

**DETERMINANTS OF TAX COMPLIANCE AMONG SMALL AND  
MEDIUM ENTERPRISES IN LINDI REGION TANZANIA**

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**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE  
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**2025**

### **CERTIFICATION**

The under certified that he has reviewed and recommends for acceptance by the Open University of Tanzania the dissertation titled: **“Determinants of Tax Compliance among Small and Medium Enterprises in Lindi Region Tanzania”**, in partial fulfilment of the requirements for the Degree of Master of Business Administration (MBA) of the Open University of Tanzania.

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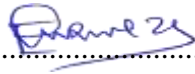
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I, **Ephelo Lucas Mwaweza**, hereby declare that this dissertation is my original work and has not been submitted to any other university or institution. All sources and references used in this work are properly acknowledged. It is hereby presented in partial fulfilment of the requirements for the Degree of Master of Business Administration of the Open University of Tanzania.



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Signature

.....

Date

**DEDICATION**

This work is wholeheartedly dedicated to my beloved family, whose unwavering support and encouragement have been a constant source of strength throughout this journey.

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I am sincerely thankful to the Almighty God for blessing me with the strength, good health, and mental clarity that enabled me to carry out and complete this research successfully. My heartfelt appreciation goes to my late father, Mr. Lucas Damson Mwaweza (May he rest in eternal peace), and my mother, Mrs. Zaward Philimon Ndidi, whose encouragement and the strong educational foundation they laid have been pivotal to my academic journey.

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## ABSTRACT

Recognizing that tax compliance is crucial for government revenue generation, yet challenging for SMEs, the study examined the influence of patriotism, tax rates, and tax penalties on compliance behavior. This study investigated the determinants of tax compliance among small and medium-sized enterprises (SMEs) in the Lindi Region, Tanzania, guided by tax compliance theory. A quantitative research approach was employed, with data collected via questionnaires administered to 134 SME owners and managers, achieving a 74% response rate from an initial sample of 181 participants. Regression analysis revealed that patriotism significantly promotes compliance, whereas high tax rates discourage it. Furthermore, effective enforcement of tax penalties was found to enhance compliance. These findings align with tax compliance theory, which highlights both ethical motivations and deterrent measures as key drivers of taxpayer behavior. The study underscores the importance of fostering patriotic values, setting fair tax rates, and enforcing penalties effectively to encourage tax compliance among SMEs in the Lindi Region, offering practical recommendations for tax authorities and policymakers. The study also acknowledges limitations such as reliance on self-reported data, with a geographically limited sample, and the exclusion of variables like financial literacy. Future research is encouraged to broaden geographic coverage, incorporate additional factors, and apply longitudinal or qualitative approaches to deepen understanding of SME tax compliance behavior.

**Keywords:** *Tax compliance, Small and Medium Enterprises, Tax Rates, Tax Penalties.*

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**LIST OF ABBREVIATIONS**

ANOVA	Analysis of Variance
CAG	Controller and Auditor General
EU	European Union
OECD	Organization for Economic Co-operation and Development
OLS	Ordinary Least Squares
SBA	Small Business Administration
SMEs	Small and Medium-Enterprises
SOHO	Small office/home office
SPSS	Statistical Package for Social Science
TAC	Tax Compliance
TANCIS	Tanzania Customs Integrated System
TP	Tax Penalty
TR	Tax Rate
TRA	Tanzania Revenue Authority
TZS	Tanzania Shillings
US	United States
VIF	Variance Inflation Factor



## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Overview**

This study focused on the determinants of tax compliance among Small and Medium Enterprises (SMEs) in the Lindi Region. This chapter presents the foundation of the study by describing its background, identifying the research problem, and outlining the objectives along with the key research questions. It also discusses the importance and coverage of the study and offers a concise summary of how the following chapters are organized.

#### **1.2 Background to the Problem**

Tax compliance is the degree to which individuals or businesses follow tax laws and regulations by submitting tax returns on time, accurately reporting income, and fulfilling their tax payment obligations (Keen & Slemrod, 2019). Tax compliance is generally classified into two categories: voluntary compliance, where taxpayers fulfill their tax obligations without oversight, and enforced compliance, where revenue administrations intervene to ensure compliance (Munga et al., 2021). As the primary source of government funding, taxes represent mandatory, unreimbursed contributions to the state. The term "unrequited" signifies that the benefits taxpayers receive are not directly tied to the amount of tax paid, while "mandatory" indicates an obligation to pay taxes (Onoja, 2021).

Tax compliance theory suggests that individuals and businesses are more likely to comply with tax obligations when they perceive the system as fair, equitable, and

aligned with their civic duties. Although taxation serves as a vital source of government revenue across all economies-whether developed, emerging, or developing many countries continue to face persistent challenges in achieving full compliance. This issue is particularly common among small and medium-sized enterprises (SMEs), despite their crucial role in fostering economic growth. The inherently unpopular nature of taxes contributes to the long-standing difficulties in encouraging consistent compliance (Ofori-Abebrese et al., 2021).

Economic challenges resulting from tax noncompliance are significant, especially in developing nations. In Tanzania, noncompliance has contributed to increased national debt, reaching TZS 82.25 trillion as of June 2023, a 15% rise from the previous year (CAG, 2023). This increase reflects the broader financial implications of noncompliance, such as revenue loss and economic instability, which hinder the government's ability to fund public services (Falsetta et al., 2024).

Tax authorities consistently strive to promote tax compliance, indicating that the challenges related to tax adherence are often comparable across different regions (Adhikara et al., 2022). Studies and policymakers acknowledge that small and medium enterprises (SMEs) often face difficulties in meeting their tax responsibilities, with factors such as their operation within the informal economy playing a significant role (Hollenbach et al., 2022).

As a result, a key issue emerges: what drives SMEs to willingly fulfill their tax obligations? Studies conducted within the European Union have emphasized the

complex link between taxation and the growth of small and medium-sized enterprises (SMEs). Findings suggest that elevated tax levels can negatively impact SME performance, with broader national economic conditions also playing a significant role (Roman et al., 2023). In Greece, for instance, Adegbe et al. (2020) identified tax burden and corruption as significant causes of noncompliance. In Indonesia, research has found an inverse relationship between income tax rates and tax compliance, while greater tax knowledge has been shown to improve compliance (Sumartaya & Hafidiah, 2019).

In Africa, studies of tax compliance among SMEs in Nigeria found that high tax rates and complex filing procedures are major factors leading to noncompliance (Adegbe et al., 2020). In Uganda, Kintu, Buyinza, and Kiwala (2019) noted a positive impact of tax rates on SME performance but did not find a direct effect of tax administration. In Zambia, compliance challenges include high tax rates, complex procedures, and limited tax education, which collectively reduce compliance (Thabani et al., 2020; Chisumpa, et al., 2020).

In Tanzania, tax compliance is hindered by an imbalance in the tax system, which affects private investment and the broader environment for trade and commercial growth (Chindengwike, 2023). Shayo and Moshi (2021) emphasized the role of tax laws, reporting requirements, and tax rates, supported by Ongeto (2021), who argued that economic and demographic factors significantly affect tax compliance. This study addressed gaps in research by assessing factors influencing tax compliance among SMEs in the Lindi Region, Tanzania.

### **1.3 Statement of the Problem**

Taxes constitute a significant source of revenue for the Tanzanian government. However, persistent tax noncompliance has major economic repercussions, contributing to substantial revenue loss and an increase in national debt, which reached TZS 82.25 trillion as of June 30, 2023 -a 15% rise from TZS 71.31 trillion in 2021/22 (CAG, 2023). Several factors have been identified as determinants of noncompliance, including limited tax knowledge, low tax morale, perceived unfairness, and inefficiencies in the tax system, excessive bylaws, insufficient personnel, and faulty collection mechanisms.

In response, the government has introduced initiatives such as the Tanzania Customs Integrated System (TANCIS), single window systems, and taxpayer education programs, particularly targeting SME owners, to encourage compliance. Nevertheless, despite these efforts, tax noncompliance rates remain high. While previous studies, such as those by Masanja (2019) and Masunga et al. (2020), have examined tax compliance in Tanzania, they have largely overlooked regional disparities. The Lindi Region, characterized by limited infrastructure development, restricted access to financial services, and a high prevalence of informal businesses.

Mkumbwa and Ally (2022), presents unique challenges that have not been adequately studied. Therefore, this study seeks to bridge this gap by examining the determinants of tax compliance among SMEs in the Lindi Region, offering localized insights that can inform targeted regional tax policies and enhance compliance strategies.

## **1.4 Research Objectives**

### **1.4.1 General Objective**

The general objective of this study was to examine the determinants of tax compliance among SMEs in Tanzania, focusing on the Lindi Region.

### **1.4.2 Specific Objectives**

**The study was guided by the following Specific Objectives**

- i. To examine the influence of patriotism on tax compliance in the Lindi Region;
- ii. To determine the influence of tax rates on tax compliance in the Lindi Region;
- and
- iii. To investigate the influence of tax penalties on tax compliance in the Lindi Region.

## **1.5 Significance of the Research**

This research aims to advance academic knowledge on tax compliance, particularly within developing economies like the Lindi Region. By integrating key principles from tax compliance theory, this study offers a solid foundation for future academic exploration. On a practical level, the findings offer actionable insights for policymakers and tax authorities, guiding the formulation of targeted strategies such as fairer tax policies, effective enforcement mechanisms, civic engagement initiatives, and educational programs aimed at improving compliance. For SMEs, the study highlights key challenges and opportunities related to tax compliance, enabling them to better align their operations with regulatory expectations and enhance their sustainability. Beyond its immediate context, the research can inform the design of

tax education and capacity-building programs in other regions facing similar challenges, thereby contributing to broader efforts in strengthening tax systems, promoting voluntary compliance, and supporting sustainable national development.

### **1.6 Scope of the Study**

This research was carried out among Small and Medium Enterprises (SMEs) located in the Lindi Region of Tanzania, with a particular focus on businesses operating in Lindi Municipal, Ruangwa, and Nachingwea Districts. Spanning a duration of ten months from January to October 2024. The study aimed to explore the influence of patriotism on tax compliance, analyze how tax rates and penalties impact compliance levels, and examine the general behavior of taxpayers. The study was grounded in the Tax Compliance Theory, which served as a framework for understanding the various factors that affect the willingness of individuals and enterprises to comply with tax obligations.

### **1.7 Organization of the Report**

This study is organized into five chapters. Chapter one provides an overview of the research, including the background, the problem being addressed, the objectives, and the research questions. It also outlines the significance, scope, and organization of the study. Chapter Two explores the key concepts, theoretical underpinnings, and relevant literature, identifying gaps in existing research and presenting the conceptual framework. Chapter Three outlines the research methodology, detailing the philosophical foundation, approach, and design, as well as the study location, target population, sampling methods, data sources, collection techniques, analysis

procedures, and considerations of reliability, validity, and ethics. Chapter Four presents and interprets the research findings. Finally, Chapter Five summarizes the study, drawing conclusions and offering recommendations.

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## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Overview**

This chapter presents an in-depth review of relevant literature, covering essential definitions, theoretical foundations, and prior empirical research concerning tax compliance among Small and Medium Enterprises (SMEs). It concludes by outlining the conceptual framework that guides the study and highlighting the existing research gap that this study aims to address.

#### **2.2 Definitions of Key Terms**

##### **2.2.1 Small and Medium Enterprises**

Small and Medium Enterprises (SMEs) are businesses characterized by having revenues, assets, or a workforce size that falls below a specific limit, which differs depending on the country and sector (Amoah et al., 2018; El Madani, 2018). These enterprises are essential contributors to economic development, particularly through job creation and fostering innovation (Distanont, 2020).

In the United States, the Small Business Administration (SBA) categorizes SMEs based on factors such as ownership structure, employee count, earnings, and industry. For example, an SME in manufacturing is defined as having 500 or fewer employees, while in mining, it may have up to 1,400 employees. Businesses with fewer than 10 employees are classified as small offices/home office (SOHO) (Orzechowski, 2020). Within the European Union (EU), SMEs are classified as businesses with fewer than 50 employees for small enterprises or fewer than 250



employees for medium enterprises, while micro-enterprises employ up to 10 individuals. SMEs account for 99% of all businesses in the EU (Say, 2018). In Tanzania, the 2003 United Republic of Tanzania definition emphasizes SMEs as essential to the non-farm economic sector, with significant contributions to sectors such as manufacturing, mining, commerce, and services. The classifications are as follows:

**Micro Enterprises:** Typically informal, involving up to four people, often family-based, with capital investment not exceeding Tshs. 5.0 million.

**Small Enterprises:** More formalized, employing between 5 and 49 people or having capital investment from Tshs. 5 million to Tshs. 200 million, contributing to employment and economic growth.

**Medium Enterprises:** Employing 50 to 99 people or with capital investment ranging from Tshs. 200 million to Tshs. 800 million, they serve as a bridge between small businesses and large corporations.

**Table 2.1: Small and Medium Enterprises in Tanzania**

<b>Enterprise Size</b>	<b>Employees</b>	<b>Capital Investment Range (Tshs.)</b>
Micro	Up to 4	Up to 5.0 million
Small	5–49	5 million – 200 million
Medium	50–99	200 million – 800 million

**Source:** Small and Medium Enterprise Development Policy (2003)

For this study, the definition of SMEs will be based on the Tanzanian classification,

as it provides a clear and relevant framework for understanding the role and impact of these enterprises within the local context.

### **2.2.2 Tax Compliance**

Tax compliance plays a vital role in the revenue frameworks of both developed and developing countries, serving as a key contributor to overall domestic revenue generation (Alhassan et al., 2020). It involves the obligation of all individuals and corporations to adhere to tax laws. While voluntary compliance is expected, some individuals and businesses choose not to comply, posing challenges for tax authorities (Muñoz et al., 2019). Non-compliance complicates revenue collection and enforcement efforts (Nkundabanyanga et al., 2019). To enhance tax compliance, it is essential to involve taxpayers in governmental decisions and expenditures and to escalate penalties and tax audits (Alm et al., 2019). Despite various interventions, achieving full tax compliance continues to be a significant challenge, especially for developing countries aiming to enhance domestic revenue to finance their national budgets (Osei-Tutu et al., 2020; Baurer et al., 2018).

According to Devos (2018), the concept of tax compliance lacks a single, universally agreed-upon definition within academic discourse. However, Andreoni et al. (2021) define tax compliance as the willingness of taxpayers to abide by tax regulations to maintain economic stability. This includes accurately reporting all income and paying all taxes following legal requirements. Tax compliance studies often examine compliance, avoidance, evasion, and fraud data. For this study, tax compliance will be defined as adherence to tax laws through accurate income reporting and timely tax

payments, as this definition encompasses both the legal and voluntary aspects of compliance.

### **2.2.3 Patriotism**

Patriotism has been defined in multiple ways concerning tax compliance. According to McGee et al. (2019) patriotism is a strong sense of national pride and loyalty, which influences individuals to fulfill their civic responsibilities, including tax compliance. Torgler et al. (2020) describe patriotism as a psychological attachment to one's country that fosters voluntary participation in national obligations, while Alm et al. (2018) define it as an emotional and moral commitment toward a nation that leads to higher compliance with societal laws, including taxation. Among these definitions, Torgler's (2020) perspective is the most relevant for this study because it explicitly links patriotism to tax morale and compliance. Since this research focuses on how patriotism affects tax behavior, Torgler's definition provides a clear and direct connection between national pride and tax compliance.

### **2.2.4 Tax Rate**

The tax rate plays a significant role in shaping tax compliance behavior. According to Betu et al. (2023), it refers to the proportion of income or profits those individuals or businesses are required to pay as tax. Alm (2023) describe it as the statutory levy imposed on taxable income, which affects taxpayer behavior in terms of compliance or evasion. Similarly, Gangl et al. (2020) define the tax rate as the proportion of earnings or transactions taken by the government as taxation, influencing compliance levels. The definition by Betu et al. (2023), is selected for this study because it

provides a straightforward economic explanation while being broad enough to apply to both individuals and businesses. Such clarity is essential for evaluating how tax rates influence compliance behavior among SMEs operating in the Lindi Region.

### **2.2.5 Tax Penalty**

Tax penalties serve as a crucial mechanism in discouraging non-compliance with tax laws. According to Alm et al. (2019), these penalties refer to the financial or legal repercussions faced by individuals or entities that do not adhere to established tax obligations. Leila (2023) expands on this by describing tax penalties as enforcement mechanisms designed to deter non-compliance by increasing the cost of tax evasion. Tahir et al. (2022) further elaborate that tax penalties are government-imposed financial or legal sanctions aimed at improving compliance and discouraging tax evasion. The definition provided by Alm et al. (2019) is chosen for this study because it offers a foundational economic perspective on tax penalties, aligning with deterrence models widely used in tax compliance studies. This definition highlights the importance of penalties as instruments of legal enforcement, making it relevant for analyzing how such measures influence tax compliance among SMEs.

## **2.3 Theoretical Literature Review**

### **2.3.1 Tax Compliance Theory**

This study explores tax compliance theory by concentrating on three main factors: patriotism, tax rate, and tax penalty. The foundational framework is based on the economic deterrence model developed by Alm (2023) which suggests that taxpayers make decisions by weighing the benefits of tax evasion against the likelihood of

being caught and the consequences of penalties. Bello (2019) supports this model by highlighting how tax rates and penalties can significantly affect compliance, while also acknowledging the role of non-economic influences. Similarly, Shallo (2018) cautions that relying solely on strict enforcement may not effectively promote full compliance.

According to Alamirew (2024), voluntary tax compliance is positively influenced by both trust in government and taxpayers' knowledge of tax matters, though high compliance costs continue to pose a significant barrier. Danjuma (2022) emphasized the complexity of tax compliance behavior, noting the difficulty in integrating both economic and non-economic factors. Similarly, Al-Asfour and McGee (2024) recognized the influence of social norms and individual beliefs on compliance, while also pointing out the shortcomings of relying solely on socio-psychological theories.

According to Devos (2018), taxpayers tend to assess the potential advantages of complying with tax regulations against the possible risks and penalties of evasion through a cost-benefit perspective aimed at optimizing their financial outcome. Abdul-Jabbar and Bin-Nashwan (2022) highlight the importance of deterrence factors, noting that the fear of legal repercussions plays a significant role in discouraging tax evasion.

Similarly, Ariyanto et al. (2020) underscore the influence of moral standards and perceptions of fairness, suggesting that ethical beliefs and views on equity shape an individual's willingness to comply. Adding to this, Mebratu (2024) finds that

enhanced knowledge of and confidence in the tax system is positively associated with improved compliance behavior. Lastly, Gangl et al. (2020) highlight that simplifying the tax system and providing accessible information services can significantly enhance compliance.

Tax compliance theory weakness is initially grounded in economic models like Allingham and Sandmo's utility theory, and has been critiqued for not fully accounting for human behavior in tax decisions (Alshira'h et al., 2020). The theory's focus on rational utility maximization overlooks factors such as morality and fairness perceptions, leading to a disjointed academic understanding of why people comply or not with taxes (Thuku 2020; Gangl et al., 2020). Alm (2023) suggests that interdisciplinary approaches are needed to bridge these research gaps. Despite its comprehensive nature, tax compliance theory does have gaps, particularly in addressing the nuances of taxpayer behavior in different cultural and economic contexts (Guerra & Harrington 2018).

This study aims to fill existing knowledge gaps by examining the specific circumstances of small and medium enterprises (SMEs) in Tanzania a developing country that encounters unique challenges and opportunities in tax administration. By exploring the roles of patriotism, tax rates, and tax penalties, the research offers a well-rounded perspective on tax compliance behavior, incorporating both economic deterrent mechanisms and socio-psychological influences. This approach aligns with the broader tax compliance literature, which suggests that a combination of economic, social, and psychological variables is necessary to fully explain taxpayer behavior.

## **2.4 Empirical Literature Review**

### **2.4.1 Study Hypothesis**

This study formulates its hypotheses through an extensive review of previous research, integrating both economic and behavioral frameworks related to tax compliance. The economic theory developed by Alm (2023) emphasizes deterrence factors, particularly the role of audit probability and penalty severity, in shaping compliance decisions. On the other hand, behavioral theories highlight non-economic determinants such as patriotic sentiment, perceived fairness of the tax system, and trust in governmental institutions as critical drivers of taxpayer behavior. Based on these perspectives, the following hypotheses are proposed:

- **H1:** Patriotism positively influences tax compliance among SMEs in the Lindi Region.
- **H2:** Higher tax rates negatively influence tax compliance among SMEs in the Lindi Region.
- **H3:** Tax penalties positively influence tax compliance among SMEs in the Lindi Region.

### **2.4.2 The Influence of Patriotism on Tax Compliance**

Patriotism understood as a deep sense of national loyalty and civic pride, is increasingly recognized as a non-coercive motivator for tax compliance. The concept is anchored in the belief that patriotic individuals are more likely to internalize civic duties, including tax obligations, as moral responsibilities (Alshira'h et al., 2020). This sense of moral duty plays a vital role in shaping voluntary compliance,

especially in countries where tax administration faces resource limitations. Torgler et al. (2020) contend that patriotic individuals view tax compliance not merely as a legal duty but as an opportunity to contribute to national development. These sentiments often translate into higher compliance rates, particularly when citizens perceive the government as legitimate and its use of tax revenue as fair and efficient. Similarly, Alm et al. (2018) note that taxpayers with a high degree of national attachment are less likely to evade taxes even in the absence of stringent enforcement.

Despite the growing theoretical support, empirical studies from developing countries on patriotism and tax compliance remain limited. In Sub-Saharan Africa, the subject is relatively understudied, with research often focusing on administrative and economic variables. However, recent findings are beginning to illuminate the role of national pride in shaping tax behavior. For instance, Ndlovu and Dlamini (2023) surveyed 310 SMEs in Eswatini and found a statistically significant relationship between patriotic attitudes and tax compliance. Business owners who reported strong emotional ties to the country and active participation in community initiatives were more likely to file returns and pay taxes on time.

In Tanzania, Hassan and Lugeye (2024) conducted an exploratory study involving SME owners in Mtwara and Lindi. Their results demonstrated that individuals who associated taxation with national identity and state-building were more compliant than those who viewed it as a burdensome obligation. They concluded that fostering a sense of ownership in national projects could reinforce tax morale and promote



voluntary compliance. Overall, patriotism appears to be an important, though underutilized, variable in understanding tax compliance behavior among SMEs in Tanzania and similar contexts.

### **Hypothesis**

*H1: Patriotism has a positive influence on tax compliance among SMEs.*

### **2.4.3 The Influence of Tax Rates on Tax Compliance**

The level of taxation significantly impacts the decision-making process of taxpayers, particularly among SMEs that operate on tight profit margins. According to classical economic theory, as articulated by Hashimzade et al. (2019), higher tax rates increase the expected benefits of evasion, thus reducing the likelihood of voluntary compliance unless accompanied by robust enforcement. Roman et al. (2023), in a longitudinal analysis of 27 European Union countries, found that high tax rates not only suppressed SME growth but also led to increased reliance on informal channels to avoid compliance. Their findings suggest that there is a threshold beyond which tax burdens become counterproductive, discouraging business registration and formal operations.

In Ghana, Tee et al. (2018) found that many SMEs perceive high tax rates as unfair and regressive, especially in environments where public services are lacking. Similarly, in Uganda, Mbaziira and Tumwine (2024) showed that tax rates were a leading cause of dissatisfaction among SMEs, prompting underreporting of income or partial filing. They noted that excessive tax demands created a sense of exploitation, further eroding trust in tax authorities.

In the Tanzanian context, Mungaya et al. (2019) highlighted that SMEs in Shinyanga Region were highly sensitive to tax policy changes. Respondents expressed that high tax rates significantly constrained their operations, leading many to opt out of formal registration. This aligns with the findings by Shayo and Moshi (2021), who concluded that disproportionate tax burdens relative to business income discouraged compliance, especially in rural and semi-urban regions. Moreover, Elly (2020) emphasized the need for more transparent and flexible tax policies that accommodate the limited capacity of SMEs. He suggested that tax bands tailored to SME income levels could foster compliance by aligning tax obligations with financial realities.

### **Hypothesis**

*H2: The tax rate has a negative influence on tax compliance among SMEs.*

#### **2.4.4 The Influence of Tax Penalties on Tax Compliance**

Tax penalties aim to discourage tax evasion by raising the cost associated with non-compliance. Based on deterrence theory, the principle is that rational individuals are more likely to comply with tax obligations when the risks and consequences of evading taxes surpass any potential gains Gangl et al. (2020). These penalties may take various forms such as monetary fines, interest accruals, or even suspension of business licenses and are intended to reinforce adherence to tax regulations.

McGee et al. (2018) suggests that tax penalties are more effective when they are applied consistently, are transparent, and are viewed as fair by taxpayers. If penalties are seen as arbitrary or excessively harsh, they may instead foster resentment and resistance, undermining compliance efforts. Rahman et al. (2022) investigated SMEs

in Bangladesh and discovered that penalties positively influenced compliance only when administered fairly and predictably. In cases where businesses perceived penalties as unjust or selectively enforced, compliance rates declined. This insight is crucial for developing countries like Tanzania, where uneven enforcement is a recurring concern.

In Kenya, Mbuguah et al. (2018) reported that clear and timely enforcement of penalties led to improved compliance among SMEs in Kiambu County. Likewise, Aondo (2018) observed that businesses with prior exposure to penalties were more diligent in tax filing and documentation.

In the Tanzanian setting, Chindengwike (2023) examined the role of TRA services and enforcement mechanisms in Singida. The study revealed that while tax penalties were effective in theory, inconsistent application limited their impact. Respondents cited delays in penalty notifications, discretionary fee assessments, and lack of appeals processes as major concerns. Furthermore, a study by Masanja (2019) noted that SMEs responded positively to moderate penalties combined with education and advisory visits from tax officials. This hybrid approach, blending deterrence and support, led to a more cooperative compliance culture.

### **Hypothesis**

*H3: Tax penalties have a positive influence on tax compliance among SMEs.*

This empirical literature review provides a structured approach to understanding the relationship between patriotism, tax rates, and penalties in SME tax compliance, leading to the formulation of these key hypotheses.

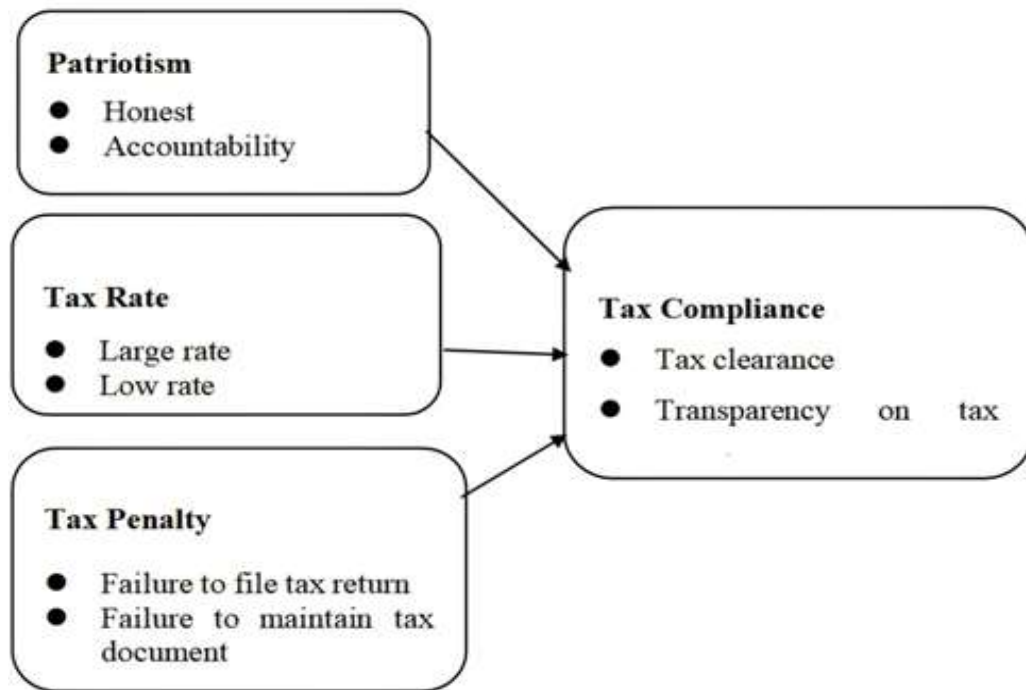
## **2.5 Research Gap**

Previous research by Nkundanyanga (2019), Alhassan et al. (2020), Leila (2023), and Osei-Tutu et al. (2020) primarily focused on the demographic traits of SME owners and their impact on tax compliance. These studies explored factors such as age, education level, and business experience. However, this study diverges by concentrating on determinant factors like patriotism, tax rate, and tax penalty, which have not been extensively covered in prior research. Additionally, while previous studies applied various theoretical frameworks, this study uniquely employs tax compliance theories to provide a more focused analysis.

Contextually, most existing research has been conducted outside Tanzania, whereas this study was situated within Tanzania, offering insights specific to the local context. Methodologically, unlike the mixed methods used in other studies, this research adopted a quantitative approach to provide a more precise measurement of the variables in question. This focus on patriotism, tax rate, and tax penalty as determinants for tax compliance among SMEs in Tanzania fills a significant gap in the existing literature.

## **2.6 Conceptual Framework**

According to Creswell et al. (2018), the conceptual framework involves a cluster of ideas, notions, and principles obtained from the research problem investigated and utilized in structuring graphical relationships. The conceptual framework presented below illustrates tax compliance as the dependent variable, influenced by independent variables that serve as its key determinants.

**Independent Variables****Dependent Variable**

**Figure 2.1: Conceptual Framework**

**Source:** Researcher's Own Construct (2024)

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Overview**

This chapter outlines the research philosophy, design, and methodology employed in the study. It includes a description of the study area, the population targeted, sampling strategies, and procedures for determining sample size, methods used for data collection, techniques applied for data analysis, and the ethical considerations observed throughout the research.

#### **3.2 Research Philosophy**

Saunders et al. (2019) describe research philosophy as a collection of underlying beliefs and assumptions that guide how researchers perceive and understand the world around them. According to Saunders et al., the positivism philosophy is often adopted in research that uses a hypothesis-driven approach. This study is grounded in the positivist research philosophy, which supports the use of quantitative methods to test predefined hypotheses. Positivism emphasizes the discovery of objective and measurable realities through structured data collection and statistical evaluation.

#### **3.3 Research Approach**

This study utilizes a deductive research approach in alignment with quantitative methods. As Bell et al. (2019) explains, a deductive approach is suitable when testing hypotheses derived from theoretical frameworks and prior empirical studies. This study uses this method to critically assess existing theories related to factors affecting tax compliance among SMEs in the Lindi Region. The structured nature of this

approach allows for thorough examination and testing of the proposed hypotheses using empirical data.

### **3.4 Research Design**

A well-organized research design outlines a structured plan for gathering and analyzing data to effectively meet the study's objectives (Bell et al., 2019). In examining the factors that influence tax compliance among SMEs in the Lindi Region, this study adopts an explanatory research design to identify and understand cause-and-effect relationships. A cross-sectional method was applied, involving the collection of data at a single point in time, offering a snapshot that supports the evaluation of the proposed relationships. This approach is appropriate for testing how variables such as patriotism, tax rates, and penalties impact SME tax compliance.

### **3.5 Area of the Study**

The study focused on SMEs in Lindi Municipality, Nachingwea, and Ruangwa within the Lindi Region. This area was chosen for its distinctive socioeconomic characteristics and the significant presence of SMEs, which are crucial to the region's economy. Lindi is one of Tanzania's less industrialized regions, making it an ideal setting for examining the impacts of tax policies on SMEs, which play a pivotal role in such developing economies.

The districts included diverse economic contexts: Lindi Municipality serves as the administrative and economic hub, Nachingwea is known for its agricultural activities, and Ruangwa has a burgeoning industrial sector. By selecting these three

districts, the study ensured a comprehensive analysis across varied economic environments, capturing the diversity of SME operations and taxpayer behaviors. This geographical scope enhances the study's capacity to generalize findings across different types of economic activities and infrastructure setups.

### **3.6 Study Population**

The study encompassed 340 SME owners and their employees across three selected districts in the Lindi Region: Lindi Municipality, Nachingwea, and Ruangwa districts. The distribution of the population in each district was as follows: Lindi Municipality (120), Ruangwa (110), and Nachingwea (110), making up a combined total of 340 participants. The information was obtained from the 2024 Taxpayer Database maintained by the President's Office of Regional Administration and Local Government (PO-RALG) for the Lindi Region.

### **3.7 Sample and Sampling Technique**

#### **3.7.1 Sampling Technique**

Sampling played a vital role in this study due to limitations in financial and time resources (Bell et al., 2019). To provide equal chances for each respondent to be included and to ensure representation of the various subgroups within the population, the study utilized a combination of simple random sampling and stratified sampling techniques.

#### **3.7.2 Sample Size**

As per Nyaonge (2018), an appropriate sample size ensures study efficiency, reliability, and flexibility without being excessively large or insufficient. The sample



size for this study was established based on the Etikan et al. (2018) sample size determination table, as presented in Appendix V. A total of 181 respondents comprising employees and owners from SMEs in Lindi Municipal (65), Nachingwea (58), and Ruangwa (58) participated, representing approximately 53% of the initial 340 SMEs population. This sample size sufficiently supports robust quantitative analysis for the study.

### **3.8 Data Collection Methods**

To achieve the research objectives, the researcher employed a primary data collection method. This approach was essential for addressing the research hypotheses and leveraging the benefits associated with firsthand data. According to Bell et al. (2019), primary data refers to information gathered directly for the first time. In this study, the data was collected using a structured questionnaire, chosen for its simplicity, cost-effectiveness, and ability to provide accurate and timely information.

### **3.9 Data Collection Tools**

Structured, closed-ended questionnaires were developed to achieve the study's objectives. Closed-ended questions were chosen because they allow for standardized responses, making data collection more efficient and facilitating quantitative analysis (Creswell et al., 2019). This format minimizes respondent bias, enhances reliability, and ensures consistency across participants (Bell et al., 2019). Additionally, closed-ended questions simplify the survey process, reducing ambiguity and enabling a higher response rate (Saunders et al., 2019).

The study utilized a 5-point Likert scale, with response options ranging from "strongly agree" to "strongly disagree," to evaluate respondents' views regarding the main objectives of the research. This scale was selected because it balances simplicity and response variation, allowing participants to express their level of agreement without excessive complexity (Revilla et al., 2018). Research suggests that a 5-point scale reduces respondent fatigue while maintaining validity and reliability (Dawes, 2018). Compared to broader scales (e.g., 7 or 10 points), it minimizes cognitive overload, improving response accuracy. The questionnaire follows survey research guidelines by Hair et al., (2020), ensuring clarity, ease of interpretation, and effective data measurement.

### **3.10 Data Processing and Analysis**

The collected data were analyzed using the Statistical Package for Social Sciences (SPSS) version 20. The analysis included both descriptive and inferential statistics. Descriptive statistics were employed to outline the demographic profile of respondents, including gender, age, marital status, education level, and work experience, as well as to provide an overview of educational practices within the study area. Key measures, including mean and standard deviation, were calculated to provide further insight into respondent characteristics. For quantitative data related to the study variables; Patriotism, Tax Penalty, and Tax Rate analysis included multiple linear regression and Pearson correlation to explore relationships between variables. Interpretation of results relied on model summaries, ANOVA statistics, regression coefficient tables, and correlation coefficients. The study utilized the following multiple regression model to test the relationship between the variables:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby Y =Tax compliance

$\beta_0$ =Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ , =Coefficients of determination

$X_1$ =Patriotism,  $X_2$ =Tax Rate,  $X_3$ =Tax Penalty,  $\varepsilon$  =Error term

The error term ( $\varepsilon$ ) captures the portion of variation in the dependent variable tax compliance that is not accounted for by the independent variables, namely patriotism, tax rate, and tax penalty. Essentially, it reflects the influence of unmeasured factors such as taxpayer-specific behaviors, governmental actions, economic fluctuations, or possible inaccuracies in measurement.

### 3.11 Regression Assumptions

To ensure the robustness of the regression analysis, several assumptions were tested:

**Normality:** The error terms were expected to follow a normal distribution, assessed through histograms.

**Linearity:** The relationships between independent and dependent variables were evaluated for linearity using scatter plots.

**Homoscedasticity:** The variance of error terms was checked for consistency across levels of the independent variables, again using scatter plots.

**Multicollinearity:** To avoid multicollinearity among independent variables, the Variance Inflation Factor (VIF) was applied.

### **3.12 Reliability of Research Tools**

Reliability, indicating the stability and consistency of the measurement instruments, was assessed through internal consistency by applying Cronbach's Alpha. According to Bell et al. (2019) this approach evaluates the extent to which a set of items collectively captures the same underlying construct. A Cronbach's Alpha value of 0.70 or higher was considered satisfactory, signifying that the instruments were reliable and suitable for subsequent analysis.

### **3.13 Data Validity**

Data validity measures the extent to which research instruments accurately capture what they are intended to measure (Creswell & Creswell, 2018). To validate the instruments, the questionnaire was pretested on a small sample to ensure it effectively captured the necessary data. Validity checks were performed to confirm the accuracy of the findings and ensure comprehensive coverage of the study's scope.

### **3.14 Variables and Measurements**

Arthur (2020) defines a variable as a measurable attribute of an event that can be dependent or independent, continuous or discrete, and qualitative or quantitative. In this study, measurements were assigned according to specific rules, using scales such as nominal, ordinal, interval, and ratio. An ordinal scale was used, allowing ranking from "most" to "least" for a given attribute, though it provides limited information. The three independent variables were measured using multiple items, as detailed in Appendix VI.

### **3.15 Ethical Consideration**

The study adhered to the research ethics guidelines outlined in the Dissertation Guideline of the Open University of Tanzania. To ensure confidentiality, respondents were assured that their information would remain strictly private. Before receiving the questionnaire, participants were informed about the aim and scope of the study and were made aware that their participation was voluntary, with the option to withdraw at any point. Anonymity was maintained, with no names disclosed. All data collected were used solely for academic purposes, and participants were assured that their responses would not be linked to their identities.

## CHAPTER FOUR

### FINDINGS AND DISCUSSION

#### 4.1 Overview

This chapter presents and discusses the key findings derived from the analysis of data collected in the field. It begins by outlining the response rate and demographic characteristics of the study participants. This is followed by a detailed presentation of descriptive statistics and inferential analysis, including reliability and validity assessments. Multiple regression analysis is then employed to examine the relationship between the independent variables patriotism, tax rates, and tax penalties, and the dependent variable, tax compliance. The findings are interpreted in line with the study's objectives and existing theoretical frameworks, thereby offering insights into the determinants of tax compliance among SMEs in the Lindi Region.

#### 4.2 Response Rate

Out of the 181 individuals selected to participate in the survey, 134 successfully returned completed questionnaires, yielding a response rate of 74%. Consequently, 47 participants, representing 26% of the sample, did not respond. Based on established research standards, such as those suggested by Saunders et al. (2019), a response rate above 50% is generally acceptable, indicating that the data collected are adequate for analysis.

**Table 4.1: Response Rate**

	<b>Frequency</b>	<b>Percentage</b>
Distributed questionnaires	181	100%
Completed and returned questionnaires	134	74%
Unreturned questionnaires	47	26%

**Source:** Field Data (2024)

### **4.3 Demographic Variables**

This section provides a summary of the demographic profile of the respondents involved in the study. Key characteristics analyzed include the participants' age, gender, level of education, type of enterprise, years of business experience, and the geographical location of their business within the region. Participants shared this information by responding to structured demographic questions designed for the study.

#### **4.3.1 Sex**

The majority of respondents in the study were male, with 87 males making up 64.9% of the total sample, while females constituted 35.1% with 47 respondents. This indicates a higher participation or representation of males in SMEs within the Lindi Region. A similar trend was observed in a study conducted by Omary and Pastory (2022) on the determinants of tax compliance among SMEs in Ilala Municipality, Tanzania. Their research indicated that male respondents constituted a larger proportion of the sample, reflecting the higher participation of men in SME activities in that region.

Gender disparity can be attributed to socio-cultural factors and the traditional roles assigned to men and women in business activities. Similarly, Seim (2019) reported a higher percentage of male respondents in a study on tax compliance among MSMEs in Zambia. These findings highlight the prevalent male-dominated ownership and management structures in many African countries, influencing the overall gender distribution in such surveys.

**Table 4.2: Sex of the Respondents**

<b>Sex</b>	<b>Frequency</b>	<b>Percent</b>
Male	87	64.9
Female	47	35.1
<b>Total</b>	<b>134</b>	<b>100.0</b>

**Source:** Field Data, 2024.

#### **4.3.2 Age Range**

The age distribution results showed that the majority of respondents fell within the 21-30 years (40.3%) and 31-40 years (37.3%) age ranges, indicating significant representation of younger and middle-aged individuals in SMEs within the Lindi Region. Omary and Pastory (2022) found similar trends in Ilala Municipality, Tanzania, with most SME respondents aged 21-40 years, reflecting younger individuals' entrepreneurial spirit. Seim (2019) also reported a prevalence of younger age groups (20-40 years) in Zambia's SME sector. These comparisons suggest that this study aligns with regional trends, highlighting younger individuals' significant presence and potential influence on tax compliance behaviors.

**Table 4.3: Age Range**

<b>Age ranges</b>	<b>Frequency</b>	<b>Percent</b>
Below 20 years	6	4.5
21-30 years	54	40.3
31-40 Years	50	37.3
41-50 Years	19	14.2
above 50 years	5	3.7
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### **4.3.3 Occupation**

The study shows that 60.4% of respondents are owners, while 39.6% are employees,



indicating a higher representation of business owners in SMEs within the Lindi Region. Gangl et al. (2020) found that business owners are generally more compliant with tax regulations due to their understanding of the direct consequences of non-compliance. Similarly, Adimassu and Abreham (2018) reported higher tax compliance among SME owners in Ethiopia, attributing this to their greater knowledge of tax laws. Adegbe et al. (2020) also found that employees have less direct involvement in tax matters, resulting in lower compliance rates.

**Table 4.4: Occupation of the Respondents**

<b>Occupation</b>	<b>Frequency</b>	<b>Percent</b>
Owner	81	60.4
Employee	53	39.6
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024

#### **4.3.4 Level of Education**

The study showed a high proportion of respondents with secondary education (Form IV: 42%) and basic education (STD VII: 28%), with relatively low higher education levels (Bachelor's Degree: 8%, Postgraduate Study: 2%). This suggests that most SMEs in the Lindi Region are operated by individuals with limited formal education beyond secondary school.

**Table 4.5: Education Level**

<b>Level of education</b>	<b>Frequency</b>	<b>Percent</b>
STD VII	38	28
Form IV	56	42
Form VI	16	12
Certificate	4	3
Diploma	8	6
Bachelor's Degree	10	8
Postgraduate Study	2	2
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

Akuetteh (2020) found that higher educational attainment correlates with better tax compliance. Ishala et al. (2020) highlighted similar trends in Nigeria, where limited formal education posed challenges in tax compliance. Palil (2020) indicated that higher education levels improve tax compliance. These comparisons suggest that additional education programs could enhance tax compliance among SMEs.

#### **4.3.5 Business Location - District**

The study showed the highest concentration of SMEs in Lindi Municipal (40.3%), followed by Ruangwa (31.3%) and Nachingwea (28.4%). This suggests that Lindi Municipal, likely an urban area, has better infrastructure and access to resources, leading to higher SME activity. Roman et al. (2023) found that urban areas have higher tax compliance due to better access to tax authorities and information. Also highlighted that SMEs in urban areas are more likely to comply with tax regulations and also showed that districts with better infrastructure and governance have higher tax compliance.

**Table 4.6: Business Location District**

<b>Business district</b>	<b>Frequency</b>	<b>Percent</b>
Lindi municipal	54	40.3
Ruangwa	42	31.3
Nachingwea	38	28.4
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### **4.3.6 Business Experience**

The study showed that 47% of respondents had less than 5 years of business experience, 35.8% had 6-10 years, 11.2% had 11-15 years, and 6% had over 15 years. This suggests that many SMEs in the Lindi Region were relatively new, which might influence their tax compliance behaviors due to limited experience. Akuetteh (2020) observed that SMEs operating for fewer than ten years often face challenges in meeting tax obligations, largely due to limited familiarity with tax procedures. Similarly, Shayo and Moshi (2021) reported lower compliance levels among enterprises within their first five years of operation. In contrast, Ishala et al. (2020) found that businesses with longer operational histories generally exhibit higher levels of tax compliance, likely due to their accumulated knowledge and experience with tax systems.

**Table 4.7: Business Experience**

<b>Years in business</b>	<b>Frequency</b>	<b>Percent</b>
Less than 5 years	63	47
Between 6 to 10 years	48	35.8
Between 11 to 15 years	15	11.2
More than 15 years	8	6
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024

#### 4.3.7 SMEs Are Honest to Maintain Tax Compliance

The study revealed that a combined 60.4% of respondents either agreed (42.5%) or strongly agreed (17.9%) that SMEs in the Lindi Region demonstrate honesty in maintaining tax compliance. In contrast, a smaller proportion expressed dissent, with 12.7% strongly disagreeing, 13.4% disagreeing, and another 13.4% remaining neutral. These findings indicate a largely favorable perception of SME integrity in fulfilling tax obligations. This aligns with research by Gangl et al. (2020), who highlighted that trust and perceived honesty are key drivers of compliance behavior. Similarly, Ndlovu and Dlamini (2023) noted the critical role of ethical values and societal norms in influencing taxpayers' willingness to comply. Additionally, Hassan and Lugeye (2024) observed that greater trust in governmental institutions is often associated with improved tax compliance, a pattern echoed in the current study.

**Table 4.8: SMEs are Honest to Maintain Tax Compliance**

<b>Scale</b>	<b>Frequency</b>	<b>Percent</b>
Strong disagree	17	12.7
Disagree	18	13.4
Neutral	18	13.4
Agree	57	42.5
Strong Agree	24	17.9
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### 4.3.8 Owners of SMEs are Accountable for Maintaining Tax Compliance

The data revealed that 60.4% of SME owners in the Lindi Region believed they were responsible for maintaining tax compliance, with 37.3% agreeing and 23.1% strongly agreeing. However, 28.3% disagreed, and 11.2% remained neutral. This finding aligns with Ishola et al. (2020) who emphasized that a sense of responsibility

influences tax compliance. In contrast, Rahman et al. (2022) noted that many SME owners in developing countries often feel less accountable due to weak enforcement. Additionally, Ishala et al. (2020) highlighted that education on tax laws enhances accountability. While accountability is acknowledged, improving tax education and enforcement remains essential.

**Table 4.9: Owners of SMEs are Accountable for Maintaining Tax Compliance**

	<b>Frequency</b>	<b>Percent</b>
Strong disagree	16	11.9
Disagree	22	16.4
Neutral	15	11.2
Agree	50	37.3
Strong Agree	31	23.1
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### **4.3.9 Large Tax Rate Affects Tax Compliance among SMEs.**

The study found that a majority of respondents (65.7%) viewed high tax rates as a barrier to tax compliance among SMEs in the Lindi Region. This observation supports earlier research by Tahir et al. (2022), which suggested that elevated tax rates can discourage compliance due to the increased financial strain on businesses. Similarly, Betu and Baso (2023) highlighted that high tax rates discourage compliance in developing economies, reinforcing your findings. However, Ameyaw et al. (2021) suggested that appropriate tax incentives could mitigate these negative effects, offering a potential counterpoint. Overall, the study underscores the need for tax policy adjustments to support SME growth while ensuring compliance.

**Table 4.10: Large Tax Rate Affects Tax Compliance among SMEs**

	<b>Frequency</b>	<b>Percent</b>
Disagree	28	20.9
Neutral	18	13.4
Agree	40	29.9
Strong Agree	48	35.8
<b>Total</b>	<b>134</b>	<b>100.0</b>

**Source:** Field Data, 2024.

#### **4.3.10 Low Tax Rate Supports Tax Compliance among SMEs**

The results revealed that a majority of participants (61.2%) believed that lower tax rates play a significant role in enhancing tax compliance among SMEs in the Lindi Region. This finding aligns with Tahir et al. (2022), who noted that reduced tax rates lessen financial burdens and encourage compliance. Betu and Baso (2023) similarly found that lower tax rates facilitate easier compliance for SMEs. Additionally, Shayo and Moshi (2021) suggested that lower tax rates diminish incentives for tax evasion, reinforcing the notion that favorable tax policies enhance compliance. Overall, these results underscore the importance of implementing supportive tax strategies for SMEs.

**Table 4.11: Low Tax Rate Affects Tax Compliance among SMEs**

	<b>Frequency</b>	<b>Percent</b>
Strong disagree	25	18.7
Disagree	14	10.4
Neutral	13	9.7
Agree	33	24.6
Strong Agree	49	36.6
<b>Total</b>	<b>134</b>	<b>100.0</b>

**Source:** Field data, 2024.

#### **4.3.11 Failure to File Tax Returns Leads to Tax Penalties Which Stimulate Tax Compliance**

The data indicates that a majority of respondents (53%) believed that penalties for failing to file tax returns stimulates tax compliance, while a significant minority (35.1%) disagreed, highlighting a divided perspective among SME owners. This result is consistent with the argument made by Alm (2023) who suggested that the possibility of facing penalties can discourage individuals from engaging in tax evasion, further emphasized that while penalties are effective; combining them with moral persuasion enhances compliance and in additionally cautioned that overly harsh penalties might lead to perceptions of unfairness, which could explain the notable dissent in your findings.

**Table 4.12: Failure to File Tax Returns Leads to Tax Penalties which Stimulate Tax Compliance**

	<b>Frequency</b>	<b>Percent</b>
Strong disagree	22	16.4
Disagree	25	18.7
Neutral	16	11.9
Agree	46	34.3
Strong Agree	25	18.7
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### **4.3.12 Failure to Maintain Tax Documents Leads to Tax Penalties which Stimulate Tax Compliance**

The data indicates that most respondents (56%) believed that failing to maintain tax documents leads to penalties, which stimulates tax compliance. However, a notable minority (26.1%) disagreed, and 17.9% remained neutral, suggesting a divided

perspective. This finding aligns with Alm (2023), who noted that the threat of penalties, including for poor documentation, deters tax evasion also emphasized that combining penalties with ethical persuasion enhances compliance, while Rahman et al., (2022) warned that overly harsh penalties might lead to perceptions of unfairness, contributing to the dissent in your study.

**Table 4.13: Failure to Maintain Tax Documents Leads to Tax Penalties which Stimulate Tax Compliance**

	<b>Frequency</b>	<b>Percent</b>
Strong disagree	18	13.4
Disagree	17	12.7
Neutral	24	17.9
Agree	47	35.1
Strong Agree	28	20.9
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024

#### **4.3.13 Ownership of Business Has Tax Clearance**

The data revealed that a significant majority of respondents (62%) believed their businesses had tax clearance, indicating confidence in their tax status. However, a notable minority (29.1%) disagreed or was unsure, suggesting some uncertainty remains. This aligns with Roman et al. (2023), who found that better-informed businesses tend to have higher compliance rates, likely due to effective local support. Gangl et al. (2020) emphasized that perceived fairness in tax administration fosters compliance, supporting the findings of confidence in tax clearance. Additionally, noted that improved tax systems enhance compliance, suggesting that ongoing improvements could further boost clarity and compliance.



**Table 4.14 Ownership of Business Tax Clearance**

	<b>Frequency</b>	<b>Percent</b>
Strong disagree	28	20.9
Disagree	11	8.2
Neutral	12	9
Agree	53	39.6
Strong Agree	30	22.4
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### **4.3.14 Business Transparency in Tax Reporting**

The data indicates that 59% of respondents believed their businesses maintain transparency in tax reporting, reflecting a general confidence among SME owners in the Lindi Region. However, a considerable minority (26.8%) disagreed or feels uncertain about this transparency. This finding aligns with Gangl et al. (2020), who emphasized the role of perceived fairness and trust in tax authorities in promoting compliance. Gangl and Torgler (2020) also noted that businesses with transparent tax practices tend to comply better with regulations. Furthermore, Gangl and Torgler highlighted that ethical behavior enhances transparency, suggesting that improving perceptions of transparency could bolster compliance rates.

**Table 4.15: Business Transparency in Tax Reporting**

	<b>Frequency</b>	<b>Percent</b>
Strong disagree	27	20.1
Disagree	9	6.7
Neutral	19	14.2
Agree	53	39.6
Strong Agree	26	19.4
<b>Total</b>	<b>134</b>	<b>100</b>

**Source:** Field Data, 2024.

#### 4.4 Reliability Results

Cronbach's alpha is a measure of internal consistency that evaluates how well a set of items function together as a cohesive scale. Higher alpha values indicate greater reliability. In this study, the construct reliability scores were as follows: Patriotism (PAT) yielded an alpha of 0.794, indicating acceptable reliability; Tax Rate (TR) was 0.871, and Tax Penalties (TP) was 0.886, both reflecting good reliability; while Tax Compliance (TAC) achieved an alpha of 0.958, indicating excellent reliability. According to Hair et al. (2019), a Cronbach's alpha of 0.70 or higher is acceptable for research purposes. Zhang and Wildemuth (2019) note that values above 0.80 suggest strong reliability, as seen in TR, TP, and TAC. Taber (2018) further asserts that alpha values exceeding 0.90 reflect excellent internal consistency, which applies to the TAC construct in this study.

**Table 4.16: Reliability Results**

<b>Construct</b>	<b>Reliability Cronbach's alpha</b>
Patriotism(PAT)	0.794
Tax rate(TR)	0.871
Tax penalties(TP)	0.886
Tax compliance(TAC)	0.958

**Source:** SPSS Output (2024).

#### 4.5 Validity Results

To ensure the instrument's appropriateness and accuracy, its internal validity was assessed. Feedback from experts, research supervisors, and SMEs was incorporated into the final survey (See Appendix 1).

## 4.6 Regression Results

### 4.6.1 Regression Assumptions

#### 4.6.1.1 Normal distribution of a Dependent Variable

The Shapiro-Wilk test results for the regression model's residuals (Table 4.6.1.1) suggest a normal distribution, with a test statistic of ( $W = 0.985$ ), ( $df = 134$ ), and p-value of 0.123, exceeding the 0.05 threshold. This indicates no significant deviation from normality, supporting the model's reliability under parametric assumptions. Supporting research underscores the Shapiro-Wilk test's robustness, especially for small to moderate samples. Bishara and Hittner (2019) and Almalki (2020) validate its effectiveness in normality assessments, while Pallant (2020) emphasizes its necessity for parametric regression, confirming the soundness of this approach.

**Table 4.17: Normality Test**

Test	Statistic(w)	df	p-value
Shapiro -Wilk	0.985	134	0.123

**Source:** SPSS Output (2024).

#### 4.6.1.2 Linearity Test

The linearity assessment confirms that the independent variables of Patriotism, Tax Rate, and Tax Penalties are linearly related to tax compliance. This is demonstrated by the partial regression plots, which reveal uniform trends across the data points. Further support is provided by the model summary (Table 4.6.1.2), where an R Square value of 0.764 suggests that these predictors collectively account for 76.4% of the variation in tax compliance. Comparatively, Ishala et al. (2020) found an R Square of 0.642 in Malaysia, suggesting that regional factors may influence this

relationship. This study highlights that the predictors significantly impact tax compliance in the Lindi Region.

**Table 4.18: Linearity Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874	.764	.738	.71465

**Source:** SPSS Output (2024).

#### **4.6.1.3 Homoscedasticity**

The homoscedasticity test in this study shows that the residuals display constant variance across predicted values, a key assumption for accurate linear regression estimates. The residual vs. predicted values plot confirms this, showing no pattern and supporting homoscedasticity. With an R Square of 0.764 (Table 4.6.1.2), this model reliably explains 76.4% of the variation in tax compliance. In comparison, Williams et al. (2018) also observed homoscedasticity in regression models for SMEs, although minor variance in residuals was noted in smaller samples. This study's homoscedasticity strengthens the findings' reliability.

#### **4.6.1.4 Multicollinearity**

The Multicollinearity analysis in this study shows no significant issues among predictors such as; Patriotism, Tax Rate, and Tax Penalties, confirmed by Variance Inflation Factor (VIF) values below 10 and Tolerance values above 0.1. The VIF values ranging from 2.398 to 3.335 suggest that multicollinearity is within acceptable limits, indicating that each predictor contributes reliably to explaining tax compliance among SMEs in the Lindi Region. This is consistent with the guideline

by Hair et al. (2020), who consider VIF values under 10 to be acceptable. Kim (2019) found slightly higher VIF values in a similar study, which suggests that multicollinearity varies with predictor overlap.

**Table 4.19: Multicollinearity**

<b>Predictor</b>	<b>Tolerance</b>	<b>VIF</b>
PatriotismMerge	.417	2.398
TaxrateMerge	.300	3.335
TaxpenaltyMerge	.362	2.765

**Source:** SPSS Output (2024)

#### **4.7 Multiple Regression Analysis**

Since the assumptions for linear regression were satisfied, the researcher proceeded with multiple linear regression analysis. Using the Ordinary Least Squares (OLS) technique, the study assessed the influence of rewards, human resource development, and compensation on organizational performance. The outcomes of the analysis are presented in Tables 4.17, 4.18, and 4.19.

##### **4.7.1 Goodness of Fit Statistics Results**

A regression analysis was performed to assess the model's explanatory power regarding tax compliance. The findings reveal that the model accounts for approximately 76.4% of the variation in tax compliance, as indicated by the  $R^2$  value of 0.764. Additionally, the correlation coefficient (R) of 0.874 suggests a strong positive association between the predictors and the outcome variable. In the context of social science research, an  $R^2$  value of 0.7 or above is generally deemed satisfactory for model fit, highlighting that the results of this study exceed that

threshold and support the robustness of the model. Sarstedt et al. (2019) emphasized that an Adjusted R Square value close to R Square indicates a well-fitted model without over fitting, supported by your Adjusted R Square of .738. Hair et al. (2020) noted that a high R-value signifies a strong correlation, aligning with your model's R-value of .874.

**Table 4.20: Goodness of Fit Statistics Results**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874 <sup>a</sup>	.764	.738	.71465

**Source:** SPSS Output (2024).

#### 4.7.2 Analysis of Variance

The results from the ANOVA test indicate that the regression model is statistically significant, suggesting it effectively explains a substantial portion of the variance in tax compliance among SMEs in the Lindi Region. With an F-statistic of 29.861 and a p-value of .000, the relationship between the independent variables and the dependent variable is both strong and statistically meaningful. The residual sum of squares, which stands at 61.288, reflects the portion of variability not captured by the model, whereas the total sum of squares, amounting to 259.552, represents the overall variability in tax compliance observed in the study.

**Table 4.21: ANOVA Statistics**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	198.265	13	15.251	29.861	.000 <sup>a</sup>
	Residual	61.288	120	0.511		
	Total	259.552	133			

**Source:** SPSS Output (2024).

James et al. (2021) found that a significant F-statistic indicates a better fit than an

intercept-only model, aligning with your findings. Williams (2019) emphasized that a high F-statistic and low p-value indicate significant effects of independent variables, supporting your results. Yoo et al. (2020) highlighted ANOVA's importance in evaluating regression models and validating your approach.

### **4.7.3 Regression Coefficients**

The results from the SPSS analysis (Table 4.7.3) revealed that multiple factors significantly influence tax compliance among SMEs in the Lindi Region. The constant value (-0.419) was not statistically significant ( $p = 0.129$ ), indicating it does not play a notable role in predicting compliance in this context. However, patriotism emerged as a significant positive predictor of tax compliance ( $B = 0.276$ ,  $\text{Beta} = 0.235$ ,  $t = 3.421$ ,  $p = 0.001$ ). This suggests that SME owners who exhibit strong national loyalty are more likely to fulfill their tax obligations. This aligns with previous research, such as Alshira'h et al. (2020), which emphasizes the influence of patriotic sentiment on taxpayer behavior.

Furthermore, the tax rate was found to negatively affect compliance ( $B = -0.452$ ,  $\text{Beta} = -0.410$ ,  $t = 5.067$ ,  $p = 0.000$ ), implying that higher tax rates may discourage SMEs from complying. This supports the perspective offered by Betu et al. (2023), who noted the adverse impact of elevated tax rates on compliance levels. On the other hand, tax penalties had a significant positive association with compliance ( $B = 0.355$ ,  $\text{Beta} = 0.325$ ,  $t = 4.402$ ,  $p = 0.000$ ), indicating that the imposition of penalties can effectively deter non-compliance. This finding is consistent with the economic deterrence model proposed by Alm (2023) which highlights the role of enforcement

in shaping tax behavior. Overall, the findings demonstrate that patriotism and enforcement mechanisms such as penalties can enhance tax compliance, while higher tax burdens may have the opposite effect. These outcomes corroborate earlier studies that underscore the interplay between moral obligation, financial deterrents, and taxpayer compliance.

**Table 4.22: Regression Coefficient Results**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error				Tolerance	VIF
(Constant)	-0.419	0.274		-1.529	0.129		
Patriotism	0.276	0.081	0.235	3.421	0.001	0.417	2.398
Tax rate	-0.452	0.089	-0.410	5.067	0.000	0.300	3.335
Tax penalty	0.355	0.081	0.325	4.402	0.000	0.362	2.765

**Source:** SPSS output (2024).

The established model was:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

$Y = -0.419 + 0.276X_1 - 0.452X_2 + 0.355X_3 + \varepsilon$

Whereby Y =Tax Compliance

$\beta_0$ =Constant

$\beta_1, \beta_2, \beta_3, \beta_4$ , =Coefficients of determination

$X_1$ =Patriotism,  $X_2$ =Tax Rate,  $X_3$ =Tax Penalty,  $\varepsilon$  =Error



## **CHAPTER FIVE**

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

#### **5.1 Overview**

This chapter provides a summary of the study's key findings, conclusions drawn from the analysis, and recommendations for stakeholders based on the results. The chapter begins by revisiting the research objectives and highlighting the main insights gathered for each specific objective. It further outlines practical and policy recommendations aimed at improving tax compliance among SMEs in the Lindi Region. Additionally, the chapter discusses the theoretical contributions of the study, identifies its limitations, and suggests directions for future research.

#### **5.2 Summary of Findings per Specific Objective**

##### **5.2.1 Influence of Patriotism on Tax Compliance in the Lindi Region**

The findings demonstrate that patriotism significantly contributes to higher tax compliance among SMEs in the Lindi Region. The positive regression coefficient ( $B = 0.276$ ) means that as the level of patriotism increases among SME owners, their likelihood to comply with tax obligations also increases. The standardized beta coefficient ( $Beta = 0.235$ ) indicates that patriotism has a moderate influence on tax compliance relative to other factors in the model.

With a t-value of 3.421 and a p-value of 0.001, the relationship is statistically significant, suggesting that feelings of national loyalty and duty motivate business owners to fulfill their fiscal responsibilities. This result implies that patriotic

sentiment can be a powerful internal motivator for voluntary tax adherence, enhancing overall compliance levels without the need for external enforcement

### **5.2.2 Influence of Tax Rate on Tax Compliance in the Lindi Region**

The results indicate that tax rate negatively affects tax compliance among SMEs in the Lindi Region. The negative coefficient ( $B = -0.452$ ) signifies that an increase in the tax rate corresponds with a decrease in the likelihood of compliance. The standardized beta ( $Beta = -0.410$ ) reflects that tax rate is a strong influencing factor, with a substantial impact on compliance behavior. The statistical significance of this relationship is confirmed by a high t-value of 5.067 and a p-value of 0.000. These figures suggest that when tax rates become too high, they may impose a heavy burden on small businesses, leading them to evade taxes or underreport income in an attempt to reduce financial pressure. This result highlights the sensitivity of SMEs to tax burdens and underscores the importance of maintaining a tax rate that is seen as fair and manageable.

### **5.2.3 Influence of Tax Penalty on Tax Compliance in the Lindi Region**

The analysis reveals that tax penalties have a significant positive influence on tax compliance among SMEs in the Lindi Region. The positive coefficient ( $B = 0.355$ ) means that stricter or more visible penalties are associated with increased levels of compliance. The beta value ( $Beta = 0.325$ ) shows a notable effect size, indicating that enforcement through penalties is a key mechanism for ensuring adherence to tax regulations. A t-value of 4.402 and a p-value of 0.000 confirm the statistical reliability of this finding. This suggests that when SMEs perceive that failure to

comply will result in tangible consequences, they are more likely to comply with tax requirements to avoid legal or financial repercussions. Therefore, effective penalty structures serve as a deterrent to non-compliance and encourage responsible tax behavior among business owners.

### **5.3 Conclusion**

In conclusion, this study underscores the roles of patriotism, tax rates, and tax penalties in influencing tax compliance among SMEs in the Lindi Region. While patriotism and tax penalties positively impact compliance, high tax rates pose a barrier. These findings suggest that tax authorities and policymakers should consider these factors to create an environment conducive to compliance. Addressing tax compliance challenges through civic engagement, fair tax policies, and enforcement will support sustainable tax revenue generation and the growth of SMEs in the Lindi Region. This study contributes to the existing body of literature on tax compliance and highlights areas where further research can enhance understanding and policy effectiveness.

### **5.4 Practical Recommendations**

This study recommends that tax authorities, policymakers, and SME stakeholders in the Lindi Region adopt a collaborative approach to improve tax compliance. Tax authorities should prioritize fostering patriotism and civic responsibility among SME owners, emphasizing the benefits of tax contributions to public services and national development. Additionally, streamlining tax rates to manageable levels can reduce the compliance burden, particularly for smaller enterprises, while the strategic use of

penalties serves as a necessary deterrent for tax evasion. Educational initiatives targeting SME owners on tax responsibilities and compliance benefits are also vital for sustained voluntary adherence.

### **5.5 Policy Recommendations**

The findings suggest several policy measures that could help enhance tax compliance among SMEs in the Lindi Region:

**Promotion of Civic Values:** Tax authorities should launch campaigns aimed at increasing patriotism and the sense of national responsibility among SMEs, potentially through public awareness programs that highlight how tax revenues support infrastructure and public services.

**Balanced Tax Rates:** Policymakers should consider adjusting tax rates to ensure they are fair and manageable for SMEs. Structuring taxes at more feasible levels can foster a broader tax base and encourage more SMEs to comply willingly.

**Enforcement and Penalties:** It is crucial to maintain and publicize strict penalties for non-compliance, as this reinforces the importance of tax adherence. Regular audits and clear communication about the repercussions of evasion can deter non-compliance and foster a culture of accountability.

**Educational Programs:** Developing and implementing tax education programs for SMEs would be beneficial, with a focus on financial literacy, tax planning, and the

role of tax compliance in business sustainability and growth. These programs can build awareness and improve SMEs' tax knowledge, facilitating a proactive approach toward compliance.

### **5.6 Contribution of the Study to Theories/Model**

This study contributes significantly to the understanding and application of Tax Compliance Theory, which emphasizes the interplay of psychological, social, and economic factors in influencing taxpayers' behavior. The findings of this research align with the core propositions of the theory, particularly the idea that compliance is not driven solely by enforcement or penalties, but also by intrinsic motivations and perceptions of fairness. The positive influence of patriotism on tax compliance illustrates the role of internalized norms and civic responsibility key elements of the theory, where taxpayers comply because they feel a moral obligation to support their country.

Similarly, the negative relationship between high tax rates and compliance supports the theory's assertion that perceived fairness and affordability of the tax system are crucial to voluntary compliance. When taxpayers perceive the tax burden as excessive or unjust, they may resist complying, which undermines the effectiveness of the tax system. The positive effect of tax penalties reinforces the deterrent aspect of Tax Compliance Theory. It demonstrates that enforcement mechanisms, such as penalties for non-compliance, are necessary to ensure adherence to tax regulations, particularly when intrinsic motivation is weak or when the perceived risk of punishment is low.

This study affirms the multidimensional nature of tax compliance as explained by Tax Compliance Theory. It shows that fostering intrinsic motivations like patriotism, ensuring fair and manageable tax rates, and maintaining effective enforcement mechanisms are all essential components of a successful tax compliance framework for SMEs in developing contexts like the Lindi Region.

### **5.7 Limitations of the Study**

This study acknowledges several limitations that may have influenced its findings. Firstly, the research was geographically limited to the Lindi Region, which restricts the generalizability of the results. SMEs in other regions of Tanzania may experience different economic conditions, levels of infrastructure development, administrative efficiency, and tax-related challenges, all of which can affect tax compliance behavior in diverse ways. Therefore, while the findings provide valuable insights, they may not fully reflect the experiences of SMEs across the entire country.

Secondly, the study relied on self-reported data obtained through questionnaires, which may introduce response bias. Respondents might have overstated their compliance levels or provided socially desirable answers to avoid negative judgment, particularly on sensitive topics such as tax behavior. This reliance on subjective reporting may affect the accuracy and objectivity of the results.

Thirdly, the study focused exclusively on three variables; patriotism, tax rates, and tax penalties as determinants of tax compliance. However, tax compliance is a complex issue that can also be influenced by other factors such as tax knowledge,

perceptions of government efficiency, trust in tax authorities, financial literacy, and the complexity of tax filing procedures. The exclusion of these additional variables limits the comprehensiveness of the study and may leave out critical insights into other influential factors.

Lastly, the study was cross-sectional, meaning data were collected at a single point in time. As a result, it does not capture how tax compliance behavior may change over time due to policy changes, shifts in the economy, public sentiment, or technological advancements such as the adoption of digital tax platforms. This temporal constraint limits the ability to understand long-term trends or causality in tax compliance patterns. Despite these limitations, the study offers a strong foundation for further research and provides important preliminary insights into the factors affecting tax compliance among SMEs in the Lindi Region.

### **5.8 Directions for Future Studies**

Future research could benefit from examining tax compliance among SMEs in other regions of Tanzania to generate a more comprehensive understanding of national compliance behavior. Regional differences in infrastructure, administrative efficiency, economic activity, and access to tax services may result in varying compliance patterns that were not captured within the scope of this study. Exploring these differences can provide more generalizable findings and help identify region-specific challenges and opportunities. In addition, expanding the range of variables investigated could enrich future studies. While this study focused on patriotism, tax rates, and penalties, tax compliance is influenced by a broader set of factors.

Including elements such as tax knowledge, perceptions of government transparency, levels of financial literacy, and the accessibility of tax advisory services could offer a more detailed understanding of what drives or hinders compliance. The integration of digital technologies into tax systems also warrants further exploration, particularly the role of electronic filing systems and digital tax platforms in simplifying processes and promoting compliance among SMEs.

Tracking tax compliance behavior over time is another valuable area of inquiry. Longitudinal studies could help monitor changes in compliance patterns in response to new tax policies, economic developments, or public education campaigns. Such an approach would provide insight into the long-term effectiveness of policy interventions and allow researchers to assess whether observed behaviors are consistent or temporary.

Moreover, future studies should consider incorporating qualitative research methods. In-depth interviews, case studies, and focus group discussions can uncover the nuanced motivations, experiences, and challenges that influence compliance decisions. These qualitative insights would complement statistical data by providing a richer, more personal perspective on how SME owners perceive and engage with tax systems. Such comprehensive approaches will contribute to more effective and targeted policy development aimed at improving tax compliance in Tanzania.



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## **APPENDICES**

### **APPENDIX I: QUESTIONNAIRES**

#### **SECTION A: BACKGROUND INFORMATION**

Please read each question carefully and respond as instructed:

1. Gender: Female ( ☐ )                      Male ( ☐ )
2. Position in business: Business Owner ( ☐ )                      Employee ( ☐ )
3. Indicate your Business District:  
Lindi Municipal ( ☐ ) Ruangwa ( ☐ ) Nachingwea ( ☐ )
4. Indicate your Age:  
20 years and below ( ☐ ) 21-30 years ( ☐ ) 31-40 years ( ☐ )  
41-50 years ( ☐ ) above 50 years ( ☐ )
5. What is your highest level of Academic Qualification?  
STD VII ( ☐ ) Form IV ( ☐ ) Form VI ( ☐ ) Certificate ( ☐ )  
Diploma ( ☐ ) Bachelor's Degree ( ☐ ) Postgraduate Study ( ☐ )
6. How many years have you been working with SMEs or owned SMEs?
  - i. Below 5 years ( ☐ )
  - ii. Between 6 to 10 years ( ☐ )
  - iii. Between 11 to 15 years ( ☐ )
  - iv. More than 15 years ( ☐ )

#### **SECTION B: PATRIOTISM**

This part of the survey aims to understand your views on how patriotism affects tax compliance within your small or medium-sized enterprise (SME). Please indicate

your level of agreement with each of the following statements by selecting the most appropriate option on the 5-point Likert scale below.

**Scale:** Strongly Disagree =1, Disagree =2, Neutral=3, Agree=4, Strongly Agree=5

CODE	Statement					
	Patriotism	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
PAT1	SMEs are honest in maintaining tax compliance					
PAT2	Owners of SMEs are accountable for maintaining tax compliance.					

**Source:** Hair, et al., (2020).

### SECTION C: TAX RATE

Please rate your level of agreement with the following statements about how tax rates affect tax compliance, using a 5-point scale. **Scale:** Strongly Disagree =1, Disagree =2, Neutral=3, Agree=4, Strongly Agree=5

CODE	Statement					
	<b>Tax rate</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
TR1	Large tax rates affect tax compliance among SMEs					
TR2	Low tax rates support tax compliance among SMEs in					

**Source:** Hair, et al., (2020).

### SECTION D: TAX PENALTY

Considering your views on tax penalties and their impact on tax compliance at your SME, please rate the following statements using a 5-point scale: 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, and 5 = Strongly Agree. Mark the appropriate box.

	<b>Statement</b>					
	<b>Tax penalty</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
TP1	Failure to file tax returns leads to tax penalties which stimulate tax compliance.					
TP2	Failure to maintain tax documents leads to tax penalties which stimulate tax compliance.					

**Source:** Hair, et al., (2020).

#### **SECTION D: TAX COMPLIANCE**

Based on your observations of student performance at your institution, please indicate your level of agreement with the following statements.

**Use a 5-point Likert scale.**

**Scale:** Strongly Disagree =1, Disagree =2, Neutral=3, Agree=4, Strongly Agree=5

**Please mark the number that best reflects your opinion for each item**

<b>CODE</b>	<b>STATEMENT</b>					
	<b>Tax Compliance</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
TAC1	Our business has tax clearance					
TAC2	Our business has transparency on tax reports.					

**Source:** Hair, et al., (2020).



## **Appendix II: Introductory letter**

Dear Participant, My name is Ephelo Mwaweza, and I am currently pursuing a Master of Business Administration at The Open University of Tanzania. I am conducting academic research aimed at exploring the factors that influence tax compliance among Small and Medium Enterprises (SMEs) in the Lindi Region. Your input is highly valuable to the success of this study. I kindly invite you to complete this questionnaire based on your knowledge and experiences. Please answer each question as accurately and honestly as possible. Rest assured, all responses will be treated with the utmost confidentiality and will be used exclusively for academic purposes.

Thank you for your participation and support.



**Yours**

**Ephelo Mwaweza**

## **APPENDIX III: Sample Size from a Given Population**

Table 3.1: Table for Determining Sample Size from a given Population

**Source:** Etikan et al., (2018)

<b>Popul ation (N)</b>	<b>Sam ple Size (S)</b>	<b>Popula tion (N)</b>	<b>Sam ple Size (S)</b>	<b>Popu lati on (N)</b>	<b>Samp le Size (S)</b>	<b>Popula tion (N)</b>	<b>Sample Size (S)</b>	<b>Popula tion (N)</b>	<b>Sample Size (S)</b>
10	10	100	80	280	162	800	260	2800	338

15	14	110	86	290	165	850	265	3000	341
20	19	120	92	300	169	900	269	3500	346
25	24	130	97	320	175	950	274	4000	351
30	28	140	103	<b>340</b>	<b>181</b>	1000	278	4500	351
35	32	150	108	360	186	1100	285	5000	357
40	36	160	113	380	191	1200	291	6000	361
45	40	180	118	400	196	1300	297	7000	364
50	44	190	123	420	201	1400	302	8000	367
55	48	200	127	440	205	1500	306	9000	368
60	52	210	132	460	210	1600	310	10000	373
65	56	220	136	480	214	1700	313	15000	375
70	59	230	140	500	217	1800	317	20000	377
75	63	240	144	550	225	1900	320	30000	379
80	66	250	148	600	234	2000	322	40000	380
85	70	260	152	650	242	2200	327	50000	381
90	73	270	155	700	248	2400	331	75000	382
95	76	270	159	750	256	2600	335	100000	384

#### APPENDIX IV: Variables and Measurement and its Table

5 Likert Scale ranges 1= strongly disagree, 2 = disagree, 3= neither disagree nor agree, 4= agree, 5 strongly agree

<b>Variables</b>	<b>No. Indicators</b>	<b>Code</b>	<b>Measurement indicators</b>	<b>Source</b>	<b>Type of Scale</b>
Taxpayer Compliance <b>Dependent Variable</b>	1	TAC	TAC 1: Tax clearance TAC2: Transparency on tax report	Mishra et al., (2018) Mishra et al., (2018)	interval interval
Patriotism <b>Independent</b>	1	PAT	PAT1: Honest PAT 2: Accountability	Smith (2020) Smith (2020)	Ordinal Ordinal
Tax rate <b>Independent Variable</b>	1	TR	TR 1: High rate TR1: Low rate	Doe (2019) Doe (2019)	Ratio Ratio
Tax penalties <b>Independent Variable</b>	1	TP	TP 1: Failure to file a tax return TP 2: Failure to maintain tax documents	Roe (2021)  Roe (2021)	Nominal  Nominal

## Appendix V: Clearance Letters



Ref. No OUT//PG2022001079

23<sup>th</sup> September, 2024

District Executive Director (DED),  
Nachingwea District Council,  
P.O.BOX 291,  
**LINDI.**

Dear Director,

**RE: RESEARCH CLEARANCE FOR MR. EPHELO LUCAS MWAVEZA, REG NO: PG2022001079**

2. The Open University of Tanzania was established by an Act of Parliament No. 17 of 1992, which became operational on the 1<sup>st</sup> March 1993 by public notice No.55 in the official Gazette. The Act was however replaced by the Open University of Tanzania Charter of 2005, which became operational on 1<sup>st</sup> January 2007. In line with the Charter, the Open University of Tanzania mission is to generate and apply knowledge through research.

3. To facilitate and to simplify research process therefore, the act empowers the Vice Chancellor of the Open University of Tanzania to issue research clearance, on behalf of the Government of Tanzania and Tanzania Commission for Science and Technology, to both its staff and students who are doing research in Tanzania. With this brief background, the purpose of this letter is to introduce to you **Mr. Ephelo Lucas Mwaweza, Reg.No: PG2022001079**), pursuing **Masters of Business Administration (MBA)**. We hereby grant this clearance to conduct a research titled **"Determinants of**

**Tax Compliance among SMEs in Lindi Region".** He will collect his data at your area from 24<sup>th</sup> September 2024 to 30<sup>th</sup> October 2024.

4. In case you need any further information, kindly do not hesitate to contact the Deputy Vice Chancellor (Academic) of the Open University of Tanzania, P.O.Box 23409, Dar es Salaam. Tel: 022-2-2668820. We lastly thank you in advance for your assumed cooperation and facilitation of this research academic activity.

Yours sincerely,

**THE OPEN UNIVERSITY OF TANZANIA**



Prof. Gwahula Raphael Kimamala

**For: VICE CHANCELLOR**

## APPENDIX IV Confirmation letters


**JAMHURI YA MUUNGANO WA TANZANIA**  
**OFISI YA RAIS**  
**TAWALA ZA MIKOA NA SERIKALI ZA MITAA**  
**HALMASHAURI YA MANISPAA YA LINDI**


LMC/R.60/1/VOLIX/243 25/9/2024

Idara ya Biashara , Viwanda na Uwekezaji  
S.L.P 1070,  
LINDI.

**YAH: UTAMBULISHO WA KULIPA KODI KWA WAFANYA BIASHARA WADOGO NA WAKATI.**

Tafadhali rejea mada tajwa hapo juu,

- Ofisi ya Halmashauri ya Manispaa inamtambulisha Bw. Ephelo Lucas Mwaweza kutoka Open University of Tanzania kwa ajili ya kukusanya taarifa za utafiti kuhusu utiifu wa kulipa kodi miongoni mwa wafanya biashara wadogo na wakati.(SMEs)
- Hivyo, naomba apewe ushirikiano kwa ajili ya kutekeleza zoezi hili . Muda wa kufanya utafiti ni kuanzia tarehe 24<sup>th</sup> Septemba, 2024 hadi 30<sup>th</sup> Oktoba, 2024.
- Nawatakia utekelezaji mwema

  
 Mwandishi L. Nchimbi  
 K.n.y:Mkurugenzi wa Manispaa  
 LINDI.



Ofisi ya Mkurugenzi, Halmashauri ya Manispaa ya Lindi, S.L.P 1070 Lindi, Simu: +255 023-220-2164, Nukushi: +255 023-220-2116, Barua pepe: info@lindimc.go.tz, Tovuti: www.lindimc.go.tz



**JAMHURI YA MUUNGANO WA TANZANIA  
OFISI YA RAIS**



**TAWALA ZA MIKOA NA SERIKALI ZA MITAA  
HALMASHAURI YA WILAYA YA RUANGWA**

**Unapojibu tafadhali taja:**

**Kumb Na. HWR/E.1/7VOL.XXI/244**

**01/10/2024**

**Ephelo L. Mwaweza,  
S.L.P 51,  
Ruangwa.**

**KUH: MAOMBI YA UTAFITI.**

Tafadhali rejea barua yako ya tarehe 23/09/2024 yenye mada sawa na hapo juu.

2. Kwa barua hii napenda kukujulisha kuwa maombi yako ya kufanya utafiti yamekubaliwa, Utafanya Utafiti wako unaohusu sababu zinazoathiri utifu wa kodi miongoni mwa Wafanyabiashara wadogo na wa kati katika Halmashauri ya Ruangwa, kuanzia 24 September, 2024 hadi 30, October 2024.

3. Halmashauri ya Wilaya ya Ruangwa haitahusika Na Gharama yeyote katika kipindi chote utakachokuwa unafanya utafiti huo.

4. Hivyo basi, Idara ya Biashara, Viwanda na Uwekezaji itakupa ushirikiano wakati wa zoezi lote la utafiti wako.

5. Nakutakia kazi njema.

**Frank E. Komba**

**Kny.Mkurugenzi Mtendaji (W)**

**Nakala:**

1. Mkuu wa Idara ya Biashara, Viwanda na Uwekezaji - Kwa taarifa



UNITED REPUBLIC OF  
TANZANIA  
OFFICE OF THE PRESIDENT  
REGIONAL ADMINISTRATION  
AND  
LOCAL GOVERNMENT  
NACHINGWEA DISTRICT  
COUNCIL



*When you answer please specify:*

**Ref. No. LG.P.20/4/VOL.II/170**

**Date: 07/10/2024**

Vice Chancellor,  
The Open University of Tanzania,  
P.O. Box 23409,  
**DAR ES SALAM.**

**RE: RESEACH PLACEMENT FOR MR. EPHELO LUCAS MWAZEZA**

Reference is made to your letter dated on **23<sup>th</sup> Septmber, 2024** concerning the heading above.

I would like to inform you that the request above is accepted, for the student to conduct field reseach from **24<sup>th</sup> Septmber, 2024** to **30<sup>th</sup> October, 2024** as indicated in the request letter.

The student shall report to the Head of Industry, Trade and Investment Division for further instructions,

Warmly welcome.

Lusajo A. Mwakalinga

**For; DISTRICT EXECUTIVE DIRECTOR  
NACHINGWEA**

**Copy** Mr. Ephelo Lucas Mwaweza,  
P.O. Box 23409,  
**DAR ES SALAAM.**

Bomani,MtaawaBoma,S.L.P 291 Nachingwea, Simu: +255732 933 112, Nukushi: +255732 933 112.  
Barua pepe: