

**FACTORS ENHANCING TAX PAYMENT COMPLIANCE FOR  
MEDIUM TAXPAYERS IN TANZANIA:  
THE CASE OF TANZANIA REVENUE AUTHORITY,  
KILIMANJARO REGION**

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MEDIUM TAXPAYERS IN TANZANIA:  
THE CASE OF TANZANIA REVENUE AUTHORITY,  
KILIMANJARO REGION**

**By  
Robert Marcel Mlay**

**Dissertation Submitted in Partial Fulfillment of the Requirements for Award of  
the Masters of Business Administration (MBA) of Mzumbe University**

**2015**

## CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled: **Factors enhancing tax payment compliance for medium taxpayers in the development of national economy. The case of Tanzania Revenue Authority, Kilimanjaro region** in fulfillment of the requirements for award of the degree of Masters of Business Administration (MBA) of Mzumbe University.

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Accepted for the Board of.....

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## **DECLARATION**

I, ROBERT MARCEL MLAY do hereby declare that this report is a result of my own work, that it has not been submitted in any other higher learning institutions as a fulfilment of the requirements for the award of Masters of Business Administration of Mzumbe University.

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Last I am thankful to Mzumbe University, Lecturers and other staff, my fellow students and everyone whom gave contribution to this work.

## **DEDICATION**

I dedicate this paper to my mother Margaret Temba Mlay, my sisters Grace and Victoria, my Brother Emmanuel and my late dad Marcel Mlay, may God rest his soul in peace.

## **LIST OF ABBREVIATIONS**

|              |                                                         |
|--------------|---------------------------------------------------------|
| <b>EPZ</b>   | Export Processing Zone                                  |
| <b>GDP</b>   | Gross Domestic Products                                 |
| <b>NIPPA</b> | National Investment Promotions and Protection Act, 1990 |
| <b>PAYE</b>  | Pay As You Earn                                         |
| <b>SDL</b>   | Skills and Development Levy                             |
| <b>TIA</b>   | Tanzania Investment Act                                 |
| <b>TIC</b>   | Tanzania Investment Centre                              |
| <b>TRA</b>   | Tanzania Revenue Authority                              |
| <b>URT</b>   | United Republic of Tanzania                             |
| <b>VAT</b>   | Value Added Tax                                         |



## **ABSTRACT**

The purpose of this field work was to find out the factors enhancing tax payment compliance for medium taxpayers in the development of national economy. All this have been done because the role of tax compliance in national economy is highly considerable and tax collection situation is not satisfactory.

The study was conducted at Tanzania Revenue Authority, Kilimanjaro region. The population of the study was respondents from various departments of the organization. The researcher used judgmental and simple random techniques in getting sample. Also various methods of data collection were used, i.e. questionnaire, interview, observation and documentations.

The method of sampling employed was random sampling in which 67 employees and 12 head of departments to constitute a sample size of 79 which is equivalent to 44.6% in this case study out of 177 population. Data was analysed in respect of the research Question where the major intention was to validate the objectives of the study, both quantitative and qualitatively methods were used.

Findings show that Tanzania Revenue Authority has many bottlenecks on factors enhancing tax compliance in Kilimanjaro region. For instance, poor knowledge on tax system applied, lack of patriotism among taxpayers, wrong perception of taxpayers, the influence of VAT rates on VAT compliance, too many taxes, cumbersome procedure involved in payment of VAT, the effect of customer care desk, corruption by tax officers, and people selfish behavior. The respondents were ready with the system but due to these setbacks and complexity of the system made tax compliance complex.

The following recommendations should also be considered; TRA should make tax compliance environment smooth by continue educating the public on the importance of paying tax, increase awareness to the public in motivating them to comply with tax rules, educating TRA officials on ethical issues so that to avoid corrupt behavior in TRA, and reduce number of taxes related to VAT to avoid tax complexity to taxpayers.

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## **CHAPTER ONE**

### **BACKGROUND OF THE STUDY**

#### **1.0 Introduction**

This chapter consists of the following parts: background of the study, statement of the problem, objective of the study, research questions, scope of the study, significance of the study, and the limitations of the study of the study. These aspects are covered hereunder.

#### **1.1 Background of the study**

Tax is a contribution exacted by the state. It is a non penal but compulsory and unrequited transfer of resources from the private to the public sector, levied on the basis of predetermined criteria. The classical economic were in view that the only objective of taxation was to raise government revenue. But with the changes in circumstances and ideologies, the aim of taxes has also been changed (Kirchler, 2007).

Apart from the object of raising the public revenue, taxes is levied to affect consumption, production and distribution with a view to ensuring the social welfare through the economic development of a country. Taxation is central to the current economic development agenda. It provides a stable flow of revenue to finance development priorities, such as strengthening physical infrastructure, and is interwoven with numerous other policy areas, from good governance and formalizing the economy, to spurring growth. Fundamentally, tax policy shapes the environment in which international trade and investment take place. Thus, a core challenge for African countries is finding the optimal balance between a tax regime that is business and investment friendly, and one which can leverage enough revenue for public service delivery to enhance the attractiveness of the economy (Shehata & Trivedi, 2005).

Tanzania Like many other countries has introduced Value Added Tax (VAT), which has advantages over sales taxes as the way to discourage tax evasion and allowing domestic producers to compete with foreign counterparts on an even playing field. It has also been observed that the introduction of VAT is the most pervasive feature of tax reforms



(Shekidele and Mugoya, 1996). The VAT introduction in Tanzania was one of the major recommendations to the president by the commission of inquiry into public revenues, taxation and expenditure (TRA, 1991). In Tanzania, VAT became effective in July 1998 and it has been administered under the Value Added Tax Act of 1997. Under this Law, VAT fully replaced the single stage sales tax that had been operational in Tanzania since 1969, hotel levy, entertainment tax and receipt based stamp duty for all VAT registered traders (Shekidele and Mugoya, 1996).

In Tanzania, compliance with VAT payment has been posing a greater challenge to the government and it has been collected with greater variations. For example, the proportion of VAT revenue to the total tax revenue decreased from 43% in 2011/2012 to 41% in 2012/2013 ([www.tra.go.tz](http://www.tra.go.tz), tax statistics, 2014). This fact suggests that there is a problem of compliance with VAT payment that affects government revenue collections as well as it has been increasing administrative cost of taxation and law enforcement.

It has never been easy to persuade all taxpayers to comply with the requirements of a tax system. Tax compliance is likely to become a more significant aspect of tax policy as most of the old problems remain and new considerations are raised by developments such as self- assessment, the emergence of the global economy and development of technology. These factors have policy implications about the way the tax system should be administered. In particular, one risk with self-assessment is the temptation to rely on a harsher enforcement regime. It has been alleged from time to time, for example, that the Revenue Authorities have sometimes relied on over-zealous enforcement or unduly punitive methods of securing compliance with their self-assessed income tax system (Payne, 1993). However, there seems to have been signs of fundamental change in the approach of some tax agencies with respect to taxpayers.

Therefore, the purpose of this study is to examine the factors enhancing tax payment compliance for medium taxpayers in the development of national economy at Tanzania Revenue Authority.

## **1.2 Statement of the problem**

The amount of tax revenue a government can withdraw from the national income depends to a great extent on the willingness of the taxpayers to comply with the tax laws and regulations. Government needs this money in order to spend partly on economic wellbeing and on improvement of living standard of the citizens and partly to the purchase of labour, goods and services from the market.

One can assume that the citizens know the need for government to finance public projects in order to enable and facilitate different operations and provision of public services. However, tax payment is accompanied by a free-riding problem that turns out to be that people would like not to pay tax unless are forced to do so. For example, Melville (2004) argue that there is dishonest behavior (tax evasion) and ingenuity in exploiting loopholes in the tax system (tax avoidance) making it necessary to establish tax law (statute law and case law) that will make people comply with taxation requirements.

VAT is one of the types of taxes with a great possibility of non-compliance, and thus resulting into reduced VAT revenue. In the VAT system, much of the taxation work is done by the agent who in this case is registered wholesaler or retailer. In Tanzania, VAT rate is 18% of the tax exclusive price for the concerned goods or services and the VAT agent has to fill and return forms after imposing tax on the sold good (s) or service (s). The agents have to comply with the returns and collection and assessment regulations and honest conditions. This implies that VAT agents have a lot of tasks to comply with, just as they are faced with numerous loopholes for non-compliance. Along the same view, Ahmad and Stem (1991) argued that VAT compliance has been posing great problems, which stem from assessment, wrong information, undercharging or overcharging transaction for their personal gain and buyers and sellers colluding in order to evade tax. In short, taxpayers do not always comply with tax legislation willingly.

In their study, Ahmed and Stem (1991) found an interrelationship between growth of sales, GDP and VAT revenue. They argue that under normal conditions sales expand, with the growth of the economy; VAT revenues increase at a similar rate without the need for frequent rate adjustments.

They further assert that if the VAT applies to goods with an average income elasticity of demand greater than one, then revenue expansion at a faster rate than GDP is possible (ibid).

Studies from different developing countries revealed that half or more of the potential tax revenues remain uncollected (Bird, 1992, Collins and Ramolina, 1992 cited by Fjeldstad 2001). However, while tax evasion is increasingly being one among several challenges facing most governments in developing countries.

By using Tanzania Revenue Authority – Kilimanjaro region as a case study, therefore this study attempts to shed light on the factors influencing VAT compliance in Tanzania..

### **1.3 Objective of the study**

#### **1.3.1 General Objective**

The main objective of this study was to examine factors enhancing tax payment compliance for medium taxpayers in Tanzania.

#### **1.3.2 Specific Objective**

- i) To identify the influence of business turnover on tax compliance at TRA
- ii) To examine factors motivate tax compliance for medium taxpayers at TRA
- iii) To identify factors that lead to tax payment non compliance at TRA

### **1.4 Research questions**

- i) What is the influence of business turnover on tax compliance at TRA?
- ii) Which factors motivate tax compliance for medium taxpayers at TRA?
- iii) Is there any factor that leads to tax payment non compliance at TRA?

### **1.5 Significance of the study**

The finding of this study is expected to be of importance in the following aspects;

- i. The findings of this study will be useful to the management of Tanzania Revenue Authority and Moshi municipal taxpayers, in tax compliance for medium

taxpayers in the development of national economy specifically by using appropriate methods in tax collection.

- ii. The study is also likely to be of immense use to policy makers as it will highlight the basic elements that need to be considered in designing proper policies.
- iii. The study will be useful to other researchers in the study area as it will provide reliable data whenever they make reference to its findings and recommendations.
- iv. The study also will add knowledge to the researcher, which in turn led to the accomplishment of master's degree programme.

### **1.6 Limitations of the study**

During the study, the researcher encountered several limitations, especially limited budget and the collection of data. It costs a lot of money to conduct a research by sending questionnaires to various groups around Kilimanjaro. Some of the respondents didn't return the questionnaires due to various reasons. Needless to mention, there is other limitation like time constraints on the part of the researcher. The researcher decided to visit respondents and undertake interview to avoid budget of questionnaire, also the researcher asked for additional time to collect data.

### **1.7 Scope of the study**

The study aimed at exploring the factors enhancing tax payment compliance for medium taxpayers in the development of national economy at Tanzania Revenue Authority. The focus was at the Regional office, Kilimanjaro.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter covers review of literatures related to the study. The first section of the chapter covers theoretical literature review while empirical literature review and conceptual framework are dealt in the second and third sections of the chapter respectively.

#### **2.1 Theoretical Literature Review**

This section highlights on key concepts that are tax, purposes of tax and principles of taxation. It also highlights on tax compliance in general, tax compliance theories, Taxpayers and Government, Value Added Tax (VAT) system in Tanzania, nature of VAT in Tanzania, tax incentive versus VAT and VAT compliance.

##### **2.1.1 Definition of terms**

###### **i. Tax**

Tax is a compulsory levy imposed by government on either income, expenditure or capital assets for which the taxpayer receive nothing specific in return with the purpose of raising money for public expenditure (Lymer & Hancock,2002).

###### **ii. Tax compliance**

Degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner ([www.moneycontrol.com](http://www.moneycontrol.com)).

###### **iii. A taxpayer**

Is a person or organization (such as a company) subject to a tax on income. Taxpayers have an Identification Number, a reference number issued by a government to its citizens ([www.wikipedia.org](http://www.wikipedia.org)).

## **2.2 The concept o Tax**

### **2.2.1 Tax**

Tax is a compulsory levy imposed by government on either income, expenditure or capital assets for which the taxpayer receive nothing specific in return with the purpose of raising money for public expenditure (Lymer & Hancock,2002). The author further added that taxes should be flexible so that they can be adjusted to changing conditions in order to counteract fluctuations in the level of economic activity and should be devised in such a way to minimize the disincentive effects to work and enterprise. Tax is fair if it provides benefits in proportion to payment and that for the system to work well there has to be some consensus and consent on the part of taxpayers. Tax plays a large role in the economy such as provision of public goods, correct the effect of externalities, help redistributing income and can be used to manage the level of demand to the economy. A larger proportion of government's revenue comes from taxes (Lymer & Hancock,2002).

### **2.2.2 Purpose of Tax**

According to TRA annual Report (2013), the United Republic of Tanzania imposes tax for the following main reasons: -

- To raise money for the purpose of financing public services that includes health, defense, law and order, and infrastructure development.
- Improving the wellbeing of her citizens
- Fair distribution of income by using progressive rate system
- Defense on local market for domestic product through heavy taxes on unnecessary imports.
- Encouragement of more investments.

### **2.2.3 Principles of taxation**

Mpongoliana (2000) identified 5 principles of taxation that are equity, simplicity, economy, certainty and convenience. These principles are explained hereunder: -

#### **Equity:**

A tax system must treat taxpayers equally and unequal taxpayers proportionately unequally. Thus people with the same amount of income should pay the same amount of tax. It is however acknowledged that because of the diversity of tax bases used within the economy, and the fact that some of these bases are only elective (e.g. consumption taxes), it is very difficult to design taxes that will guarantee 100% horizontal and vertical equity. A point to be emphasized is that, the divergence should not be substantial and even those who say there cannot be equity in taxation agree that the tax must be fair.

#### **Simplicity:**

The tax should be simple to ascertain and measure. This means that the law should be simple to be understood both by the taxpayers and the administrators. The administration procedure must be simple for the taxpayers to comply and for the administrators to supervise. A good system must therefore be fully transparent from policy formulation level, through the tax enactments and to the implementation level.

#### **Economy:**

Consideration of what it will cost to collect the tax is important in any tax system. The administration of the tax system should be least expensive in terms of both manpower and material. It does not make sense to spend for administration in excess of revenue collection. Unfortunately, the consideration of what it will cost to administer a tax system efficiently is sometimes wrongly interpreted to mean minimization of costs. The purpose is not to minimize but rather to optimize the costs of tax collection.

#### **Certainty:**

The imposition of any tax should yield the expected revenue in order to assist governmental forward planning. A definitive advance forecast of revenue collections therefore assist plan implementation and success. Consequently any taxes on commodities whose demand is inelastic would be such a sure source of revenue.

**Convenience:**

It refers to the timing of payment and collection of the tax. The tax system that allows the payment of tax at month ends, immediately after the crop harvest season or provides for payment of tax through, such services as PAYE or other withholding arrangement can be regarded as convenient to taxpayer. But the tax system that place heavy tax burdens on taxpayers long after the income is consumed is an inconvenient one.

**2.3 The concept of Tax Compliance**

Modern tax systems and their administration are built on the principle of voluntary compliance, meaning that taxpayers are expected to comply with their basic tax obligations with only limited intervention by revenue officers. In practice, voluntary compliance is achieved through a system of self-assessment, under which taxpayers with reasonable access to advice from the tax administration calculate their own tax liabilities, complete their tax returns, and submit returns and payments to the tax administration. In most countries the development of self-assessment is closely linked to the rise of the VAT (International Tax Dialogue 2005).

Tax compliance reflects the willingness of the taxpayer to pay tax without being forced by law only, to abide by the spirit of tax legislation. If that willingness is present, then it will be possible to practice an easy and effective self-assessment and this will reflect voluntary compliance with tax legislation (Nightingale, 2002). It worth noting that self-assessment in taxation is a very important criterion of voluntary compliance. The responsibility is on the taxpayer to declare chargeability, file a tax return, maintain records and pay the tax due. The taxpayer who voluntarily complies with the tax legislation must fulfill these four aspects of compliance. The role of the tax authority like, the TRA in Tanzania remains to have an adequate amount of information concerning the tax liability for the taxpayer concerned.

Information to the taxing authority is thus deemed a necessary input in order to assess the degree of compliance of a taxpayer. Thus, TRA should have sufficient information that will enable her, to asses' tax compliance from time to time (VAT Act, 1997).



Moreover, self-assessment is one of the effective ways of showing voluntary compliance to tax legislation. This puts the taxpayer into a position subject to a revenue enquiry and this persuades the taxpayer to comply with current tax legislation.

A different approach to enhancing tax compliance is given by Levi (1998) who considers tax compliance to emanate from the taxpayers' perception about the relevancy of the government. According to Levi (1998), elements govern the relationship between the taxpayer's and the governments are: -

- i. Fiscal exchange which is about the service the taxpayer expects to get from the government after paying tax. If he/she expects something, compliance will be there, showing that the government is trust worthy.
- ii. Impact of social influences and norms on the taxpayer's compliance behaviour. Normative commitment to comply with tax law is affected by attitude towards the government.
- iii. The enforcement activities of tax collectors and the penalties imposed (Coercion). Therefore, trustworthiness of the revenue administrations sanctions against defaulters is important in this context.

Two issues arise from the above relationship; the first one is about the trustworthiness of the government. Do taxpayers believe that government has the capacity to provide service to the people? If they believe that government will do something and historically there is such a trend they will comply. For example, if taxpayers feel that the user fee at Mtwara Regional Hospital is unfair they will attempt not to pay it.

The second issue concerns the capacity of the government to ensure that all eligible taxpayers pay tax, it must demonstrate that it can make all eligible taxpayers pay tax accordingly, and be able to secure the compliance of the non-compliant by creating an effective system of detecting and curbing defaulters and enforcing the law. Along the same view, Yankelovich *et al.* (1984) argued that if an eligible taxpayer does not pay tax another one will default in paying simply because this one does not. In addition, if taxation is simple, compliance cost will be low (Musgrave and Musgrave, 1984: 291).

The authors further argued that a low compliance cost (as well a low tax - administration cost) is vital in the operation of a fiscal system. Tax collection is a public service and like other public services, it should be provided efficiently and at a minimum cost (ibid). Another factor contributing to the problem of compliance is the behavior of an individual's reference group such as relative neighbors, friends and political associates. Yankelovich *et al.* (1984) reports that tax complainants are those who believe that their peers and friends comply, while those who cheat are those who have seen other cheat. Thus, sociological and psychological values are important in determining tax compliance (Huczynski, 2001).

The effort to correct non-compliance behavior has been suggested by various scholars. For example, James *et al.* (2003) admits that, traditionally taxpayers need assistance and an enforcement program in order to maintain compliance at satisfactory level. The very assistance that is crucial in this respect is that which is treating taxpayers as people in need of special services and that taxation refers to providing services to the taxpayers (ibid). These views get support from sociologists and psychologists such as, (Schmolders, 1959 and Lewis, 1982).

The factors that influence the taxpayers' behavior from the sociological point of view include social support, social influence, attitudes and background factors such as age, gender, race and culture. In addition to supporting those factors, psychologists add other factors, which include attitude towards the state, and the revenue authority, as well as perceptions of equity.

In all these, a positive help to taxpayers to bring them to a high compliance level, a level that a taxpayer who doesn't comply will feel guilty and shameful, is to provide them with a kind of education that will appeal to their conscience. Taxpayers must be enabled to understand their civic responsibility to pay taxes through education (TRA, 2004).

### **2.3.1 Taxpayers' Typology**

Emotion played an important part in keeping routines or rules intact. They are established by norms of justice, fairness and appropriateness. Different rules and factors may affect behaviour differently and perhaps cause a movement away from the previous rules. Therefore, each type of taxpayer systematically disregards or agree

with specific information. Similar to the work of Vogel (1974), Torgler (2003) developed four types of taxpayers. They are:

**i. Social Taxpayer**

These taxpayers are influenced by social norms, feel guilty when they under-report and escape detection and feel ashamed when they under-report and get caught. Also they are very sensitive to people's beliefs, especially those close to them. They react emotionally and strongly to perceived changes around them. They can be seen as conditional cooperators. If they perceive that others pay taxes, they tend to pay too, while on the other hand, a reduction in others contribution reduces their willingness to pay. Satisfaction and behaviour are linked not only to the objective outcome level, but also, to outcome received in relation to those which were judged to be fair. Furthermore, a perceived inequality between one's exchange and the exchange others get creates a sense of distress which causes anger which in turn reduces the moral cost of evasion.

**i. Intrinsic Taxpayer**

The motivation of the "Intrinsic Taxpayer" includes among others, the feeling of obligation, which motivates a person without being forced. They are sensitive to institutional factors, as, for example, the behaviour of government, or tax administrations. Positive actions by the government are intended to increase taxpayers positive attitudes and commitment to the tax system, tax payment and thus compliant behaviour. When monitoring and penalties for non compliance increase, individuals notice that the intrinsic motivation has increased, which on the other hand crowds out intrinsic motivation to comply to taxes..

**ii. Honest Taxpayer**

This taxpayer does not even consider searching for ways to cheat at taxes, but, he is always ready to perform his civic responsibility by paying his tax as and when due. His behaviour does not respond to changes in the tax policy parameters (as taxes, fine rate, and audit frequency). Thus, he is simply predisposed not to evade.

### **iii. Tax Evader**

At the other extreme, are the “Tax Evaders”. They have low tax morale. It can be argued that for these taxpayers, the standard economic rational choice theory comes into play. They always compare the expected value of evading taxes with the value of being honest. Tax morale is a social phenomenon that is difficult to explain. Questions about tax compliance are as old as taxes itself, and will remain an area of interest as long as taxes exist. To understand the impact of a tax system, it is important to know who complies with the tax laws as well as who does not. Tax evasion is a large and growing problem in almost all countries. Economists see the problem as one of rational decision made under uncertainty. This means that cheating on taxes is a gamble paying off in low taxes or, with the probability of detection ending in sanctions.

This is therefore an opportunity to take a stroll through theoretical and empirical findings in the tax morale literature, focusing on personal income tax morale. The question about tax morale is-why people do not cheat much than why they do.

### **2.3.2 Factors Affecting Compliance**

There is a clear need for more empirical research on the factors involved in the decision-making process regarding compliance, since a better understanding of these factors can give birth to strategies that improve compliance. This is specifically true for Nigeria, where there is little empirical evidence on which to base policy prescriptions. The following are factors affecting compliance;

#### **i. Honesty**

The contribution of enforcement, penalties, prices, income, and institutions limits the set of possibilities of individuals in the economy. Institutions can be formal such as constitutions, statute law, and regulations or informal, for example, self-enforced codes of behaviour, social norms and conventions in the society. Individuals create institution to set the limit of what people in a certain group are allowed to do, or alternatively, to determine under what condition people may not take certain actions. In general, institutions also establish criteria for punishment and sanctions. Individuals, from their

expectations about the behaviour of the society, respect or obey the laws. Based on these expectations, they will make their strategic choices.

In the traditional model of tax compliance, this view of individual choices within a social environment is missing, only the threat of external sanction e.g. audits and penalties generate compliance. The fact that informal institutions can affect compliance has been excluded from the model. Furthermore, if it is true that the threat of external punishment is important, it is also true that informal institutions, such as codes of behavior and honesty can also constraint people's choices. If others behave according to a socially accepted mode of behaviour, the individuals will also comply and pay taxes as long as they believe that compliance is a social norm. Polinsky and Shavell (2000), present a survey of the economic theory of public enforcement of law, emphasize the aspect of social norm, that social norms can be seen as a general alternative to law enforcement in channeling individuals behaviour.

However, some points remain unexplained- how do these norms arise in the first place and how can these norms be changed by deliberate government policies? There are limits for a government to increase compliance using traditional policies such as audits and fines. Therefore, if the government can influence a norm, tax evasion can be reduced by policy activities. Also, taxpayer may be aware that their evasion could damage the welfare of the community they live in. As a consequence, evasion can produce psychological costs. People may not be comfortable with dishonesty. However, when a taxpayer is convinced that he pays too much tax compared with the provided public goods, his psychological costs will be reduced.

In literature, there are two interesting theories that enable us to integrate moral constraints in a rational taxpayer model. The first theory is an altruistic approach (Chung 1976). Here taxpayers are not only interested in their own welfare but also concerned about the general welfare. The decision to evade is constrained by the knowledge that their evasion will reduce the amount of resources available for social welfare. The second is the "Kantian" morality approach (Sugden 1984). This approach broadly related to Kant's definition of morality, is based on assumption that a fair tax is a tax which a taxpayer believes to be fair for all to pay. A false declaration will generate

anxiety, guilt or a reduction in taxpayer's image. It is assumed that a taxpayer feels these costs only if he believes that his tax share is not higher than what is defined fair. If he is paying a higher amount, evasion can be seen as a sort of self-defense.

## **ii. Guilt and Shame**

The process of being audited carries social risks, such as loss of reputation among family members, friends, and colleagues. In an extreme case, an audit can put the taxpayer's job at risk. People commonly discuss issues related to their taxes among family members and at their jobs. Grasmick and Bursik (1990) find that the feeling of shame and the loss of respect when people evade taxes are self imposed costs that decrease the likelihood of non-compliance.

They differentiate between shame and embarrassment. The former is something that the individual feels personally, it does not depend on others, while embarrassment includes pressure from family and significant others. According to Lewis (1971), guilt arises when individuals realize that they have acted irresponsibly and in relation to a rule or social norm they have institutionalized.

Since the obligation of paying taxes to the government is an accepted social norm, it makes sense that individual who choose not to pay all of their taxes may feel guilty.

Aitken and Bonneville (1980) found in a Taxpayer Opinion Survey that over 50% of the respondents claimed that their consciences would be bothered "a lot" after having engaged in any of the following activities;

- a. Padding business activities,
- b. Over stating medical expenses,
- c. Understating income,
- d. Not filing a return or
- e. Claiming an extra dependent.

Erard and Feinstein (1994) incorporate shame and guilt directly into the taxpayer utility. They hypothesized that a taxpayer feels guilty when he under-reports and escapes detection. He also feels ashamed when he under-reports and caught. The problem with Erard and Feinstein's approach is that the taxpayer will not experience the threat of embarrassment if the people whose opinion is most value do not discover his crime.

Thus, there is need to incorporate how the perceived probability of detection by significant others can also act as deterrent as well.

ii. **Fairness**

Fairness is another factor that can affect tax compliance. An unfair tax system could enhance the incentives to rationalize cheating. A number of survey research studies have reported positive correlations between perceptions of fiscal inequity and tax evasion (Spicer 1974). Lack of equity in an exchange relationship creates a sense of distress, especially for the victim. Homes (1961) argued that disadvantage is followed by anger, advantage by guilt. Tax evasion may be seen as a reaction to restore equity.

Spicer and Becker (1980) in experimental research found that the amount of tax evaded increases when people are told that their tax burden is higher than that of the rest of the group. Nevertheless, there is no agreement regarding the empirical evidence on fairness.

Webley et al. (1991) found that there is no relation between perceived inequalities and compliance of the taxpayer. Bordignon (1993) introduced fairness as an additional motivation to the evasion decision. He rationalizes ethical norms by making them dependent on the tax structure, the supply of public goods, and the perceived behaviour of other taxpayers. The taxpayer's perception about the fairness of the system determines willingness to pay taxes; the more the tax burden and the provision of public goods differ from an individual's moral idea, the less willing will he be to pay his taxes. Bordignon finds that there is a percentage of the population that does not evade, even when incentives exist to cheat.

Alm, McClelland and Schulze (1992) suggest that compliance occurs because some individuals value the public goods their tax finance. If there is an increase in the amount individuals receive from a given tax payment, their compliance rate increases. Individuals then pay taxes to receive government services even when there is no chance to be detected or punished when evading. Cowell (1992) shows that taxpayer will reduce tax evasion when perceiving equity. Falkinger (1995) has pointed out concrete economic situations in which individuals reduce evasion if the socio-economic system is considered to be relatively equal and fair.

The fairness of a system in which a person lives may result in bad reputation for evaders if people consider evasion to be blame-worthy, so that risk aversion will increase with perceived equity.

## **2.4 Challenges facing tax payment compliance**

Another approach to moral and social influence is the degree of satisfaction taxpayers have with the government. Positive actions by the State are intended to increase taxpayers' positive attitudes and commitment to the tax system and tax payment and thus compliance behaviour. One of the most important social psychological reasons for expecting cooperation is reciprocation. Positive reciprocity is the impulse to be kind to those who have been kind to us. On the other hand "an eye for an eye" is a principal example of negative reciprocity. Positive behaviour of a state toward taxpayer will increase the likelihood of compliance.

Taxpayers are more inclined to comply to tax laws if the exchange between the tax paid and the performed government services are found to be equitable. According to Frey and Holler (1998), an increase in deterrence disrupts such a balance based on reciprocity for honest taxpayers. This feeling becomes stronger when taxpayers who consider themselves pay fair dues, are audited and fined. Equally, the balance will be disrupted when they noticed that other taxpayers who are violating the tax laws do not get punished. The way people are treated by the authorities affects their valuation of authorities and their willingness to cooperate.

Tyler (1997) argues that understanding what people want in a legal procedure help to explain public dissatisfaction with the law and points towards directions of building public support for the law in the future. Therefore, taxpayers, when they are treated fairly and respectfully by the tax authorities, tend to cooperate better. Another perspective admits the relationship between the taxpayer and the government, where elements such as government performance, public goods, the impact of public expenditure, and the taxpayer's internal motivation affect tax compliance decisions. Taxpayers will refuse to pay their taxes if they feel that the government is wasting their money.



Looking to connect the performance of the government with the satisfaction of the taxpayer, Cowell and Gordon (1988) link the two sides of the government budget, income and expenditure, by introducing public goods.

They found out that when tax rates increase, evasion decreases, the main result of their model is that tax evasion appears to depend not only on public revenue and audit system, but also on public expenditures. In other words, individuals pay taxes because, on the one hand, they value the goods provided by the government, and on the other, they recognized that their payments are necessary to finance these goods. Research to date supports the notion that compliance depends, in part, on how tax revenues are used.

Looking at voluntary contributions to public goods, for instance, Alm Jackson and Mckee (1992) find that when individuals perceive that they receive benefits from a public good funded by the taxes collected, they show higher responses to comply. While both studies conclude that individuals pay more as the benefits from their contribution increase, the nature of individual responses is still somewhat unclear and controversial. Frey (1992) argues that the motivation of the taxpayer to comply depends on internal and external factors. Tighter monitoring and higher penalties can negatively affect the taxpayer's morale schema, since they imply that authorities do not trust taxpayers. Therefore, positive incentives should be used to encourage compliance. More research is needed on the relation between the taxpayer and the government generally, and particularly, in cases like Nigeria where lack of evidence limits the analysis of direct policy changes.

Recently, Feld and Frey (2002) analyze how tax authorities treat taxpayers. Using a data set of tax authorities' behaviour (26 cantonal tax authorities), they found that tax authorities of the cantons with more direct participation rights, compared with cantons of less democracy, treat taxpayers more respectfully and are less suspicious if taxpayers report too low incomes. On the other hand, not submitted tax declarations are more heavily fined. This empirical work indicates the importance of differences (here political participation right) for explaining the relationship between taxpayers and tax authorities which influences tax morale. Tax compliance is not just a function of opportunity, tax rates, probability of detection and so on but of each individual's

willingness to comply shaped by tax morale. This means that if tax morale is favorable, tax compliance will be relatively high.

#### **2.4.1 Creative Compliance**

According to Torgler (2003), “Taxpayers have different possibilities to express their attitude towards a tax system”. While tax evasion might produce moral costs, tax avoidance reduces such moral costs but increases information or advice costs. Tax avoidance seems to be more broadly accepted than tax evasion. With tax practitioners, the focus on tax avoidance brings a new important player on the stage of analysis. The main argument is that tax evasion and tax avoidance have the target to reduce the tax burden. While tax evasion might be coupled with a possible disutility and thus create moral costs, tax avoidance is stamped by information and advice cost to find legal reductions in tax liabilities and take advantage of the tax law. Tax avoidance reduces the risk of penalty and gives the feeling to comply with the tax law. While distinguishing tax evasion and avoidance, McBarnet (1992) states “it is not what you do but the way you do it”.

Tax avoidance being in line with the law, citizen’s sense of duty might remain intact. Tax avoiders use the possibilities offered by the law to neutralize their moral cost of acting illegally. In a study of Kirchler, Maciejovsky and Schneider (2001), tax avoidance was associated with “legal, the intention to save taxes, cleverness, a good idea and costs” and was perceived as “moral” and associated with “the acceptance of tax reduction, horizontal justice and tax loophole” In contrary to avoidance, tax evasion was associated with “illegal, fraud criminal prosecution, risk, tax-audit, and the risk of getting caught”, and was seen as “immoral” and associated with “risk tendency, intentional evasion, audit and sanction, opportunity, black money, unintentional errors, and vertical justice”.

Critical analysis of tax avoidance helps to explore the incentives tax law can create. Tax avoidance is possible because tax laws in many countries give the opportunity to make adjustments in form of deductions, exclusions and allowance for income losses (Long and Gwartney 1987). Complicated tax laws may generate higher incentives for tax evasion which in turn depends on how tax laws defined illegal activities.

Law can be used by the taxpayers and tax preparers in a “creative” way, seeing it as a material to work on and possibly able to transform taxpayers own interest. Tax avoidance is in general accepted as lawful.

#### **2.4.2 Complexity**

Complexity inevitably puts compliance at risk as some proportion of taxpayers will not fully understand their obligations and make errors while others may simply ignore what is expected of them. In addition, the possibilities to avoid or evade taxes normally also increase with the complexity of the tax system-which may encourage taxpayers to spend even more resources on reducing their tax bill and which increase the amount of resources needed in the tax administration to prevent and detect tax fraud. In reducing the complexity of tax system by broadening tax bases through the reduction in the number of tax exemptions and allowances, authorities might reduce the opportunities for taxpayers to make filing errors and to avoid and evade taxes. Less complexity then leads to an increase in tax compliance.

Standard models of tax compliance assume that taxpayers are fully informed of all the aspects that cover the tax reporting process (Andreoni et al. 1998). The level of knowledge and information might be an important factor in the way taxpayers behave. Well-educated taxpayers are supposed to know more about tax law and fiscal connections and thus would be in a better position to assess the degree of compliance. However, it should be noted that there might be people with lower education who have acquired a high knowledge about taxation. More educated taxpayer may be less compliant because they better understand the opportunities for avoiding taxes. Also, Fiscal knowledge may positively influence the practice of avoidance. Fiscal ignorance might be an important contributor to the development of negative feelings towards taxation. Lewis (1982) reports that more educated taxpayers have in general more sympathetic fiscal preferences than those with a lower education because they are area of the benefits and services the state provides for the citizen from the revenues. According to Torgler (2003), experiments in the tax compliance literature have just started to pay attention to the effect of information on tax compliance.

Complexity may result in unintentional non-compliance if taxpayers have problems with filling the tax form. In addition, complexity can reduce the moral costs of evading taxes. Such noncompliance differs from other crimes, because it can be argued that the errors occurred unintentionally due to misrepresentation of the rules. Krause (2000) states that when rules are complex, compliance and enforcement will be imperfect. It imposes cost on the taxpayers and the tax administration and undermines the effectiveness of the tax policies.

Tax examiners in the tax administration will have greater problems to identify a case of noncompliance and comparing whether the violation was deliberate or unintentional this can increase tax collection costs. Also additional compliance and administration costs are higher and taxpayers could be frustrated. A simplification would reduce taxpayers' expenditure in time and money to comply with tax law. Increasing tax complexity may shift taxpayers' trade-off between costly compliance by using either own's effort or external help (tax practitioners) and evading taxes towards the "exit" decision.

But, Schmidtchen (1994) argues that tax authority have the possibility to increase tax compliance by creating a more complex tax system as imperfect actors might behave more honestly and follow certain rules when uncertainty increases.

### **2.4.3 Tax Practitioners**

People need a minimum fiscal knowledge to practice tax avoidance otherwise they can use tax practitioners as paid assistance to devise strategies to exploit legal ambiguities.

Therefore, it could be argued that practitioners reduce compliance cost by reducing legal uncertainties and time or even anxiety costs. In other word, tax practitioners provide services and information and might be "guardians against unequivocal breaches of legal code and, on the other hand, exploiters of legally ambiguous features of tax code to the advantage of taxpayers" (Beck et al. 1994).

There are many reasons why taxpayers choose to use a tax agent. These reasons range from taxpayer wanting to file an accurate return, not having the knowledge to complete a complex return, wanting to minimize the tax they are required to pay, or simply not

having enough time to complete their own return. Whatever the reason, taxpayer demand for tax agents increased substantially over the past few decades.

After the introduction of the self-assessment system in Australia in 1986, Sakurai and Braithwaite (2001) report that the number of taxpayers seeking advice from tax practitioners has increased. In the United States of America, approximately half of all federal individual income tax returns are prepared by professional tax return preparers (Erard 1993). Research in the United States of America has shown that professionally prepared returns tend to be more non-compliant than self prepared returns and tax practitioners have stated that their clients demand such work (Erard 1993). In contrast, a number of studies have reported that taxpayers demand cautious behaviour and accurate returns from their tax agents (Murphy and Byng, 2002). This debate is far from being resolved.

The tax practitioners alleviate many of the informational and computational barriers to compliance- they also possess the expertise to assist their clients in exploiting opportunities for tax non-compliance. To this end, Klepper and Mazur and Nagin, (1991) suggest that tax agents can be both „exploiters“ and „enforcers“ of the law. When a tax agent is faced with an ambiguous situation, they tend to be exploiters of the law, in that they encourage tax avoidance.

The tax agents do have the knowledge and expertise to exploit the gray areas of tax laws, a number of studies have examined whether professionally prepared returns are more non-compliant in nature than self prepared returns. For example, Erard (1993) found that paid tax preparer exhibited greater non-compliance. Thus the potential loss of tax revenue due to non-compliant reporting poses a serious problem for the Tax Authorities. The question of who instigates this non-compliant reporting, whether the tax agent or taxpayer, is therefore, an important one.

The aggressive tax planning industry argue that they are simply responding to the demand of their clients, there have been many situations where participants in aggressive tax planning scheme have been led to agree or invest based on trust in the proposals marketed to them (Murphy and Byng, 2002). Results from a number of surveys (Collins, Milliron, and Toy, 1990) indicate that the majority of taxpayers want

their tax agents to assume an honest role and prepare an accurate returns. Collins et al., (1990) concluded that approximately 70% of their sample used tax agents to file an accurate return, with only indicating that minimizing their tax liabilities was their primary motive or objective. Sakurai and Braithwaite (2001) also report that taxpayers generally want an honest tax agent who files an accurate return. On the other hand, studies conducted on tax agents themselves indicate that they view their clients as the initiators of aggressive tax reporting (Attwell and Sawyer,2001: Tooley,1992). This point of view was supported by Sakurai and Braithwaite (2001) research on a sample of 2040 Australian taxpayers.

Sakurai and Braithwaite identify three types of tax adviser sought by taxpayers. The most popular type sought was one who was honest and risk-averse. The second most popular type was one who engaged in cautious minimization of tax“. The third type of tax practitioner sought by taxpayers was the „creative accountant“, aggressive tax planning type. In this case, the taxpayer wants a practitioner who is well net-worked and knows what issues a tax authority is targeting at that time. Unlike the second type of practitioner, the creative practitioner is not threatened by conflict. According to Sakurai and Braithwaite, the creative practitioner is by far the least popular preference among ordinary taxpayers but identifies a niche-market that is significant and of great concern to tax authorities.

The relationship between taxpayers and tax preparers is based on two side information asymmetry. Taxpayers have less information about the tax law and the tax liabilities. But it is difficult for taxpayers to distinguish between high quality and low quality tax preparers. However market mechanism might drive low quality tax preparers out of the supply side. High quality tax practitioners have an incentive to build up reputation and to signalize their knowledge and ability. Studies have shown that the average level of noncompliance is higher for returns prepared with paid assistance. Erard (1993) found that the use of a tax practitioner significantly increase tax cheating.

Tax professionals are more aggressive when audit and penalty risks are low (McGill 1983). The probability of using tax practitioners is significantly higher for self employed, married and older taxpayers and increases with complexity (Erard 1993).

Also, Dubin et al. (1992) found that an increase in the Inland Revenue Service audit rate, the frequency of penalties and state, local or real estate taxes significantly increases the demand for practitioners.

Tax practitioners reduce the amount of unintentional reporting errors but increase problems with intentional noncompliance. Sakurai and Braithwaite (2001), show that taxpayers are quite successful in finding their suitable client, that is, tax practitioner. Taxpayers who intend to minimize their taxes and who are high risk takers find tax agents who are good at finding loopholes. On the other hand, risk adverse taxpayers find tax practitioners who fit in their demand.

#### **2.4.4 A Social Identity Approach in Understanding Compliance**

This approach is based on understanding of processes of social identity (Tajfel and Turner, 1986) and is a central perspective in social psychology. Turner (1985) developed a theory of self-categorization, in which he argued that self can be perceived as unique and individual, and is different in comparison with others ( “me” in contrast to “you/him/her”). At other times, however, self can be perceived as belonging to some social category (in- group), and relatively inter changeable with members of it, in contrast to another category to which self does not belong (out-group). This involves a psychological transformation from “me” to “we” and “him/her” to “them”. As the context changes (that is- the issue, those involved, the frame of reference), so does self perception. It is when self perception is at the level of social identity, where greater similarity to in-group others and greater dissimilarity to output others is perceived, that, attitude and behaviour become more aligned with in- group norms.

Influence is argued to be an outcome of self-categorization and is specific to in -groups. Out-groups possess no ability to influence. That is, attitude, behaviour, perceptions of fairness, what is right and what is wrong are outcomes of, and vary with, self-categorization. Both personal and social identities are psychologically valid and meaningful expression of self. One is not regarded as more real or important than the other, rather, they are contextually-dependent and hence valid ( self definitions, driving attitudes and behaviour) given a particular context.

Perception “varies not only with the perceiver but also with the salient self-category for a given perceiver- different people see the same thing differently, and the same perceiver sees the same thing differently as the varying self changes” ( Turner and Oakes 1997). This analysis implies that self interest and civic virtue are not in direct competition with each other, rather self interest (that is, personal self interest) is likely to motivate behaviour when people see themselves as individuals ( in contrast with other individuals) while civic virtue ( what is good for the group collectively) is likely to motivate behaviour when people see themselves as being members of ( positively valued) social categories, in contrast to other ( negatively valued ) social categories. An appeal to civic virtue changes the psychological situation by putting the recipient in a wider, more inclusive category in a different social context.

In the McGraw and Scholz (1991) study, the appeal referred to the importance Americans place on norms of social responsibility and patriotism, emphasizing how these norms related to tax compliance. The context was manipulated to include „all good American who believe in social responsibility and patriotism“ (in-group), which implied that not taking social responsibility seriously (that is, not complying with tax rules) was essentially bad and un-American (out-group).

On the assumption that most of the recipient would have regarded themselves as good Americans (or at least would not have liked to think of themselves as bad American). This would have led to a self categorization of „good American“ thus, adopting more closely the attitudinal and behavioural norms associated with that category. At this super-ordinate level of identity, all Americans would then have the potential to be influential. This stems from the fact that those who are seen as similar to self are also perceived as more legitimate, fair, accurate and trustworthy ( Haslam,2001; Tyler, and Lind,1992).

Therefore, the appeal to civic virtue is associated with a qualitative shift in self-perception from “me” to “us”, a corresponding shift in who is included in the frame of reference, and a corresponding decrease in personal self-interest and more certain about outcomes for all good Americans. It is due to the fact that attitudes, behaviours and motivations are outcomes of the self-categorization process that self-interest



and civic virtue are not competing in a cost-benefit analysis. Whether self-interest or civic virtue will motivate behaviour will depend on whether personal or social identity is salient, and whether the salient social identity is one which includes a majority of people and groups within the self- concept (a super-ordinate identity, such as “American”) or one which includes only a subset of people within the self concept (a subordinate identity, such as the “rich” and the “poor”).

Most compliance with tax laws is to be expected at a more super-ordinate level of identity, because-that is the level at which most people are included in one’s self definition and few people are excluded. Hence, if I perceive myself as American, then I care about America and Americans, and want what is best for Americans.

Least compliance with tax laws is to be expected at a more subordinate level of identity, because this level includes fewer people and is more likely to be situated in conflict with other subordinate groups ( for example, „us poor versus them rich“), focusing the concern on distributive outcomes and maximizing the in -group’s interests.

#### **2.4.5 Perceived Representativeness of Authorities**

Approaching compliance from a social identity perspective, we can see that attitudes and behaviour in relation to compliance are outcomes of the self-categorization process. It has been argued that compliance with tax laws is much more likely to occur when a super- ordinate identity is salient than when a subgroup identity is salient.

Further, Smith and Tyler (1996) argued that compliance should be most likely when the authority in question is included in that super-ordinate identity. The degree to which authorities are perceived to be representative of those over whom they have power has important implication for attitudes and behaviour. Research into procedural justice has shown that when authorities are perceived to behave fairly and respectfully, greater compliance results (Tyler, 2001 ).

When authorities are perceived as representative, their decisions are seen as legitimate because they are acting in the collective interests of „us“. Legitimacy, in turn leads to acceptance of decisions which authorities make and obedience to rules regardless of whether people agree with them or dislike the outcomes. Again, representative authorities confer a sense of pride in being a member of groups over which those

authorities reign. Relating this to tax authorities, the implications are clear. Tax revenue authorities are designated by government to collect revenue on behalf of government. If governments are perceived as representative, then the role of tax authorities should be perceived as legitimate. If authorities are included within one's self-categorization, they will be perceived to be legitimate, fair, accurate and trustworthy, because they are perceived as representative of self, leading to greater compliance with rules and regulations. Unrepresentative authorities, then, face greater difficulty obtaining compliance because they are more likely to be perceived as illegitimate, unjust, wrong and untrustworthy. The importance of this latter point is that if self-perception is located at a sub-group level (for example, rich versus poor), the tax authorities may be perceived as being part of, or representing the interest of, the out-group, in which case the authority's ability to influence is dramatically reduced and even rejected outright.

#### **2.4.6 Social Identity, Justice and Compliance**

One of the features of the tax system is that it is purportedly about achieving justice and fairness, and turning inequality to equality. That is, everyone who earns above a certain amount of income is required to pay a certain amount of tax. Also, those who earned more often required paying a higher level of tax than those who earn less. This is deemed to be a fair process as it essentially relied on the ability to pay. Apart from providing essential services from which everyone benefits, tax revenue is also used to provide a "safety net" for those in needs through social security or unemployment allowance.

Justice, fairness and equality, however, are not objective standards- perceptions of them vary with self-categorizations. What may be perceived as being fair at the super-ordinate level (for example, paying more tax than others) could be perceived as being highly unfair at the sub-ordinate level. However, perceptions of injustice are not simply related to inequality in outcomes (distributive justice), but can also be related to the perceived unfairness of the methods and procedures used to determine the outcomes (procedural justice). If the methods by which outcomes are distributed are perceived to be fair, then discrepancies in outcomes may also be judged to be fair. Song and

Yarbrough (1978) noted that the taxpayers' complaint is not that too many citizens cheat the government and get away with it, but that the government provides unequal opportunities to different income groups.

Evaluations of procedural justice have been linked to voluntary acceptance of decisions made by authorities, obedience to laws, and legitimacy of authorities. This strongly applies that if inequities in outcome (for example, paying more tax than others) are perceived to result from procedures in the tax system, then, perceptions of group deprivation should increase, and attitudes toward paying tax should become very negative.

Smith and Tyler (1996) argued that procedural justice concerns should be greater at the super-ordinate level, due to the fact that –

(a) Distributive injustice concerns are associated with subgroup differentiation which does not exist at a super-ordinate level, and

(b) Being treated in a procedurally fair manner conveys that one is valued and respected by other group members, and is important for self-esteem and determining one's behaviour towards other group members.

At the subgroup level, however, the distinctions between subgroups, which are not so apparent, at the super ordinate level, are highly apparent, focusing concerns on distributive outcomes (what they are getting in relation to what we are getting)

#### **2.4.7 Attitudes and Motivational Postures towards Tax**

From the research conducted by Braithwaite and Braithwaite (2000), four motivational postures of taxpayers have been identified. These postures reflect underline values, attitudes and beliefs and are the result of the dynamic interplay between taxpayers and tax authorities. The motivational postures are referred to as "commitment", "capture", "resistance" and "disengagement", and these embody psychological and behavioural orientations of taxpayers. "Commitment" reflects a high level of internalized acceptance of the rules and regulations associated with tax system (meaning surveillance is unnecessary), while "capture" reflects an explicit and conscious decision to comply, in

the knowledge that tax authority has power and will use it if necessary. These motivational postures are both compliant.

“Resistance” and “disengagement” reflect a psychological increase in social distance between taxpayer and the regulatory system. Those who adopt these postures do not wish to be part of the tax system, are motivated to avoid it, and are more likely to engage in negative behaviour in relation to it. These postures, then, describe an escalating process of non-compliance, accompanied by escalations in the degree to which surveillance and punishment are necessary to produce compliance with tax regulation. Importantly, however, it is explicitly acknowledged that those motivational postures are not stable individual traits, but fluid, and taxpayers can shift between them. However, the specific processes which might lead to taxpayers adopting one motivational posture over another are not specified.

#### **2.4.8 Justice in Taxation Context**

People’s behaviour is strongly linked to views about justice and injustice. Procedural justice in particular concerns the perceived fairness of the procedures involved in decision- making and the perceived treatment one receives from the decision maker. The procedural justice literature demonstrates that people’s reactions to their personal experiences with authorities are rooted in their evaluations of the fairness of procedures those agencies use to exercise their authority. Actually people who feel they have been treated fairly by an organization will be more likely to trust that organization and be inclined to accept its decisions and follow its directions but people are most likely to challenge a situation collectively when they believe that the procedure is unfair. The procedural justice literature specifically highlights the importance of an authority’s trustworthiness, interpersonal respect, and neutrality in its dealings with others. If people believe that an authority is trying to be fair and to deal fairly with them, they trust the motives of that authority and develop a long-term commitment to accepting its decisions. Also research has shown that being treated politely, with dignity and respect, and having genuine respect shown for one’s rights and social status, all enhance feelings of fairness.

The literature indicates that government regulators can benefit by employing fair procedures, it has been shown that taxpayers are generally more compliant when they think they have been treated fairly and respectfully by tax authority. In a Swiss study, Feld and Frey (2002) presented empirical evidence to suggest that actual tax compliance increased when taxpayers were treated as trustworthy in the first instance by tax authorities. In a study of Australian taxpayers, Wenzel (2002) also studied the impact of justice perceptions, but this time on self-reported tax compliance. Using a survey methodology, Wenzel found that taxpayers were more compliant when they thought that they had been treated fairly and respectfully. If individuals trust the motives of authorities, feel that they behave neutrally, and feel treated with respect and dignity, it appears they will be more willing to cooperate with the authorities and obey their decisions.

## **2.5 Theoretical Framework**

A theory is a statement of how and why specific facts are related. In this study, we present three theories and show their relevance for explaining tax morale and tax compliance. The approach of these theories is characterized by including a partially specific psychological effect to catch the relevance importance of an effect without losing the spirit of integrated psychological effect and without giving up economic foundations.

### **2.5.1 Intrinsic Motivation Theory**

Other sciences like sociology and psychology have stressed the importance of behavior based on moral and ethical considerations. In economic analysis, internalized values are taken as exogenously given and not influenced by prices or regulations. (Becker 1976 and Hirshleifer 1985). However, a view economists such as Hirschman (1965) and Sen (1977) took the relationship between external and internal motivation into account. Frey (1997) demonstrates that intrinsic versus extrinsic motivation are also relevant for explaining compliance behavior. He looks at tax morale as a particular kind of intrinsic motivation. It is an attempt to introduce a psychological effect into economics without giving up the rational choice framework. His approach includes a crowding out effect of intrinsic motivation in the analysis of tax compliance.

Increasing monitoring and penalties for noncompliance, individual will notice that extrinsic motivation has increased, which on the other hand crowds out intrinsic motivation to comply with taxes. Thus, the net effect of a stricter tax policy is unclear.

If intrinsic motivation is not recognized, taxpayers get the feeling that they can as well be opportunistic. This puts into account the relevance of policy instruments in supporting or damaging the intrinsic motivation.

Intrinsic motivation depends on the application of policy instruments. Frey (1997) claims that tax morale is not expected to be crowded out if the honest taxpayers perceive the stricter policy to be directed against dishonest taxpayers. Regulations which prevent free riding by others and establish fairness and equity help preserve tax morale.

### **2.5.2 Ipsative Theory**

Under certain circumstances, human actions can be constrained by a set of possibilities which is considered to be relevant only for oneself. Other alternatives are disregarded (Frey and Foppa 1986). Frey (1997:196) calls it the “ipsative possibility set”. The theory strongly relies on psychological evidence and can be seen as an attempt to model an aspect of human- imperfection. The ipsative possibility sets are characterized by Frey (1997) as:

- i. Non-marginal (alternatives are either considered fully or not at all)
- ii. Asymmetric (alternatives outside the set are out of consideration) and
- iii. Personal (relevant to certain person)

Frey claims that an under-extension of the ipsative set is a common phenomenon among rational actors. Tax morale can be seen as such an issue, which is not open to a marginal but rather an absolute evaluation. There are taxpayers who do not even search for ways to cheat at taxes while others act contrarily. Relative price changes, by reason of higher punishment, are only considered by taxpayers with a low morality and can cheat. Frey even speaks of a perverse effect that arises when the government threatens citizen of high tax morality with increased punishment. Citizens can take this as an indication that the government does not honor compliant behavior. If the government distrusts them, tax morale can be undermined.

### **2.5.3 Theory of Crime**

The deterrence doctrine can be traced back to the classical works of Jeremy Bentham and Cesare (Murphy 2008). Their classical utilization theory of crime is that people are rational actors who behave in a manner that will maximize their expected utility. Becker (1968) argued that authorities needed to and appropriately balances between detection of non-compliers and sanctions to the point where non-compliance becomes irrational.

In the early 1970s, Allingham and Sandmo (1972) extended Becker's work on the economics of crime to the taxation context. They examined taxpayer's decision to evade taxes when they were filling out their tax returns and examined the relationship between penalty rate for tax evasion at the time, the probability of detection, and degree of tax evasion engaged in. What they found was that there was a relationship between these variables; with a higher penalty rate and probability of detection deterring individuals from evading their taxes. In the 1980s, therefore, many scholars began to question the value of deterrence alone in regulating behavior. They began to focus their attention on researching compliance rather than deterrence and began to realize the importance of persuasion and cooperation as a regulatory tool for gaining compliance. In fact, research has shown that the use of threat and legal coercion, particularly when perceived as illegitimate, can produce negative behavior; these actions are more likely to result in further non-compliance (Murphy and Harris 2007), creative compliance (McBarnet 2003), criminal behavior or opposition (Fehr and Rokenbach 2003).

### **2.6 Value Added Tax (VAT)**

The VAT is a sales tax levied on the sale of goods and services. In some countries, including Singapore, Australia New Zealand and Canada this tax is known as "goods and services tax" or GST. VAT is an indirect tax in that the tax is collected from someone other than the person who actually bears the cost of the tax.

#### **2.6.1 The VAT System in Tanzania**

VAT system in Tanzania was introduced in 1997 following the recommendations by a team commissioned to study the ways of enhancing government revenue. The commission of enquiry into public revenue and taxation was appointed by the President

of the United Republic of Tanzania, following development partner's outcry of poor tax performance, fiscal problems coupled with persistent and growing budget deficit. This was implemented in 1997 (the act of Parliament, VAT Act, No. 24 of 1997) and it became operational on 1<sup>st</sup> July 1998, to replace some sales taxes; stamp duty, hotel levy and entertainment taxes. This measure was thought to be a remedy to the ailing economy characterized by a growing budget deficit. It can further be argued that introduction of VAT in Tanzania was a major step in the expansion of the tax base and improvement of the tax collection.

However not all traders are registered for VAT. Only those that exceed the statutory registration threshold are eligible for registration by the Tanzania Revenue Authority (TRA, 1997). The author further reported that almost all countries with VAT system usually exempt small traders with taxable turnover below a certain specified amount in order to minimize administrative and compliance cost (TRA, 1997). Experience from other countries has revealed that registration of many small traders consumes a significant amount of tax administration and traders resources, while tax intake is insignificant (Ibid). In Tanzania all businesses with annual taxable turnover of more than forty (40) million shillings are liable to be registered for (VAT Shekidele, 1996).

### **2.6.2 Nature of VAT in Tanzania**

The type of VAT that is used in Tanzania is consumption type. The credit invoice method of calculation is applicable in which all VAT registrants are obliged to collect and remit VAT on their taxable supplies (Jenkins & Kuo, 1999). These registrants are allowed to recover the tax paid on their purchases. For each reporting period, registrants will have to calculate the tax collected and remit to the tax authority the amount that is in excess of the taxes they paid. If the difference is negative, registrants can claim the difference as a tax refund.

### **2.6.3 Tax incentives Versus VAT**

A tax incentive is the policy of the government to encourage investments in all sectors of the economy. A number of tax incentives are granted to both local and foreign investors as a way of encouraging investments in the country.



In 1997 the National Investment Promotion and Protection Act (NIPPA 1990) was repealed and replaced by the new Tanzania Investment Act (TIA). Further more Tax holidays were abolished and now the incentives are granted in form of enhanced deduction and allowances. All companies can write off capital cost incurred in respect of the assets acquired during the first year of use in business except for expenditure related to buildings. Other incentives include incentives on import duty which, is issued under Tanzania Investment Center (TIC Act 1997) to investors with certificates of incentives, who import capital goods for use in the lead sectors of mining and economic infrastructure. These do not pay custom duty upon importation of these goods ([www.tic.co.tz](http://www.tic.co.tz), 2014)

Import duty charged on imported inputs used for producing goods for export and goods sold to foreign institution like UN and its agencies operating in Tanzania, is refunded under the duty drawback scheme. Furthermore, under the Export Processing Zone (EPZ) Act of 1992 that became operational in 1995, all inputs like raw materials and machinery, which are imported and used to process or manufacture goods in designated areas as EPZ, are exempted from import duty and other taxes (URT, 2003). Import of capital goods for investment in the lead and priority sectors does not pay VAT up front. Deferment of VAT payment on capital goods allows investors to enjoy the relief tax before actual production starts ([www.epz.go.tz](http://www.epz.go.tz)).

The calculated amount of VAT is deferred when the VAT is treated as an input against the output tax collected from the sale of the produced goods and services. Since this mechanism does not involve any cash outlay by the importer, it provides a good tax incentive to investors whose projects are on implementation stage. Also in order to encourage export of locally produced goods from Tanzania, all exports are zero rated, and VAT refunds are made either within 30 days or 6 months from the due date depending on the type of taxpayers, regular repayment or other traders respectively (VAT Act, 1997). This kind of operation may not directly contribute to VAT compliance. But, it's very existence and if the refund is done promptly, it creates confidence in the tax payers with respect to the taxation system. The taxpayers learn and understand that the taxation system is operating efficiently, which in one way or another, contribute in enhancing VAT compliance (Shekidele, (1996).

## **2.7 Empirical Literature Review**

The purpose of this section is to review empirical information relevant to the study. The influences of demographic characteristics, taxpayers' education, taxpayers' view on the collected tax and business turnover on tax compliance are discussed in this section.

Rizky (2011) Research on the level of tax compliance of restaurant told us about many restaurant entrepreneurs in the city of Malang does not comprehend and understand the taxation laws, so a lot of entrepreneurs do not obey the restaurants payment taxes and do not report the amount of tax to be paid in accordance with the actual situation. The role of government to improve taxpayer compliance in paying taxes is very little, it can be proved from the numbers restaurant entrepreneurs who do not know the restaurant tax payments or restaurant ordinances are still a lot. This is due to the lack of restaurant tax counseling in Malang. Tax penalty is one of the most influential factors on tax compliance of the tax payers in paying taxes. Because many restaurant entrepreneurs are afraid if they do not pay taxes, then they will get administrative penalties moreover if they commit serious violation, they will get criminal penalties.

Mustikasari (2007), Research on the level of tax compliance also found out that all taxpayers will pay taxes based on the consciousness of the taxpayers themselves to pay taxes, but if the taxpayers have no desire or intention to pay the taxes, then they that will seek a way to avoid paying the tax. The role of the family, coworkers, and organizational conditions greatly affect every taxpayer in paying taxes. Due to the encouragement of the environment to pay taxes, it will affect tax compliance in paying taxes too. Besides, the high moral consciousness of every taxpayer will be very influential in tax compliance, since every taxpayer will be aware of their role in nation-building by contributing to pay tax in accordance with the specified time limit. Another factor that plays an active role in improving tax compliance is the company's financial condition and facilities provided by the company, it is evident if all employees in the company are paid a salary and get facilities in accordance with what their expectancy, then the employees will be obedient in paying taxes. The studies of the factors that will affect tax compliance was also been done by Pratiwi (2012).

She used the consciousness of paying taxes, the knowledge and understanding of tax laws, a good perception on the effectiveness of the tax system, and the level of confidence in the government and law as the independent variable and use compliance in paying taxes as a dependent variable. Respondents in this study were all individual taxpayers who did the independent registered Tax Office Primary in Purwokerto, Banyumas regency on December Results from this research is the proof that taxes awareness, knowledge and understanding of tax laws, a good perception on the effectiveness of the tax system and the level of confidence in the government and legal system, simultaneously influence the willingness to pay tax. This is because every taxpayer who understands tax law has realized the sanctions if he does not pay taxes. Taxpayer confidence in the government, in this case the government is as an institution that will regulate and manage the tax and also as a Law Institution that oversee all the tax activities, is very influential for tax compliance in paying taxes. The results of this study also stated that the government's role in facilitating the process of tax payments will help to improve tax compliance in paying taxes. Additionally, socialization and training in filling tax forms will help to smooth the process of paying taxes.

Somang (2006), Research on the factors that affect tax compliance had also been done. The results of this study show that the tax audit done by the tax officers has a significant effect on the level of tax compliance in paying taxes. While the level of tax payers understanding and the taxpayer's perception of the tax system does not significantly affect the level of tax compliance in paying taxes. The results of this study also mentioned that by enhancing the tax audit, it makes a significant influence on the tax compliance. Beside that the government is also expected to simplify the tax regulations so that they can easily be understood by every tax payer.

The studies on the factors that affect the level of tax compliance had also been made by Miladia (2010). This study used a tax professional attitude, intention to behave obediently towards the tax, financial condition, corporate facilities, and climate in the organization of the company as an independent variable, and use tax compliance as the dependent variable. The results of this study are more positive attitude of a tax professional (in this case means support) on tax compliance, the higher tax rate on

corporate tax compliance. Conversely, the more negative the attitude of a tax professional (in this case means do not support) on tax compliance, the lower tax rate on corporate tax compliance professional tax intention to behave obediently is formed from subjective norm (the influence of the people that are important around the Tax Professional), moral values espouse and control the behavior of a tax professional. Tax professionals have a positive intention to behave obediently so it has an effect on the higher level of tax compliance behaviour of the corporate which they represent. In addition, the company's financial condition, the facilities provided by the company as well as the organizational climate within the company is also very influential in the level of tax compliance of corporate taxpayers.

The studies on the factors that affect the level of tax compliance had also been made by Aryati (2013), This study used an optimistic attitude taxpayer, factors of age, gender factors, knowledge of tax, financial conditions, corporate environments, and moral as independent variables, and use tax compliance as the dependent variable. In this study mentioned that the age and the level of tax knowledge are instruments in tax compliance. In terms of age it was said that the younger generation is more willing to take risks for non-compliance of the tax, it is different from the older generation who is more obedient to the tax because it is based on their experience towards the tax. Knowledge factors also affect tax compliance. Knowledge in this study was measured by education level. The higher level of education would affect the understanding of the tax. This may have a positive or negative effect on tax compliance. Someone who has a high level of knowledge will pay taxes in accordance with the actual situation. This is a form of positive influence. But someone who has the knowledge of high taxes will also be able to do any action aimed to avoid paying taxes or to make report which is not in accordance with actual conditions. It is a negative influence on tax compliance.

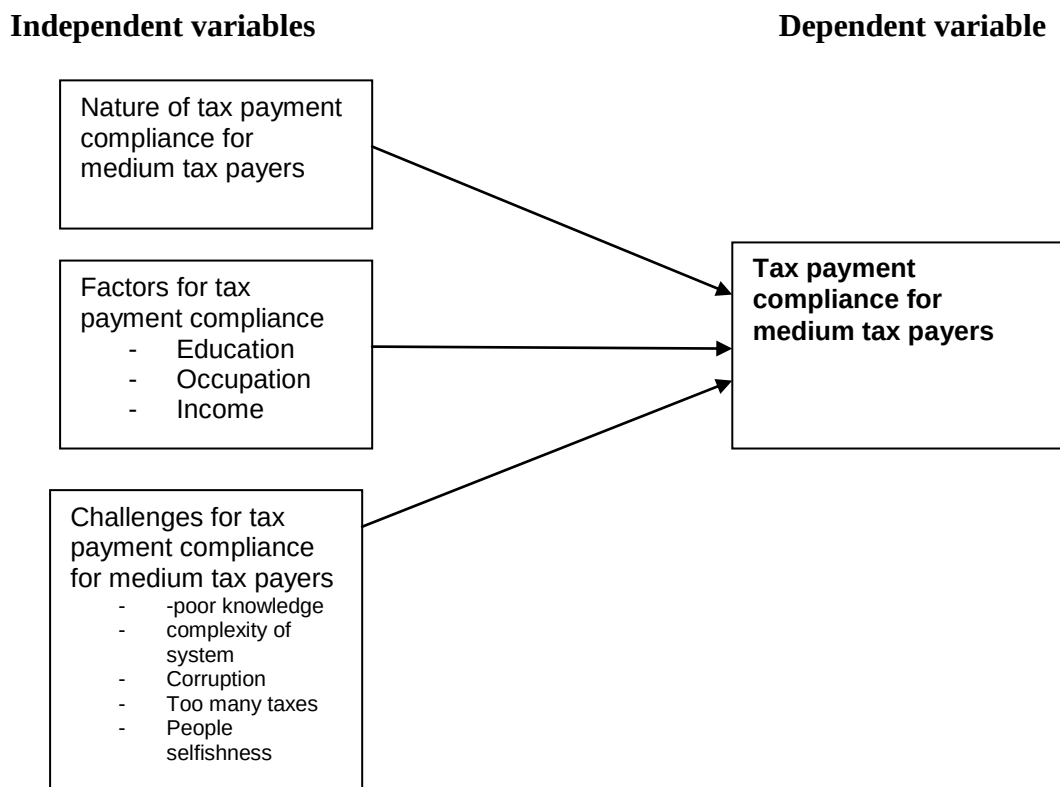
Research on the factors that affect tax compliance has also been done by Rapina (2011), in this study she used the modernization of the structure, procedures, strategies, and organizational culture. This study emphasizes the role of the institution in charge of the tax that is tax authorities to make the process of taxation, to improve services and simplify the tax system that causes the impact on tax compliance. In this study, she mentioned that all independent variables used such as the structure, procedures, strategy

and organizational culture affect tax compliance. This is because the modernization undertaken by the tax authorities is aimed to improve services and simplify the tax system so that taxpayers will feel comfortable with the service provided and the taxpayer will be more obedient to pay taxes.

## 2.8 A Conceptual Framework

This conceptual framework is developed basing on theoretical and empirical reviews. This conceptual framework analyses the relationship between various variables and how do they affect VAT compliance e.g. age of the VAT traders, level of education, gender and their business turnover. The changes in these variables have either a positive or negative effects towards tax compliance level. In the scenario where there is tax compliance positive results will be achieved which includes rising of government revenue, provision of adequate public services, economic growth, low tax administration costs and raise standard of living e.tc.

**Figure 2.1 Conceptual framework model**



**Source:** researcher (2015)

Figure 2.1 gives out the conceptual relationship between variables. The dependent variable on this study is the tax payment compliance for medium taxpayers whereby the independent variables are nature of tax payment compliance, factors affecting tax compliance and challenges facing tax payment compliance for medium taxpayers. The model shows that the independent variables have direct impact on dependent variables. Factors for compliance like education of taxpayers, occupation, income level, and income source are important in tax compliance. Likewise, the challenges of the system like lack of patriotism, complexity of the tax system, corruption, too many taxes, and people selfish behavior seems to have impact on taxpayers to comply with tax system

## **2.9 Research Gap**

As it was elaborated and identified literature gaps above, this study will concentrate on the factors enhancing tax payment compliance for medium taxpayers in the development of national economy for the case of Tanzania Revenue Authority, in Moshi municipal. This is because there is no study conducted at this organization concerning the above mentioned theme.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

According to Kothari (2004), research methodology is a systematic way of solving research problem. This involves the various steps that are generally adopted by the researcher in studying the research problem and its rationale. This research will use both qualitative and quantitative methodologies to answer both ‘what and why’ and ‘to what extent’ questions respectively (Bryman and Bell.2007).

This chapter covers research design, area of the study, units of enquiry (population of the study), sampling technique/procedures, data collection methods and data analysis technique. All these aspects are discussed below.

#### **3.1 Research design**

A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004). As argued by Kothari (2004) and Cooper (1998) different types of research designs can be used including exploratory, explanatory, experimental and comparative research designs depending on the nature and purpose of a particular study. A research design, therefore, is deemed to be the blue print for the collection, measurement and analysis of data, the conceptual structure within which the research is conducted.

This study employed the cross sectional research design so as to explore insights into the different issues as they exist in Tanzania regarding tax compliance and payment. The design included the exploration/investigation of the factors that influence compliance to VAT payment.

#### **3.2 Area of the study**

Area of the studies are interdisciplinary fields of research and scholarship pertaining to particular geographical, national/federal, or cultural regions. The term exists primarily as

a general description for what are, in the practice of scholarship, many heterogeneous fields of research, encompassing both the social sciences and the humanities (Hans, 2008). It is a particular place where the study was conducted and the data collected. For this case, the study was conducted at Tanzania Revenue Authority (TRA), Kilimanjaro region. This is because it is one of the regions in Tanzania with serious problems of the VAT non compliance and no other study of the similar nature has been done.

### **3.3 Population of the study (Units of Inquiry)**

A population can be defined as including all people or items with the characteristic one wish to understand. Because there is very rarely enough time or money to gather information from everyone or everything in a population, the goal becomes finding a representative sample (or subset) of that population (Hans, 2008). Therefore, the population for this study involved customers and employees from all departments from TRA, Kilimanjaro region.

### **3.4 Sample and Sampling Procedure**

#### **3.4.1 Sample size**

Sampling is the process of selecting units (e.g., people, organizations) from a population of interest so that by studying the sample we may fairly generalize our results back to the population from which they were chosen (Trochim, 2006). Tanzania Revenue Authority, Kilimanjaro and medium taxpayers contains the population size which comprises 177 respondents. The research used a sample size of 88 employees which is equal to 49.7% of total population.

#### **3.4.2 Sampling procedures**

##### **3.4.2.1 Simple random sampling**

Under this sampling design, every item of the universe has an equal chance of inclusion in the sample (Kothari, 2004). The simple random sampling technique was to be employed to select various employees from various TRA Kilimanjaro and some of the medium taxpayers (customers) from the group of registered taxpayers in Kilimanjaro. By this technique every person/employee has had an equal chance of being included in



the sample of the study without biasness. The researcher prepared the table of random number to select the sample size.

#### **3.4.2.2 Purposive sampling**

In this type of sampling, items are selected deliberately by the researcher; his choice concerning the items remain supreme (Kothari, 2004). For this study, purposive sampling technique was applied to select employees from TRA and registered medium taxpayers who involved due to virtual of their positions in the organization and business, they had vital information about the theme in study (factors enhancing tax compliance). Through this technique, only 12 respondents from TRA were selected who made 13.6% of the total population, and other 76 medium taxpayers were included to make other 86.4% of total population. The researcher decided to use 12 respondents purposely because they are the head of departments for them he can easily collect reliable information about the study.

### **3.5 Data Collection Methods**

Data collection is a term used to describe a process of preparing and collecting data, for example, as part of a process improvement or similar project. The purpose of data collection is to obtain information to keep on record, to make decisions about important issues, to pass information on to others. For the reason of getting reliable information/data, the researcher used both primary and secondary data collection methods. The Primary data collection method includes questionnaires, interviews and personal observation; whereas secondary data are obtained from various documents such as books, Journals, files and other written reports available at TRA.

#### **3.5.1 Interviews**

It may be defined as two-way systematic conversation between an investigator and an informant, initiated for obtaining information relevant to as a specific study. It involves not only conversation, but also learning from the respondents' gestures, facial expressions and pauses, and his environment. Interviewing requires face-to-face contact or contact over telephone and calls for interviewing skills. It is done by using a structured schedule or an unstructured guide (Marketing research, 2008).

This method was used by the researcher to get information concerning the study. The types of interviews used as referred by Kombo and Tromp (2006:93) as structured and semi-structured interviews. Thus, the interviews were guided by set of questions and issues which was explored thoroughly. The interviews were conducted to TRA staffs, Kilimanjaro region that are knowledgeable in organizational environment which monitor tax collection. The interview guide was prepared according to the objectives of the study and structured according to individual unit of inquiry.

This method was to be used purposely because; it was easier for a researcher to obtain other information which lacked from the questionnaires. And also face to face interview facilitated quick response of the questions, and help the researcher to know the feelings of the respondents. But there were some certain challenges of the interview whereby it costs a lot of time for a researcher to conduct interview with senior staffs of TRA who seems to be busy during the study, also the taxpayers were not much fully cooperative due to fear of giving of information regarding tax matters. The researcher noticed that was lack of education to taxpayers made them to fear to respond on this study.

### **3.5.2 Questionnaire**

A questionnaire consists of a number of questions printed or typed in a definite order on a form or a set of forms. In this method, a questionnaire is sent to the persons concerned with a request to answer the questions and return the questionnaire (Kothari, 2004). The researcher used the written questions intending to get answers concerning the issues in study i.e. the factors enhancing tax payment compliance for medium taxpayers in the development of national economy. Two types of questionnaire was prepared and served to the TRA staffs (English questionnaire), as well as to the medium taxpayers (Swahili questionnaire) respectively. The questionnaire covered all intended parties of the research problem, aiming to answer Research questions pointed out. A total of seventy six (76) respondents were provided with the questionnaires following the sample size selected. The questionnaires distributed to all staffs and taxpayers and receive feedback after finishing filling them on the space provided. Questionnaire was very advantageous to use because it helped to cover a large population regardless of its geographical location, also gave time for respondents to give their well thoughts. But on the other

hand, questionnaires had some challenges which include low rate of return because not all the people return questionnaire hence the researcher decided to conduct interview. The questionnaires distributed were 76 but only 67 responded.

### **3.5.3 Documentary review**

A document is an artifact which has as its central feature an inscribed text (Scott 1990). Simply put, a document is a written text. Documents are produced by individuals and groups in the course of their everyday practices and are geared exclusively for their own immediate practical needs (Scott op cit.). They have been written with a purpose and are based on particular assumptions and presented in a certain way or style and to this extent, the researcher must be fully aware of the origins, purpose and the original audience of the documents (Grix, 2010). In this study, the researcher passed through various documentary sources as one of the methods of data collection. During the study the researcher pass through register for taxpayers, and other documents regarding tax behavior at TRA office for the sake of identifying the response on tax compliance at Kilimanjaro region. Also the researcher went through books, Journals, articles, minutes of the meetings, almanacs and Tax compliance reports. Through reading the above mentioned documents, the researcher explored some reasons for tax non compliance. Reading other people works helped to improve the thinking of the researcher by acquiring new information and ideas concerning the problem.

### **3.6 Data Analysis**

Is the process of evaluating data using analytical and logical reasoning to examine each component of the data provided. This form of analysis is just one of the many steps that must be completed when conducting a research experiment. Data from various sources is gathered, reviewed, and then analyzed to form some sort of finding or conclusion (business dictionary communication, n.d). The data which was collected from the field was analyzed by the qualitative technique and the results were summarized and given concluding remarks on the findings applied on solving problem statement and fulfilling the research objectives. Analysis of Variances (ANOVA) was used to make clear analysis of data. It became very important to use ANOVA technique on examining the

significance of the difference amongst more than two sample means at the same time; it enabled the researcher to perform a simultaneous test during data analysis.

Findings were presented through by generating critical arguments and formulating tables, pie charts, graphs, histograms and percentages.

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND FINDINGS**

#### **4.0 Introduction**

This chapter presents research findings analysis through data discussion and interpretation based on the methodology selected in the study. The study used various method of data collection such as questionnaire, observation, documentation, face to face interview, and phone calls interview.

The findings in this chapter also rely on specific objectives of this study; To identify the influence of business turnover on tax compliance at TRA, to examine factors motivate tax compliance for medium taxpayers at TRA, to identify factors that lead to tax payment non compliance at TRA

The arrangement of this chapter is in three sections, the first section presents response rate, then the respondent general information and characteristics, and the last section presents the findings based on research objectives/questions.

#### **4.1 Response rate**

The study intended to collect data from 88 respondents at Tanzania Revenue Authority, Kilimanjaro. But only 79 respondents were responsible for this study. This is made 89.8% of the intended population. Other 9 respondents did not participate in this due to various reasons such as absence in official duties during the period when researcher went for interview, also others did not return questionnaires. This made 10.2% of the total population intended. This population comprised both sex that is men and women. The men were 51 which equal to 58% of the whole population, and 28 women who made 31.8% of the population.

For this response rate 89.8% of the intended population, made the results of this study to be successfully because the high rate of response represent the high rate of participation in the research conducted. The table below shows,

**Table 4.1: Population distribution of respondents**

| <b>Respondents</b> | <b>Frequency</b> | <b>Percentage</b> |
|--------------------|------------------|-------------------|
| Male               | 28               | 31.8              |
| Female             | 51               | 58                |
| Absentees          | 9                | 10.2              |
| <b>Total</b>       | <b>88</b>        | <b>100</b>        |

**Source:** field data 2015

## 4.2 Respondents characteristics

The respondents who were involved in the study had different characteristics. They had different sex, age; level of education and from different groups, also they had different working experience. The researcher tried to involve respondents from different angles in order to biasness in selecting source of data is reduced

The study considered respondents personal characteristics and general information which explain the relationship between the stated variables which involves respondent's sex, age, designation level, level of education and working experience. Table 4.2 gives such distribution of respondents by sex.

### 4.2.1 Distribution of Respondent by Sex

**Table 4.2: Frequency distribution of respondents at Tanzania Revenue Authority, Kilimanjaro by sex**

|            | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------|-----------|---------|---------------|--------------------|
| Valid Male | 51        | 64.6    | 64.6          | 64.6               |
| Female     | 28        | 35.4    | 35.4          | 100.0              |
| Total      | 79        | 100.0   | 100.0         |                    |

**Source:** Field data, 2015

The data in table 4.2 above tends to show that 51(64.6%) of respondents were male while 28(35.4%) were female. This would tend to suggest that, most of the employees at TRA Kilimanjaro were male. Table 4.2 shows that, males were at 64.4% while females were 35.4%. Hence this signifies that male participate highly in the study, thus they are majority involved in tax paying.

### Age of respondents

Information about age was generated in order to establish the picture of age distribution of respondents involved in the study. It was found that 43 (54.4%) ranged between 30-45 years of age and 27 (34.2%) respondents were between the age ranged from 46 – 60 years and 9(11.4%) aged above 60 years. Thus, the study reveals that majority of participants in the study were respondents age between 30 – 45 years. Consider the table 4.3. below.

**Table 4.3: shows the distribution of respondent by Age**

| Age categories (Years) | Frequency | Percentages |
|------------------------|-----------|-------------|
| 30 – 45                | 43        | 54.4        |
| 46 – 60                | 27        | 34.2        |
| Above 60               | 9         | 11.4        |
| <b>Total</b>           | <b>79</b> | <b>100</b>  |

**Source:** Field data, 2015

### 4.2.2 Distribution of Respondents by Designation

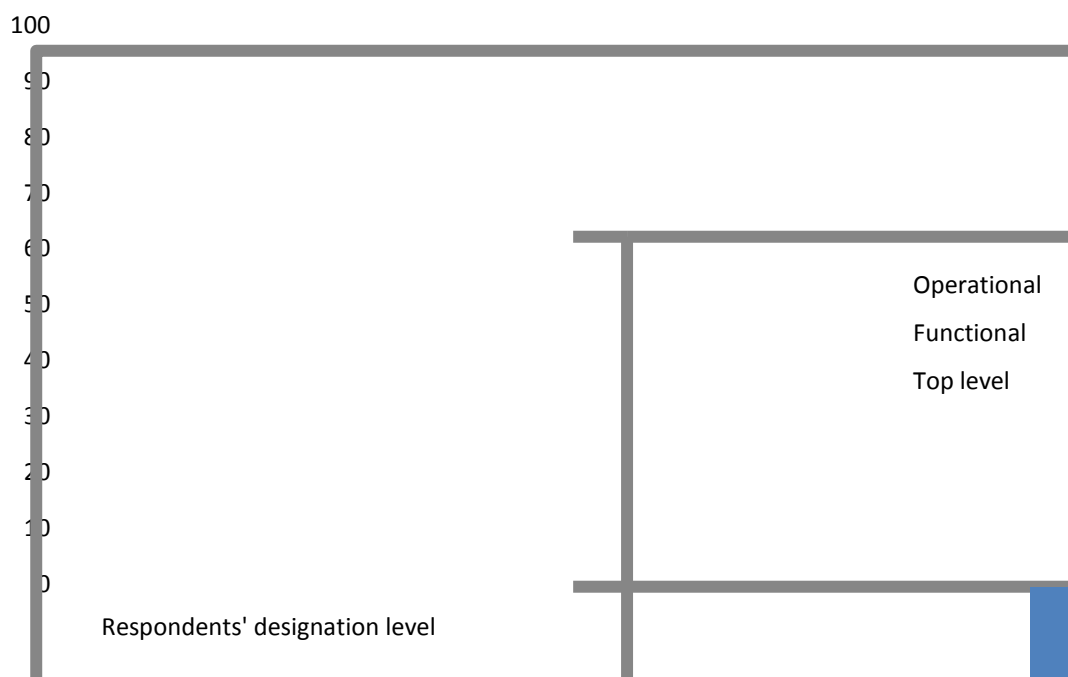
The researcher wanted to establish distribution of respondents by designations who were involved in the study. The study found 55 (69.6%) were respondents involved in operations activities, 17 (21.5%) were functional managers, and 7 (8.9%) were top level managers. In view of the same, majority respondents who participated in the study were from operations sections. Consider table 4.4 and figure 4.1 below

**Table 4.4: Distribution of respondents by designation**

|       |                    | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|--------------------|-----------|---------|---------------|--------------------|
| Valid | Operation          | 55        | 69.6    | 69.6          | 69.6               |
|       | Functional manager | 17        | 21.5    | 21.5          | 91.1               |
|       | Top level manager  | 7         | 8.9     | 8.9           | 100.0              |
|       | Total              | 79        | 100.0   | 100.0         |                    |

**Source:** Field data, 2015

**Figure 4.1: Distribution of Respondent by Designation.**



**Source:** Field data, 2015

Both Table 4.4 and Figure 4.1 show that, among all employees 69.6% were employed at operation level while about 21.5% were employed as functional managers and 8.9% top level managers. The finding would suggest that, the nature of work at revenue collection need more people on operation than on functional and top level. The level of compliance in revenue collection might be taken careful on employees involving on operation as the most important level at TRA.

#### **4.2.3 Education level of respondents**

Level of education was another important aspect of the study. The researcher was interest in knowing the distribution of respondents according to their levels of education because it was important to establish the level of education of respondents involved in the study. The study reveals that 9 (11.4%) respondent were primary school leavers, 15(19%) were secondary school leavers, 21(26.6) were diploma holders and 34 (43%) were degree holders. Given the above information, the study reveal that majority of respondents who participated in the study were degree holders. Consider table 4.5 below



**Table 4.5: Education of respondents involved in the study**

| Education levels    | Frequency | Percentages |
|---------------------|-----------|-------------|
| Primary education   | 9         | 11.4        |
| Secondary education | 15        | 19          |
| Diploma             | 21        | 26.6        |
| Degree              | 34        | 43          |
| <b>Total</b>        | <b>79</b> | <b>100</b>  |

**Source:** Field data, 2015

#### 4.2.4 Business turnover of the VAT registered traders

The study focused on medium taxpayers who represent the 81 percent of total population, others were large tax payers (5.1%) who have turnover above 1 billion, and also small taxpayers (11%) who have low turnover from 0 to 20 million turnovers per year. Table 4.6 show detail

**Table 4.6: Distribution of vat registered traders by business turnover.**

| Education levels   | Frequency | Percentages |
|--------------------|-----------|-------------|
| 1billion and above | 4         | 5.1         |
| 20 Million – 900   | 64        | 81          |
| 0 – 20 Million     | 11        | 13.9        |
| <b>Total</b>       | <b>79</b> | <b>100</b>  |

**Source:** Field data 2015

#### 4.3 The influence of business volume/turnover on tax compliance.

The first objective of this study intended to explore the influence of business turnover on tax compliance at Kilimanjaro region. The findings show that lower income group tended to have a lower proportion of tax compliance by under- reporting income and by over claiming expenses than their counterparts in the higher income group

The study revealed that, 70 (88.6%) of the respondents of VAT registered traders and TRA officials agreed that lower income group tended to have a lower proportion of tax compliance than their counterparts in the higher income group while only 7 (8.9%) of the respondents disagree with the statements. Only 2 (2.5%) of respondents were not sure about this question. The researcher found out that middle taxpayers believe that, their business turnover does not allow them to pay tax and hence decide to avoid paying

taxes. Distribution of the respondents of their views on business turn over versus tax compliance is shown in the table 4.7 below.

**Table 4.7: Perception of influence of turnover on compliance**

|                | Frequency | Percent | Valid Percent | Cumulative Percent |
|----------------|-----------|---------|---------------|--------------------|
| Valid Disagree | 70        | 88.6    | 88.6          | 88.6               |
| Agree          | 7         | 8.9     | 8.9           | 97.5               |
| Not sure       | 2         | 2.5     | 2.5           | 100.0              |
| Total          | 79        | 100.0   | 100.0         |                    |

**Source:** Field Data 2015

#### **4.3.1 Factors motivate tax compliance for medium taxpayers at TRA**

##### **i. Education**

This was the first aspect identified by respondents on the factors motivating tax compliance in Kilimanjaro. The respondents believe that, tax education can be important factor in complying with tax. The study show that, 65 respondents (82.3%) agreed that education is a motivating factor, the other 13 respondents (16.4%) did not agree about this factor and only 1 person (1.3%) were neutral on this aspect. Education as a compliance factor, relates to a taxpayer's ability to comprehend and comply or not comply with the income tax laws. The Tanzania Revenue Authority recognizes taxpayers' technical abilities as a crucial element of a voluntary tax system. Two aspect of education have been analysed; the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities. The study found out that general fiscal ignorance is a major contributor to negative feelings toward taxation, since the less educated tend view taxation only in terms of its burden and ignore the benefits and services provided from the revenue. The taxpayer must view himself as having an obligation to society before he/she views taxes as an appropriate and worthwhile investment. TRA should improve education of self employed taxpayers.

##### **ii. Income level**

The findings on income (usually defined as adjusted gross income or total positive income) level are mixed. A confounding factor is the correlation between income level

and tax rates. The study found out that, middle taxpayers categorize themselves as low income earners so they are not supposed to pay VAT taxes, this is the same apply to small taxpayers who always believe that TRA should not collect tax from them. The study revealed that, the income level had positive contribution on tax compliance behavior. Most of the large taxpayers are good compliers of tax in Kilimanjaro region. In this aspect, 67 (84.8%) respondents agreed that income level determines compliance while the rest 12 (15.2%) respondents did not agree. The high level of respondents, 67 (84.8%) made the researcher to believe that income level also is vital for tax compliance. The table 4.8 below gives detailed explanation on this response.

**Table 4.8: The response on income level**

|             | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------|-----------|---------|---------------|--------------------|
| Valid Agree | 67        | 84.8    | 84.8          | 84.8               |
| Neutral     | 00        | 0.0     | 0.0           |                    |
| Disagreed   | 12        | 15.2    | 15.2          | 100.0              |
| Total       | 79        | 100.0   | 100.0         |                    |

**Source:** Field data, 2015

The table 4.8 above gives detailed response on how the income has a great contribution on tax compliance. The high rate of response (84.8%) agreed that as the factor for compliance hence made the researcher to conclude that income level also is an important factor on tax compliance therefore TRA should reconsider the amount of VAT taxed to all taxpayers regardless of their income. There should be the VAT amount depending on the income but not the same amount to all taxpayers groups.

### **iii. Income source**

Income source refers to the type or nature of the income item. Source of income found to be three times more important than the next most heavily weighted variable when modeling tax preparers' perceptions of taxpayer behavior. The tax payers identified that, the source of your income have great contribution towards tax payment. During the study, the researcher found out that people comply to tax due to the nature of their business. Every business man knows where he or she gets its products, so to comply with tax depends on where and how you buy your products. The study shown that, the

42 (53.2%) respondents agreed that income source has direct impact to tax compliance, the other 32 (40.5%) respondents didn't agree with this, and only 5 (6.3%) respondents were neutral. The table 4.9 below gives more details.

**Table 4.9: The response on income source**

|              | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-----------|---------|---------------|--------------------|
| Valid Agreed | 42        | 53.2    | 53.2          | 53.2               |
| Neutral      | 05        | 6.3     | 6.3           | 59,5               |
| Disagreed    | 32        | 40.5    | 40.5          | 100.0              |
| Total        | 79        | 100.0   | 100.0         |                    |

**Source:** Field data 2015

#### **iv. Occupation**

Occupation generally defined as an individual's employment or earning activity, has been posited as a compliance factor for over 40 years. Initially tax evasion was considered a white-collar crime, committed by a person of respectability and high social status in the course of his occupation. Therefore on this study, most of the respondents believe that paying tax is responsible for some group certain status in public and not to all people. The majority 61 (77.2%) responded that tax compliance can highly be motivated with occupation and hence make this subject considered by the researcher. The other 18 (22.8%) didn't consider occupation as a compliance factor. Table 4.10 below gives more details.

**Table 4.10: Response on occupation**

|              | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------|-----------|---------|---------------|--------------------|
| Valid Agreed | 61        | 77.2    | 77.2          | 77.2               |
| Disagreed    | 18        | 22.8    | 22.8          | 100                |
| Total        | 79        | 100.0   | 100.0         |                    |

**Source:** field data 2015

**v. The influence of tax practitioners/administration**

The study also found out that, the tax authority has positive contribution toward tax compliance in Kilimanjaro region. The education provided by Tanzania revenue Authority, Kilimanjaro helps taxpayers to know the importance of paying tax. Likewise, the method of collecting and receiving tax made easier by this authority to influence the customers to comply with tax payment. During the study, majority of respondents 70 (88.6%) agreed on this factor and the rest 9 (11.4%) disagreed with this factor. The table 4.11 below shows detailed response on this aspect

**Table 4.11: Response on the influence of tax practitioners**

|       |           | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-----------|-----------|---------|---------------|--------------------|
| Valid | Agree     | 70        | 88.6    | 88.6          | 88.6               |
|       | Disagreed | 09        | 11.4    | 11.4          | 100                |
|       | Total     | 79        | 100.0   | 100.0         |                    |

**Source:** Field data, 2015

**vi. Levels of understanding of the tax law**

The study further established that taxpayers did not clearly understand the tax laws. Understanding the law is an important factor to influence tax behavior to taxpayers. Majority of respondents knows about the existence and operation of Tanzania Revenue Authority but not about tax laws. The tax laws are written in a language that is very difficult to understand and to apply to the normal tax payers. The levels of understanding of the tax laws influenced to a significant degree the attitudes of taxpayers. Taxpayers' levels of understanding positively correlated to a significant degree with their tax compliance decisions. These conclusions had been confirms the evidences in this study whereby 73 respondents (92.4%) believe that understanding might be the intrinsic motivator toward tax payment, and only 6 respondents (7.6%) did not agree with this subject matter. The table 4.12 below gives the detailed response on the above factors for tax compliance.

**Table 4.12: Factors for tax compliance**

| Tax compliance factors |                                        | Response on Disagree (percentage) | Response on Disagree nor agree (percentage) | Response on Agree (percentage) | Total percentage |
|------------------------|----------------------------------------|-----------------------------------|---------------------------------------------|--------------------------------|------------------|
| 1.                     | Education                              | 16.4%                             | 1.3%                                        | 82.3%%                         | 100%             |
| 2.                     | Income level                           | 15.2%                             |                                             | 84.8%                          | 100%             |
| 3.                     | Income source                          | 40.5%                             | 6.3%                                        | 53.2%                          | 100%             |
| 4.                     | Occupation                             | 22.8%                             |                                             | 77.2%                          | 100%             |
| 5.                     | Levels of understanding of the tax law | 7.6%                              | -                                           | 92.4%                          | 100%             |
| 6.                     | The influence of tax practitioner      | 11.4%                             | -                                           | 88.6%                          | 100%             |

**Source:** Field data, 2015

### 4.3.2 Factors that lead to tax payment non compliance at TRA

The study data reveals widespread citizen commitment to the principle of taxation and to paying up for national development. But their enthusiasm is dimmed by taxation systems across the continent that remains opaque to the majority. Therefore, this study aimed at identifying factors led to tax payment non compliance as explained here under;

#### i. Perception of the taxpayers on the use of collected taxes

Majority of respondents in all categories are not satisfied with the way the Government spends tax revenue collected. This means that the taxpayers do not derive expected benefits on the tax that they paid and may be one of the factors for non-voluntary compliance to tax payment. In connection with the taxpayer's voluntary compliance situation in Tanzania, citizen's perceptions concerning the ways the tax revenues are used are largely negative, basically because of the lack of reciprocity on the side of the Government. Taxpayers are not satisfied with basic service benefits they get in return for their payments. Nevertheless the motivating point is that a large majority of citizens are willing to pay voluntarily if the Government will play its part by being transparent with all its earning and how it is used for the benefit of the country and the people, rather than an individual or a single entity. There is also the need for the government transparencies in new ventures and new investors as they get a lot of benefits rather than poor local businessmen. If the collected taxes are well spent on things the tax payers have

identified people will voluntarily meet their tax obligations. It can generally be argued that most of the respondents were not satisfied on how the government spent revenues collected as taxes, factors that might also be attributing to tax evasion as they do not see changes happening in their basic life and that of their families, such as good education, good hospitals or services that we can say basics needs of the citizen is going down instead of changing to be better or are uplifted.

The respondent's views on *how the Government spends the collected taxes* were solicited. The respondents show their dissatisfaction with the direct impact of tax to them. They are not sure on the tangible benefit of tax collected to their families and societies at large. This proved by most respondents 53 (67.1%) were not satisfied with the way the Government spends taxes while 17 (21.5%) seems to be aware and satisfied with the use of collected, and the rest 9 (11.4%) were neither satisfied nor dissatisfied with the use of collected tax by TRA. Distribution of the respondents by their satisfaction with how the government spent tax collected is shown in the table 4.13 below.

**Table 4.13: Perceptions on how government spends the collected taxes**

| Perception of taxpayers on collected tax | Frequency | Percentage  |
|------------------------------------------|-----------|-------------|
| Satisfied                                | 17        | 21.5%       |
| Not satisfied                            | 53        | 67.1%       |
| Don't know                               | 9         | 11.4%       |
| <b>Total</b>                             | <b>79</b> | <b>100%</b> |

**Source:** Study Findings, 2015

## ii. Perception of adequacy of tax education given to taxpayers

On this aspect, the researcher tried to interview TRA officials and in one side and the other hand interviewed taxpayers in Kilimanjaro, on the *perception of adequacy of tax education given to taxpayers*. The aim of asking both parties was to get concrete information regarding the study. Result shows that most of TRA officials 38 (48.1%) percent said that tax education that provided to taxpayers is adequate while the taxpayers who form 41 (51.9%) of their population believe that the education provided to them is not adequate enough to educate all taxpayers around Kilimanjaro region. For this high

rate of response from taxpayers, the researcher concluded the education to taxpayers have direct impact on tax compliance.

**Table 4.14: Perception of adequacy of tax education given to taxpayers**

| Satisfaction with education | Frequency | Percentage |
|-----------------------------|-----------|------------|
| Adequate                    | 38        | 48.1%      |
| Inadequate                  | 41        | 51.9%      |
| <b>Total</b>                | <b>79</b> | <b>100</b> |

Source: Study Findings, 2015

### **iii. The effect of many taxes towards tax compliance**

During the study, the researcher tried to find out *the effect of many taxes towards tax compliance*. Multiplicity of taxes found out to be a factor that contributes to the current situation of massive tax evasion. Traders apart from paying to TRA several taxes such as VAT and Income tax, will also be required to pay to other authorities like city, municipal and other local authorities.

Despite the fact that VAT burden rests on the consumer and not on the traders, tax has been reported to be tedious and reduce consumption of goods and services and ultimately profit to traders, and therefore this might be one of the factors influencing tax evasion among traders.

The study also revealed that apart from paying varieties of taxes also the rates are also high for easy voluntary compliance, when taxpayer compares what he earns and what is to be paid as taxes. The response was 50 (63.3%) who sees that many taxes contribute to tax non compliance, the other 17 (21.5%) respondents did not see this as a problem and the only 12 (15.2%) respondents were not sure about this factor. Distribution of the respondents by the influence of too many taxes and tax compliance is shown in the Table 4.15 below.



**Table 4.15: Views about effect of many taxes towards tax compliance**

| Too many taxes | Frequency | Percentage  |
|----------------|-----------|-------------|
| Agreed         | 50        | 63.3%       |
| Disagreed      | 17        | 21.5%       |
| Don't know     | 12        | 15.2%       |
| <b>Total</b>   | <b>79</b> | <b>100%</b> |

**Source:** Study Findings, 2015

#### iv. **The influence of corrupt practices on tax compliance**

It was revealed that a tax payer cannot comply voluntarily to tax payment if he/she knows that bribing can reduce tax liability, and this is possible when bribing is cheaper than complying with tax obligation by collaborating with dishonest officials. The respondent's views on *the influence of corrupt practices on tax compliance* were taken and the results show that 56 (70.9%) agreed that corruption has negative impact on tax compliance, while the rest 23 (29.1%) respondents disagree with this matter. Since the high response rate (70.9%) agreed on this action, the researcher concluded that corruption also is among the challenge toward tax compliance.

**Table 4.16: Distribution of the respondents by the views about influence of corrupt practices on tax compliance**

| Corruption practices | Frequency | Percentage   |
|----------------------|-----------|--------------|
| Agreed               | 56        | 70.9%        |
| Don't know           | -         | -            |
| Disagreed            | 23        | 29.1%        |
| <b>Total</b>         | <b>79</b> | <b>100 %</b> |

**Source:** study findings 2015

#### v. **Influence of people Selfishness behavior on tax payment**

Human being created with self ego, whereby every person cares for him/her self first. People with selfish behavior are a major influence on Tax voluntary payment. As it is stated earlier, people naturally are selfish hence they may not register themselves to TRA so that they can be included to tax payers list. During the study researcher find out the *influence of people Selfishness behavior on tax payment*. People are not complying to pay tax voluntarily simply because they are selfish. The study revealed that 61 (77.2%) respondents agreed that selfish behavior has impact on tax compliance while 11

(13.9%) were not agreeing with this aspect and the other 7 (8.9%) respondents were not sure about this subject matter.

**Table 4.17: Views about people selfish behavior influence on tax payment.**

| People selfish behavior | Frequency | Percentage  |
|-------------------------|-----------|-------------|
| Agreed                  | 61        | 77.2%       |
| Disagreed               | 11        | 13.9%       |
| Don't know              | 7         | 8.9%        |
| <b>Total</b>            | <b>79</b> | <b>100%</b> |

**Source:** Study Findings, 2015

**vi. Cumbersome procedures involved in payment of Tax discourage compliance**

The researcher wanted to know whether there are cumbersome procedures involved in processing VAT and other taxes that have impact on compliance, Although there have been introduction of on-line VAT returns submission and Tanzania Interbank Settlement System (TISS) payment. The study revealed out how *cumbersome procedures involved in payment of tax discourage compliance*, and the results were, 13 (16.4%) respondents complain on the complicated documentation process, whereas 59 (74.7%) respondents complain on the difficulties in estimating tax levels, while the rest 7 (8.9%) complain on the long queue in bank halls and the whole payment process. The table below shows this,

**Table 4.18: Views about cumbersome procedures in payment of VAT discourage compliance**

| Cumbersome procedure                         | Frequency | Percentage  |
|----------------------------------------------|-----------|-------------|
| Complicated documentation process            | 13        | 16.4%       |
| Difficulties in estimating tax levels        | 59        | 74.7%       |
| Long queue in bank halls and payment process | 7         | 8.9%        |
| <b>Total</b>                                 | <b>79</b> | <b>100%</b> |

**Source:** Study Findings, 2015

## **CHAPTER FIVE**

### **RESEARCH SUMMARY, CONCLUSION AND RECOMMENDATIONS**

This chapter presents summary of findings, conclusion and recommendations of the study in light of the objectives stated in the chapter one. The chapter thus contains, summary of the study, conclusion of the study and the study recommendations.

#### **5.1 Summary**

The research was intended to explore the Factors enhancing tax payment compliance for medium taxpayers in the development of national economy for the case of Tanzania Revenue Authority, Kilimanjaro region. The study was conducted from all departments and also from registered taxpayers in Kilimanjaro region as the customers of TRA. Therefore the researcher managed to visit all other departments to collect various data, information, opinions and views over factors enhancing tax payment compliance for medium taxpayers so as to get concrete data. The Tanzania Revenue Authority, Kilimanjaro region constituted a total of 177 work forces. The target sample was 88 from all departments which is equivalent to 49.7% of the total population.

However, the responded questionnaires were 79 out of 88 which is equivalent to 89.8% of the targeted population.

The study also aimed at answering the following questions; What is the relationship between the influence of business turnover and tax compliance at TRA? Which factors motivate tax compliance for medium taxpayers at TRA? Is there any factor that leads to tax payment non compliance at TRA?

During the data collection, the researcher discovered that Tanzania Revenue Authority has many bottlenecks on factors enhancing tax compliance. For instance, poor knowledge on tax system applied, lack of patriotism among taxpayers, wrong perception of taxpayers, the influence of VAT rates on VAT compliance, too many taxes, cumbersome procedure involved in payment of VAT, the effect of customer care desk, corruption by tax officers, and people selfish behavior.

Regardless of those problems, the researcher discovered that there is a need to improve tax compliance environment at Tanzania Revenue Authority. This is especially to start with continue educating the public on the importance of paying tax, increase awareness to the public in motivating them to comply with tax rules, educating TRA officials on ethical issues so that to avoid corrupt behavior in TRA, and reduce number of taxes related to VAT to avoid tax complexity to taxpayers. The respondents were ready with the system but due to poor knowledge and complexity of the system made tax compliance in Kilimanjaro region not to be successfully.

## **5.2 Conclusion**

It can reasonably be concluded that one cannot objectively ignore the role of tax compliance for his/her own reasons especially at the time being where tax compliance is a voluntary action but is necessary to ensure tax collection is achieved thoroughly and well noticed and rewarded accordingly. This can help to increase awareness and motivation to taxpayers on the development of national economy in Tanzania. Good tax system is suitable in identifying individual contribution towards organization performance. It is through proper tax administration, good tax education, and tax level amount, and tax environment that can influence tax compliance to be successfully.

Tax compliance is a complex subject with broad implications. There are two main approaches the economic and the behavioural, used to encourage taxpayers to comply with the taxation system. The economic approach, usually confined to penalties, may be necessary to enforce compliance by those taxpayers who would otherwise refuse to discharge their obligations as citizens. However, there are dangers in using such an approach more widely. It is suggested that taxation is a means to an end and an unnecessarily harsh enforcement regime, such as that which appears to have been used in some countries, detracts from the whole exercise of raising money for the public benefit. Furthermore, such harshness can reduce the willingness of otherwise responsible citizens to comply with what may then be perceived as an unjust system. There is a clear need to strike the right balance in encouraging voluntary compliance as well as deterring willful non-compliance. Despite the limitations of its approach and the intuitive appeal of the wider behavioural approach, the economic approach still

has a place in tax compliance as it is reasonable to assume that, to a greater or lesser degree, financial considerations do influence taxpayer behaviour, for example, the maximisation of shareholder wealth in corporations.

However, both approaches add to the explanatory behaviour and should be amalgamated into a single policy for compliance. The question is how and to what extent? It has already been pointed out that tax compliance should be consistent with tax policy generally.

### **5.3 Recommendations**

The researcher observed that tax compliance is an important process which is direct proportional to the development national economy of the employees of any country. In the light of the conclusions drawn, the study makes the following recommendations that are considered critical in order to increase and sustain tax compliance among VAT registered traders in Kilimanjaro. It is therefore recommended that: -

#### **5.3.1 The influence of business turnover on tax compliance at TRA**

TRA should educate taxpayers on the importance of paying tax regardless of their income. Majority of middle and small taxpayers assume that they are not part of tax contributors since they earn little income. Tax is vital for the development of national income and should be collected from business men of all levels

#### **5.3.2 Factors to motivate tax compliance for medium taxpayers at TRA**

TRA should strengthen and expand VAT taxpayers education and reach the required parties everywhere in the country. The study has shown that taxpayer education has a strong impact upon VAT compliance. Education enlightens the recipient, hence becomes more literate on various issues, which in their combination raise obligation awareness sense. A sense of a good citizen and love to the nation forces one to comply with tax laws. Hence VAT education is necessary for cultivating a strong compliance sense. This can be done by introducing taxation subjects in Primary and Secondary Schools, television and radio programs and conducting seminars to the public as a whole.

### **5.3.3 Factors that lead to tax payment non compliance at TRA**

There is a need to review VAT rate in Tanzania in order to adjust them downward, as the current rate of 18% is higher compared to other East Africa Countries. Reduction of the VAT rate to at least 15% will not only lower the consumer price but will increase purchasing power of consumers and facilitate competition among East Africa countries.

- i. Government needs to prove to the public that the collected taxes are used for the benefits of the payers through provision of better public services, such as health, education, security and infrastructure. Traditionally all taxes are not ‘quid pro quo’ but when public services are improved it will help to boost the level of compliance to tax as benefits received through public services will be an impetus to pay the taxes due to the fact that the government funding of the costs of the public services relies on taxes collected.
- ii. Reduction of number of taxes paid by a single taxpayer, currently a single person is paying a number of taxes such as Income tax, VAT, Skills and Development Levy (SDL) and other Local Government taxes.
- iii. System to be device so that these taxes are harmonized to reduce complications on compliance and time spent on compliance issues being devoted by traders on servicing their customers.
- iv. TRA is responsible for overseeing that government revenue is assessed, collected and accounted for as required. Elimination of corruption and consistent application of punishment to tax defaulters, staff training and increasing efficiency by reducing long procedures on VAT payment and repayment.

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## **APPENDICES**

### **APPENDIX I**

#### **MZUMBE UNIVERSITY QUESTIONNAIRES**

The aim of this questionnaire is to collect information that was used in the investigation of the factors enhancing tax payment compliance for medium taxpayers in the development of national economy at Tanzania Revenue Authority, Kilimanjaro region. The information collected from this questionnaire will be treated as confidential and for the purpose of this research only.

#### **QUESTIONNAIRE FOR TRA STAFFS**

##### Instructions

##### PART 1: Information about the owner

##### 1. Gender

(i) Female [    ]

(ii) Male [    ]

##### 2. Age group

(i) 15-35 yrs [    ]

(ii) 36-50 yrs [    ]

(iii) 51 yrs and above [    ]

##### 3. Level of education?

(i) Degree level [    ]

(ii) Diploma level [    ]

(iii) Secondary level [    ]

(iv) Primary level [    ]

(v) None [    ]

## Part 2: Perception and Impact Questions

1. What is your opinion about the support and assistance provided by TRA offices on tax compliance?

- (i) Excellent [    ]
- (ii) Good [    ]
- (iii) Satisfactory [    ]
- (iv) Unsatisfactory [    ]

2. What is the expectation of taxpayers about the return from VAT paid?

- (i) Very high [    ]
- (ii) High [    ]
- (iii) Low [    ]
- (iv) Very low [    ]

Please give comments for your choice

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3. Do these factors affect individual decision of paying VAT?  
Yes / No

- (i) Cumbersome procedure involved [    ]
- (ii) High tax rate [    ]
- (iii) Multiplicity of other taxes [    ]

4. Is the taxpayer's education provided by TRA through different media very effective to allow VAT registered traders to get enough up to date information concerning taxes?

- (i) Very effective [    ]
- (ii) Ineffective [    ]
- (iii) I don't know [    ]

5. The tax education offered by TRA has enable VAT registered traders to assess their VAT liability properly. To what extent do you agree with this statement?

- (i) Very much [    ]

(ii) Satisfactory [    ]

(iii) Not at all [    ]

6. Do you agree with the idea that higher penalties and audit probabilities discourage non-compliance?

(i) Strongly agree [    ]

(ii) Fairly agree [    ]

(iii) Agree [    ]

(iv) Fairly disagree [    ]

(v) Strongly disagree [    ]

7. Bribery actions by tax officers contributing VAT non compliance

( i) Yes [    ]

(ii) Not sure [    ]

(iii) No [    ]

8. People self fish behavior influence VAT compliance payment

( i) Yes [    ]

(ii) Not sure [    ]

(iii) No [    ]

9. How Government spends the collected taxes

(i) Satisfied [    ]

(ii) Not satisfied [    ]

(iii) No clear Idea [    ]

10. Possibility of detecting VAT defaulters contributing to VAT payment

(i) Very high contribution [    ]

(ii) No Contribution [    ]

11 Do you agree with the notion that lower income group tends to have a lower proportion of tax compliance than their counterparts in the higher income group?

- (i) Yes [    ]
- (ii) No [    ]
- (iii) No clear Idea [    ]

12. The introduction of the customer care desks in TRA offices will improve quality of service and will therefore enhance tax compliance.

- (i) To a great extent [    ]
- (ii) To some extent [    ]
- (iii) Not at all [    ]

13. Do you agree with the idea that cumbersome procedures in payment of VAT discourage compliance?

- (i) Agreed [    ]
- (ii) Disagreed [    ]
- (iii) Silence [    ]

14. People selfish behavior influence VAT payment

- (i) Yes [    ]
- (ii) Not sure [    ]
- (iii) No [    ]

15. Poor TRA services influence VAT payments

- (i) Yes [    ]
- (ii) Not sure [    ]
- (iii) No [    ]

16. High VAT rate is an obstacle on VAT payment compliance

- (i) Agreed [    ]
- (ii) Inadequate [    ]
- (iii) I don't know [    ]

17. Many taxes levied by TRA and Local Government can be a reason for VAT payment compliance.

- |                    |        |
|--------------------|--------|
| (i) Agreed         | [    ] |
| (ii) Inadequate    | [    ] |
| (iii) I don't Know | [    ] |

18. Please give your opinion on what should TRA do to tax payers to encourage voluntary compliance

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19. Does all VAT registered traders submit their monthly returns and make payments on time?

- |                   |        |
|-------------------|--------|
| (i) Yes           | [    ] |
| (ii) No           | [    ] |
| (ii) Some of them | [    ] |

20. In what percentage does VAT registered traders comply with VAT procedures?

- |           |        |
|-----------|--------|
| (i) 100%  | [    ] |
| (ii) 50%  | [    ] |
| (iii) 25% | [    ] |
| (iv) 0%   | [    ] |

21. Does cost of administering VAT exceed VAT collection? Why?

- |                         |        |
|-------------------------|--------|
| (i) Yes                 | [    ] |
| (ii) No                 | [    ] |
| (iii) They are the same | [    ] |

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22. Do you think penalties and fines which are currently into force are enough to compel VAT traders to comply with VAT?

(i) Yes [    ]

(ii) No [    ]

(iii) No idea [    ]

23. What is your opinion on the VAT compliance in general

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**THANK YOU**



CHUO KIKUU MZUMBE

**DODOSO KWA WAFANYAKAZI WA MAMLAKA YA MAPATO TANZANIA,  
MKOA WA KILIMANJARO NA WALIPA KODI WA KATI KWA AJILI YA  
UTAFITI KUHUSU ULIPAJI KODI KWA HIARI BILA BUGHUDHA.**

Ndugu mfanyakazi/Mfanyabiashara tafadhali unaombwa kuwa huru katika kutoa taarifa muhimu utakazoulizwa katika dodoso hili kwani madhumuni yake ni ya kusaidia utafiti wangu wa viashiria vya vya ulipaji kodi kwa hiari bila bughudha katika Mamlaka ya Mapato Tanzania, Mkoa wa Kilimanjaro. Majibu ya utafiti huu ni ya siri, na ni kwa sababu za kitaaluma tu na si vinginevyo. Ni matumaini yangu kuwa utatumia muda wako mfupi lakini muhimu sana kufanikisha utafiti huu.

**Maelekezo**

Tafadhali jibu swali kwa kuweka alama ya “√” katika kiboksi cha majibu.

**Sehemu ya 1: Maelezo binafsi**

1. Jinsia

(i) Mume [    ]

(ii) Mke [    ]

2. Umri

(i) 30-45 [    ]

(ii) 46-65 [    ]

(iii) Zaidi ya 65 [    ]

3. Elimu

(i) Shahada [    ]

(ii) Stashahada [    ]

(iii) Sekondari [    ]

(iv) Elimu ya msingi [    ]

(v) Sina elimu [ ]

## Sehemu ya II

### Uelewa juu ya ulipaji kodi kwa hiari

4. Tupatie maoni yako juu ya matarajio yako kutoka kwa serikali kutoka na kodi unayolipa?

(i) Makubwa sana [ ]

(ii) Makubwa [ ]

(iii) Kidogo [ ]

(iv) Kidogo sana [ ]

Tafadhali elezea kidogo juu ya maoni yako .....

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5. Je, elimu ya mlipa kodi inayotolewa na Mamlaka ya Mapato Tanzania inasaidia kukuza uelewa juu ya masuala ya kodi?

(i) Inasaidia sana [ ]

(ii) Haisaidii [ ]

(iii) Sielewi [ ]

6. Je, unaamini ya kwamba ukaguzi wa kodi, adhabu na faini kubwa kwa mlipa kodi zitachangia watu kulipa kodi kwa hiari?

(i) Nakubali kabisa [ ]

(ii) Nakubali kiasi [ ]

(iii) Nakubali [ ]

(iv) Sikubali kiasi [ ]

(v) Sikubali kabisa [ ]

7. Je, unaamini kuwa vitendo vya rushwa kwa maafisa wa TRA hupelekea wafanyabiashara kutolipa kodi kwa hiari?

(i) Ndiyo [ ]

(ii) Sina uhakika [    ]

(iii) Hapana [    ]

8. Serikali hutumia kodi iliyokusanya kwa namna ya kuridhisha?

(i) Inaridhisha [    ]

(ii) Hairidhishi [    ]

(iii) Sina uhakika [    ]

9. Je, unaamini ya kwamba walipa kodi wadogo huwa wana utayari kidogo kulipa kodi kwa hiari?

(i) Ndio [    ]

(ii) Hapana [    ]

(iii) Sijui [    ]

10. Uanzishwaji wa dawati la huduma kwa mteja litasaidia uelewa watu kuhusu kulipa kodi kwa hiari?

(i) Kwa kiasi kikubwa [    ]

(ii) Kwa kiasi kidogo [    ]

(iii) Hausaidii [    ]

11. Je, unakubali kuwa taratibu ngumu za ulipaji kodi hudhoofisha ulipaji kodi kwa hiari?

(i) Nakubali [    ]

(ii) Sikubali [    ]

(iii) Hakuna jibu [    ]

12. Tabia ya watu ya ubinafsi ina athari katika ulipaji kodi kwa hiari?

(i) Ndio [    ]

(ii) Sina uhakika [    ]

(iii) Hapana [    ]

13. Je, kiwango kikubwa cha kodi hupelekea watu kukwepa kodi?

(i) Nakubali [    ]

(ii) Sikubali [    ]

(iii) Sielewi [    ]

17. Kodi nyingi zinazotozwa na halmashauri na Mamlaka ya Mapato Tanzania husababisha watu kutolipa kodi kwa hiari?

(i) Nakubali [    ]

(ii) Sikubali [    ]

(iii) Sielewi [    ]

18. Tafadhali toa maoni yako kwa TRA ili kuboresha na kushawishi ulipaji kodi kwa hiari.

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