

**ASSESSMENT OF THE FACTORS AFFECTING THE REVENUE
PERFORMANCE OF VALUE ADDED TAX IN TANZANIA**

**ASSESSMENT OF THE FACTORS AFFECTING THE REVENUE PERFORMANCE OF
VALUE ADDED TAX IN TANZANIA**

By,

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**A dissertation submitted in fulfillment of the requirement for the award of the Masters
Degree of Science in Accounting and Finance at Mzumbe University.**

2013

DECLARATION

AND

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DEDICATION

This dissertation is dedicated to my children Abigail and Fraser

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ABBREVIATION AND ACRONYMS

EITI	Extractive Industries Transparent Initiative
EPZ	Export Processing Zone
NGOs	Non Governmental Organization
NIPPA	National Investment Promotion and Protection ACT
OECD	Organization for Economic Cooperation and Development
TIA	Tanzania Investment Act
TIC	Tanzania Investment Centre
TIN	Tax Identification Number
UN	United Nations
URT	United Republic of Tanzania
ZRA	Zanzibar Revenue Authority

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ABSTRACT

The purpose of this study was to assess the factors affecting the revenue performance of VAT in Tanzania. A conceptual framework was developed using the indicators of the two aspects that is; the Factors affecting the revenue performance of VAT and the Revenue performance of VAT.

The specific objectives of the study were to identify the administrative bottlenecks in TRA, to identify the effects in the VAT law and Regulations and at the end to suggest ways towards improvement of the revenue performance of VAT in Tanzania.

A case study design was adopted. Sample sizes of 100 respondents were selected from Ilala, Kinondoni and Temeke tax regions. Self- administered questionnaires and interviews were used to collect data from all the three tax regions in Dar-es-salaam and the findings are presented in tables and charts. However, the multiple regression method using the SPSS software was used to analyze the data.

Findings for this study were drawn from the administrative capability of TRA and the VAT law and Regulations. The TRA administration was analyzed in areas of manpower, taxpayer identification, taxpayer sensitization, taxpayer assessment and corruption and embezzlements. The findings revealed that; the means of fighting corruption and embezzlements affect the revenue performance of VAT positively. The VAT law and Regulations were analyzed in areas of registration threshold, VAT exemptions and VAT refunds. The findings revealed that, the perpetuation of VAT exemptions affect the revenue performance of VAT negatively as the government forgoes a lot of funds through these exemptions.

There is a need to strengthen the means of fighting corruption and embezzlements so as to minimize chances of such acts. Legal actions should be taken to people found guilty. There is also a need to review the VAT Exemptions, minimizing them so as to achieve more revenue collections.

CHAPTER ONE

1.0 INTRODUCTION AND OVERVIEW

This is an introduction of the study in hand that introduces the background of the problem, statement of the problem, objectives of the study, research questions and the significance of the study.

1.1 Background of the problem

The Value Added Tax was mainly introduced in Tanzania to replace the Sales Tax, which was unable to generate sufficient revenue as it was narrow based. Main reasons for introducing VAT were to broaden the tax base, to attain economic neutrality, to promote exports, and to attain its administrative advantages. Further, since its introduction, VAT has been more revenue productive than sales tax, Teferra (2004). To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised efficiently as possible. The inadequate revenue performance of VAT may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large, Mikesell (2007).

VAT is a major part of the tax system in over 136 Countries, raising about one-fourth of the world's tax revenue Ebrill, (2001, 2002). Ethiopia introduced value added tax (VAT) in the year 2003 as a replacement to sales tax. VAT is the principal source of revenue for the Ethiopian government. For instance, in the 2006–07 fiscal years, federal VAT revenue (on domestic transactions) accounted for about 41 per cent of total federal revenues from domestic sources (EFIRA 2007). Further, since its introduction, VAT has been more revenue productive than sales tax (Teferra 2004). The debate regarding the welfare gains associated with switching from trade taxes to the VAT is not over. Emran and Stiglitz (2005) cautioned that the welfare gains from a switch to the VAT are questionable in the presence of a large informal sector. Baunsgaard and Keen (2005) found that for middle-income countries, revenue recovery following trade liberalization has been about 50 cents for each dollar of lost trade tax revenue, and the revenue recovery has been very weak in low-income countries. Nor is there much evidence that the mere

presence of a value added tax has made it easier to cope with the revenue effects of trade liberalization.

1.2 Reforms of the Value Added Tax system in Tanzania

Several reforms have been made in respect of the Value Added Tax, Luoga (2003).

- Abolition of stamp duty on receipts for business income with effect from 1/7/2004
- Raise VAT registration threshold for compulsory registration to T.Shs.40 million per annum (about US \$ 40,000.00 or Euro 30,700.00) with effect from 1/7/2004
- Traders with taxable turnover below the VAT registration threshold are allowed to apply for VAT registration voluntarily. The conditions are:
 - Fixed place of business
 - Proper accounting records
 - Bank account for the purpose of business
 - Previous compliance in the performance of statutory obligations under the tax statutes
 - National Economic interest and protection of revenue

1.3 Value Added Tax revenue performance experience;

Value added tax (VAT) was first introduced in Europe in 1954, in France. In 1967, the Member States of the European Economic Community, as it was then, agreed to replace their national turnover tax systems with a common VAT system. Since then,

VAT has been introduced in around 1401 countries worldwide. By 2008 VAT receipts accounted for 21.4% of the national tax revenues of EU Member States (including social security contributions), a rise of 12% since 1995. It is thus a major source of revenue for national budgets and in many Member States it is the main source. VAT receipts represented in 2008 on average 7.8% of the GDP of a Member State, a figure that has increased by almost 13% from 1995, Com (2010) 695 final.

In Ukraine the VAT has become the workhorse of the revenue system. In 2001, for example, almost half (47 percent) of state budget revenues came from VAT, which accounted for 5.1 percent of GDP. VAT is the largest, most important, tax in Ukraine. The design and implementation of VAT is thus a critical determinant of the performance of the entire fiscal system, Bird (2005a).

Revenue performance of VAT in Tanzania has been improving though it still faces a lot of ups and downs. For example in financial year 2003/2004 to 2011/2012 the percentage change of VAT were; 24%, 29.4%, -5.1%, 35%, 26.2%, 14.7% 25.3% and 26.6% respectively, TRA performance reports (2012) table 3.

This study aimed at assessing the factors affecting the revenue performance of VAT in Tanzania.

1.4 Statement of the Problem

Value Added Tax (VAT) being the form of tax that has a wide range of coverage would be expected to bring about more revenue. Generally, VAT is charged on all taxable supplies of goods and services and on the importations and exportations of taxable goods and services. The revenue performance of VAT has not been stable in Tanzania; see the 'TRA Performance Report 2012' below. This situation is not only in Tanzania but also in other parts of the world which have adopted this form of indirect taxes. The Nigeria case demonstrated in the 'European Journal of Humanities and Social Sciences Vol. 10, No.1 (Special Issue), 2011. The ratio of VAT Revenue to Total Revenue was never stable. It was 4.1% in 1994, fluctuated to its peak (7.8%) in 1998 and crashed down to 3.1% two years later (2000). It rose marginally to 6.3% in 2002, came down to 3.2% in 2005 before finally settling down to 5.1% in 2008.

To sustain VAT's revenue role in the government's finance, it is important to ensure that the revenue generated by this tax is raised as efficiently as possible. However, in Ethiopia revenues raised by VAT are usually garnered at the expense of erosion in its salient features (Yesegat 2008). This may be caused by factors including poor VAT administration, i.e., the incapacity of tax authorities to implement the attributes of the tax in practice. A good tax administration is essential in fully implementing the design features of VAT and achieving government's policy objectives at large.

Theory suggests that the enforceability of taxes is impacted by political economy considerations, greater polarization and political instability would tend to reduce the efficiency of tax collection, reducing the resources devoted to tax enforcement. In addition, collection is impacted by structural factors that affect the ease of tax evasion, like the urbanization level, the share of agriculture, and trade openness, (Yesegat 2008).

Tanzania has been experiencing unstable revenue collections from VAT for a good number of years now since the introduction of the system. This situation raises many questions and attracts more findings for such fluctuations in the VAT revenue collections. TRA Performance Reports 2012 shows clearly the performance of VAT and also an analysis of Tanzania's Budget 2010/2011 shows how the Tanzania budget relies on the tax collections and how dependent the budget is.

VAT's inadequate performance in Tanzania is evident from the studies done so far in the area, however little is known in terms of the exact reasons for this situation. This study therefore is an attempt at identifying and analyzing the factors behind the performance of VAT in Tanzania and recommending relevant solution to the problem.

1.5 Research Objectives

1.5.1 General objective

The main objective of this study was to assess the factors affecting the revenue performance of VAT.

1.5.2 Specific Objectives

1. To identify the effects of administration capability on VAT performance.
2. To identify the effects of VAT law and regulations on VAT performance.
3. To find out ways of improvement on revenue performance of VAT.

1.6. Research Questions

This research was attempting to find answers to the following questions:

- i. Are there any administrative bottlenecks in TRA which affect the VAT performance?

- ii. Are there any effects in the VAT law and regulations that affect the revenue performance of VAT?
- iii. What should be done to improve the revenue performance of VAT?

1.7. Significance of the study

This study is helpful to TRA as it provides the factors affecting the revenue performance of VAT and solutions against the identified factors. The study has analyzed the present effects in the VAT laws and Regulations. It has provided the reasons for the tax avoidance and evasions which affects the VAT collections a great deal. The study intended to enable the researcher to fulfill the university program requirement and award of the Masters Degree of Science in Accounts and Finance (Msc A&F).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines literature review, elaborates terms and concepts used in the study and how these concepts have been defined by various authors. The goal of this review will be to deconstruct the issues addressed in the literature so as to be able to identify the factors affecting the revenue performance of VAT. The chapter also provides a theoretical and empirical literature review related to the study.

2.2 Conceptual Definition

2.2.1 Value Added Tax

Value Added Tax (VAT) is a tax on consumption. It is a multi-point levy collected in installments at each stage of production. The final and total burden of this tax is borne by the domestic consumers of goods and services Astha & Ahuja (2007), VAT Indian and Global Experience). VAT is levied on sellers of goods and services based on value added by their respective units. The base for VAT is determined by value added at a particular stage of production or distribution. In other words, inputs of a firm are not taxed. At each point, the firm is reimbursed the tax which it has already paid at the time of purchasing the inputs. Schenk & Aldman (2003) defines VAT as a general consumption tax designed to be imposed on all commercial activities involved in the process of producing goods or rendering services (a general tax) and a tax to be borne by consumers (a consumption tax). VAT is a tax on consumption; the more you buy the more tax you pay. It is also a neutral tax on businesses in that it does not represent a real cost to anyone but the end consumer, Schenk & Aldman (2003)

2.2.2 Features of the VAT

The reasons why so many countries have adopted the V AT are usually connected with the following assumed features of the tax; neutrality, stability and flexibility, in addition to its revenue potential Singhvi (2003).

- VAT is considered to be neutral with respect to foreign trade, and does not distort domestic production and distribution.
- VAT is considered to be neutral regarding the production technique that a business adopts. In other words, it makes no difference for the tax liability whether a product is manufactured with a capital- or labor-intensive technology.
- VAT is considered not to be influenced by the forms or methods by which business is conducted.
- VAT is considered to be a relatively stable source of government revenue.

Since consumption as a share of GDP fluctuates little, by implication the VAT is a stable source of revenue.

- VAT is a relatively flexible tax instrument; a change in the rate translates immediately into more or less revenue. This is partly because the consumption as a share of GDP in general fluctuates little, and partly because the VAT is collected on a current terms.

In addition to the points made above, consumption taxes are often considered as an efficient means of taxation, since it is less likely to distort economic behavior than income taxes, see Atkinson and Stiglitz, (1980), Kay (1990). With high marginal rates of income tax, individuals may have less incentive to work hard. With a consumption tax, the extra income is not taxed until it is spent. Consumption taxes can also be levied on a wide base. The wider the tax base, the lower rate is needed to raise a given amount of revenue. In theory, people should be taxed on everything they buy; in practice, many countries have numerous exemptions from VAT while others tax some goods at lower rates.

2.2.3. METHODS OF VAT COMPUTATION

There are basically four methods for VAT computation. The two methods are for the computation of the Input VAT and the other two are for the computation of the Output VAT, Value Added Tax Act, 8 (1).

2.2.3.1 Methods of apportionment of Input tax

These methods compute the input tax from purchases.

(a) The first method of apportionment of input tax shall be as follows;

Step1. Calculate the value of taxable supplies made in the accounting period

Step2. Calculate the value all supplies made in that period

Step3. Calculate the amount of tax payable on supplies made to the registered person in that period.

Step4. Divide the amount obtained in step by the amount obtained in step 2.

Step5. Multiply the amount obtained in step 3 by the amount in step 4.

The amount of input tax to be claimed as deduction or credit in the prescribed accounting period is the product obtained in step 5.

(b) The second method of apportionment of input tax shall be as follows;

Step1. Divide input tax for the prescribed accounting into categories namely;

- i. Category A – Input tax that is directly attributable to taxable supplies.
- ii. Category B- Input tax that is directly attributable to exempt supplies, and
- iii. Category C- Input tax incurred for the purpose of the business but is not directly attributable either to taxable or exempt supplies

Step2. Calculate the proportional of taxable sales to total sales as described in step 1, 2, and 4 above.

Step3. Multiply the proportion obtained in step 2 by the amount in category C in step 1.

The amount which may be claimed as deduction or credit for the prescribed accounting period is

2.2.3.2 Special methods of accounting for Output tax, Value added Tax Act, 14(1).

These are the methods used to compute the VAT on sales.

(a) The first method of calculating output tax shall be as follows;

Step1. Separate gross takings at the point of sales between taxable and exempt supplies

Step2. Each day at the close of business total the records of gross takings

Step3. At the end of the prescribed accounting period, from the records of taxable daily gross

takings, calculate the tax using the tax fraction for the rate of tax in force

(currently is 18%), and include the amount on the VAT return for that period.

(b) The second method of calculate output tax shall be as follows;

Step1. Record the total gross takings for each day.

Step2. At the end of each prescribed accounting period, total daily gross takings for that period.

Step3. Allocate those gross takings to taxable supplies in the same proportion that the value of taxable purchases made in the period bears to the value of total purchases in that period.

Step4. From the gross takings allocate to taxable supplies calculate the tax for the prescribed accounting period using the tax fraction for the rate of tax in force and include the amount on the VAT return for the period.

2.2.4. VAT rate

VAT shall be charged at the rate of 18% of the taxable value.

However the minister may vary the rate of tax prescribed in subsection (1) under the procedure contained in the Provisional Collections of Taxes and Duties Act 1963.

2.2.5. Zero rating

A supply of goods or service is zero rated if the supply is of a description specified in the First Schedule to the Value Added Act. Where a taxable person supplies goods or services and the supply is zero rated no VAT shall be charged on the supply, but it shall in all respects be treated as a taxable supply, Value Added Act 9(1&2).

2.2.6. Exemptions

A supply of good or service is an exempt supply if is of a description specified in the Second Schedule to the Value Added Act. The VAT is not chargeable on an exempt supply, and supply Tanzania Value Added Act, 10(1&2).

2.2.7. Special Relief

The persons and organizations listed in the Third Schedule to the Value Added Act shall be entitled to relief from VAT within the limits and conditions prescribed in that schedule subject to procedures which may be determined by the Minister. The relief granted under the VAT Act shall cease to have effect and the VAT shall become due and payable as if the relief had not been granted if the said goods are transferred, sold, or otherwise disposed of in any way to another person not entitled to enjoy similar privileges as conferred under the VAT Act.

2.3. The General Tax structure in Tanzania

Bukuku (1998/99: 26) stresses that the Tanzania tax regime is still characterized by a narrow tax base. After the realization reforms implemented over the last few years the need to expand the base and therefore create space for further rationalization is evident. TRA will undertake studies aimed at identifying areas for expansion, in line with its legal mandate. Also voluntary compliances will be addressed through the taxpayer education and simplification of the tax structure and collection procedures.

Basically the tax structure in Tanzania is divided into direct taxes and indirect taxes. Direct taxes are those taxes on the Income basically from Employment, Business and Investments and properties while Indirect taxes are on consumption of goods and services and this is where the Value Added Tax is in. The VAT yield depends directly on the level of consumption by the population on a particular taxed commodity or services.

2.4. The Need of Good Tax Administration

Pressure on government to reduce budget deficit, foreign and domestic borrowing necessitates the government to review its policies and administration in order to achieve adequate tax revenue collections. IMF review mission recommends that, government should consider forming the revenue authority that will resolve many of the weaknesses in the tax system, Wayne (1997). The establishment of efficient and transparent tax administration systems is crucial, sound fiscal management. Increase in tax revenues and public expenditures have become important to sustain economic growth and social stability. Policy makers and administrators need to improve their enforcement of tax administration, taxpayer services, and tax policy harmonization. These are key elements of good governance and sound tax administration system. In fact the success or

failure of the tax administration depend the degree of cooperation between the taxpayers and their advisors on one hand and TRA staff on the other hand. Taxpayer advisors may be either practicing lawyers or accountants. The number of professional accountants and lawyers in Tanzania is currently inadequate although it is gradually increasing therefore voluntary compliance is gradually improving, Mpongoliana, (2000: 18).

2.5. Theoretical Bases of the Research

Many scholars developed different theories concerning the VAT performance and the factors affecting the revenue performance are looked at and linked to support this study.

Grandcolas (2008) says the overall performance of VAT depends on three main factors;

- a) The structural features of the tax: rates, exemptions and thresholds
- b) The capacity of the tax administration to manage the system in an efficient way and
- c) The degree of compliance of the tax payers.

Therefore, if such factors are not fully observed the performance of VAT revenue collections will be impaired.

In addition the Organization for Economic Cooperation and Development (OECD) observation on the factors affecting the performance of VAT systems reflects a conventional view of VAT in practice. This organization says, the overall performance of VAT in Africa as reflected by levels of voluntary compliance, depends on three main factors;

- a) The capacity of policy makers to take into consideration the structural weakness of the tax administration.
- b) Commitment at the highest level to apply the designed penalty system and,
- c) The development of a client-oriented tax administration and an effective VAT audit program.

Aizenman and Yothin (2005) say we consider the case where the collection efficiency is determined by the probability of audit and by the penalty on underpaying. Implementation lags imply that the present policy maker determines the efficiency of the tax system next period. Theory suggests that the collection efficiency is impacted by political economy considerations greater polarization and political instability would reduce the efficiency of the tax collection. In

addition, collection is impacted by structural factors affecting the ease of tax evasion, like the urbanization level, the share of agriculture, and trade openness.

However, Aizenman and Yothin (2008) emphasize that VAT collection efficiency remains largely dependent on the quality of enforcement and the efficiency of monitoring, which both increase with political stability and the ease and fluidity of political participation. Moreover, increased expenditure on the administration of VAT and more experience with VAT has been found to be significantly associated with increased compliance Agha and Haughton (1996).

Bird and Gendron (2008) argue that, no country is given a good VAT administration: instead it must 'grow' one over a (sometimes) long period of time. Much the same is true with respect to 'growing' a taxpayer base that makes the essentially 'self-assessed' VAT a feasible revenue source for any country. No tradition of 'voluntary compliance' exists in most countries, 'tax morale' is low or non-existent (Bird et al., 2004), and self-assessment is essentially an alien concept. The illiteracy of small traders, widespread underreporting of tax liabilities, weaknesses in tax administration and lack of taxpayer support compound the problem.

However, the researcher will be able to determine the factors that affect the revenue performance of VAT in Tanzania.

2.6 Empirical findings

As far as the problem under the study is concerned however, some practical studies of this nature have been done worldwide in general. As discussed in the literatures of the researchers and other scholars, assessment of the factors affecting the revenue performance of VAT is the major factor for ensuring adequacy in VAT revenue collections of any country particularly Tanzania in this case study.

The work done by Awura & Suleiman (2008) in their study of 'The Administration and problems of Value Added Tax in Nigeria' revealed various factors behind the poor performance of VAT. The Nigerian tax administration faces serious, complex and multidimensional problems. Odusola (2006) summarizes: Revenue realized from income tax is low because of the low level of literacy, poor relationship between taxpayers and income tax authorities, and the inadequate number, or complete absence of trained and qualified accountants on the staff of the tax

authorities. Unqualified staff does not know how to get information or the technical methods of how best to use information made available to them.

According to Leitman (1996), the problems are the deficient tax administration and collection system, complex legislation and apathy of the Nigerians caused by the lack of value received in return for their taxation money. The general perception that the rich do not pay taxes in Nigeria has further worsened the situation.

Awura (2008), notes that the tax administration and individual agencies suffer from limitations in manpower, money, tools and machinery to meet the ever increasing challenges and difficulties. In fact, the negative attitude of most tax collectors toward taxpayers can be linked to poor remuneration and motivation. A major problem facing the country is the multiplicity of taxes. Individuals and corporate bodies complain about the ripple effects associated with the duplication of tax.

It is important to note that in Nigeria the administration of VAT has been facing problems, namely: i) tax evasion and avoidance; ii) Inadequate funding for the revenue services; iii) limited or lack of independence of revenue services; iv) the lack of the VAT Tribunal, as recommended under VAT Act of 1993; v) proposals by some state governments(e.g., Lagos) to re-introduce sale tax; vi) Discontentment in states applying Sharia law with regard to VAT-taxable items that are prohibited on a religious basis; and vii) practical problems related to the implementation of VAT's dual elements (input and output). Experts consider these to be major challenges, Leitman (1996).

Corruption is prevalent in the administration of taxes and duties. Until very recently, it was common place to collect tax payments partly on behalf of one's self and partly for the government. Evaders prefer to bribe officials rather than pay taxes. Tax assessors collude with taxpayers, particularly with regard to the PIT, or in some cases, in connection with the assessment. The multiple processes of clearing imports are not only a source of administrative delay, but also an avenue for entrenching corruption. This is further compounded by the pilferage of goods at port. As CITN notes, 'governments in Nigeria are perceived as a corrupt and selfish lot, to whom money should not ever be voluntarily given. Taxes paid are expected to end in private pockets, not in public utilities, (CITN 2002). This attitude has eroded tax consciousness

on the part of Nigerians. Although some progress has been made by the present administration, there is still room for improvement

Yesegat (2008), in his study (VAT Administration in Ethiopia) says there may be weaknesses in how VAT administrators perform their duties. Weaknesses in VAT administration, in turn, may adversely impact on the salient features of the tax and government's policy objectives as a whole. In this regard, Tanzi and Pellechio (1995) (cited in Mikesell (2007)) noted that poor tax administration would change the manner in which taxation affects government's policy objectives, namely economic stabilization, resource allocation and redistribution of income. In developing countries the poor performance of taxes is likely to be due to weak tax administration (i.e., the incapacity of the administration to implement the tax in practice). This is perhaps caused by such factors as resource constraint and designing the tax separately from the administration. Concerning the latter, Bird and Gendron (2005) noted that developing and transitional countries, unlike developed countries, appear to have fragmented economies, large informal sectors, low tax morale, rampant evasion, and total distrust between tax administrators and taxpayers. In these countries, thus, simply adopting a successful VAT's design attributes of developed countries would not make the tax successful, Bird and Gendron (2005). The design ought to consider the tax administration dimension and the socio-economic realities of the developing country in question. In discussing the importance of tax administration in general, Bird (1989 and 2004) noted that tax administration dimension ought to be placed at the centre, not periphery, of tax reform. Jantscher (1990: 179) also stated that "in developing countries tax administration is tax policy."

International Tax Dialogue Conference on the VAT, (2005) identified one of the factors behind the poor revenue performance of VAT to be Failure to fully refund excess credits undermines the integrity of the VAT and the credibility of the tax administration. When tax authorities deny payment of legitimate refund claims, the VAT ceases to be a tax only on domestic consumption it becomes, in part, a tax on production). Intermediate goods transactions are distorted; the competitiveness of the export sector is harmed; and the competitive edge is tilted against new firms with large start-up costs. In addition, compliance is seriously jeopardized if businesses lose faith in the VAT system and are motivated to operate outside the law and engage in tax fraud and evasion.

Tuan (2003) found that a serious problem with this tax is the “cascading effect,” literally understood as the tax-on-tax effect. The tax generates a trail of accumulated distortions carried from the first stage of production on to the last stage of the retail sales distribution. To gauge how bad the cascading effect is, one may simply imagine a situation, in which a smart entrepreneur “negotiates” with his partners to vertically integrate, and by colluding, they can avoid a large part of the tax burden.

In one of the discussion papers presented by Olaa, (1992), argues that high tax rates are some of the major causes of inefficiency and smuggling both of which lead to poor performance and hence a reduction in industrial operations as well as government’s revenue.

What affects tax revenue (measured as the ratio of tax revenue to GDP) has been the subject of several studies, Bahl (1971), Tanzi (1987), Leuthold (1991), Stotsky and Wolde (1997). Some more recent empirical studies Gupta (2007), Davoodi and Grigorian (2007) have focused on traditional determinants of tax revenue such as per capita GDP, the composition of output, the degree of trade openness, inflation, external debt, the ratio of foreign aid to GDP, the current account balance, and foreign direct investment.

Recently, a growing number of studies have looked at the importance of institutional factors like quality of institutions and governance in addition to traditional measures, in determining revenue performance. These factors are thought to influence tax revenue through their contribution to tax evasion, improper tax exemptions, and weak tax administration Tanzi and Davoodi (1997), Bird, Martinez and Torgler (2004) find empirical evidence that factors such as corruption, rule of law, and entry regulations play key roles. Bird (2004) noted that any successful tax reform should be supported by a strong political will to reform. Moreover, as Alm and Martinez (2003) noted, a country’s tax record reflects its sociopolitical institutions. Bird, Martinez and Torgler (2004) also conclude that a legitimate and responsive state able to secure the rule of law and keep corruption under control, appears to be an essential precondition for more adequate tax collection.

Kyejo (2006) noted that; Tax evasion and exemptions in Tanzania are among factors, which bring poor performance. Besides the statutory exemptions Tanzania investment center has also the right to exempt specific foreign investor from duties. Corruption also is the major problems in tax departments although the government is fighting much on it, by establishing different

measures including establishing corruption bureau (PCB), firing staffs who are not integrity etc. Recently tax agenda through: Application of VAT on petroleum products and consolidation of all other taxes on them, repeal of Import-specific partial remissions on customs duties and abstention from imposing additional minimum dutiable values and basing existing ones on international prices (except sugar),harmonization of investment incentives, reduction in scope of exemptions, reduction in the number of excise taxes from 52 to 6, abolition of withholding tax on goods and services, starting operation of a unified tax appeals system, and the establishing of a more efficient duty drawback system based on technical assistance recommendations are being done and we continue to implement it.

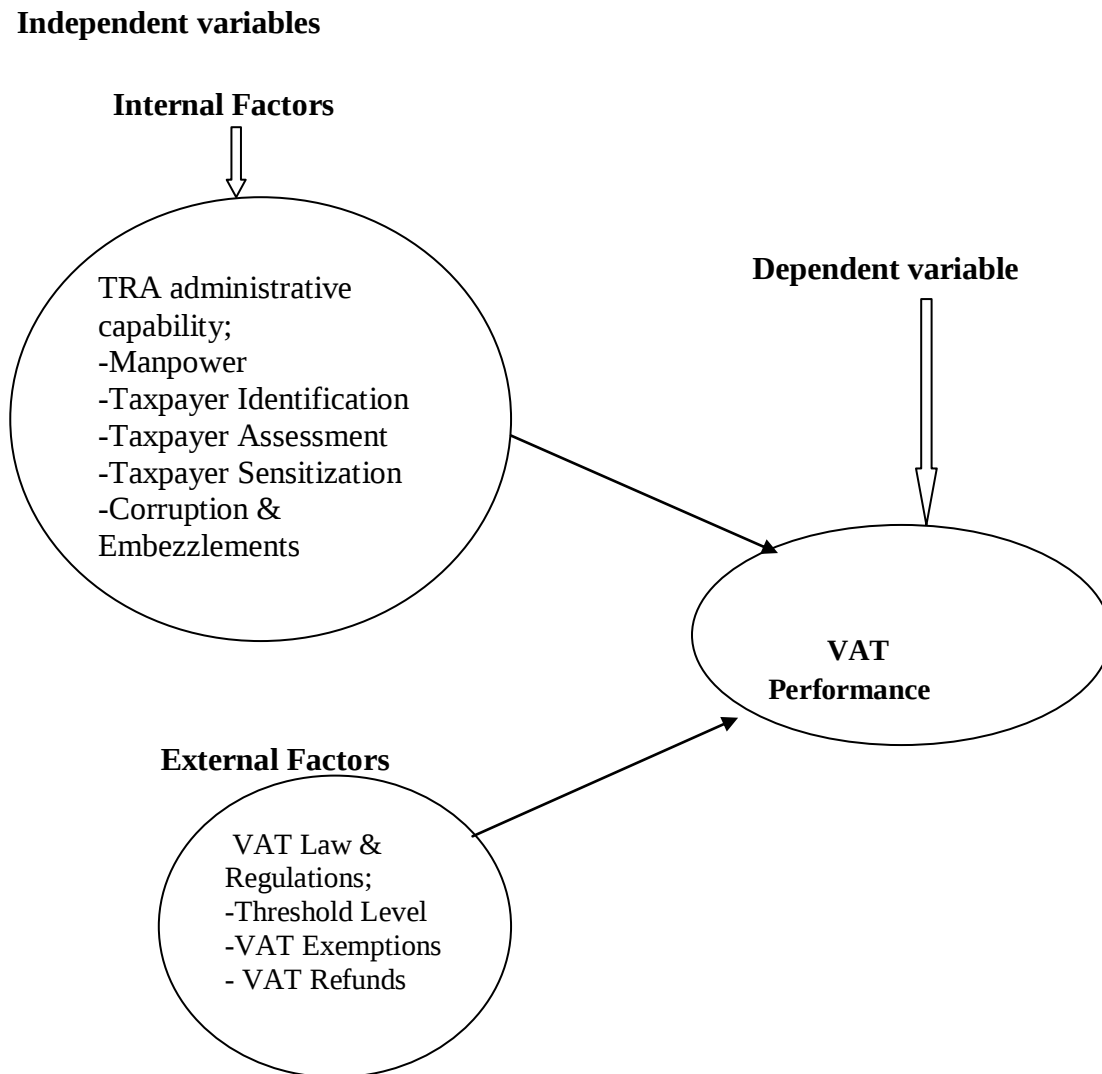
However, the researcher through the shortcomings found on the studies conducted by the above authors and others will make use of those shortcomings and will be regarded as guidelines in coming up with valuable and reliable findings to be used by TRA or other intended users.

2.7 Conceptual Framework

This study focuses on the relationship between the factors affecting the revenue performance of VAT as the independent variables and the revenue performance of VAT as the dependent variable.

The TRA administrative capability as one of the independent variables is measured by manpower, taxpayer identification, taxpayer assessments, taxpayer sensitization and corruption and embezzlements. The VAT law and Regulations as other independent variable is measured by registration threshold, VAT exemptions and VAT refunds. See the figure below;

Figure 2.7 Demonstration of the dependent and independent variable



From the researchers own source, the figure above shows that the revenue performance of VAT depends on the TRA administration and the VAT laws and Regulations and they are the variables that affect it. The framework is constructed to achieve the desired objectives of the study as from it; the TRA administrative bottlenecks and the effects in the VAT law and Regulations are clearly shown and detailed.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research methods and the instruments used by the researcher to carry out the research. It provides a description of the research design, the sample description, data collection and analysis procedures.

3.2 Research Design

A case study design was selected by the researcher and the study was conducted in a single organization; TRA to assess the factors affecting the revenue performance of VAT.

3.3 Target Population

This consisted of Tax administrators (TRA), taxpayers mostly VAT registered taxpayers and Tax experts.

3.4.1 Independent variables

These are characterized into external and internal factors as stated in the conceptual framework. The independent variables in this study were mainly the TRA administration capability and the VAT law and Regulations. These independent variables explain the factors on which the VAT revenue performance depends on. See the conceptual framework.

3.4.1.1 TRA Administration

These were analyzed in the following areas; manpower, taxpayer identification, tax audit, sensitization, corruption and embezzlements and tax incentives as shown in the conceptual framework Figure 2.7 demonstration of the dependent and independent variable. Specifically, they were analyzed as follows:

-Adequacy of manpower; respondents were asked whether TRA has adequate manpower and whether TRA staffs are technically competent.

-Tax payer identification; respondents were asked on the adequacy of the methods used by TRA to identify taxpayers, whether there is close follow-up and supervision on identified taxpayers.

-Taxpayer audit; the respondents were asked on the frequency of assessments done by TRA that is how often is the assessment done.

-Taxpayer sensitization: Tax administrators and taxpayers and tax experts were asked on the media used to sensitize the taxpayers, the level of voluntary tax compliance and the knowledge of consequences of not voluntarily registering for VAT.

-Corruption and embezzlements; respondents were asked whether there is corruption and embezzlement in the revenue collection processes, whether there are strong control measures for fighting such misconducts in the TRA administration.

3.4.1.2 VAT law and Regulations

This independent factor was analyzed in the following areas.

-Threshold; respondents were asked whether the registration threshold for VAT is high.

-VAT Exemptions; respondents were asked whether the exemptions should be perpetuated.

-VAT Refunds; respondents were asked whether the refunds should be extended to foreign investors.

3.4.1.3 Improvements on TRA Administration, Government Policies and VAT law and Regulations;

Respondents were asked whether the improvements on the TRA administration, government policies and the VAT law and regulations will result in improved revenue performance of VAT. They were asked on whether tax incentives and tax revenue collections in the mining sector should be reviewed for improved revenue performance of VAT.

3.4.2 Dependent Variable

The dependent variable for this study is the Revenue Performance of VAT; this was measured basing on the percentage of budgeted collections against actually collections, comparison of year to year collections and the percentage change of revenue performance.

3.5 Sampling Design

The study adopted area sampling technique based on geographical tax regions in Dar-es-salaam which are Ilala, Temeke and Kinondoni. In addition, the researcher sampled among the tax experts especially in the teaching institutions in accordance with figure 4.1.3.

3.6 Sampling Procedure

The researcher used both purposeful and simple random sampling techniques in selecting the respondents of the study. The TRA staffs were purposefully selected basing on their responsibilities and knowledge concerning VAT revenue collections. Purposeful sampling approach was also used in sampling the tax experts as this needed to point out specific people. A simple random sampling technique was used in sampling the registered tax payers under VAT because this just needed any to get to respond to questionnaires. Other respondents, especially the taxpayers in the small and medium sized businesses were both purposively selected and a simple random sampling technique was used to enable comparison with that from the registered tax payers to supplement the data.

3.7 Sample Size

The sample size consisted of 100 elements; 35% in Ilala, 25% in Temeke, 30% Kinondoni and 10% tax experts, see Figure 4.1.3. distribution of respondents by tax regions and other. The composition favored Ilala because it collects more revenue than the other two followed by Kinondoni. A total of 100 questionnaires were administered with the expected return of 90 questionnaires after accounting for non-responses. After the exercise 85 questionnaires were collected posting a response rate of 85% and a non-response rate of 15% as shown in figure 4.1.1 below.

3.8 Data Collection

3.8.1 Sources of Data

Primary data was obtained from responses from questionnaires administered to TRA officers, taxpayers and tax experts and also from the personal interviews with the selected TRA officers, tax experts and taxpayers. Secondary data were obtained from various documents related to the study. These included TRA various annual reports, Journals, Circulars and VAT Return forms

from the tax payers under VAT. Data obtained from such documents were used to supplement the information obtained from primary sources.

3.8.2 Methods of Data Collection

Questionnaires were developed to guide the study. They were both structured and unstructured questionnaires. They were structured uniformly to accommodate all classes of respondents. Most of the questions asked intended to obtain the level of agreement/ disagreement on specific issues related to the revenue performance of VAT. Also in a few questions respondents were asked to explain their understanding on specific issues related to the revenue performance of VAT.

Interviews were also conducted to all classes of respondents differently. They were conducted to TRA officers, taxpayers both registered and unregistered and to the tax experts. In order to improve the reliability and validity of questionnaires, they were pre-tested on samples of the possible respondents and comments were sought from methodologists before the questionnaires were administered. The errors sighted and the suggestions made were incorporated into the final draft of the questionnaires that were administered.

3.8.3 Procedure of Data Collection

The researcher visited the TRA officers in the three tax regions (Ilala, Temeke and Kinondoni). The researcher introduced himself and presented an introduction letter from Mzumbe University, Business School. This letter was also seeking permission to carry out a study.

Having obtained permission, the researcher asked on individuals who are involved in VAT revenue collections. The researcher distributed the questionnaires to some of the individuals who are directly dealing with VAT revenue collections. He also asked for appointments for interviews with some of the respondents and scheduled the dates and venues. Same was used to both the taxpayers and the tax experts. The data obtained were properly filled.

3.8.4 Data Processing and Analysis

After fieldwork, all the collected data were carefully scrutinized, edited, classified, coded and analyzed. They are processed and analyzed in accordance with the outlines laid down at the time of developing the research plan. The analysis was based on the research questions. Responses from data collected were sorted in homogeneous groups and coded. Simple calculations such as percentages have been worked out and tables have been used to present the findings in the data

analysis. Discussions were made basing on the findings were directed towards answering research questions and assumptions.

3.8.5 Reliability and Validity

The validity and reliability of data was based on the fact that, documentary data were obtained from the already worked data available at TRA, present records already in the hands of tax payers under the VAT and written and approved texts from different authors, views of VAT experts. Data from questionnaires supplemented that gaps that might had occurred due to improper recording of data in documents, since questionnaires allowed a particular person to explain what exactly he/she perceived. On the other hand, interviews provided reliable data because they drew data directly from interviewed individuals expressing their ideas. All these techniques were used to improve the quality of data and hence its reliability.

3.9 Research Variables

The principal independent variables were the TRA administration and the VAT law and Regulations. The dependent variable was the VAT performance.

3.10 Operationalization of Research Variables

This explains how the research variables were measured.

3.10.1 Independent variables

These were measured using five point likert scales basing on the indicators; which are the manpower, taxpayer identification, taxpayer assessment, taxpayer sensitization and corruption and embezzlements as the TRA administrative bottlenecks. The VAT Law and Regulations were measured from the registration threshold, VAT exemptions and the VAT refunds as shown in the conceptual framework (figure2.7). Specifically, they were measured as follows;

- Manpower: all respondents that is taxpayers, TRA staffs and the VAT experts were asked whether there is adequate manpower in TRA and whether the TRA staffs are technically competent to execute their roles and responsibilities.
- Taxpayer identification: all respondents were asked to whether the methods used to identify taxpayers are adequate and whether there is close follow-up on the identified taxpayers.

- Taxpayer assessment: all respondents were asked of the frequency of audit done as to assess the number of times audit is done to taxpayers.
- Taxpayer sensitization: all respondents were asked on media used by TRA to sensitize the taxpayers and whether voluntary tax compliance is working effectively and whether there is adequate knowledge on the consequences of not voluntarily registering for VAT.
- Corruption and Embezzlements: all respondents were asked whether there are acts of corruptions and embezzlements in the tax revenue collection process and whether there are strong control measures of fighting corruption and embezzlements in TRA administrative system.
- VAT law and Regulations: respondents were asked whether there are any effects in the VAT law and regulations that affect the revenue performance of VAT.
- Registration threshold: all respondents were asked whether the registration threshold for VAT is high.
- VAT Exemptions: all respondents were asked whether the VAT exemptions should be perpetuated.
- VAT refunds: all respondents were asked whether foreign investors should be refund their purchases VAT.

3.10.2 Dependent Variable

The VAT performance is the dependent variable for this study. The dependent variable was specifically measured basing on the percentage change of total VAT collections of financial years 2002/2003 to 2011/2012 that was actually collected, see table 4.3.3.

3.11 Problems Encountered During The Study.

- Because of the vast coverage of the study, a lot of time was spent in data collection and analysis amidst a target to be met.
- There are few people who were willing to disclose information due to the organization confidentiality status especially in TRA. Some had to be convinced to fill the questionnaires.
- In some points, it was hard to get the respondents as most of them were very busy with duties and responsibilities.

- Communication was also a challenge with some taxpayers as the language used was English and some were not conversant with it.

CHAPTER FOUR

PRESENTATION OF FINDINGS

4.0 Introduction

This chapter presents and analyzes research findings from interviews and questionnaires. Findings were a result of the three research questions which were set to guide the study and meet the main objective of the study which is the assessment of the factors affecting the revenue performance of VAT. The questions are; Are there any administrative bottlenecks in TRA? Are there any weaknesses in the VAT law and regulations? What should be done to improve the revenue performance of VAT?

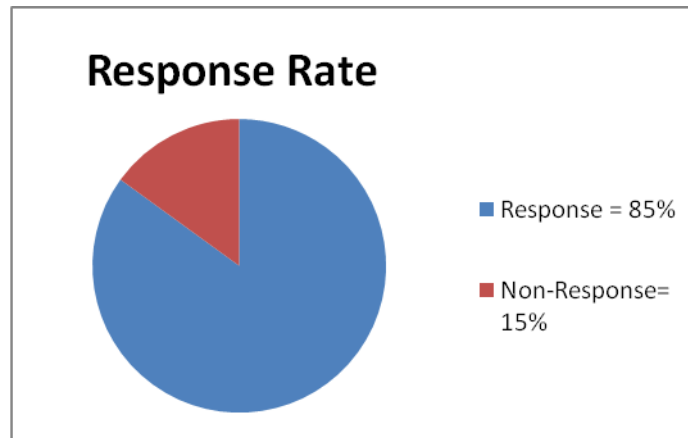
This chapter consists of four sections, the first presenting the demographic characteristics of the respondents, the second section presenting the findings on research question one, the third section presenting the findings on research question two and the last section presenting the findings on the third research question. The data is presented in form of Tables and Charts. Where data could not be quantified, it is explained.

4.1 Demographic Characteristics

4.1.1 Response rate

A total of 100 questionnaires were administered with the expected return of 90 questionnaires after accounting for non-responses. After the exercise 85 questionnaires were collected posting a response rate of 85% and a non-response rate of 15% as shown in figure 4.1.1 below.

Figure 4.1.1 Response rate

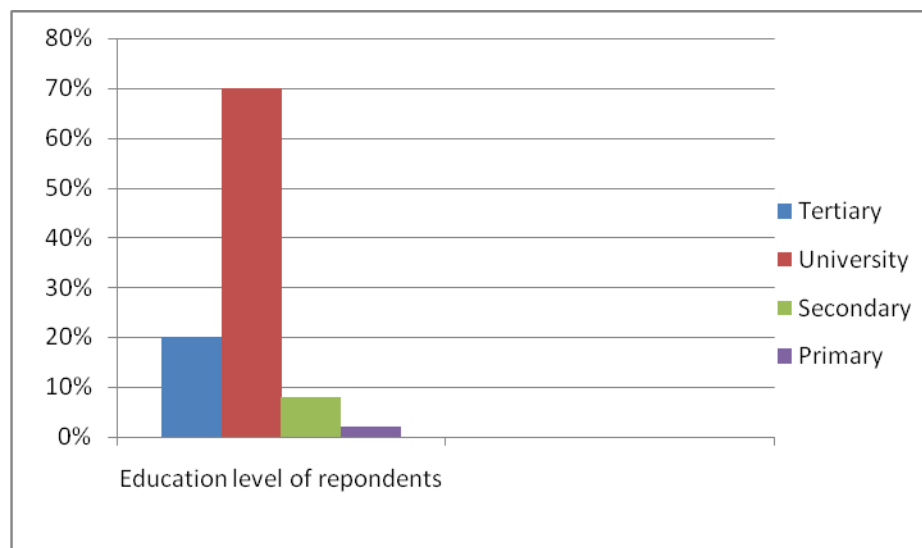


Source: Primary Data

4.1.2 Education level of Respondents

Information was taken on the level of education of the respondents to ensure the quality of the information that will be extracted from them. The following were the findings;

Figure 4.1.2 Education level of respondents.

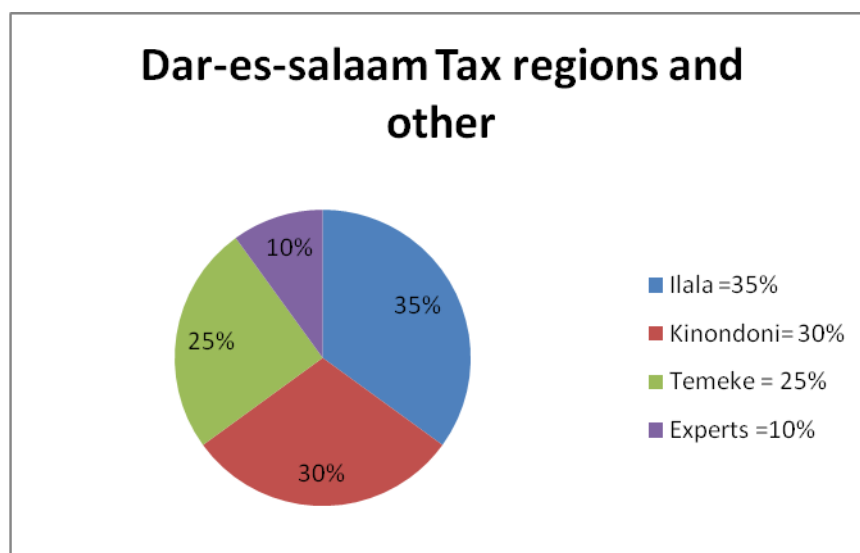


Source: Primary Data.

Of the respondents, 20% are of tertiary level, 80% are of university degree, 8% are of secondary education and 2% of the respondents are of primary education level. Tertiary level comprised of individuals having education status starting from a postgraduate and above. The university degree level comprised of individuals having a degree. The secondary education comprised of

individuals both with form four and six levels. The primary education comprised of individuals with of standard seven education leve.

Figure 4.1.3. Distribution of respondents by tax regions and other.



Source: Primary Data

Dar-es-salaam has three tax regions; Ilala, Kinondoni and Temeke. The distribution of questionnaire was as it appears in the chart above. 35% Ilala due to its higher tax revenue collections, 30% Kinondoni and 25% Temeke region. Other respondents were the VAT experts taking a 10% of the total. These, are researchers and trainers from different institutions and universities including the Institute of Tax Administration (ITA).

4.2 Research question one “Administrative bottlenecks in TRA”

This section presents findings on research question one which aims at examining whether there are any administrative bottlenecks in TRA. Tax administration and individual agencies suffer from limitations in manpower, money, tools and machinery to meet the ever increasing challenges and difficulties. The TRA administration was examined in the following areas; adequacy of manpower, taxpayer identification methods, taxpayer audit, taxpayer sensitization, tax incentives and Corruption and Embezzlement.

4.2.1 Adequacy of manpower

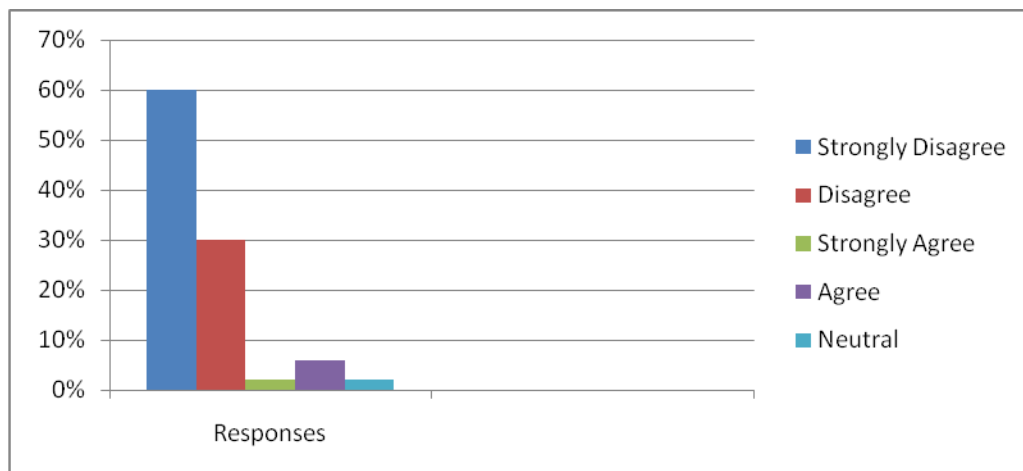
Respondents were asked to respond on the adequacy of manpower in its role of collecting revenue. The following are the results:

4.2.2 (a) TRA adequacy of manpower

Some of the respondents were asked to indicate and others explain whether TRA has adequate manpower and the following are the responses.

60% of the respondents strongly disagreed, 30% of the respondents disagreed, 2% of the respondents strongly agreed, 6% of the respondents agreed and 2% of the respondents were neutral.

Figure 4.2.2 (a) TRA adequacy of manpower



Source: Primary Data

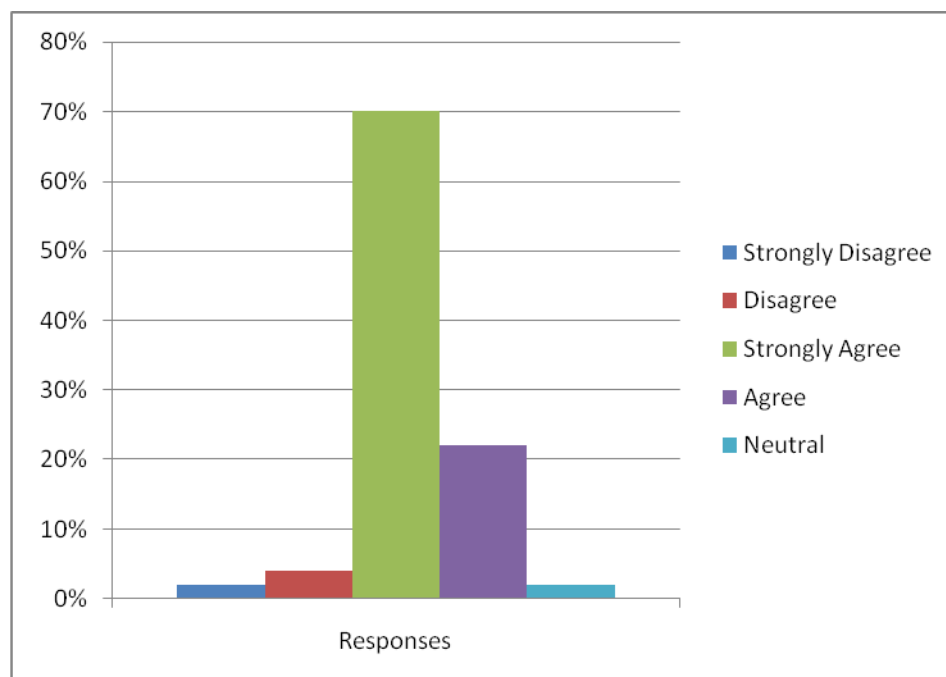
Those who explained said that, TRA shows that it does not have enough manpower to execute efficiently its responsibilities. They said, that can be noted with the frequency with which they visit the taxpayers, the time taken to respond to claims raised by taxpayers and in addition the frequency with which TRA recruits indicates that there is still additional manpower needed for it to operate efficiently and effectively. This finding is in line with Repoa (2008) by Odd-Helde (2008), arguing that TRA is faced with shortage of manpower and that is why most of the local government revenue collections are outsourced through trusted agents.

4.2.3 (b) TRA staffs technical competency

Respondents were asked to indicate their level of agreement or disagreement of the technical competence of the TRA staffs. The following were the responses;

70% of the respondents strongly agreed, 22% agreed, 2% strongly disagreed, 4% disagreed and only 2% of the respondents were neutral on the technical competency by the TRA officers.

Figure 4.2.3 (b) TRA staffs technical competency



Source: Primary Data.

Some of the respondents explained that; the degree of competency with the TRA staff has been improving day by day due to additional training given to them. They added that, the current recruitment policy of TRA emphasis employing the highly qualified candidates only those with Upper second classes and First classes. With this, they believe that most of its staff in the long run will be technical competent. This finding is in line with Mgonja, G.S (2004-2009) who argued that there is improved performance, accountability and transparency in the revenue collecting authority and that much more capacity building is still taking place.

4.2.4 Taxpayer Identification

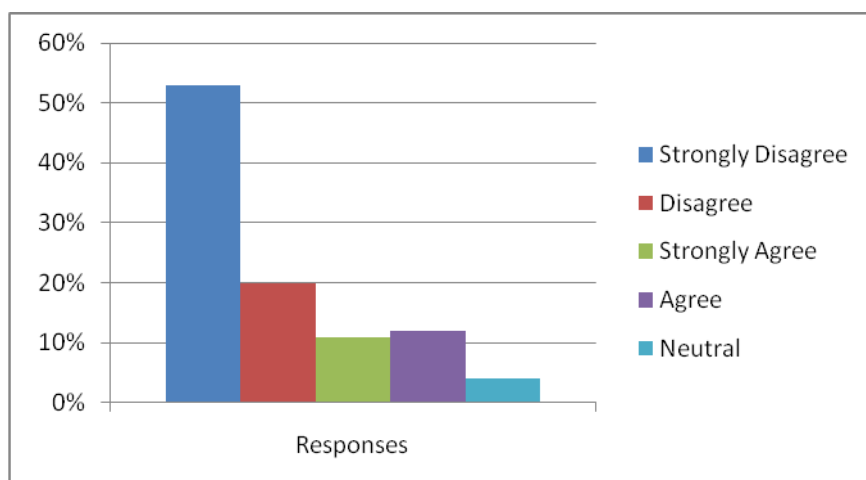
Respondents were asked to give their view and indicate their level of agreement on the taxpayer identification. The following questions were asked and their corresponding responses.

4.2.4 (a). Adequacy of methods used by TRA to identify taxpayers

Respondents were asked on the adequacy of methods used by TRA to identify taxpayers. The following were the responses;

53% of the respondents strongly disagreed, 20 % disagreed while 11% strongly agreed, 12% agreed and 4% of the respondents were neutral on the adequacy of methods that are used by TRA in identifying taxpayers.

Figure 4.2.4 (a). Adequacy of methods used by TRA to identify taxpayers



Source: Primary Data.

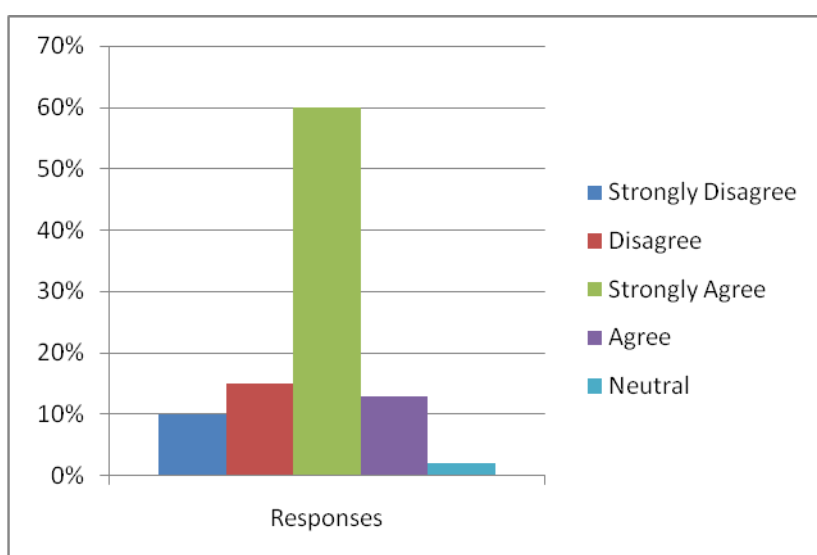
Those who explained argued that; most of the traders do not keep proper records of their transactions and those who keep proper records mostly default by keeping two different records to evade tax. Mostly they undervalue their turnover so that it does not qualify for VAT. Most small traders do not wish to register for VAT; because they will be forced to sale their products are at a relatively higher price and so fail to compete effectively in the market. Therefore the respondents say that, the TRA should employ effective methods in effective identification of the taxpayers as many of them do not wish to register voluntary.

4.2.4 (b) Close follow-up and supervision by TRA officials on identified taxpayers

Respondents were asked on whether there is close follow-up and supervision by TRA staffs on identified taxpayers. The following were the responses;

60% of the respondents strongly agreed, 13% agreed while 10% strongly disagreed, 15% disagreed and 2% remained neutral on that there is close follow up and supervision by TRA officials on identified taxpayers.

Figure 4.2.4 (b) Close follow-up and supervision by TRA officials on identified taxpayers



Some of the respondents argued that, the VAT registered taxpayers are given much room to compute the VAT payable by themselves; this provides a room for undervaluing their sales and overvaluing their purchases and so report and submit lower VAT returns to TRA. In addition they argued that, there is not effective follow-up on the use of the TRA machines, the Electronic Fiscal Devices as not all cash transactions are passed through the device deliberately. They say TRA should ensure that every cash transaction is properly passes through the electronic devices. The VAT taxpayers in some points argue on the functioning of the TRA machines because they sometimes fail to work properly and the time taken to get them repaired is uncertain. This distorts the daily submission of the reports like the Z-report.

4.2.5 Taxpayer Audit

Findings were done in order to assess the number of times audit is done. The following questions were asked to respondents and their corresponding results.

4.2.5 (a). Frequency of Audit

The respondents were asked to respond on how frequent the audit on the VAT by TRA is done.

Table 4.2.5 Frequency of Audit

Assessment frequency	Frequency	Percentage
More than once in a year	32	38%
Every year (once in a year)	43	50%
Every two years (once in two years)	3	1.67%
Every three years(once in three years)	0	0%
Not sure	5	8%
Other	2	1.67%
Total	85	100%

The highest percentage from the above table shows that mostly the audit for VAT as to the completeness and accuracy is only done once in a year. Now, this is obviously not enough if the TRA is to ensure accuracy in the VAT returns done by the taxpayers. The respondents argue that, the frequency with which the taxpayers are audited should be more than one in a year to reduce the chances for the taxpayers to evade tax.

4.2.6 Taxpayer sensitization

Findings were done to assess the media used to sensitize the taxpayers by TRA. The following questions were asked.

4.2.6 (a). Media used to sensitize taxpayer

Respondents were asked as to what media are commonly used to educate taxpayers, keep them informed on issues about Value Added Tax (VAT).

The following table shows the responses:

Table 4.2.6 (a) Media used to sensitize taxpayers

Media	Frequency	Percentage
Radio & TVs	20	24%
Seminars & Meetings	30	34%
Door to Door	15	18%
Not sure	20	24%
Total	85	100%

As seen on the above table, mostly seminars and meetings are used to sensitize taxpayers. However, radio and TVs are also used to sensitize the taxpayers.

Some respondents argue that despite the media for sensitization there are still a good number of unregistered businesses which may be qualifying for registration. This group of businesses are not reached and if reached then they are not properly educated on benefits that could be earned if they were registered. Such benefits could be; having the opportunity to claim for input VAT paid on their purchases, be in the position of trading and securing tenders from big companies and so many others.

4.2.6 (b) Voluntary Tax Compliancy

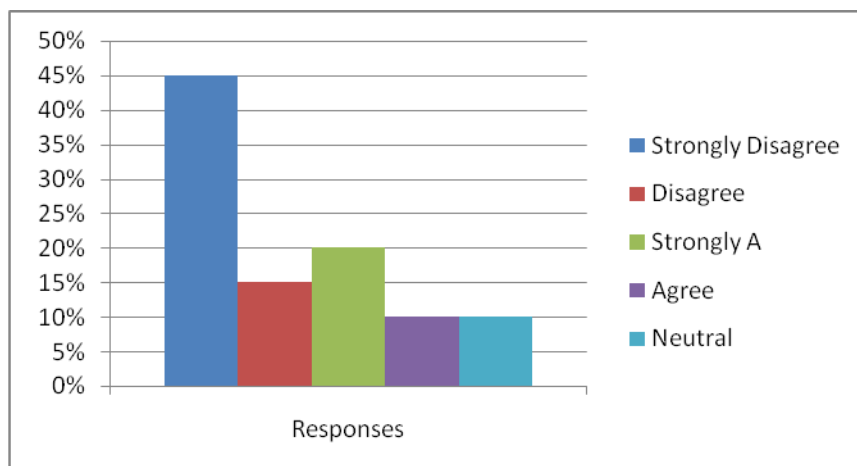
Voluntary Tax Compliance is a system of Tax compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly and file a Tax Return on time in accordance with the requirements of the Tax Authorities in a particular Jurisdiction. Most of the respondents about 76% of them stated that tax compliance has not yet being working effectively. They also argued that when voluntary compliance suffers it always results into lower revenue collections and suggested that; much more efforts should be put in promoting and emphasizing voluntary tax compliance and ensure effectiveness of the system. 24% of the respondents stated that the voluntary compliance is working effectively and that it has contributed to the improvements in the revenue collections.

4.2.6 (c). Knowledge of consequences of not voluntarily registering for VAT.

Respondents were asked to respond on whether there is much awareness by traders on the consequences of not voluntarily registering for VAT.

45% of the respondents strongly disagreed, 15% disagreed, while 20% strongly agreed, 10% agreed and 10% were indifferent. As the percentage suggests, most of the respondents argued that, traders are not aware of the consequences otherwise they would register voluntarily. Others said, they are very much aware but it is the tendency of taxpayers to avoid taxes.

Figure 4.2.6 (c). Knowledge of consequences of not voluntarily registering for VAT.



Source: Primary Data

4.2.7 Corruption and Embezzlements

Findings were done to assess whether there are acts of corruptions and embezzlements in the revenue collection process and whether there are effective controls over such acts. The following questions were asked to respondents.

4.2.7 (a). Corruption and embezzlements in the tax collections practices

Respondents were asked to indicate their level of agreement on whether there are acts of corruption and embezzlements in the VAT revenue collection processes.

95% of the respondents strongly agreed, 5% agreed, 0% strongly disagreed, 0% disagreed and 0% remained neutral on the corruption and embezzlements in the tax collection practices.

Most of the respondents, strongly agreed that the tax collection practices are strongly affected by corruptions and embezzlements. They added, saying that such misconducts are perpetuated by mostly the TRA officials themselves and in collaboration with the tax payers. Much of the revenue is lost through these practices.

4.2.7 (b) Control measures of fighting corruptions and embezzlements in TRA administration system.

Respondents were asked to give their knowledge on the strength of the control measures of fighting corruptions and embezzlements in the TRA administration systems. 70% of the respondents strongly disagreed, 18% disagreed while 0% strongly agreed, 10% agreed and 2% were neutral on the measures of fighting corruptions and embezzlements in TRA. Responses showed that, the controls might be there but may not have been strictly administered that is why a lot of misconduct is still going on. Very few cases have been filled for acts of corruptions and embezzlement. In a number of times the TRA staffs when found to have committed such offenses they simply get fired. The respondents argue that, being proactive is better than being reactive especially when such areas as they involve loss of revenue which affects the revenue collection performance. Most of the respondents suggested that there should be tight controls over the revenue collections and in case of such offense the involved individuals should not only be fired but also taken to court as well. This will strengthen the controls set by TRA. The involvements of government institutions and bodies dealing with offense and their investigation will help people to behave properly with the resources.

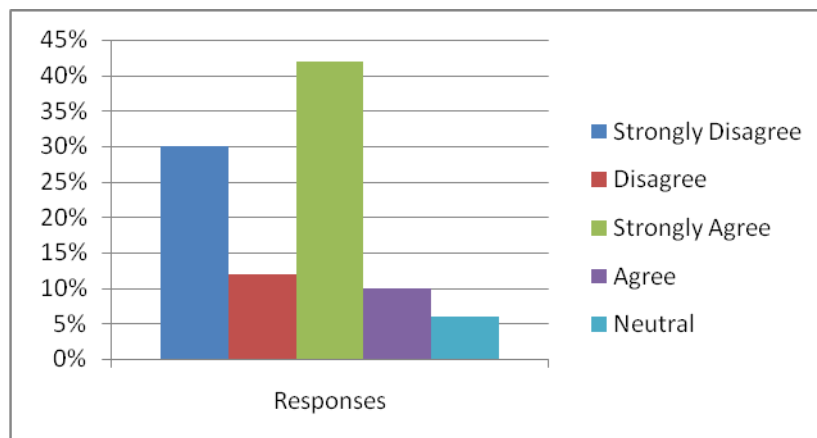
4.3. Research question two “weaknesses in the VAT law and Regulations”

This section presents findings on research question two which aims at evaluating whether there are any weaknesses in the VAT law and Regulations. The weaknesses in the VAT law and Regulations were analyzed in the following areas; Registration Threshold, Exemptions and the authority given to the Commissioner for Value Added Tax.

4.3.1 Registration threshold for VAT

Respondents were asked to indicate and explain on whether the registration threshold for VAT is high. 42% of the respondents strongly agreed, 10% strongly agreed while 30% strongly disagreed, 12% disagreed and 6% of the respondents were neutral on the registration threshold being high.

Figure 4.3.1 (a). Registration threshold for VAT



Source: Primary Data.

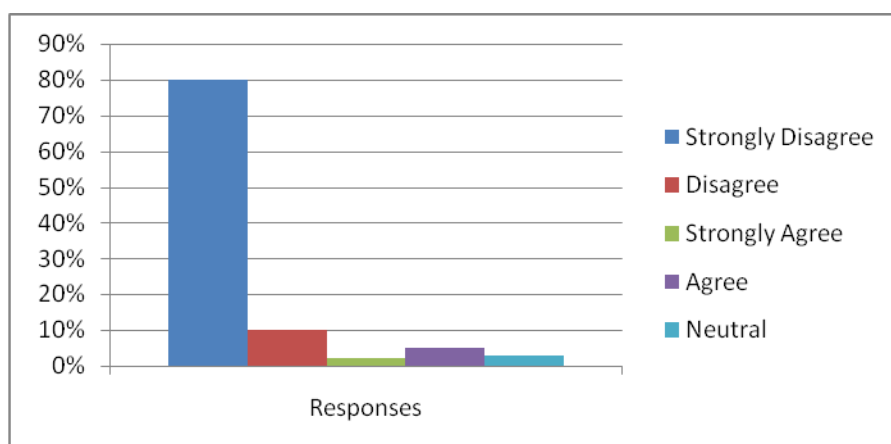
Some of the respondents in responding to the above question explained that; the registration threshold should be relatively lower as compared to what it is presently. The registration threshold for one to qualify to VAT registration is a turnover of Tanzanian Shillings 40 million per year or if the business is able to generate a turnover of 10 million consecutively in a period of

three months or when a taxable person makes an application for the VAT purpose to the commissioner for VAT. Some of the respondents argue that this amount is higher and suggest that it should be lowered. They say that, small businesses wishing to secured businesses with registered businesses are unable because they are not registered and would wish to but the constrain remains to be the registration threshold. Some of the taxpayers say that, the nature of the businesses they are in requires them to register for VAT and be able to even get tenders but they are not in the position because they are not registered. Most respondents suggest that, the registration threshold should be reviewed to a position of being able to accommodate many businesses despite the fact that it will demand more administration for it to work effectively.

4.3.1 (b). Perpetuation of VAT Exemption

Respondents were asked on whether the VAT Exemption should be perpetuated. 80% of the respondents strongly disagreed, 10 % disagreed, while 2% strongly agreed, 5 agreed and 3% remained neutral on perpetuation of the VAT exemptions.

Figure 4.3.1 (b). Perpetuation of VAT Exemption



Source: Primary Data.

The findings show that VAT exemption is one among the factors affecting the revenue performance of VAT. Not all citizen and non -citizen people or corporations pay taxes; some are exempted from payment of tax for one reason or another. VAT Tax exemptions are provided under section 11 of the VAT Act of 1997 read with 3rd schedule of the VAT Act, 1997 which

currently covers 28 items. The main reason for providing exemption was to encourage investment in different sectors both from within and outside the country. The respondents argue that, these exemptions should be reviewed as the economic state of the country still needs a lot of revenue collections so bring about sustainable developments.

Table 4.3.2 Exemption by Category 2008/09 and 2009/10

CUSTOMS DEPARTMENT	2008/09	2009/10
TIC & ZIPA	380,090.5	272,913.1
Non Government Organization	37,237.8	21,503.0
Private Company and Individuals	51,233.4	35,639.7
Mining	59,140.7	49,588.7
Religious Institutions	408.0	260.3
Parastatal Organizations	7,125.6	7,046.1
Regional Trade arrangements	3.0	-
Government Institutions	21,617.3	52,481.6
Donor Funded Project(DFP)	21,552.7	72,257.8
Sub Total	578,409.0	511,690.3
DOMESTIC REVENUE DEPARTMENT		
VAT 220	13,249.6	217.0
Exemptions under Duty Free Shops	3,892.4	2,691.6
exemptions under VAT 223/224	156,847.9	180,192.6
Sub Total	173,989.9	183,101.2
GRAND TOTAL	752,398.9	694,791.5

Source: TRA annual general meeting report 2009/2010

The above table show amount of exemption and tax relief granted to different sectors for the year 2008/09 and 2009/10.

Table 4.3.3 VAT Exemptions vs VAT Gross Collections (figures in billions of Tsh).

	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
TOTAL EXEMPTIONS	68.8	132.6	233.8	374.8	460.9	346.5	174.0	183.1	297.3	615.7
%age change		92.7	76.3	60.3	23.0	-24.8	-49.8	5.2	62.4	107.1
TOTAL VAT COLLECTIONS	420.0	520.6	673.5	861.5	817.9	1104.2	1393.5	1598.4	2002.3	2534.0
%age change		24.0	29.4	27.9	-5.1	35.0	26.2	14.7	25.3	26.6
% of exemptions to VAT revenue	16.4	25.5	34.7	43.5	56.4	31.4	12.5	11.5	14.8	24.3

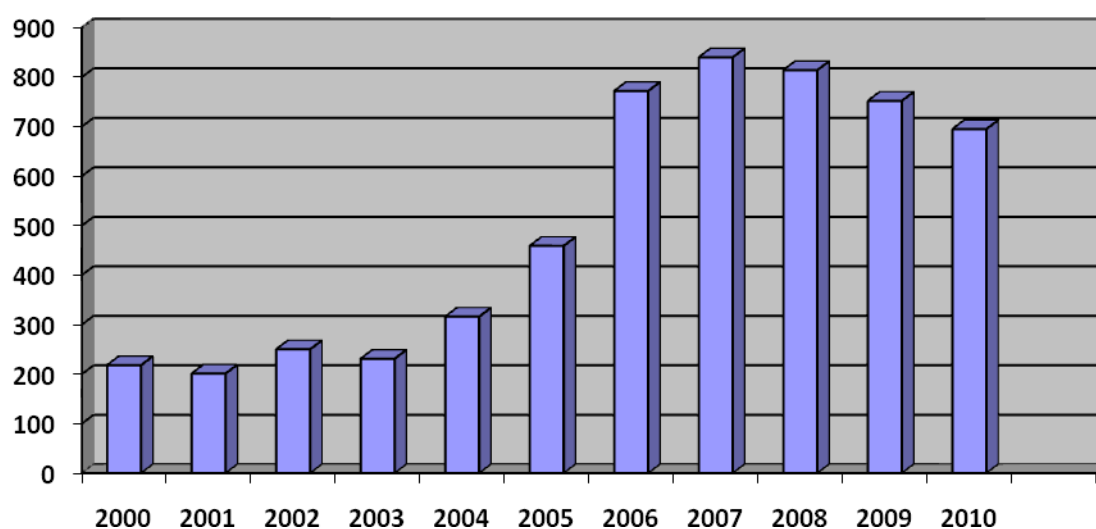
Source: TRA Performance Reports

The above table also shows the total amounts of exemptions lost and as a percentage of the total VAT collections.

Tanzania is proliferating with tax exemptions to corporations. Over the past four years, the increasing levels of tax exemptions have contributed to low revenue collections. Tax exemptions have been increasing each year reaching an average of 28% of total tax revenues.

Graph 4.3.4 Trend of Tax Exemption

Billion of



TZS

YEARS

Source: TRA annual general meeting report 2009/2010.

The above graph shows the trend of exemption granted by the government of Tanzania from year 2000 up to 2010.

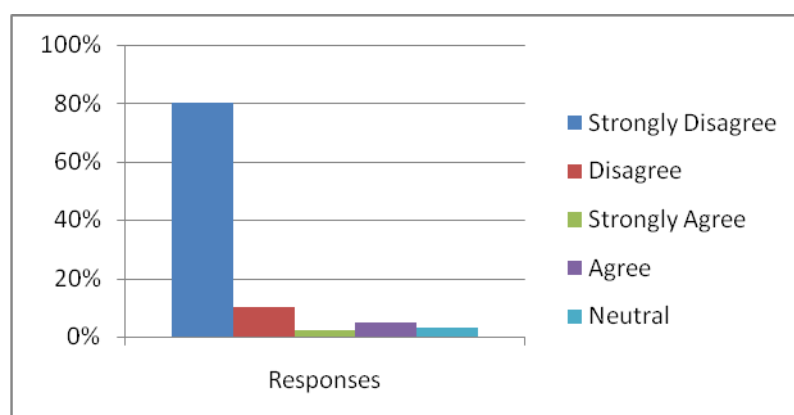
4.3.5 VAT refunds

4.3. 5 (a) Foreign investors refund on the purchases VAT

Respondents were asked to indicate their level of agreement and explain on whether the VAT refunds on purchases should be done on foreign investors.

80% of the respondents strongly disagreed, 10% disagreed while 2% strongly agreed, 5% agreed and 3% were indifferent.

Figure 4.3.5 (a) Should foreign investors be refunded on the purchases VAT?



Source: Primary Data.

Most of the respondents argued that, the country has been earning very little in terms of tax collected from these investors especially in the extractive industry. In addition, they said the country is losing much in terms of resources and the reward that has been coming out of it is insignificant due to the country laws and policies. Therefore, a different approach should be adopted rather than refunding them on input VATs while the country still needs a lot of funds for its developments.

4.4. Research question three “Improvement of revenue performance of VAT”

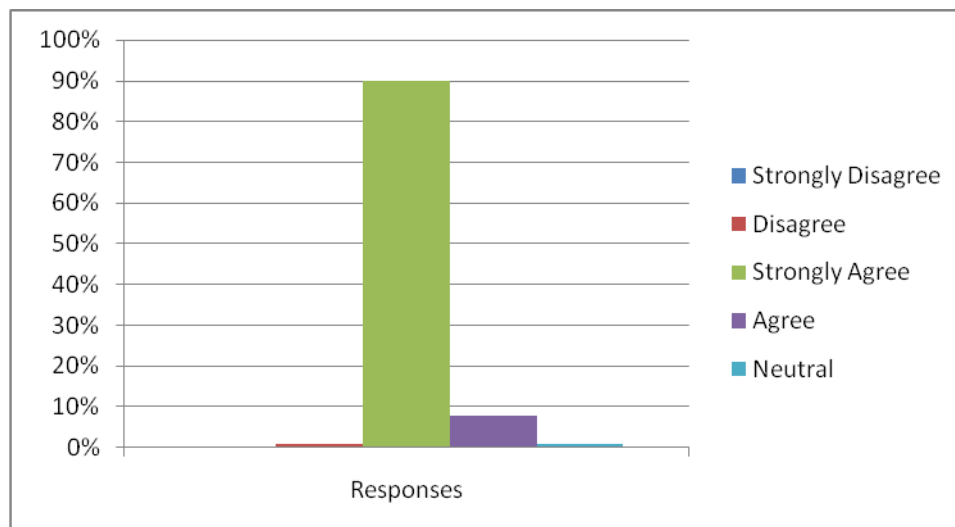
The question asked on what should be done to improve the revenue performance of VAT.

4.4.1 Improvements in TRA administration, government policies and VAT law and Regulations result in an adequate revenue performance of VAT

Respondents were asked on whether the improvements in the TRA administration, government policies and VAT law and Regulation will result in adequate revenue performance of VAT.

90% of the respondents strongly agreed, 8% agreed, 0% strongly disagreed, 1% disagreed and 1% remained indifferent in the improvements in the TRA administration, government policies and VAT law and Regulations that it will result in adequate performance.

Figure 4.4.1 Improvements in TRA administration, government policies and VAT law and Regulations result in an adequate revenue performance of VAT

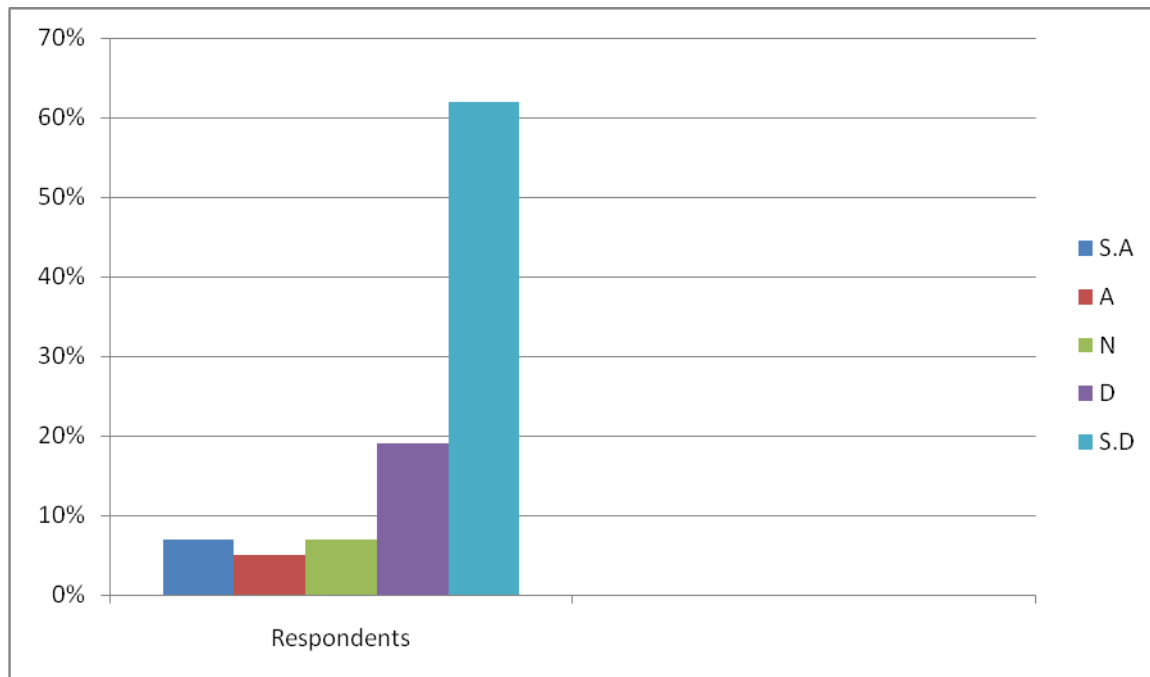


Most of the respondents as seen by percentage argued that, the only inadequate revenue performance of VAT is a result of inefficiency in the administration, policies set by the government and TRA itself and the weaknesses found in the VAT law and Regulation. They strongly believe if such weaknesses are properly addressed Tanzania will achieve better performance in revenue collections not only in VAT but in all the taxes. Most of the administrative issues and the weaknesses in the VAT law and Regulations are already put in place in the above sections.

4.4.2 Percentage change of VAT collections

Respondents were asked to give their views on whether the percentage change of total revenue collections from VAT is increasing from year to year. 7% of the respondents strongly agreed, 5% agreed, 7% remained neutral while 19% disagreed and 62% strongly disagreed on the increase of the percentage change of VAT collections.

Figure 4.4.2 Percentage change of VAT



As seen from the figure above, most of the respondents strongly disagreed on the percentage increase on VAT collections from year to year. This is even clear from Table 4.3.6; the percentage change of total VAT collections from year to year is not stable.

4.5 Multiple Regression

Before running the multiple regression analysis; questionnaires were carefully scrutinized, edited, classified, coded and analyzed. Thereafter four tests (linearity, reliability of measurement, homoscedasticity, and normality) were performed to ensure that the assumptions of regression analysis were not violated. This was followed by running the multiple regression analysis in order to test the relationship between the dependent and independent variables.

The variables were measured using five point likert scales as follows;
Numbers were assigned to the five points that is 1, 2, 3, 4, and 5. Indicating the following;
Strongly Agreed, Agreed, Neutral, Disagreed and Strongly Disagreed respectively. Table 4.6.2 below shows the results obtained.

Table 4.6.2 Multiple Regression analysis results

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.356	.416		.856	.395
	Adequacy of manpower	.038	.023	.045	1.620	.109
	Technical competency of TRA staffs	-.051	.175	-.008	-.289	.773
	Adequacy of methods used to identify taxpayers	.010	.040	.007	.240	.811
	Follow-ups on identified taxpayers	-.032	.069	-.013	-.467	.642
	Frequency of taxpayers' audit	-.024	.085	-.031	-.281	.780
	Knowledge on consequences of not voluntarily registering for VAT	.157	.103	.169	1.530	.130
	Corruption and embezzlement	-.043	.082	-.015	-.521	.604
	Measures of fighting corruption and embezzlement	1.053	.030	.978	34.950	.000
	VAT registration threshold	-.019	.021	-.024	-.881	.381
	VAT exemptions	-.105	.041	-.072	-2.548	.013
	VAT refunds on foreign investors	-.033	.028	-.036	-1.189	.238
a. Dependent Variable: Percentage change of VAT revenue performance						

From table 4.6.2 among all the independent variables studied in this study, only VAT exemptions and measures of fighting corruption and embezzlement are significant related to

VAT revenue performance. This implies that VAT exemptions and measures of fighting corruption and embezzlement are factors which affect the VAT revenue performance. VAT exemptions affects VAT revenue performance negatively while measures of fighting corruption and embezzlement positively affect the VAT revenue performance.

CHAPTER 5

DISCUSSION OF THE FINDINGS

5.0 Introduction

This chapter discusses the research findings from interviews and questionnaires. Findings were a result of the three research questions which were set to guide the study and meet the main objective of the study which is the assessment of the factors affecting the revenue performance of VAT. The questions were; Are there any administrative bottlenecks in TRA? Are there any weaknesses in the VAT law and regulations? What should be done to improve the revenue performance of VAT?

This chapter consists of three sections, the first section is the discussion of findings on research question one, the second section discusses the findings on research question two and the last section discusses the findings on the third research question.

5.1 Research question one “Administrative bottlenecks in TRA”

This section discusses findings on research question one which aimed at examining whether there are any administrative bottlenecks in TRA which affect the VAT performance. Five factors were used to represent the administration bottlenecks which were the manpower, taxpayer identification, taxpayer assessment, taxpayer sensitization and corruption and embezzlements.

Adequacy of manpower

Respondents were asked to respond on the adequacy of manpower of TRA in its role of collecting revenue.

TRA adequacy of manpower

In responding to the adequacy of manpower, the following findings were obtained.

About 90 of the respondents argued that TRA still needs to add its man power and be able address the increased challenges. This finding is in line with Awura (2008) who identified the limitation in manpower as of the administration challenges facing revenue authorities. Odusola (2006) also identified that the inadequate number of staff is of the factors affecting the revenue performance VAT.

TRA staffs technical competency

In order to find out the technical competency of the TRA staffs, respondents were asked to give their views on the technical competency of the TRA staffs. The followings were the findings;

Over 90% of the respondents acknowledge that the TRA staffs are technical competent. Some of the responds explained that; the degree of competency with the TRA staff has been improving day by day due to additional training given to them. They added that, the current recruitment policy of TRA emphasis employing the highly qualified candidates only those with Upper second classes and First classes. With this, they believe that most of its staff in the long run will be technical competent. This finding is in line with Leuven (2010) who found out that; skills, abilities and characteristics that an employee applies in performing his/her work and that are observable as behaviors or actions have a great deal in achievement of objectives.

Taxpayer Identification

The method used to identify taxpayers may have some effects on the VAT revenue performance. In finding out about this, respondents were asked the following questions;

Adequacy of methods used by TRA to identify taxpayers

In trying to find out about the adequacy of the methods used by TRA in identifying the taxpayers, respondents were asked and the following results were obtained.

About 70% of the respondents disagreed on the adequacy of the methods used to identify taxpayers. This adds to the factors affecting the revenue performance of VAT. Taxpayer identification is one of the important aspects of tax administration and as Surrey (1974) noted, the beginnings of income tax administration start with preparing lists or registers and ensuring that taxpayers are on the tax rolls. As more taxpayers are located and registered, this decreases the taxpayers who would otherwise evade. The delay in updating registers may lead to the authorities not meeting their targeted revenue. As was noted by Bird (1991), registration of taxpayers increased revenue collected in Bolivia. There is also need for an update of the database of taxpayer information which is believed to be poor and ineffective (Tanzi and Zee, 2000).

Close follow-up and supervision by TRA officials on identified taxpayers

Respondents were asked on whether there is close follow-up and supervision by TRA officials over the identified taxpayers. The followings were the responses.

About 73% of the respondents agreed that there is close supervision of taxpayers by the TRA.

Some of the respondents argued that, the VAT registered taxpayers are given much room to compute the VAT payable by themselves; this provides a room for undervaluing their sales and overvaluing their purchases and so report and submit lower VAT returns to TRA. In addition they argued that, there is not effective follow-up on the use of the TRA machines, the Electronic Fiscal Devices as not all cash transactions are passed through the device deliberately. They say TRA should ensure that every cash transaction is properly passes through the electronic devices. The VAT taxpayers in some points argue on the functioning of the TRA machines because they sometimes fail to work properly and the time taken to get them repaired is uncertain. This distorts the daily submission of the reports like the Z-report. This finding is in line with Crandall (2010) who argued that many countries believe increased autonomy can solve administrative and corporate governance problems, such as organizational inefficiencies, and deliver fair and effective services to the public. There should be close follow on tax collections to bring about better collections.

Taxpayer Audit

Audit may have some impacts on the revenue performance of VAT. In order to find out about this, the following questions were asked to respondents.

Frequency of Audit

Respondents were asked on how frequent the audit is done. The following responses were obtained; 38% said more than once in a year, 51% once in a year, 4% once in two years, 6% were not sure and 2% others with different opinions.

Findings have revealed that most of the audit for VAT as to the completeness and accuracy is only done once in a year. Now, this is obviously not enough if the TRA is to ensure accuracy in the VAT returns done by the taxpayers. The respondents argue that, the frequency with which the taxpayers are audited should be more than one in a year to reduce the chances for the taxpayers to evade tax. This finding is in line with Joshua Aizenman and Yothin (2005) when they came to find out the revenue collection efficiency is determined by the probability of audit and by the penalty on underpaying. For example, a number of studies has consistently shown that both the penalty and the probability of audit have a positive influence on tax compliance (e.g. Beck, Jon, & Jung, 1991; Becker, Büchner, & Sleeking, 1987).

Taxpayer sensitization

In finding out the ways in which TRA uses to sensitize the taxpayers, the following questions were asked.

Media used to sensitize taxpayer

Respondents were asked on what media are used by TRA to sensitize the taxpayers. The following responses were obtained.

26% of the respondents said it was Radio & TVs, 54% Seminars & Meetings, 14% Door to Door and 6% were not sure.

Some respondents argue that despite the media for sensitization there are still a good number of unregistered businesses which may be qualifying for registration. This group of businesses are not reached and if reached then they are not properly educated on benefits that could be earned if they were registered. Such benefits could be; having the opportunity to claim for input VAT paid on their purchases, be in the position of trading and securing tenders from big companies and so many others. Therefore, all classes of respondents agreed that there is still ignorance and wrong perception by traders in regards to VAT and much emphasis need to be put in place to address this problem. The findings are in line with the following findings as well.

Sensitization of taxpayers involves educating them as a means of shaping their attitudes (Lubega, 2000). Taxpayer education, as noted by Bird (1989), is necessary to convince taxpayers that taxes are the price paid for a civilized society and that they live in such a society and the tax system is equitable. Muhumuza (2000) moreover says when sensitization is less performed it greatly affects revenue collection. Abigaba, (1998) and compliance Lubega, (2000). Snavely (1988) asserts that states strive to reinforce tax compliance behavior by sending messages in the media, leaf-lets, visual and audio media and bill boards stressing the benefits of compliance and the consequences of non- compliance.

Voluntary Tax Compliancy

In finding out whether voluntary tax compliance has effects on the revenue performance of VAT, the following were the results.

76% of the responses from questionnaires and interviews argued that when voluntary tax compliancy suffers it always results in low tax revenue collections. They also added that voluntary compliance has not been working effectively and suggested that; more efforts should

be put in promoting and emphasizing voluntary tax compliance. There is no statistical evidence in this study that proves this factor to be affecting the revenue performance of VAT. HM Revenue & Customs (2003) argued that create an environment that fosters voluntary compliance and deals robustly with those that choose not to comply and finally create an environment in which VAT fraud and avoidance become less economically viable.

Knowledge of consequences of not voluntarily registering for VAT.

In trying to find out more on whether there is adequate knowledge on the consequences of not voluntarily registering for VAT, the following were the results;

60% of the respondents argued that the taxpayers are not fully educated on tax issues. This finding is in line with Mohdali (2010), in his approach he identifies that, tax mentality, tax tension feeling and tax morale are the three elements that shape a taxpayer's attitudes Schmolders (1970). The first element, tax mentality, describes a taxpayer who is feeling indecisive as to whether or not to obey tax laws, this is highly influenced by the social environment and individual experience. The second element, tax tension feeling, derives mainly from an unequal tax burden distribution leading to the taxpayer's discontentment with the tax system. The final element, tax morale is defined as an individual's internal motivation from religious beliefs or moral values to pay taxes, also termed as 'intrinsic motivation'. The improvement of taxpayer's positive attitude from these elements is expected to encourage the willingness to pay taxes and hence voluntary compliance.

Corruption and Embezzlements

In finding out about the effects of corruption and embezzlements in the revenue performance of VAT, the following questions were asked to respondents and the results were obtained as follows;

Corruption and embezzlements in the tax collections practices

In finding out whether there are acts of corruption and embezzlements in the revenue collection processes of VAT the following results were obtained;

100% of the respondents argued that corruption and embezzlements are a factor behind the poor revenue collection performance in Tanzania. 0%. They added, saying that such misconducts are perpetuated by mostly the TRA officials themselves and in collaboration with the tax payers. Much of the revenue is lost through these practices. Tax systems in most poor countries

including Tanzania are characterized by widespread corruption and tax evasion, Tanzi (2000). This erosion of tax base has several detrimental fiscal effects. The consequence of lost revenue to the funding of public services is of special concern Tanzi (2000). Corruption and tax evasion have harmful effects on revenue collection.

Control measures of fighting corruptions and embezzlements in TRA administration system

Respondents were asked to give their knowledge on the strength of the control measures of fighting corruptions and embezzlements in the TRA administration systems. Above 80% of the respondents argued that there are no strong measures to fight corruption and embezzlements in the revenue collection process. Responses showed that, the controls might be there but may not have been strictly administered that is why a lot of misconduct is still going on. A few or no court cases have been filled for acts of corruptions and embezzlement, in a number of times the TRA staffs when found to have committed such offenses they simply get fired. The respondents argue that, being proactive is better than being reactive especially when such areas as they involve loss of revenue which affects the revenue collection performance. Most of the respondents suggested that there should be tight controls over the revenue collections and in case of such offense the involved individuals should not only be fired but also taken to court as well. This will strengthen the controls set by TRA. The involvements of government institutions and bodies dealing with offense and their investigation will help people to behave properly with the resources. However, measures of fighting corruption and embezzlement positively affect the VAT revenue performance. This is in line with Wiley & Sons (2003), they gave one suggestion that is to introduce rotation systems for staff in tax administrations, where tax collectors remain only for shorter periods in the same post, Gupta and Mookherjee (1998). From the analysis, the findings suggested that measures of fighting corruption and embezzlement positively affect the VAT revenue performance.

5.2. Research question two “weaknesses in the VAT law and Regulations”

This section presents findings on research question two which aims at evaluating whether there are any weaknesses in the VAT law and Regulations which affect the revenue performance of VAT. The weaknesses in the VAT law and Regulations were analyzed in the following areas;

Registration Threshold, Exemptions and the authority given to the Commissioner for Value Added Tax.

Registration threshold for VAT

Findings were done on the suitability of the registration threshold to see whether it has any effects on the revenue performance of VAT. The following were obtained.

52% of the respondents argued that the registration threshold is high and should be lowered.

The registration threshold for one to qualify to VAT registration is a turnover of Tanzanian Shillings 40 million per year or if the business is able to generate a turnover of 10 million consecutively in a period of three months or when a taxable person makes an application for the VAT purpose to the commissioner for VAT. Some of the respondents argue that this amount is higher and suggest that it should be lowered. They say that, small businesses wishing to secured businesses with registered businesses are unable because they are not registered and would wish to but the constrain remains to be the registration threshold. Some of the taxpayers say that, the nature of the businesses they are in requires them to register for VAT and be able to even get tenders but they are not in the position because they are not registered. Most respondents suggest that, the registration threshold should be reviewed to a position of being able to accommodate many businesses despite the fact that it will demand more administration for it to work effectively. This finding is in line with Grandcolas (2008) as he identified the registration threshold as one the factor that the VAT revenue performance depends on.

Perpetuation of VAT Exemption

In finding out whether VAT exemptions have any effects on the revenue performance of VAT, respondents were asked to indicate their level of acceptance or disagreement on whether exemptions should be perpetuated. The following are the results; 2% strongly agreed, 5% agreed, 2% were neutral while 11% disagreed and 80% of the respondents strongly disagree.

The findings show that VAT exemption is one among the factors affecting the revenue performance of VAT negatively. Not all citizen and non citizen people or corporations pay taxes; some are exempted from payment of tax for one reason or another. VAT Tax exemptions are provided under section 11 of the VAT Act of 1997 read with 3rd schedule of the VAT Act, 1997 which currently covers 28 items. The main reason for providing exemption was to

encourage investment in different sectors both from within and outside the country. The respondents argue that, these exemptions should be reviewed as the economic state of the country still needs a lot of revenue collections so bring about sustainable developments.

Tanzania is proliferating with tax exemptions to corporations. Over the past four years, the increasing levels of tax exemptions have contributed to low revenue collections. Tax exemptions have been increasing each year reaching an average of 28% of total tax revenues.

In order to control utilization of such exemption, various procedures have been put in place depending on the nature of the relieved person and/or company. There are determined procedures for diplomats and diplomatic missions, government ministries, Non-Government Organizations (NGO) and others as explained under Para 2.5 of the text. Interested parties are required to apply as per procedures laid using prescribed forms. Qualified applicants are granted with authority to proceed without VAT.

Exemptions have a negative impact on revenue collections and this can be worked through collections at Tanzania Revenue Authority. But many on the other hand have a positive impact generally given the incentive it provides for investment growth which at the end of the day may increase revenue at a broader level nationally. Negative impact on revenue collection might be caused by too much tax exemptions granted without proportionate increase in revenue, Lissu (2008).

The study found that there are different types of imported items that are granted tax exemption to the large mining companies. They include petroleum fuel; plants machines and equipments; heavy and light motor vehicle; building materials and raw materials for prospecting, extracting and production processes. Since the large mining industry needs huge capitals to run the business, imports of mining materials aforementioned above is done at large quantities too. Importation of such items at a large volume causes imbalance to the revenue collection as compared to volume of imports.

The consequence of large importation of such items has been causing large amount of tax that are forgone for exemption as compared to revenue collections to the government. After going into detail of the study the researcher is at the position to conclude that, the existence of many

types of tax exemptions in the large scale mining investors contribute to the reduction of tax base and that the situation in lower revenue collections by the government. Also the use of tax exemption as a promotional tool for large scale investors does not have a strong effect since there are other factors that may be applied to attract such investors. Finally, much emphasis should be on the amounts of tax revenue forgone for exemptions because the amounts are considerably higher. Therefore, the situation should not be left to continue while the country has no funds to even meet its budgets. Grandcolas (2008) also identified exemption as one of the factor affecting the revenue performance of VAT.

VAT refunds

Findings were also done to assess the effects of VAT refunds on the revenue performance of VAT. The following questions were asked and the results were obtained.

Foreign investors refund on the purchases VAT

Respondents were asked to indicate their level of agreement and explain on whether the VAT refunds on purchases should be done on foreign investors.

80% of the respondents strongly disagreed, 10% disagreed while 2% strongly agreed, 5% agreed and 3% were indifferent.

Most of the respondents argued that, the country has been earning very little in terms of tax collected from these investors especially in the extractive industry. In addition, they said the country is losing much in terms of resources and the reward that has been coming out of it is insignificant due to the country laws and policies. Therefore, a different approach should be adopted rather than refunding them on input VATs while the country still needs a lot of funds for its developments.

5.3. Research question three “Improvement of revenue performance of VAT”

The question was asked on what should be done to improve the revenue performance of VAT. This question was asked in order to obtain different opinions from the respondents.

Improvements in TRA administration, government policies and VAT law and Regulations result in an adequate revenue performance of VAT.

Respondents were asked on whether the improvements in the TRA administration, government policies and VAT law and Regulation will result in adequate revenue performance of VAT.

90% of the respondents strongly agreed, 8% agreed, 0% strongly disagreed, 1% disagreed and 1% remained indifferent.

Most of the respondents as seen by percentage argued that, the only inadequate revenue performance of VAT is a result of inefficiency in the administration, policies set by the government and TRA itself and the weaknesses found in the VAT law and Regulation. They strongly believe if such weaknesses are properly addressed Tanzania will achieve better performance in revenue collections not only in VAT but in all the taxes. Most of the administrative issues and the weaknesses in the VAT law and Regulations are already put in place in the above sections.

CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.0 INTRODUCTION

The study assessed and analyzed the factors affecting the revenue performance of VAT. The preceding four chapters provide a basis for which this wind-up is based. The dependent variable of the study was the revenue performance of VAT and the main independent variable were the TRA administration capacity and the VAT law and regulations. This chapter contains Three sections, one presenting the conclusion of study, the second presenting the recommendations and the third presenting the areas of further research.

6.1 SUMMARY

This study aimed at assessing the factors affecting the revenue performance of VAT in Tanzania. The factors affecting the revenue performance of VAT were drawn from the administration capability of TRA and analyzed through the areas of manpower, taxpayer identification, taxpayer assessment, taxpayer sensitization and corruption and embezzlements. The other factor that was taken to be measured as a factor that affects the revenue performance of VAT was the VAT law and Regulations. This was measured through the registration threshold, VAT exemptions and the VAT refunds.

Multiple regression analysis was used to test the relationship between dependent variable and independent variable. Among all the independent variables studied in this study, only VAT exemptions and measures of fighting corruption and embezzlement are significant related to VAT revenue performance. This implies that VAT exemptions and measures of fighting corruption and embezzlement are factors which affect the VAT revenue performance. VAT exemptions affects VAT revenue performance negatively while measures of fighting corruption and embezzlement positively affect the VAT revenue performance.

Other independent variables that were tested in the TRA administrative capability included the following; TRA manpower, taxpayers' identification, taxpayers' sensitization and taxpayers' assessments. Using the multiple regression data analysis all these variables proved not to affect the revenue performance of VAT.

From the VAT law and Regulations the other variables that were tested included; the registration threshold and the VAT refunds and they all did not prove to affect the revenue performance of VAT. Therefore, this study has found the perpetuation of VAT exemptions to be the factor affecting the revenue performance of VAT negatively. However, the measures of fighting corruptions and embezzlements were found to affect the revenue performance of VAT positively.

6.2 CONCLUSIONS

The conclusions to the study are presented in respect to the research objectives which are; to identify administrative bottlenecks in TRA that affects the VAT revenue performance in Tanzania, to identify any weaknesses in the VAT law and regulations and to suggest improvements required in the Tanzania VAT system. The main objective is to assess the factors affecting the revenue performance of VAT.

6.3. Administrative bottlenecks in TRA

As mentioned in the preceding chapters, the administrative bottlenecks in TRA studied were; adequacy of manpower, taxpayer identification, taxpayer audit, taxpayer sensitization, collection methods and monitoring systems. The study revealed the following aspects about each component;

Adequacy of manpower

Any revenue collecting authority needs not only adequate manpower but also skilled, knowledgeable and competent manpower. By having adequate and competent manpower, the TRA role of tax collections will be done efficiently, effectively and economically.

Taxpayer identification

By effectively identifying tax payers, their names and incomes should appear in the tax payer register plus their Tax Identification Numbers (TINs). This will assist in creating awareness, constant follow-ups to check whether one has qualified for VAT registration.

Taxpayer audit

Evaluating tax liabilities is contingent on proper accounting records. Widespread illiteracy among business owners, however, precludes the existence of such accounting details. Outright

falsification of records to undercut the system is also a problem, for which some sanctions have been imposed including penalty. When taxpayer identification is done, taxpayer audit will also be performed accordingly and if traders are properly audited, then revenue collection performance of VAT will be maximized.

Taxpayer sensitization

There should be more effective ways of reaching the both the registered and the unregistered traders and get them understand these taxes. The research reveals that more efforts should be employed in dealing with small traders and the medium-sized enterprises. The creation of understanding to traders will even result to more voluntary registration and this in turn will reduce the administration costs.

Corruption and Embezzlement

As proved in the findings that measures of fighting corruption and embezzlements positively affect the VAT revenue performance. TRA and the government at large should tighten its control measure to ensure that chances for corruptions and embezzlements are reduced to a great extend.

6.4. Weaknesses in the VAT law and Regulations

VAT law and Regulations need to be reviewed to address the challenges that have great impact on the revenue performance of VAT. Some of the areas that need to be looked at are here down discussed.

Threshold level

The research findings discovered from the respondents that; the registration threshold is high and this limits and creates excuses for small and even medium-sized business not to register for VAT. Most of small businesses and a lower percentage of the medium sized enterprises due to ignorance or been less informed on the benefits of being registered for VAT do not wish to enter into VAT registration. Therefore, considerations and review need to be made to address the problem.

VAT Exemption

From the view points of the respondents we have seen 80% of the respondents strongly disagreed on perpetuation of VAT exemptions. As seen in Table 4.36, VAT Exemptions vs. VAT Gross Collections, an average of 27% of the total collections is being forgone every year from the VAT exemption as per data from 2003 to 2012. Findings have proved that VAT exemptions affect VAT revenue performance negatively.

VAT refunds

The decision for refunds especially to foreign investors comes as a surprise in a country which is ranked among the poorest nations in the world! And which sometimes fails to meet Government-set targets for public revenue collections. Therefore, the refund issues on the VAT should be reviewed if the government is to improve on the revenue performance of VAT.

6.5 Improvements in the revenue performance of VAT.

The research findings have revealed 90% respondents believing that when improvements are done in the TRA administration, both government and TRA policies and the VAT law and Regulations there will be significant improvement on the revenue performance of VAT.

6.6 General Recommendations

Improvement in the overall TRA administration will certainly result in efficient revenue performance of VAT. However, the review of some provisions in the VAT law and Regulations including the government policies will definitely result in effective, efficient and economical revenue performance of VAT in Tanzania.

Adequacy of manpower

To deal with the manpower issue, TRA should consider the following;

- It should employ adequate manpower to be able to meet the challenges related to the number and quality of employees.
- Continuous trainings and workshops should be perpetuated to enhance the staffs with the new ways of handling challenges. And lastly

- The recruitment done by the TRA, should consider the differences in age by the candidates, this is because for a number of years now TRA has been employing graduates and setting the period with which they should have completed their studies. Now, candidates of the same year of competition are likely to be of the same age something that will pose a great challenge to the institution as they all reach together the retirement age. TRA should consider employing candidates of different age to avoid the foreseen problem.

Taxpayer Identification

To address the problem related with taxpayers' identification, the following might be considered;

- There should be a cross follow-up to both small and medium sized businesses to ensure that they are registered under VAT if they qualify for registration.
- There should be a clear record of all businesses as to their nature, and performances. Close monitoring of their operations and location will facilitate their easily identification for tax purposes. Proper record keeping is necessary especially as regards residence of mobile taxpayers.
- Where TRA cannot reach all the businesses then, there should be further decentralization of the taxpayer identification process of tax administration to the Local Council level because these can easily and effectively identify taxpayers in their areas of jurisdiction especially in remote areas where businesses have started booming up.

Taxpayer Audit

The taxpayer audit should consider the following;

Proper assessment should be emphasized before the VAT returns start being filed to TRA. This will help in ascertaining the collections from the specific businesses. That is, an analysis of a business should be done in its entire business circle when times are good and when they are bad.

The assessment should be done frequently as opposed in the findings as mostly it is done once in a year. This will help in reducing the chances for tax evasion and so lead to better revenue performance of VAT.

Taxpayer Sensitization

To create more awareness and knowledge among the taxpayers and those who are still not registered, the following should be considered;

A multi-media approach to sensitization should be adopted to get taxpayers informed. Administrators should mainly communicate through meetings, seminars, radio programs, televisions, taxpayer visits and posters should as well be used to reach all eligible taxpayers and get them to appreciate the importance of VAT and been registered under the VAT law.

Registration Threshold

The registration threshold should be lower to allow even small businesses to be registered for VAT. This is because; most of the trade in products and services which are VAT taxable. This will lead to more collections and boost the revenue performance of VAT.

VAT Exemptions

Consideration and review should be made on the VAT law due to the fact that;

- Exemptions are contrary to the neutrality feature of VAT. Neutrality should be maintained. It also makes the “broad tax base feature” suffer and so it should be reviewed.
- Significant amounts are being foregone due to exemptions. For a poor country like Tanzania whose budget has been supported mostly by loans and grants makes no sense at all of perpetuating such exemptions. A review should be made on the exemptions.

VAT Refunds

Tax benefits especially to foreigners should be eliminated and a different way of promoting investments should be thought in place. This is because, the refunds are so large and sometimes like in the extractive industry they end up not been recovered. The benefits over tax incentives especially to foreigners need to be reviewed if the government is to achieve better revenue performance of VAT.

6.7 General reasons for a good revenue performance of VAT

- Close monitoring of monthly collections (normal flows) in which the expected collections are confirmed by 15th of every month
- Recovery of tax arrears
- Effective audits
- Close follow up of non-filers
- Tight controls over special reliefs and VAT refunds
- Training conducted to staff
- Assurance management programmes
- Implementation of the Departmental Action Plans

6.8 Areas for further Research

This research covered only Dar-es-salaam region and so there is still a need to explore more in other regions as well, despite the fact that Dar-es-salaam generates more income as compared to other regions due to its richness in industries and business centers.

Research need to be carried out in assessing further on the factors affecting the revenue performance of VAT in Tanzania.

There is also a need to study further the administrative bottlenecks in TRA

Another research could be an assessment of the weaknesses in the tax laws in Tanzania.

7.0

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APPENDIX

QUESTIONNAIRES

To be answered by TRA officials, VAT experts and Taxpayers

I'm a student at Mzumbe University, pursuing a Masters Degree of Science in Accounting and Finance. I'm doing a research on the Factors Affecting the Revenue Performance of VAT. This research is conducted in fulfillment of the award of Masters Degree of Science in Accounting and Finance. I'm kindly asking you to fill in the space provided. Be assured that the information you provide will be strictly used for academic purposes and not otherwise. Therefore do not hesitate to provide me with the information as per your knowledge, skills and experience. I give my thanks in advance believing that you will assist me to accomplish this study.

Questionnaires:

Name:

Education level: Please indicate by ticking appropriately

Tertiary	University	Secondary	Primary

1. Are there any administrative bottlenecks in TRA?

Please indicate the level of agreement or disagreement on the following statements simply by ticking appropriately in either of the following below:

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

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If you strongly agree or simply agree in the above. Please state what you believe to be the administrative bottlenecks in TRA.

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2. Please indicate the level of agreement in the following statements by simply ticking appropriately.

(a). Does TRA have adequate manpower?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(b). Are TRA staffs technically competent in executing their duties and responsibilities?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(c). Are the methods used by TRA to identify taxpayers adequate?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(d). Is there close follow-up and supervision by TRA over the identified taxpayers?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(e). How frequently are the taxpayers audited (visited)?

Please indicate the number of frequency in the frequency column, tick in the frequency column.

Assessment frequency	Frequency
More than once in a year	
Every year (once in a year)	
Every two years (once in two years)	
Every three years(once in three years)	
Not sure	
Other	

(f). What media are used to sensitize taxpayers?

Media	Frequency
Radio & TVs	
Seminars & Meetings	
Door to Door	
Not sure	

(g). Please state, whether voluntary tax compliance is working effectively and how it affects the revenue collection performance.

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(h). Do taxpayers have adequate knowledge on the consequences of not voluntarily registering for VAT?

Please tick appropriately on the level of agreement.

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(i). Are there acts of corruption and embezzlements in the tax revenue collection process?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(j). Are there strong control measures of fighting corruptions and embezzlements in TRA administration system?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(k). Are there any weaknesses in the VAT law and Regulations?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(l). Is the registration threshold for VAT high?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(m). Should VAT Exemptions be perpetuated?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(n). Should foreign investors be refunded on the purchases VAT?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(o). Please explain on what should be done to improve the revenue performance of VAT in Tanzania?

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(p). Will the improvements in TRA administration, government policies and VAT law and Regulations result in an adequate revenue performance of VAT?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral

(q). What views do you have on tax incentives as one of the factors affecting the revenue performance of VAT.

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(r). What view do you have on revenue collections from the mining sector?

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(s) Has the percentage change of VAT performance being increasing from year to year?

Strongly Disagree	Disagree	Strongly Agree	Agree	Neutral