax administration together with lack of exposure to business practices may limit tax official's ability to solve complex issues of tax avoidance schemes and other Accounts falsification. The study was determining the contribution of tax administration on voluntary tax compliance.

***Demographic variable:*** Taxpayer demographic characteristics have an effect on tax compliance or non-compliance. For the purposes of this study, the following taxpayer characteristics - gender, age, educational attainment and marital status are reviewed.

***Age:*** The majority of studies reviewed by Richardson and Dilip and Swapan (2002) that examined the age variable found that older taxpayers tended to be more compliant than younger taxpayers. Older people may have acquired more social capital (Dilip and Swapan 2002). Thus we would predict that there is a positively correlation between age and tax compliance. The investigation was aiming at knowing the contribution of age in terms of age groups such as age between 15-29, 30-44 and 44-60 on willingness to pay tax.

***Gender:*** Although there is still a lack of empirical and experimental evidence, there is the tendency that women are more honest and more compliant than men. Evidence from the tax compliance literature shows the tendency that men are less compliant than women (Dilip and Swapan 2002). A common finding amongst studies reviewed by Richardson and Sawyer (2001) and previously by Jackson and Milliron (1986) was that female taxpayers were more compliant than their male counterparts. In particular, a comprehensive study conducted by Oxley (1993) in New Zealand reported that women were more often compliers in comparison with men and less often tax evaders or tax avoiders'.

***Educational qualification:*** The effect of education on taxpayer compliance is not clear. Both positive and negative relations have been found between education and non-compliance. Dilip and Swapan 2002) indicated that education is a variable most likely to improve compliance, and that inconsistent results are produced as education is highly correlated with income level.

*Marital status:* Individual taxpayers who have spouses are found to be more compliant than unmarried taxpayers. This situation could partly be explained by the fact that women turn to be more tax compliant than men. Married women are therefore able to influence their male counterparts to be tax compliant as well.

## **2.6 Empirical Literature Review**

Slemrod (2003) observed that there is an increasing amount of evidence from experimental studies and survey data that show that citizens trust in others and by his or her perceptions of the trustworthiness of the government lead to tax compliance. Therefore, from this perspective citizens are likely to fruit the government only when they believe that it will act on their interests, its procedures are fair and reasonable, and their trust in the state and other people is reciprocated.

Fjeldstad (2006) argues that citizen's willingness to pay taxes voluntarily rests on the government's capacity to provide goods and services and its demonstrated redness to secure compliance otherwise lead to non-compliant. Following the above observations, it is seen that in defining voluntary tax payment compliance, a number of variables are taken into consideration. For example, the internal revenue service (IRS) of the United States of America defines voluntary tax compliance as "a system of compliance that relies on individual citizens to report their income freely and voluntary, calculate their tax liability correctly, and file a tax return on time" (Kastlunger *et al.*, 2009). Yet, the voluntary tax compliance means that one must inform the tax authority of one's own tax liability (Fagbemi *et al.*, 2010). Hence, voluntary tax compliance is used to refer to citizen's willingness to honour the country's tax laws, regulations and requirements as provided by tax administration authorities. However, these studies could not identify kinds of services that are provided by various units such as tax audit unit in promoting voluntary tax compliance to taxpayers.

Yongzhi (2010) in his study shows one facet of taxpayer services (tax audit) and its impact on voluntary compliance. His study ends by showing that the tax audit impact becomes stronger as time passes. This has a positive impact on the tax compliance because after an audit, a firm may think that the tax authorities are closely monitoring its activities and may feel that it will be easier to be caught if it will attempt to conceal

revenue. Slemrod (2003) in his study randomly selected taxpayers and informed them that their filling was “closely examined” and found evidence of taxpayers’ behavior changes in response to an increased probability of audit, although the responses were not uniform among different groups of taxpayers. On the other hand, Alm *et al.*, (1992) used data from laboratory experiments to estimate the effects on compliance of the major fiscal instruments and concluded that, among others, there is a positive relationship between audit rate and compliance, but they caution about the generalization from the estimates based on the experiments. However, these studies could not identify tax audit services and influences to promote voluntary tax compliance.

Tax audits, audit rates and prior audit experience have been ambiguously discussed in relation to tax compliance. Some studies claimed that audits have a positive impact on tax evasion (Dubin, 2004). These findings suggest that in self assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions. Butler (1993) also found that tax audits can change compliance behaviour from negative to positive. These findings complement the Witte and Woodbury (1985) and the Beron *et al* (1988) studies. Witte and Woodbury (2003) in their study of small proprietors found that tax audits have a significant role in tax compliance. However, they did not empirically test the influence of tax audit services done to individual taxpayers, thus left open room to conduct research in this area.

Lin and Carrol (2000), conducted a study to determine how enhanced tax knowledge and tax attitudes, affects the compliance behavior among the taxpayers in New Zealand. Analyzing the compliance behavior of the taxpayers after acquiring the tax knowledge did not have significant relationship with tax compliance behavior. Rasshid and Noor (2004) conducted a study to evaluate the influence of tax knowledge on the tax compliance behavior among the taxpayers in Malaysia. The objective of the study was to investigate the effect of the presence of tax knowledge and understanding, on the level of tax compliance behavior.

Analyzing the data collected using questionnaires, to compare the compliance behavior of taxpayers with significant level of tax knowledge with those without tax knowledge. Statistical findings, confirmed that those with tax knowledge had higher level of compliance than those without. The results indicated a significant relationship between the level of tax knowledge and the level of tax compliance.

Nevertheless, Mittone (2006) gave an experience from South Africa and Namibia which showed obviously that there are a number of constraints on taxes paid by tax payers and the level of compliance. These arise from equity considerations (that is, ability to pay), collection and billing methods, the quality of the services provided and persistent resistance to pay. However, their studies could not assess the influence of tax audit unit in enhancing voluntary tax compliance.

These lessons gained from the study according to Yongzhi (2010) point the fact that dealing with the tax audit services and revenue enhancement require some understanding of the factors underlying the individual's decision whether to pay or evade paying taxes. An increasing amount of evidence suggests that the rate of contribution to a public good is affected by factors such as citizens' trust in others and the trustworthiness of the government which contribute to voluntary tax compliance and vice versa (Slemrod 2003).

Fagbemi *et al* (2010) concluded that without trust there is little basis for social co-operation and voluntary compliance with laws and regulations that could potentially benefit everyone. In particular, according to Fagbemi *et al* (2010) three dimensions of trust seem to affect citizens' compliance: (a) trust in the government to use revenues to provide expected services, (b) trust in government to establish fair procedures for revenue collection, and (c) trust in other citizens to pay their share. This affects the individual ratepayer's perception of the credibility and trustworthiness of the revenue administration if tax audit service is not provided. That's why; the problems of non-payment should therefore be attacked on several fronts, including service delivery, better administration, payment schemes and community involvement as argued by Mittone (2006).

However, their studies could not explore the challenges encountered by tax audit employees when exercising their duties.

Beron *et al* (1988) found a contradictory result as they reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income (Beron *et. al.*, 1988).

Another study by Cummings *et al* (2005) estimated the determinants of income tax reporting as a function of audit rates using state-level, time-series and cross-section data from the Annual Report of the IRS for the years 1977-1985. They found that higher audit rates often have a positive impact on income tax reporting but one that varies by audit class and one that is not always statistically significant. The study also found that there is a spillover effect from tax audits; that is, taxpayers who are not themselves audited pay more in taxes when audit rates increase. The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance related rather than part of their management of their business. Thus, as the audits investigations increase, many taxpayers will make more of an effort at proper record keeping. However, their studies could not explore the challenges encountered by tax audit employees when exercising their duties.

In summary, previous studies have evidenced that tax audits play an important role in increasing voluntary compliance. Audits rates and the thoroughness of the audits could potentially encourage taxpayers to be more prudent in completing their tax returns.

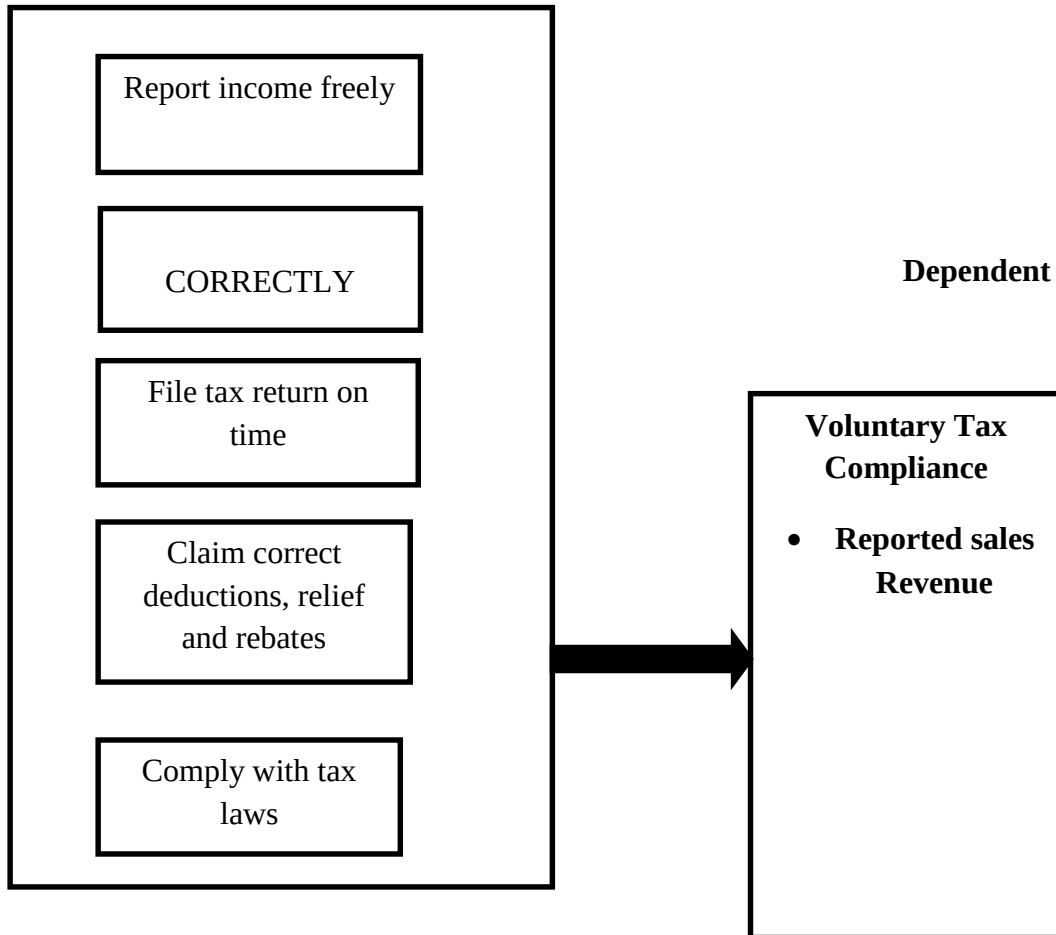
## **2.7 Conceptual Framework**

Figure 2.1 provides a conceptual framework model. The dependent variable is voluntary tax compliance which is measured by increase in reported sales revenue which is a good indicator of voluntary tax compliance. The independent variable of the study is the output of the services that provided by tax audit unit to taxpayers especially those relates to promote voluntary compliance.

These output are such as report their own income freely, calculate tax liability correctly, file tax return on time, comply with tax laws and claim correctly deductions, relief and rebates, see figure 2.1 below.

**Figure 2.1; Conceptual Framework**

**Independent Variables**



**Source;** Researcher's Model 2014

## **2.8 Research Hypothesis**

A research Hypothesis is the statement created by researchers when they speculate upon the outcome of a research or experiment. It is a paring down of the problem into something testable and falsifiable (Martyn, 2008). In order to answer objective three that aim to assess the influence of tax audit unit in enhancing voluntary tax compliance at MTR the hypothesis were formed.

The null hypothesis which is H0 is that;

H0; There positive relation between tax audit and voluntary tax compliance

However, H1; will be the reverse of the H0, so is that;

H1; There negative relation between tax audit and voluntary tax compliance

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0 Introduction

This chapter discusses the methodology undertaken during undertaking this study. The chapter covers the study area, research design, the population and sample size. It also covers data collection tools, measurement of variables and data analysis.

#### 3.1 Study Area

Mwanza region is located in the northern part of Tanzania just south of Lake Victoria. The Lake Victoria waters separate the region from the neighboring countries of Kenya and Uganda. To the east, north and West are the sister lake dominated regions of Mara and Kagera. To the south there is Shinyanga region. It lies between latitude 10 30' and 30 0' south of Equator and the longitudes 310 45' and 340 10' east of Greenwich. The region has a total of 8 districts, seven Local Government Authorities, 33 divisions, 174 wards, 683 villages and 481 mitaa (small administrative areas resulting from subdividing wards within townships), municipalities and cities and for this case is within Mwanza City (URT, 2008).

**Figure 3.1: Map of Mwanza Region**



**Source:** URT, 2008

### 3.2 Research Design

In this report the researcher used a case study design in which he collected various data about whether tax audit unit do promote voluntary tax compliance. This report is a case study of TRA- Mwanza Tax Region. The study was an exploratory research designed to collect most information within this particular organization because the researcher was able to obtain data and information required for the study. A case study design helps the study to focus on one organization and its data used to explain and prove the objective of the study.

### 3.3 The Population of the Study

The population of the study includes medium enterprise taxpayers and small enterprise taxpayers who are about 335 and TRA employees who are involved in the tax audit/debt management and compliance about 15. In total the population of this study is about 350.

### 3.4 Sample Size and Sampling Techniques

The sample size of 120 respondents was purposively selected from the list of taxpayers available at MTR of which 60 respondents are medium enterprise taxpayers, 60 respondents are small enterprise taxpayers and 10 respondents are TRA employees (key informants) table 3.1 provides brief details of the sample size. The selection from TRA employees will consider the sensitiveness of the department attached to taxpayers (Tax audit unit/department and Debt management and compliance unit/department). As Cooper and Schindler (2008) argue that, for any valid and reliable study to be carried, its sample size shouldn't be less than 30% of its population. As it stands, the sample size is 37.14% of the population; hence fulfilling their argumentations.

**Table 3.1; Sample Size**

| Type of Respondent          | Sample Taken | Questionnaire Returned |
|-----------------------------|--------------|------------------------|
| Medium Enterprise taxpayers | 60           | 57                     |
| Small enterprise taxpayers  | 60           | 58                     |
| TRA staff                   | 10           | Interview Method       |
| <b>Total</b>                | <b>130</b>   | <b>125</b>             |

**Source;** Researcher's Data 201



### **3.4.1 Sampling Technique**

The sampling technique used in the study was purposive sampling. This procedure will be used to obtain and utilize personal experience of each respondent regarding the influence of tax audit unit in promoting voluntary tax compliance. Therefore, medium and small enterprise taxpayers as well as TRA employees from debt management and compliance department/unit and tax audit unit/departement will be selected by using this method believing that they possess key information regarding voluntary tax compliance.

### **3.5 Data Collection Methods**

Two types of data were collected, the primary data and the secondary data. This study utilizes interview and questionnaire methods to obtain primary data from respondents. However, secondary data were obtained through use of documentary review such as published and unpublished reports of MTR.

#### ***Interview***

The researcher conducted the face-to-face interview to TRA (10) officers/employees from the departments of tax audit unit, debt management and compliance department/unit in order to solicit information regarding the contribution of tax audit in promoting voluntary tax compliance. The data collected through this method was used as supplement or additional of the findings through the questionnaire method.

#### ***Questionnaires***

Questionnaires were utilized to obtain information from taxpayers (small and medium) in Mwanza tax region.

The information asked includes; kinds of services provided by tax audit unit that are expected to enhance voluntary compliance, why taxpayers are reluctant to pay tax and the influence of tax audit unit services to voluntary tax compliance. However, copies of questionnaires were prepared based on the essentials of a good questionnaire, i.e. short and simple, and organized in a logical sequence moving from relatively easy to more difficult issues. Technical terms, vague expressions and those affecting emotions of the respondents were avoided. Pilot study was carried out to test the validity and reliability of these questionnaires.

### ***Documentary Review***

The researcher utilizes different documents in order to access accurate and reliable data such as policies and regulations (regarding taxpayers' obligations), guidelines and directives (circulars regarding tax laws) and performance reports (quarterly and annual reports) obtained from TRA - Mwanza tax region.

### **3.6 Measurements of Variables**

On measuring the variable of this study, demographic characteristics of respondents was necessary to be carried as age, marital status, education and gender has an impact to the behavior of voluntary tax compliance. Respondents were asked to show their demographic characteristics as shown in the question and choose the best characteristic that explains him or her best.

This study involves two types of variables the dependent variable and the independent variable. The dependent variable is the voluntary tax compliance measured by increases in reported sales revenue. Some questions were prepared by researcher to measure the opinion of respondents whether tax audit unit services do influence the increase in reported sales revenue by clients. The questions were prepared in a way that respondents are required to state their agreement or disagreement where likert scale were used.

The independent variables of the study were measured in the way that several statement were created that relates to functions offered by the tax audit unit staff to tax payers but very specifically the services that may influence the voluntary tax compliance. These variables includes as report their own income freely, calculate tax liability correctly, file tax return on time, comply with tax laws and claim correctly deductions, relief and rebates. All statement created intended to measure the perception of respondents (medium and small enterprise tax payers) on the services offered by tax audit unit. The statements required respondents to rank their agreement from strongly disagree coded as 1 to strongly agree coded as 5.

### **3.7 Data Analysis**

Data collected were divided into two categories, qualitative data and quantitative data. Qualitative data is data that cannot use statistical methods in its analysis and interpretation of the findings while quantitative data uses statistical methods or measurements in reaching the conclusion of the findings (Kothari 2004). Qualitative data obtained has been used to enhance the discussion of the findings in quantitative data.

Descriptive analysis was conducted to enable the researcher to summarize the collected data and organize in a way that the researcher was able to answer the research questions. Descriptive analysis allows data to be quantified analyses. The use of different tools like tables, graphs and percentages or means will be utilized, also where necessary further analysis was conducted.

In order to answer the general objective, Hypotheses formulated after conceptual framework was proved to make a conclusion if tax audit units do promote voluntary tax compliance at MTR. In doing so regression analysis was deployed as a measure of acceptance or rejection of the hypothesis.

## CHAPTER FOUR

### DATA PRESENTATION, ANALYSIS AND DISCUSSION

#### 4.0 Introduction

This chapter presents, analyse and discusses the findings about whether TRA audit units do promote the voluntary tax compliance. The chapter starts by discussing the respondent's characteristics there after the presentation and discussion on the specific objectives. The findings on the types of services provided by the tax audit unit to taxpayers at Mwanza Tax Region, the causes for non-compliance by taxpayers at Mwanza Tax Region and the influence of tax audit unit in enhancing voluntary tax compliance at Mwanza Tax Region were presented and discussed.

#### 4.1 Respondent's Background Information

Respondent's personal background information was based on gender, time of being registered traders as taxpayer, age and education. Other characteristics that were considered are category whether a medium or a small trader, there position in the business and the business type.

##### 4.1.1 Gender of Respondents

The gender of the respondents are very important in assessing the taxpayers behaviour of taxes compliance as some studies suggest that gender is the factor to voluntary taxes compliances. The gender in this study was considered in terms of Male coded as 1 and Female coded as 2. Respondents were required to show their gender on those two choices given. The finding shows that 51.3% of all respondents were male while female contains of 48.7%. The findings are presented in table 4.1 below;

**Table 4.1; Gender of Respondents**

| Choices      | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|--------------|------------|--------------|---------------|--------------------|
| Male         | 59         | 51.3         | 51.3          | 51.3               |
| Female       | 56         | 48.7         | 48.7          | 100.0              |
| <b>Total</b> | <b>115</b> | <b>100.0</b> | <b>100.0</b>  |                    |

**Source;** Researchers Findings 2014

#### 4.1.2 Experience as TRA Registered trader (Taxpayer)

The experience of being registered as taxpayer helps to assess the knowledge and experience of our respondents in tax and voluntary tax compliance behaviour. Respondents were required to write their number of years, for the analysis purposes the number of years were converted into months as some respondents show number of years and some months. The finding shows that the minimum number of months for our respondents is two (02) months and the maximum period is 384 months equivalent to 32 years. The average period for the study is 100.68 months equivalent to 8 years, see table 4.2 below.

**Table 4.2; Descriptive Statistics of Experience of Being TRA Registered Trader**

| Choices                                          | N   | Minimum | Maximum | Mean     | Std. Deviation |
|--------------------------------------------------|-----|---------|---------|----------|----------------|
| How long have you being registered as tax payer? | 115 | 2.00    | 384.00  | 100.6783 | 107.52132      |

**Source;** Researchers' Findings 2014

#### 4.1.3 Age of Respondents

The age factor also do influence the behaviour of voluntary tax compliance as Richardson et al (2002) found that the age variable found that older taxpayers tended to be more compliant than younger taxpayers. Therefore the researcher asked respondents to show their age category. Category provided were that 18years to 24 years coded as 1, 25years to 35years coded as 2, 36years to 44 coded as 3 and 45years and above coded as 4. The findings show that our respondents are aged between 36years to 44years as the results show the mean of 3.01 see table 4.3 below;

**Table 4.3; Descriptive Statistics of Age of Respondents**

| Choices      | N   | Minimum | Maximum | Mean   | Std. Deviation |
|--------------|-----|---------|---------|--------|----------------|
| Age in years | 115 | 1.00    | 4.00    | 3.0609 | 1.00251        |

**Source;** Researcher's Findings 2014

#### 4.1.4 Education of Respondents

TRA registered traders may be characterised by their education level. The researcher wanted to know the education level of respondents at Mwanza Tax Region by asking a question that demanded respondents to choose the levels from primary education coded as 1, secondary education coded as 2, Tertiary education which includes certificates, and diploma coded as 3, bachelor degrees/advance diploma coded as 4 and Masters and above education level coded as 5. The results shows that about 38.3% of respondents are primary education certificate holder, 15.7% are secondary education and about 31.3% of respondents are tertiary education either in certificate level or diploma level. The results also show that 10.4% of respondents have bachelor degree or advanced diploma and 4.3% of respondents holds a masters and or above certificate see table 4.4 below

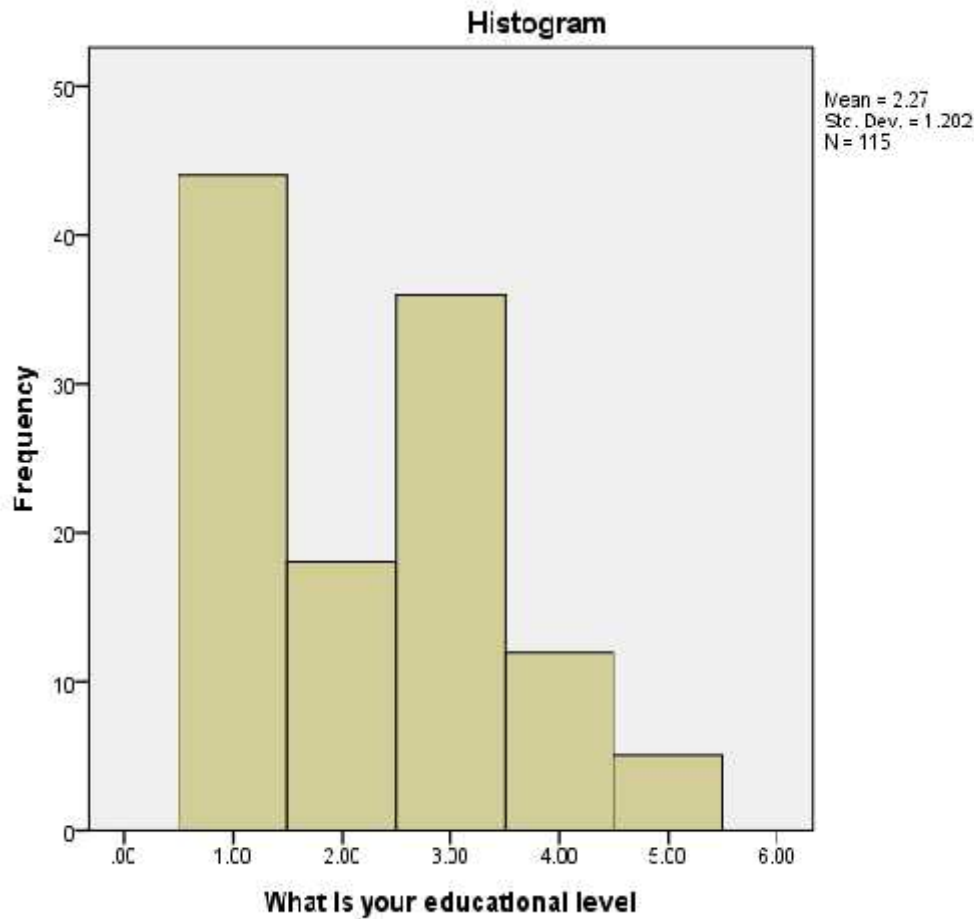
**Table 4.4; What is your educational level**

| Choices                  | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|--------------------------|------------|--------------|---------------|--------------------|
| Primary certificate      | 44         | 38.3         | 38.3          | 38.3               |
| secondary certificate    | 18         | 15.7         | 15.7          | 53.9               |
| certificate and diploma  | 36         | 31.3         | 31.3          | 85.2               |
| Bachelor/advance diploma | 12         | 10.4         | 10.4          | 95.7               |
| Masters and above        | 5          | 4.3          | 4.3           | 100.0              |
| <b>Total</b>             | <b>115</b> | <b>100.0</b> | <b>100.0</b>  |                    |

**Source;** Researchers' Findings 2014

The results further shows that the average education of TRA registered traders at Mwanza is secondary education as the results show the mean of 2.27 which is equivalent to 2 from our coding system that is secondary education the findings are presented in figure 4.1 below;

**Figure 4.1; Education Level of Respondents**



**Source;** Researchers' Findings 2014

#### **4.2 Types of Services Provided By the Tax Audit Unit to Taxpayers at Mwanza Tax Region**

The researcher started this section by asking respondents that “Are you aware if TRA - Mwanza tax region has the tax audit unit?” Respondents were required to answer “Yes” coded as 1 or “No” coded as 2. The finding shows that all 100% of respondents are aware of existence of tax audit unit. Since our respondents are aware of the tax audit unit, the researcher did not ask the question about services the tax audit unit provide to taxpayers but asked the mode of payment of the tax that respondents use.

Here the mode is not referring the means of payment rather it refers to when they pay tax is it because they have done assessment themselves or because the TRA employees (Assessors) have conducted the assessment. The question was very important as it tries to measure and explore the behaviour of Mwanza registered traders in paying tax that is the voluntary compliance behaviour. The researcher asked respondents to say if they agree “Yes” coded as 1 or “No” coded as 2. The decision criterion on these statement is the mean less than or equal to 1.44 the statement is accepted (Yes) and any mean above 1.44 the statement is rejected (No). The findings are presented by table 4.5 below;

**Table 4.5; Descriptive Statistics Mode of paying Tax**

| Statement                                                                                           | N   | Minimum | Maximum | Mean   | Std. Deviation |
|-----------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|
| I do pay tax after being assessed by TRA staff                                                      | 115 | 1.00    | 2.00    | 1.3122 | .49989         |
| I do calculate tax liability myself and send to TRA                                                 | 115 | 1.00    | 2.00    | 1.4530 | .46576         |
| I pay tax liabilities which I have calculated then TRA staffs do assess the required tax themselves | 115 | 1.00    | 2.00    | 1.1304 | .33826         |

**Source;** Researchers’ Findings 2014

These findings presented by table 4.5 shows that TRA registered traders do pay tax after being assessed by TRA employees as the results shows the mean of 1.31 which is less than the mean of 1.44, refer the decision making criterion. The findings also show that TRA registered traders at Mwanza Tax Region do pay tax liabilities which they have calculated themselves but TRA employees do assess the required tax the results shows mean of 1.13. It was found that TRA registered traders at Mwanza that they do not calculate tax liability themselves and send to TRA as the results shows mean 1.45 which is above mean 1.44 of the accepted decision.

Furthermore, the researcher wanted to know how often the mode is applied at Mwanza tax region. Respondents were required to rank from very often coded as 1, often coded as 2, not sure coded as 3, rare coded as 4 and very rare coded as 5.

The decision criterion is that the mean less than or equal to 2.44 the statement is often happening, the mean 2.45 to 3.44 the statement is undecided and mean above 3.5 the statement is rare happening. The findings are presented by table 4.6 below.



**Table 4.6; Descriptive Statistics of the Extent of Payment Mode**

| Payment Mode                                                                                        | N   | Minimum | Maximum | Mean   | Std. Deviation | Rank |
|-----------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|------|
| I do pay tax after being assessed by TRA staff                                                      | 115 | 1.00    | 2.00    | 1.1304 | .33826         | 2    |
| I do calculate tax liability myself and send to TRA                                                 | 115 | 1.00    | 2.00    | 2.1739 | .38069         | 3    |
| I pay tax liabilities which I have calculated then TRA staffs do assess the required tax themselves | 115 | 1.00    | 2.00    | 1.2174 | .41428         | 1    |

**Source;** Researcher's Findings 2014

The findings show that TRA registered traders at Mwanza do often pay tax after being assessed by TRA employees (assessors) mean of 1.13 and that often do calculate tax liability themselves and send to TRA. In addition the findings show that registered Traders do pay tax liabilities that they have calculated then TRA assessors do assess the required tax themselves.

These results shows that at Mwanza the level of voluntary compliance is minimal as the results mostly suggest that taxes paid is after being assessed by TRA employees though traders do calculate the required tax and make some returns. From the interview, head of tax audit unit said that

*“Registered traders do calculate their tax liabilities however most cases they underestimate the taxes, so the institution always takes trouble on recalculating the taxes. He said further that, the major reason is that these traders are medium and small scaled, so it’s very expensive for them to incur the cost for tax consultants”.*

However tax audit unit is providing some services to these taxpayers, all by doing that it improves and encourages taxpayer to voluntary comply with tax requirements. When ranked it was found that at Mwanza most of the taxes paid is through traders calculation and recalculation by TRA staffs, and the second factor being paying tax after being assessed by TRA employees.

This behaviour it may discourage the voluntary compliance as chances for not recalculated by TRA is great unless TRA Mwanza region has enough personnel for the task. Kirchler et al, (2007) said that if a taxpayer has the opportunity not to comply, and

perceives that there is only a minimal risk of being detected he/she will take the opportunity of not to comply.

When further analysis was conducted on the modes above especially the category of respondents that is small traders or medium traders it was found that 89% of small traders are waiting TRA employees to calculate the required tax while 67% of medium traders are waiting for TRA employees. On calculating the tax returns and then TRA staff to recalculate it was found that 92% for medium traders they do calculate while only 56% they often calculate. So it can be said that major number of small traders at Mwanza waits for TRA to recalculate for the tax liabilities while it is small number of medium traders who waits.

TRA tax audit do provide some services to tax payers, the researcher was interested to explore those services provided. The researcher prepared the statements and asked respondents to show their level of agreement or disagreement coded as 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree. The decision criterion is that the mean less than or equal to 2.44 the statement is agreed, the mean 2.45 to 3.44 the statement is undecided and mean above 3.5 the statement is disagreed. The findings are presented under table 4.7 below.

**Table 4.7; Descriptive Statistics of Services Provided by Tax Audit Unit to Taxpayers**

| Services                                                                                                  | N   | Minimum | Maximum | Mean   | Std. Deviation | Rank |
|-----------------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|------|
| Business enquiries addressed by business auditors to taxpayers                                            | 115 | 1.00    | 4.00    | 1.6609 | .66077         | 3    |
| Advanced rulings to explain tax consequences of the proposed transactions to taxpayers                    | 115 | 1.00    | 5.00    | 1.5913 | .94494         | 1    |
| Educating taxpayers regarding the audit objectives to them                                                | 115 | 1.00    | 5.00    | 1.7130 | .75817         | 4    |
| Scrutinizing and verifying records of assessee's and verification of the actual process of goods/products | 115 | 1.00    | 5.00    | 1.7304 | .92073         | 5    |
| Assisting taxpayers in detecting and deterring non-compliance for taxpayers                               | 115 | 1.00    | 5.00    | 1.6174 | 1.05616        | 2    |
| Interpreting complex laws for the purpose of helping taxpayers to understand their obligations            | 115 | 1.00    | 5.00    | 1.7304 | .99403         | 6    |

**Source;** Researchers' Findings 2014

The above findings tell that TRA Mwanza Tax Region has the tax audit unit performing the following activities explained by its rankings; The tax audit unit do provide advanced rulings to explain tax consequences of the proposed transactions to taxpayers mean of 1.59; Tax audit units do assist taxpayers in detecting and deterring non-compliance for taxpayers mean of 1.61; The business enquiries addressed by business auditors to taxpayers the results shows mean of 1.66 which mean the statement has been agreed. The other services provided by the tax audit unit are educating taxpayers regarding the audit objectives to them and scrutinizing and verifying records of assessee's and verification of the actual process of goods/products means of 1.71 and 1.73 respectively. Also the tax audit unit do interprets complex laws for the purpose of helping taxpayers to understand their obligations mean of 1.73.

During undertaking the tax audit assessor who is TRA employees is required to ensure that he/she calculate the possible accurate tax liabilities. The researcher wanted to know if some of the activities or responsibilities are undertaken by the assessor. The intention of the question is to allow the researcher to assess the services provided by tax audit units do promote voluntary tax compliance.

If those responsibilities or activities are carried out, it is obvious that do encourage voluntary compliance that is do encourage taxpayers to increase the reported sales hence promote voluntary tax compliance.

The researcher asked respondents that ***“During undertaken the tax audit, the Assessor/TRA employee is expected to do among others the following; rank from strongly agreed to strongly disagreed”*** The levels of agreement were coded as 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree. The decision criterion is that the mean less than or equal to 2.44 the statement is agreed, the mean 2.45 to 3.44 the statement is undecided and mean above 3.5 the statement is disagreed. The findings are presented at table 4.8 below.

**Table 4.8; Descriptive Statistics of Some Activities During Tax Audit Service****Provision**

| Activities                                                                                                                                                                                                     | N   | Minimum | Maximum | Mean   | Std. Deviation |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|
| Examine the issues seen as most significant to achieve an accurate taxpayer's tax liability                                                                                                                    | 115 | 1.00    | 2.00    | 1.1391 | .34760         |
| Determine the amount to be paid in respect of a particular revenue item and raise a formal notification of the amount to be the basis for its determination, the due date and mode of payment to the tax payer | 115 | 1.00    | 2.00    | 1.1739 | .38069         |
| An assessment is based on a clearly defined tax base and do reflect the rates applicable a tax base                                                                                                            | 115 | 1.00    | 2.00    | 1.2087 | .40815         |
| The assessment exercise helps Mwanza -TRA to keep a record of the amount and due date for payment of the respective revenue items assessed, the name, location and other details of the taxpayer               | 115 | 1.00    | 4.00    | 1.5739 | .59325         |

**Source;** Researchers' Findings 2014

The following activities are found to be carried out by tax audit units during provision of their services to taxpayers; Tax audit unit do examine the issues seen as most significant to achieve an accurate taxpayer's tax liability as the results shows mean of 1.14; during services provision they do determine the amount to be paid in respect of a particular revenue item and raise a formal notification of the amount to be the basis for its determination, the due date and mode of payment to the tax payer mean of 1.17 and that their assessment is based on a clearly defined tax base and do reflect the rates applicable a tax base mean of 1.2. In addition the findings show that the assessment exercise helps Mwanza -TRA to keep a record of the amount and due date for payment of the respective revenue items assessed, the name, location and other details of the taxpayer mean of 1.57.

The findings above suggest that the services provided by tax audit unit at Mwanza Tax Region do encourage taxpayers to make correct returns or increase the reported sales because if they will not do so the TRA audit team has great possibility of identifying their intentions of covering and reported underestimated sales. For example the results show that during audit services the team do determine the amount to be paid in respect of a particular revenue item and raise a formal notification of the amount to be the basis for its determination, the due date and mode of payment to the tax payer.

That is to say taxpayers are given the basis for calculating the required tax liabilities and communicate the method that used to reach the conclusion to the taxpayer including the due dates which were required to be paid. Normally if the due dates are over taxpayers are required to pay the fines for the delay. Therefore taxpayers will be more interested in submitting the correct returns to the TRA so that during audit he/she cannot be liable to any penalty which is caused by negligence, by doing so taxpayers will reduce the cost to the business.

To support the above findings the researcher wanted to know in details if some the issues are scrutinized or examined by the tax audit team when they are assessing the accurate tax liability. The researcher asked the question that *“In assessing the accurate tax liability the following issues are scrutinized, rank from very often to very rare to each of the issue identified below”* The coding system used was 1 = very often, 2= often, 3= not sure, 4= rare, 5= very rare. The decision criterion is that the mean less than or equal to 2.44 the statement is often happening, the mean 2.45 to 3.44 the statement is undecided and mean above 3.5 the statement is rare happening. The findings are presented by table 4.9 below;

**Table 4.9; Descriptive Statistics of the specific Examined Issues**

| Examined Issues                                                                                                   | N   | Minimum | Maximum | Mean   | Std. Deviation |
|-------------------------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|
| Indicator of significant unreported income e.g. a very low net income/gross income                                | 115 | 1.00    | 5.00    | 1.2435 | .53951         |
| Over claimed deduction items known from an examination of a taxpayer's tax return and other information           | 115 | 1.00    | 5.00    | 1.2783 | .60041         |
| Assessing accounts supporting documents                                                                           | 115 | 1.00    | 4.00    | 1.4957 | .59786         |
| The audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises | 115 | 1.00    | 4.00    | 1.4696 | .93959         |

**Source;** Researchers' Findings 2014

From the above findings it can be observed that during examining the accurate tax liability tax audit unit at Mwanza they do the following often; they do assess the indicator of significant unreported income e.g. a very low net income/gross income ratio the results shows mean of 1.24; They do assess the over claimed deduction items known from an examination of a taxpayer's tax return and other information mean of 1.28 and they do Assess accounts supporting documents mean of 1.50.

Also the findings show that during assessment TRA tax audit team, may also involve in physical enquiries, such as the inspection and examination of goods in stock, premises mean of 1.47.

These findings shows that tax audit conducted by tax audit unit of TRA- Mwanza when conducting their responsibilities they do make sure that they explore possible chances for taxpayers to underestimate sales, by doing so they discouraging taxpayer to continue with the options of underestimating sales. Therefore taxpayers have to present the possible correct sales instead of cheating knowing that when TRA will conduct audit its likely to be caught.

#### **4.3 The Causes for Non-Compliance by Taxpayers at Mwanza Tax Region**

Tax noncompliance is a range of activities that are unfavorable to a state's tax system. This may include tax avoidance, which is tax reduction by legal means, and tax evasion which is the criminal non-payment of tax liabilities.

Tax avoidance is the legal usage of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. Tax evasion is the illegal evasion of taxes by individuals, corporations and trusts. Tax evasion often entails taxpayers deliberately misrepresenting the true state of their affairs to the tax authorities to reduce their tax liability and includes dishonest tax reporting, such as declaring less income, profits or gains than the amounts actually earned, or overstating deductions. Tax evasion is an activity commonly associated with the informal economy. One measure of the extent of tax evasion (the "tax gap") is the amount of unreported income, which is the difference between the amount of income that should be reported to the tax authorities and the actual amount reported.

In the reference of the second research objective, the researcher assessed whether there is tax noncompliance among the taxpayers at Mwanza Tax Region and if available, what are the causes of those non-compliance.

#### 4.2.1 Presence of tax non-compliances

The primary concern of assessing the presence of non-compliance is to discuss to what extent the tax systems at Mwanza are successful. The emphasis is on how the incentive structure of the tax system affects the decisions of taxpayers and tax collectors to engage in fraudulent behavior. Table 4.10 shows the behaviors of the tax payers at Mwanza region.

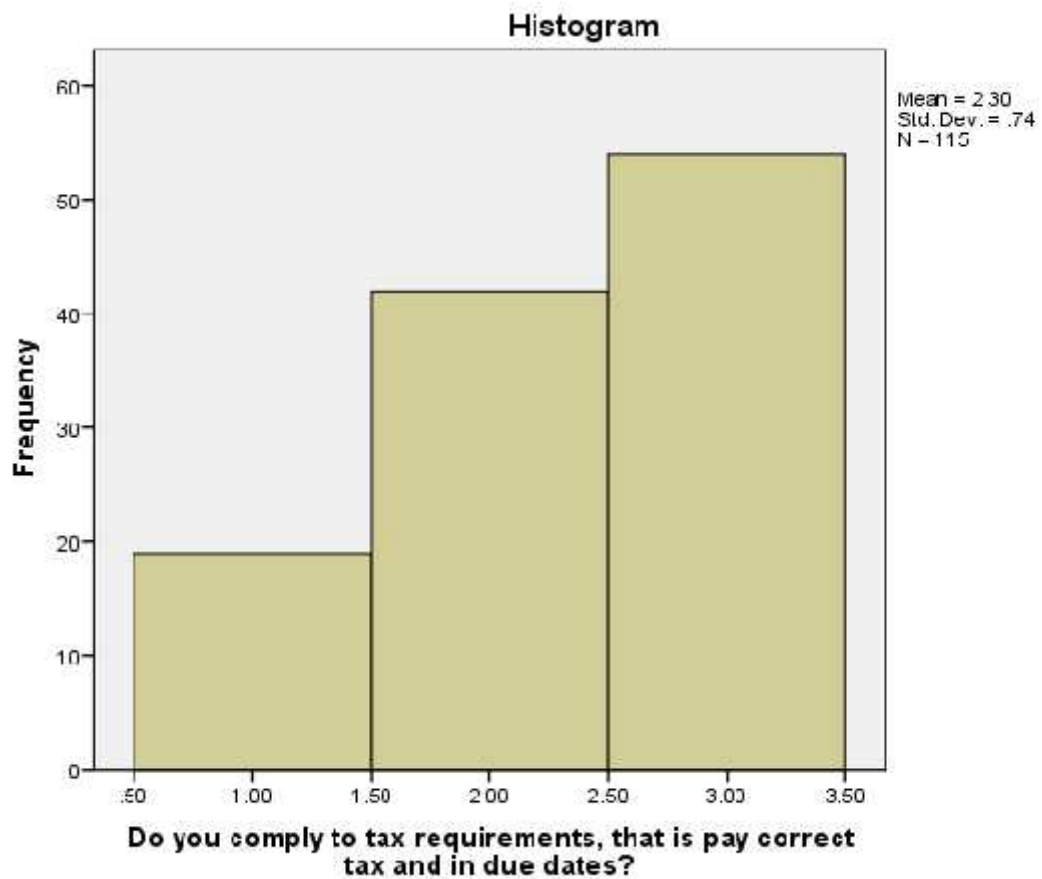
**Table 4.10: Behavioral Distribution of Tax Non Compliances**

| Choice       | Frequency  | Percent      | Valid Percent | Cumulative Percent |
|--------------|------------|--------------|---------------|--------------------|
| Yes          | 19         | 16.5         | 16.5          | 16.5               |
| No           | 42         | 36.5         | 36.5          | 53.0               |
| Sometimes    | 54         | 47.0         | 47.0          | 100.0              |
| <b>Total</b> | <b>115</b> | <b>100.0</b> | <b>100.0</b>  |                    |

**Sources:** Researchers' Findings 2014

From the table 4.10 above, only 16.5% the whole population of the taxpayers do comply to the tax systems efficiently and effectively. 36.5% of the taxpayers are completely non-compliant whereby 47% of the taxpayers sometimes comply and sometimes do not comply. Figure 4.2 shows clearly the behavioral distribution of the tax non compliances.

**Figure 4.2: Behavioral Distribution of Tax Non Compliances**



1= YES (who comply)

2=NO (who do not comply)

3= Neutral (who sometimes comply and sometimes not complying)

**Sources:** Researchers' Findings 2014

Generally, Mwanza Tax region has a little or few taxpayers who fully comply to the tax laws and regulations. This may be due to the good literacy skills they usually utilize. However 36.5%, relative bigger than the latter, do not comply at all.

The Tax regions always have to use extra efforts of enforcements to make follow-ups on this kind of group. Those efforts may cost The Tax regions a lot of the resources like time, financial and others.



On the other hand, 47% of the taxpayers are uncertain concerning the compliance of the tax systems. This group needs relative lower pushing efforts for them to comply to the tax systems. However, if the efforts are too low, it may jeopardize their compliance. So in order to have effective compliance, like the latter group, enough efforts of enforcements must be put in place. Therefore, majority taxpayers' population of 83.5% needs extra efforts to enhance their tax compliances.

#### **4.2.2 Causes of tax non-compliances**

The primary concern of this objective is to discuss the causes of various economic factors in explaining the mechanism and degree of fiscal corruption, tax evasion and tax avoidance in Mwanza Tax regions. Table 4.11 shows the reasons that contributed to the 83.5% of the population which do not comply either partially or whole and exclusively.

From table 4.11 below, the decision criteria were arranged from 1 (strongly agree); 2 (agreed), 3 (Not sure), 4 (Disagree), and 5 (Strong disagree). Thus, the mean decision criteria is 2.5 whereby by 2.4 and below have been termed as agreed and 2.6 and above have been termed as disagreed.

Very strong causes of the majority non tax compliance are business activities are now very competitive hence low income so not paying tax gives relief, it's better to take the risk as its minimal to be detected, the system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity, it requires too much time to complete tax returns, and the paid taxes are not used properly so not paying tax become an option as their mean is below 1.5.

However, there are other strong reasons which the mean average are above 1.5 but below 2.4 like too expensive to businessmen and women to hire tax consultants, the punishments for avoiding paying tax is minimal compared to the available chance of being caught, When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability, TRA employees are most cases taking bribery so do encourage the non-compliance and When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply.

**Table 4.11: Descriptive Statistics to Show the Causes of Tax Non Compliance**

| Causes                                                                                                                                               | N   | Minimum | Maximum | Mean   | Std. Deviation |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|
| When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply                                          | 115 | 1.00    | 5.00    | 2.0783 | 1.18579        |
| When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability | 115 | 1.00    | 4.00    | 1.5913 | .64747         |
| It requires too much time to complete tax returns                                                                                                    | 115 | 1.00    | 5.00    | 1.4087 | .71200         |
| It's very expensive to our sizes of business to hire tax consultants                                                                                 | 115 | 1.00    | 5.00    | 1.5391 | .99373         |
| The system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity                                                           | 115 | 1.00    | 5.00    | 1.3739 | .81068         |
| It's better to take the risk as its minimal to be detected                                                                                           | 115 | 1.00    | 5.00    | 1.3217 | .76718         |
| Business is now very competitive hence low income so not paying tax gives relief                                                                     | 115 | 1.00    | 5.00    | 1.3652 | .77607         |
| The paid taxes are not used properly so not paying tax become an option                                                                              | 115 | 1.00    | 5.00    | 1.4522 | .59594         |
| The punishments for avoiding paying tax is minimal compared to the available chance of being caught                                                  | 115 | 1.00    | 5.00    | 1.5739 | .96483         |
| TRA employees are most cases taking bribery so do encourage the non-compliance                                                                       | 115 | 1.00    | 5.00    | 1.9913 | 1.08818        |
| Valid N (listwise)                                                                                                                                   | 115 |         |         |        |                |

**Source:** Researchers' Findings 2014

#### 4.2.3 Extent of Causes of tax non-compliances

According to the data obtained from the field work, it clearly shows that the extent of the causes of various economic factors in explaining the mechanism and degree of fiscal corruption, tax evasion and tax avoidance in Mwanza Tax regions. From table 4.12 below, the decision criteria were arranged from 1 (20%); 2 (40%), 3 (60%), 4 (80%), and 5 (100%).

There are strong reasons which the mean average are above 2 (40%) but below 2.9 (59%) like When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply, The system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity, It's better to take the risk as its minimal to be detected, Business is now very competitive hence low income so not paying tax gives relief, The punishments for avoiding paying tax is minimal compared to the available chance of being caught, and TRA employees are most cases taking bribery so do encourage the

non-compliance. This means, those reasons have between 40% to 59% chance to happen and alter the compliances of the Mwanza region tax payers.

**Table 4.12: Descriptive Statistics to Show the Extent of the Causes of Non-Compliance**

| Causes                                                                                                                                               | N   | Minimum | Maximum | Mean   | Std. Deviation |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-----|---------|---------|--------|----------------|
| When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply                                          | 115 | 1.00    | 4.00    | 2.3478 | 1.21427        |
| When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability | 115 | 1.00    | 5.00    | 3.3565 | 1.20810        |
| It requires too much time to complete tax returns                                                                                                    | 115 | 1.00    | 4.00    | 3.1652 | 1.09168        |
| It's very expensive to our sizes of business to hire tax consultants                                                                                 | 115 | 1.00    | 5.00    | 3.0522 | 1.03316        |
| The system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity                                                           | 115 | 1.00    | 4.00    | 2.0870 | 1.14375        |
| It's better to take the risk as its minimal to be detected                                                                                           | 115 | 1.00    | 5.00    | 2.4000 | 1.28281        |
| Business is now very competitive hence low income so not paying tax gives relief                                                                     | 115 | 1.00    | 4.00    | 2.2435 | 1.16673        |
| The paid taxes are not used properly so not paying tax become an option                                                                              | 115 | 1.00    | 5.00    | 3.0522 | 1.27626        |
| The punishments for avoiding paying tax is minimal compared to the available chance of being caught                                                  | 115 | 1.00    | 4.00    | 2.7565 | 1.26068        |
| TRA employees are most cases taking bribery so do encourage the non-compliance                                                                       | 115 | 1.00    | 5.00    | 2.8696 | 1.11231        |

**Source:** Researchers' Findings 2014

Furthermore, there are very strong causes of when the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability, When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability, It requires too much time to complete tax returns and it's very expensive to our sizes of business to hire tax consultants as their mean is 3 and above which is more than 60%.

#### **4.4 The Influence of Tax Audit Unit in Enhancing Voluntary Tax Compliance at Mwanza Tax Region**

From the services that are done by the tax audit unit to the tax payers the following are some of the expectations or improvement expected to be seen and can be referred as output of their services. Those expected output are such as taxpayers be able to report their income income freely, be able to calculate tax liability correctly, be able to file tax

returns on time, be able to claim correctly deductions, relief and rebates and comply with tax laws. The researcher created some statements that reflect those outputs and respondents were required to show their agreement on each of the statement ranging from strongly agreed to strongly disagree. The agreement or disagreement levels were coded as 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree. The decision criterion is that the mean less than or equal to 2.44 the statement is agreed, the mean 2.45 to 3.44 the statement is undecided and mean above 3.5 the statement is disagreed. The findings are presented by table 4.13 below.

**Table 4.13; Descriptive Statistics of Expected Output of Tax audit Unit Services**

| Output                                                        | N   | Minimum | Maximum | Mean   | Std. Deviation |
|---------------------------------------------------------------|-----|---------|---------|--------|----------------|
| Tax audit unit services help me report my own income freely   | 115 | 1.00    | 5.00    | 3.3043 | 1.25078        |
| I can calculate tax liability correctly due to their services | 115 | 1.00    | 5.00    | 3.6174 | .84379         |
| I can file tax return on time                                 | 115 | 1.00    | 5.00    | 3.0696 | 1.04899        |
| I can claim correctly deductions, relief and rebates          | 115 | 1.00    | 5.00    | 3.2174 | 1.20513        |
| I do comply with tax laws due to tax audit unit services      | 115 | 1.00    | 5.00    | 2.3130 | 1.23945        |

**Source;** Researchers' Finding 2014

The findings show that only complying to the tax laws has been enhanced by tax audit units as the results show the mean 2.31. It is observed from the above results presented in table 4.13 that tax audit services has not resulted to allow taxpayers to calculate correct tax liability the results shows the mean 3.62 which is a disagreed statement. In addition the results shows that our respondents by average are undecided and that their not sure whether the tax audit unit services have allowed them to report their own income freely mean of 3.30, manage to file tax return on time mean 3.07 and claim correctly deductions, relief and rebates mean of 3.22.

These output can be related to increase in reported sales, its relation can be found by correlation but also the researcher wanted to know the direct opinion of the respondents. The researcher asked the question that "How does each of these outputs influence increase in reported sales revenue? Rank from very high to very low". The coding system used was that 1= very high, 2= high, 3= medium, 4= low, 5= very low.

The decision criterion on this question was the mean less or equal to 2.44 the output influence high the increase in reported sales, the mean between 2.45 and 3.44 the influence is medium and the mean greater than 3.45 the influence is low . The findings are presented under table 4.14 below.

**Table 4.14; Descriptive Statistics of Influence of Tax Audit Services to the Increase in Reported Sales**

| Output                                                        | N   | Minimum | Maximum | Mean   | Std. Deviation |
|---------------------------------------------------------------|-----|---------|---------|--------|----------------|
| Tax audit unit services help me report my own income freely   | 115 | 1.00    | 5.00    | 2.2435 | 1.20373        |
| I can calculate tax liability correctly due to their services | 115 | 1.00    | 5.00    | 2.6696 | 1.09802        |
| I can file tax return on time                                 | 115 | 1.00    | 5.00    | 3.1826 | 1.03095        |
| I can claim correctly deductions, relief and rebates          | 115 | 1.00    | 5.00    | 3.5826 | .93642         |
| I do comply with tax laws due to tax audit unit services      | 115 | 1.00    | 5.00    | 2.4087 | 1.29029        |

**Source;** Researchers' Findings 2014

From the finding above it can be said that only two variables measured has high influence to the increased reported sales by taxpayers. These outputs are tax audit unit services being able to help taxpayers to report their own income freely mean of 2.24 and the taxpayers being able to comply with tax laws due to tax audit unit services mean of 2.41. The other output measured have medium effect to the increased reported revenue which are taxpayers being able to calculate tax liability correctly mean of 2.67 and taxpayers being able to file tax return on time mean of 3.18 while tax payers being able to claim correctly deductions, relief and rebates mean of 3.58 has low influence to the reported sales by taxpayers.

#### **4.5 Correlation Analysis of Increase in reported Sales and Output of Tax audit unit services**

In order to express the influence of the services provided by tax audit unit at Mwanza Tax Region to the taxpayer's visa vies the output of the services, the researcher conducted the correlation analysis between the two matters. The influence of the output of the services provided by tax audit units which are also the independent variables is to increase the increase in reported sales.

The increase or decrease in reported sales by taxpayer can be influenced by the way the Tax audit unit conduct or provide its services, therefore, the researcher created the a new variable called Increase in Reported sales which is a results of summation of the findings of the question 7 section b of the questionnaire. That is to say, increase of reported sales variable was created by the issues scrutinized by tax audit unit during assessment of accurate tax liability.

Those issues are expected to encourage taxpayer to report the correct sales as if will not do so the analysis will identify the correct sales and it due dates which may cause to increase in tax liabilities and penalties. Those issues to be scrutinized and which create the dependent variable is indicator of significant unreported income e.g. a very low net income/gross income; Over claimed deduction items known from an examination of a taxpayer's tax return and other information; Assessing accounts supporting documents and the audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises. In making the interpretation of the correlation analysis, Pearson's R value were used given that  $+1 \leq r \leq -1$ .

In making the decision of whether the influence is significance the significance value produced by the analysis table was used normally are 0.05 and 0.01 see key of the table 4.15. The findings are reported under table 4.15 below.

**Table 4.15; Correlations between Increase in Reported sales and Output of Tax audit Unit Services**

|                                                |                                        | Increase sales | report income freely | calculate tax liability correctly | file tax return on time | Claim correctly deductions, relief and rebates | comply with tax laws |
|------------------------------------------------|----------------------------------------|----------------|----------------------|-----------------------------------|-------------------------|------------------------------------------------|----------------------|
| Increase sales                                 | Pearson Correlation<br>Sig. (2-tailed) | 1              |                      |                                   |                         |                                                |                      |
| report income freely                           | Pearson Correlation<br>Sig. (2-tailed) | -.039<br>.677  | 1                    |                                   |                         |                                                |                      |
| calculate tax liability correctly              | Pearson Correlation<br>Sig. (2-tailed) | .066<br>.482   | -.180<br>.055        | 1                                 |                         |                                                |                      |
| file tax return on time                        | Pearson Correlation<br>Sig. (2-tailed) | .041<br>.045   | -.417**<br>.000      | -.089<br>.346                     | 1                       |                                                |                      |
| claim correctly deductions, relief and rebates | Pearson Correlation<br>Sig. (2-tailed) | .187*<br>.025  | .258**<br>.005       | -.332**<br>.000                   | -.165<br>.079           | 1                                              |                      |
| comply with tax laws                           | Pearson Correlation<br>Sig. (2-tailed) | -.095<br>.011  | .311**<br>.001       | -.015<br>.871                     | -.157<br>.093           | .471**<br>.000                                 | 1                    |

\*. Correlation is significant at the 0.05 level (2-tailed).

\*\*. Correlation is significant at the 0.01 level (2-tailed).

**Source;** Researchers' Findings 2014

From the findings above presented in table 4.15 correlation results shows that taxpayers being able to report income freely are low negatively related to increase in reported sales Pearson Value of -0.039. It also express that the correlation does not have significance influence to the reported sales as the significance value shows to be 0.677 which is higher than the standard of 0.05. This is to say the decrease or increase in reporting income freely has insignificant negative relation to the increased reported sales by tax payers.

Also the findings shows that taxpayers being able to calculate tax liability correctly are low positively correlated to increased reported sales as the results shows the Pearson value of 0.66. The correlation does not have significance influence to the reported sales as results how the significance value of 0.482 which is greater than 0.05 the standard. That is to say the decrease or increase in ability to calculate correct tax liability will not have significance influence to the increased sales. These two variable results are proving the available behaviour of taxpayers of waiting TRA staffs to calculate their sales and be told the amount of correct tax liabilities as the findings in section 4.2 suggested that Taxpayers do calculate tax liability themselves and TRA staffs do assess the required tax themselves is when they do pay see table 4.5.

However, the results shows that there low positively correlation between the taxpayers filing tax return in time and increased reported sales, Pearson value of 0.041. The correlation has significance influence to the increased sales, sig. 0.045 which is low than 0.05. That is to say decrease or increase in ability of taxpayers in filling tax return in time will have significant positive relation to the increased reported sales. It can be said that at Mwanza Tax region when there will be an increase in ability of taxpayers in filling tax return in time there will be an increase in reported sales and that when there will be a decrease in ability of taxpayers in filling tax return in time then there will be a decrease in reported sales revenue.

Furthermore the results shows that there low positive correlation between the ability of taxpayers in claiming correctly deductions, relief and rebates and increased reported sales, Pearson value of 0.187. The relation has significant influence to the increased sales, sig. 0.025.

This is to say the increase or decrease of ability to claim correctly deductions, relief and rebates has significant effect to the reported sales. Then the increase in ability of Mwanza Taxpayers in claiming correct deductions, relief and rebates results to increase in reported sales.

Moreover, the results show that taxpayers' ability to comply with tax laws has low negative relation with reported sales, Pearson value of -0.095. Also the independent variable has significance influence to the dependent variable, sig.0.011.



Therefore it can be said that the decrease or increase in taxpayers to comply with tax laws has significance negative influence to the increased reported sales.

#### **4.6 Proving the Hypothesis of the study**

The hypothesis of this study state that “There positive relation between tax audit and voluntary tax compliance”. Tax audit services variable was created where the services provided by tax audit unit were summed to obtain this independent variable. The tax audit services are Business enquiries addressed by business auditors to taxpayers; Advanced rulings to explain tax consequences of the proposed transactions to taxpayers; Educating taxpayers regarding the audit objectives to them; Scrutinizing and verifying records of assessee’s and verification of the actual process of goods/products; Assisting taxpayers in detecting and deterring non-compliance for taxpayers and Interpreting complex laws for the purpose of helping taxpayers to understand their obligations. The dependent variable of the hypothesis is the Voluntary tax compliance which was measured by reported sales by tax payers. The increase reported sales variable was created using the output expected from the services provided by the tax audit unit to tax payers as shown in section 4.4 above.

The model summary tells us whether the predictors in the model are successful in predicting the outcomes. The value of R is 0.024 which represents the correlations between the predictor variable (tax audit unit services) and the increase in reported sales by taxpayers. This correlation is a low positive related. The results tell us whether the variations in reported sales can be explained by tax audit unit services.

The value of  $R^2$  tells us that the independent variables (tax audit unit services) can account for 10.2% (0.102) of reported sales. That is to say, in other words, only 10.2% of reported sales can be influenced by tax audit unit services. The finding is presented under table 16 below.

**Table 4.16; Model Summary**

| Model | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1     | .024 <sup>a</sup> | .102     | -.002             | 1.18363                    |

a. Predictors: (Constant), Tax audit unit services

#### **Source; Researchers' Findings 2014**

Furthermore,  $\beta$  values tell us about the direction and strength of the relationships between each of the tax audit unit service and the reported sales by tax payers, see table 17 below. The  $\beta$  is 0.035 which proves there low positive relation as the finding of  $R^2$  above suggest.

**Table 4.17; Coefficients<sup>a</sup>**

| Model                     | Unstandardized Coefficients |            | Standardized Coefficients | t      | Sig. |
|---------------------------|-----------------------------|------------|---------------------------|--------|------|
|                           | B                           | Std. Error | Beta                      |        |      |
| 1 (Constant)              | 2.861                       | .125       |                           | 22.981 | .000 |
| 1 Tax audit unit services | .035                        | .067       | .024                      | .520   | .603 |

a. Dependent Variable: Increase in reported sales

#### **Source; Researchers Findings 2014**

However, the ANOVA table provides the importance information that can help on deciding whether the relation is significant. From the results tabled in table 18, significance value is 0.003 which is less than the standard 0.05 therefore it can be concluded that tax audit unit services has significance effect to the reported sales by tax payers.

**Table 18; ANOVA<sup>a</sup>**

| Model        | Sum of Squares | df  | Mean Square | F    | Sig.              |
|--------------|----------------|-----|-------------|------|-------------------|
| 1 Regression | .379           | 1   | .379        | .271 | .003 <sup>b</sup> |
| 1 Residual   | 641.644        | 458 | 1.401       |      |                   |
| 1 Total      | 642.024        | 459 |             |      |                   |

a. Dependent Variable: Increase in reported sales

b. Predictors: (Constant), Tax audit unit services

#### **Source; Researchers' Findings 2014**

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.0 Introduction**

The chapter presents the summary of the findings, the conclusion and the recommendation of the study. The study is about “Tanzania Revenue Authority Tax Audit Units: Does It Promote Voluntary Tax Compliance? A Case of TRA-Mwanza Tax Region”. This chapter is presented in five sections namely the introduction, the types of services provided by the tax audit unit to taxpayers at Mwanza Tax Region, the causes for non-compliance by taxpayers at Mwanza Tax Region and the influence of tax audit unit in enhancing voluntary tax compliance at Mwanza Tax Region.

#### **5.1 The types of services provided by the tax audit unit to taxpayers at Mwanza Tax Region**

It has been observed that 100% of respondents are aware of existence of tax audit unit. The mode of payment by taxpayers at TRA –Mwanza shows that TRA registered traders do pay tax after being assessed by TRA employees as the results shows the mean of 1.31. The findings also show that TRA registered traders at Mwanza Tax Region do pay tax liabilities which they have calculated themselves but TRA employees do assess the required tax the results shows mean of 1.13. It was found that TRA registered traders at Mwanza that they do not calculate tax liability themselves and sends to TRA as the results shows mean 1.45 see table 4.5.

The findings show that TRA Mwanza Tax Region has the tax audit unit performing the following activities; The tax audit unit do provide advanced rulings to explain tax consequences of the proposed transactions to taxpayers mean of 1.59; Tax audit units do assist taxpayers in detecting and deterring non-compliance for taxpayers mean of 1.61; The business enquiries addressed by business auditors to taxpayers the results shows mean of 1.66 which mean the statement has been agreed.

The other services provided by the tax audit unit are educating taxpayers regarding the audit objectives to them and scrutinizing and verifying records of assessee's and verification of the actual process of goods/products means of 1.71 and 1.73 respectively. Also the tax audit unit do interprets complex laws for the purpose of helping taxpayers to understand their obligations mean of 1.73.

During undertaking the tax audit, TRA employees are required to ensure that they calculate the possible accurate tax liabilities. The following activities are found to be carried out by tax audit units during provision of their services to taxpayers; Tax audit unit do examine the issues seen as most significant to achieve an accurate taxpayer's tax liability as the results shows mean of 1.14; during services provision they do determine the amount to be paid in respect of a particular revenue item and raise a formal notification of the amount to be the basis for its determination, the due date and mode of payment to the tax payer mean of 1.17 and that their assessment is based on a clearly defined tax base and do reflect the rates applicable a tax base mean of 1.2. In addition the findings show that the assessment exercise helps Mwanza -TRA to keep a record of the amount and due date for payment of the respective revenue items assessed, the name, location and other details of the taxpayer mean of 1.57.

Furthermore, the results shows that during examining the accurate tax liability tax audit unit at Mwanza they do the following often; they do assess the indicator of significant unreported income e.g. a very low net income/gross income ratio the results shows mean of 1.24; They do assess the over claimed deduction items known from an examination of a taxpayer's tax return and other information mean of 1.28 and they do Assess accounts supporting documents mean of 1.50. Also the findings show that during assessment TRA tax audit team, may also involve in physical enquiries, such as the inspection and examination of goods in stock, premises mean of 1.47.

## **5.2 The Causes for Non-Compliance by Taxpayers at Mwanza Tax Region**

Table 4.10 shows that only 16.5% of respondents do comply to the tax systems efficiently and effectively. 36.5% of the taxpayers are completely non-compliant whereby 47% of the taxpayers sometimes comply and sometimes do not comply. This gives out the total of 83.5% of respondents not to have the behaviour of the voluntary compliance.

The causes for non-compliance by taxpayers at Mwanza shows that; Very strong causes of the majority non tax compliance are business activities are now very competitive hence low income so not paying tax gives relief, it's better to take the risk as its minimal to be detected, the system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity, it requires too much time to complete tax returns, and the paid taxes are not used properly so not paying tax become an option as their mean is below 1.5.

However, there are other strong reasons which the mean average are above 1.5 but below 2.4 like too expensive to businessmen and women to hire tax consultants, the punishments for avoiding paying tax is minimal compared to the available chance of being caught, When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability, TRA employees are most cases taking bribery so do encourage the non-compliance and When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply.

### **5.3 The Influence of Tax Audit Unit in Enhancing Voluntary Tax Compliance at Mwanza Tax Region**

The findings show that only complying to the tax laws has been enhanced by tax audit units as the results show the mean 2.31. It is observed from the above results presented in table 4.13 that tax audit services has not resulted to allow taxpayers to calculate correct tax liability the results shows the mean 3.62 which is a disagreed statement. In addition the results shows that our respondents by average are undecided and that their not sure whether the tax audit unit services have allowed them to report their own income freely mean of 3.30, manage to file tax return on time mean 3.07 and claim correctly deductions, relief and rebates mean of 3.22.

From the finding above it can be said that only two variables measured has high influence to the increased reported sales by taxpayers. These outputs are tax audit unit services being able to help taxpayers to report their own income freely mean of 2.24 and the taxpayers being able to comply with tax laws due to tax audit unit services mean of 2.41.

The other output measured have medium effect to the increased reported revenue which are taxpayers being able to calculate tax liability correctly mean of 2.67 and taxpayers being able to file tax return on time mean of 3.18 while tax payers being able to claim correctly deductions, relief and rebates mean of 3.58 has low influence to the reported sales by taxpayers.

#### **5.4 General Conclusion and Recommendations of the Study**

The correlation results tells that taxpayers being able to report income freely are low negatively related to increase in reported sales Pearson Value of -0.039. It also express that the correlation does not have significance influence to the reported sales as the significance value shows to be 0.677 which is higher than the standard of 0.05. This is to say the decrease or increase in reporting income freely has insignificant negative relation to the increased reported sales by tax payers. Also the findings shows that taxpayers being able to calculate tax liability correctly are low positively correlated to increased reported sales as the results shows the Pearson value of 0.66. The correlation does not have significance influence to the reported sales as results how the significance value of 0.482 which is greater than 0.05 the standard. That is to say the decrease or increase in ability to calculate correct tax liability will not have significance influence to the increased sales. These two variable results are proving the available behaviour of taxpayers of waiting TRA staffs to calculate their sales and be told the amount of correct tax liabilities as the findings in section 4.2 suggested that Taxpayers do calculate tax liability themselves and TRA staffs do assess the required tax themselves is when they do pay see table 4.5.

However, the results shows that there low positively correlation between the taxpayers filing tax return in time and increased reported sales, Pearson value of 0.041. The correlation has significance influence to the increased sales, sig. 0.045 which is low than 0.05. That is to say decrease or increase in ability of taxpayers in filling tax return in time will have significant positive relation to the increased reported sales. It can be said that at Mwanza Tax region when there will be an increase in ability of taxpayers in filling tax return in time there will be an increase in reported sales and that when there will be a

decrease in ability of taxpayers in filling tax return in time then there will be a decrease in reported sales revenue.

Furthermore the results shows that there low positive correlation between the ability of taxpayers in claiming correctly deductions, relief and rebates and increased reported sales, Pearson value of 0.187. The relation has significant influence to the increased sales, sig. 0.025. This is to say the increase or decrease of ability to claim correctly deductions, relief and rebates has significant effect to the reported sales. Then the increase in ability of Mwanza Taxpayers in claiming correct deductions, relief and rebates results to increase in reported sales.

Moreover, the results show that taxpayers' ability to comply with tax laws has low negative relation with reported sales, Pearson value of -0.095. Also the independent variable has significance influence to the dependent variable, sig.0.011. Therefore it can be said that the decrease or increase in taxpayers to comply with tax laws has significance negative influence to the increased reported sales.

From the results tabled in table 18, significance value is 0.003 which is less than the standard 0.05 therefore it can be concluded that tax audit unit services has significance effect to the reported sales by tax payers.

The  $\beta$  is 0.035 which proves there low positive relation as the finding of  $R^2$  above suggest. The value of  $R^2$  tells us that the independent variables (tax audit unit services) can account for 10.2% (0.102) of reported sales.

That is to say, in other words, only 10.2% of reported sales can be influenced by tax audit unit services. The  $\beta$  is 0.035 which proves there low positive relation and concluded that tax audit unit services has significance effect to the reported sales by tax payers.

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## APPENDICES

### APPENDIX A; QUESTIONNAIRE TO RESPONDENTS

Dear Respondents,

I am Emmanuel Cyril Moshi, a student at Mzumbe University. The intent of this survey is to study “the Tanzania Revenue Authority Tax Audit Units: Does It Promote Voluntary Tax Compliance? A Case of Mwanza Tax Region”. The research is conducted in partial fulfilment of the requirement for the degree of Master of Business Administration of Mzumbe University.

I would be very grateful if you could take a few minutes to answer my questions. Your feedback is very important and your answers will be kept in strict confidence.

#### **PART A; PERSONAL INFORMATION choose or fill the correct answer**

1. Your gender    a) Male b) Female
2. How long have you been registered as tax payer?    .....years
3. Your position in your firm .....
4. Age in years (*tick where appropriate*)  
  
      (a) 18 – 24    ( )  
      (b) 25 – 34    ( )  
      (c) 35 – 44    ( )  
      (d) 45+        ( )
5. What type of business are you doing? .....

**PART B; TYPES OF SERVICES PROVIDED BY THE TAX AUDIT UNIT TO TAXPAYERS AT MWANZA TAX REGION**

1. Are you aware if TRA - Mwanza tax region has the tax audit unit? A) Yes b) No
2. The following statements shows different mode of paying tax, indicate Yes or No for each of the statement

| Statement                                                                                           | Yes | No |
|-----------------------------------------------------------------------------------------------------|-----|----|
| I do pay tax after being assessed by TRA staff                                                      |     |    |
| I do calculate tax liability myself and send to TRA                                                 |     |    |
| I pay tax liabilities which I have calculated then TRA staffs do assess the required tax themselves |     |    |
| Key; 1 = Yes, 2= No                                                                                 |     |    |

3. How often does the mode do apply? Rank each mode from very often to very rare

| Statement                                                                                           | 1 | 2 | 3 | 4 | 5 |
|-----------------------------------------------------------------------------------------------------|---|---|---|---|---|
| I do pay tax after being assessed by TRA staff                                                      |   |   |   |   |   |
| I do calculate tax liability myself and send to TRA                                                 |   |   |   |   |   |
| I pay tax liabilities which I have calculated then TRA staffs do assess the required tax themselves |   |   |   |   |   |
| Key; 1 = very often, 2= often, 3= not sure, 4= rare , 5 very rare                                   |   |   |   |   |   |

4. The following are among of the services provided by tax audit unit to taxpayers?  
Rank each of them from strong agree to strongly disagree

| Kind of service                                                                                           | 1 | 2 | 3 | 4 | 5 |
|-----------------------------------------------------------------------------------------------------------|---|---|---|---|---|
| Business enquiries addressed by business auditors to taxpayers                                            |   |   |   |   |   |
| Advanced rulings to explain tax consequences of the proposed transactions to taxpayers                    |   |   |   |   |   |
| Educating taxpayers regarding the audit objectives to them                                                |   |   |   |   |   |
| Scrutinizing and verifying records of assessee's and verification of the actual process of goods/products |   |   |   |   |   |
| Assisting taxpayers in detecting and deterring non-compliance for taxpayers                               |   |   |   |   |   |
| Interpreting complex laws for the purpose of helping taxpayers to understand their obligations            |   |   |   |   |   |
| Key; 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree                            |   |   |   |   |   |

5. What other kinds of tax audit services do you receive/provide? (Specify)

- i).....
- ii).....

6. During undertaken the tax audit, the Assessor/TRA employee is expected to do among others the following; rank from strongly agreed to strongly disagreed

| Statement                                                                                                                                                                                                      | 1 | 2 | 3 | 4 | 5 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|
| Examine the issues seen as most significant to achieve an accurate taxpayer's tax liability                                                                                                                    |   |   |   |   |   |
| Determine the amount to be paid in respect of a particular revenue item and raise a formal notification of the amount to be the basis for its determination, the due date and mode of payment to the tax payer |   |   |   |   |   |
| An assessment is based on a clearly defined tax base and do reflect the rates applicable a tax base                                                                                                            |   |   |   |   |   |
| The assessment exercise helps Mwanza -TRA to keep a record of the amount and due date for payment of the respective revenue items assessed, the name, location and other details of the taxpayer               |   |   |   |   |   |
| Key; 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree                                                                                                                                 |   |   |   |   |   |

7. In assessing the accurate tax liability the following issues are scrutinized, rank from very often to very rare to each of the issue identified below

| Issue                                                                                                             | 1 | 2 | 3 | 4 | 5 |
|-------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|
| Indicator of significant unreported income e.g. a very low net income/gross income                                |   |   |   |   |   |
| Over claimed deduction items known from an examination of a taxpayer's tax return and other information           |   |   |   |   |   |
| Assessing accounts supporting documents                                                                           |   |   |   |   |   |
| The audit may also involve physical enquiries, such as the inspection and examination of goods in stock, premises |   |   |   |   |   |
| Key; 1 = very often, 2= often, 3= not sure, 4= rare , 5 very rare                                                 |   |   |   |   |   |

**PART C; THE CAUSES FOR NON-COMPLIANCE BY TAXPAYERS AT MWANZA TAX REGION**

1. Do you comply to tax requirements, that is pay correct tax and in due dates? A) Yes b) No c) Sometimes
2. For some reasons some taxpayers at Mwanza do not comply to tax payment, the following are reasons, show your agreement or disagreement to each of the statement

| Reason                                                                                                                                               | 1 | 2 | 3 | 4 | 5 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|
| When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply                                          |   |   |   |   |   |
| When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability |   |   |   |   |   |
| It requires too much time to complete tax returns                                                                                                    |   |   |   |   |   |
| It's very expensive to our sizes of business to hire tax consultants                                                                                 |   |   |   |   |   |
| The system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity                                                           |   |   |   |   |   |
| It's better to take the risk as its minimal to be detected                                                                                           |   |   |   |   |   |
| Business is now very competitive hence low income so not paying tax gives relief                                                                     |   |   |   |   |   |
| The paid taxes are not used properly so not paying tax become an option                                                                              |   |   |   |   |   |
| The punishments for avoiding paying tax is minimal compared to the available chance of being caught                                                  |   |   |   |   |   |
| TRA employees are most cases taking bribery so do encourage the non-compliance                                                                       |   |   |   |   |   |
| Key; 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree                                                                       |   |   |   |   |   |

3. On the following reasons show the extent of the reason to cause non-compliance, the extent will be explained on the agreement or disagreement of the above question, that is if you disagreed on the causes then the extent will be of disagreement.

| Reason                                                                                                                                               | 1 | 2 | 3 | 4 | 5 |
|------------------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|
| When the tax liability is high and may threaten the viability of the business, taxpayers tend not to comply                                          |   |   |   |   |   |
| When the tax liability is high and may threaten the viability of the business, taxpayers tend to adjust the data so that can pay small tax liability |   |   |   |   |   |
| It requires too much time to complete tax returns                                                                                                    |   |   |   |   |   |
| It's very expensive to our sizes of business to hire tax consultants                                                                                 |   |   |   |   |   |
| The system of tax payment is unfair in all grounds e.g. tax rates, incentives and inequity                                                           |   |   |   |   |   |
| It's better to take the risk as its minimal to be detected                                                                                           |   |   |   |   |   |
| Business is now very competitive hence low income so not paying tax gives relief                                                                     |   |   |   |   |   |
| The paid taxes are not used properly so not paying tax become an option                                                                              |   |   |   |   |   |
| The punishments for avoiding paying tax is minimal compared to the available chance of being caught                                                  |   |   |   |   |   |
| TRA employees are most cases taking bribery so do encourage the non-compliance                                                                       |   |   |   |   |   |
| Key; 1= 0% to 20%, 2= 21% to 40%, 3= 41% to 60%, 4= 61% to 80%, 5= 81% to 100%                                                                       |   |   |   |   |   |

#### **PART D; THE INFLUENCE OF TAX AUDIT UNIT IN ENHANCING VOLUNTARY TAX COMPLIANCE AT MWANZA TAX REGION**

- The following are expected output of the services provided by the TRA audit unit to the tax payers, show if you agree to be a case/output for their services, use 1= strongly agree to 5= strongly disagree

| Output                                                                         | 1 | 2 | 3 | 4 | 5 |
|--------------------------------------------------------------------------------|---|---|---|---|---|
| Tax audit unit services help me report my own income freely                    |   |   |   |   |   |
| I can calculate tax liability correctly due to their services                  |   |   |   |   |   |
| I can file tax return on time                                                  |   |   |   |   |   |
| I can claim correctly deductions, relief and rebates                           |   |   |   |   |   |
| I do comply with tax laws due to tax audit unit services                       |   |   |   |   |   |
| Key; 1= Strong agreed, 2= agreed, 3= Not sure, 4= Disagree, 5= Strong disagree |   |   |   |   |   |



2. How does each of these outputs influence increase in reported sales revenue?

Rank from very high to very low

| Output                                                        | Increase in Reported Revenue |   |   |   |   |
|---------------------------------------------------------------|------------------------------|---|---|---|---|
|                                                               | 1                            | 2 | 3 | 4 | 5 |
| Tax audit unit services help me report my own income freely   |                              |   |   |   |   |
| I can calculate tax liability correctly due to their services |                              |   |   |   |   |
| I can file tax return on time                                 |                              |   |   |   |   |
| I can claim correctly deductions, relief and rebates          |                              |   |   |   |   |
| I do comply with tax laws due to tax audit unit services      |                              |   |   |   |   |
| Key; 1= very high, 2= high, 3= medium, 4= low, 5= very low    |                              |   |   |   |   |

3. Please indicate your agreement or disagreement regarding the influence of tax audit unit in enhancing voluntary tax compliance as follows; 1) SA=Strongly Agree 2) A=Agree 3) U=Uncertain 4) D=Disagree 5) SD=Strongly Disagree.

| Influence                                                                                                                                                                                                  | Choice         |       |           |          |                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|-------|-----------|----------|-------------------|
|                                                                                                                                                                                                            | Strongly agree | Agree | Uncertain | Disagree | Strongly disagree |
| Conducting audits and examination of tax issues relating to personal and corporate income taxes influences voluntary tax compliance                                                                        |                |       |           |          |                   |
| Indirect verification of income audit techniques such as net worth assessment, third party information, sales projections based on key input costs, bank deposits etc do enforces voluntary tax compliance |                |       |           |          |                   |
| Monitoring tax data relative to indicators of socio-economic changes do encourage voluntary tax compliance                                                                                                 |                |       |           |          |                   |

## **APPENDIX B; INTERVIEW GUIDE**

### **THE INTERVIEW IS SPECIFIC TO TRA EMPLOYEES e.g. HEAD OF UNITS AND MANAGER**

Dear Respondents,

I am Emmanuel Cyril Moshi, a student at Mzumbe University. The intent of this survey is to study “the Tanzania Revenue Authority Tax Audit Units: Does It Promote Voluntary Tax Compliance? A Case of Mwanza Tax Region”. The research is conducted in partial fulfilment of the requirement for the degree of Master of Business Administration. I would be very grateful if you could take a few minutes to answer my questions. Your feedback is very important and your answers will be kept in strict confidence.

1. Please introduce yourself-e.g. Position holding, experience with TRA etc.
2. Do you have tax audit unit in your regional office?
3. What are the kinds of services provided by the tax audit unit to taxpayers in Mwanza tax region office?
4. What is the influence of tax audit unit in enhancing voluntary tax compliance in Mwanza tax region office?
5. What are the challenges encountered by tax audit unit employees when exercising their duties in Mwanza tax region office