THE INFLUENCE OF SOCIAL NORMS AND TAX SYSTEM ON TAX COMPLIANCE. A CASE STUDY OF SMALL AND MEDIUM TAXPAYERS IN TANGA CITY- TANZANIA

MUTATEMBWA WILLIAM

THIS DISSERTATION IS SUBMITTED IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS FOR THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION IN THE OPEN UNIVERSITY OF TANZANIA

2013

CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by the open university of Tanzania a dissertation entitled: "***The influence of social norms and tax system on tax compliance"*** a case study of small and medium taxpayers in Tanga city, in partial fulfillment of the requirement for the degree of Master of Business Administration of open University of Tanzania

………………………………

Prof M.A.M Victor

(Supervisor)

Date………………………..

DECLARATION

I, **MUTATEMBWA, William** hereby declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other university for a similar or any other degree award.

Signature …………………………

COPYRIGHT

No part of this dissertation may be reproduced, stored in any retrieval system, or transmitted in any form by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the author or the Open University of Tanzania in that behalf.

ACKNOWLEDGEMENTS

DEDICATION

To my family, Mr T. Mutatembwa and Mrs C.Mutatembwa as well as to my brother and sisters Upendo, Tumaini, Esta and Anderson for their prayers and encouragement during the conduct of this study.

ABSTRACT

Governments derive its major part of revenue from tax. A tax is compulsory and mandatory contribution to the government from its subjects. It is mandatory to the sense that there is a legal document giving the government the mandate to collect such contribution. Imposition of tax, therefore, creates a tax liability upon those who are liable to pay the imposed tax .A tax liability is always expressed in monetary terms, and it is worth noting here that any monetary liability creates burden. Although it is said that the only things certain in life are death and taxes it is unmistakable that taxes are far from inevitable .Individuals do not like paying taxes and they take variety of actions to reduce their tax liabilities. The problem of tax compliance is as old as taxes themselves. Therefore this explains that tax non compliance started when taxes started. Non tax compliance is a serious problem that cannot be studied and understood by simple analysis. This was the basis for the researcher to investigate how social norms and tax system influence the level of tax compliance among small and medium taxpayers in Tanzania Specifically in Tanga city using descriptive and correlation analysis. Data was collected from representative sample of 108 small and medium taxpayers in Tanga city under categories of retailers, wholesalers, manufactures and service providers. Using descriptive and correlation analysis for components of social norms and tax compliance, tax system and tax compliance and lastly social norms and tax system it was determined that there is positive relationship between the selected components of social norms and tax compliance, tax system and tax compliance and lastly social norms and tax system The study concludes that, there is significant existence of positive relationship between social norms, tax system and tax compliance.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

IRS   Internal Revenue Service

RM   Regional Manager

TRA   Tanzania Revenue Authority

CHAPTER ONE

INTRODUCTION

1.1 Background to the Problem

Governments derive its major part of revenue from tax. Tax is compulsory and mandatory contribution to the government from its subjects. It is mandatory to the sense that there is a legal document giving the government the mandate to collect such contribution. However if carefully analysed this definition may include such payments as fine and penalties paid to government .The most dependable definition was given by Hugh Dalton stating tax as a compulsory contribution imposed by public authority, irrespective of the exact amount of service rendered to the taxpayer in return and not imposed as a penalty for any legal offence.

Imposition of tax, therefore, creates a tax liability upon those who are liable to pay the imposed tax .A tax liability is always expressed in monetary terms, and it is worth noting here that any monetary liability creates burden. In other words imposition of tax creates a tax burden on taxpayers.

No government can announce a tax system and then rely on taxpayers 'sense of duty to remit what is owed. Some dutiful people will undoubtedly pay what they owe, but many others will not (Slemrod, 2007). Over time the ranks of the dutiful will shrink, as they see how they are being taken advantage of by the others. Thus, paying taxes must be made a legal responsibility of citizens, with penalties imposed on noncompliance. But even in the face of those penalties, substantial tax evasion exists and always has. The history of taxation is replete with episodes of evasion, often notable for their inventiveness. During

the third century, many wealthy Romans buried their jewelry or stocks of gold coin to evade the luxury tax, and homeowners in eighteenth-century England temporarily bricked up their fireplaces to escape notice of the hearth tax collector (Webber and Wildavsky, 1986).

Although it is said that the only things certain in life are death and taxes it is unmistakable that taxes are far from inevitable (Alm, 1999). Individuals do not like paying taxes and they take variety of actions to reduce their tax liabilities. Some of these actions can be taken as tax avoidance or legal reduction of tax liabilities by practice that can take full advantage of tax codes, such as income splitting, postponement of tax and tax arbitrage across income that faces different tax treatment. Tax evasion includes illegal and intentional actions taken by individuals to reduce their legally due tax obligation. Individuals and firms can evade taxes by underreporting their income, sales or wealth, by overstating deductions or exemptions or credits or by failing to file appropriate tax returns. Tax evasion is difficult to measure, but still there is widespread that tax evasion is extensive and common in nearly all the countries.

1.2 Statement of Research Problem

The problem of tax compliance is as old as taxes themselves (Andreon 1998). Therefore this explains that tax non compliance started when taxes started. Also Nabaweesi, (2006) said that majority of the taxpayers under the presumptive tax system in Uganda have continued to be difficult to monitor and mutate. In Tanzania, taxpayers exhibit varying levels of tax compliance. Social norms and tax system may be serious influencers on the grounds that it may have played big part in tax evasion. This therefore sets the basis for the researcher to investigate how social norms and tax system influence the level of   tax compliance among small and medium taxpayers in Tanzania Specifically in Tanga city.

1.3   Objectives of the Study

1.3.1   General Objectives

The main objective of the study is to determine how social norms and tax system influence tax compliance among small and medium taxpayers in Tanga city, Tanzania.

1.3.2   Specific Objectives

The specific objectives of the study are hereunder;-

1.   To determine the relationship between social norms and tax compliance.

2.   To determine the relationship between tax systems and tax compliance.

3.   To determine the relationship between tax systems and social norms.

1.4   Research Questions

1.   What is the relationship between social norms and tax compliance?

2.   What is the relationship between tax systems and tax compliance?

3.   What is the relationship between tax systems and social norms?

1.5   Significance of the Study

This study will help TRA to identify the existing level of tax compliance and how social norms and tax system influence that level of tax compliance. Apart from that it will also help taxpayers to know how their social norms and existing tax systems influence their tax compliance. Proper understanding of those facts that leads to tax evasion will guide the policy makers to provide easy instructions/conditions and system or enact laws that will combat tax evasion.

1.6 Organization of the Dissertation

The dissertation is made up of five chapters. Chapter one introduces the study by discussing background to the study, the statement of the problem, purpose of the study,

research objectives and research questions. Chapter two is a review of the variables under study which are social norms, tax system and tax compliance. From the works of various scholars and academicians the variables are discussed and the relationship between them derived. Chapter three describes the methodology used by the researcher to collect data in order to achieve the objectives of the study. This chapter describes the research design, study area and population, the sample size, sampling design, data sources and data collection methods as well as methods of presentation, interpretation and analysis of the findings. Chapter four will include presentation, analysis and discussion of research findings and lastly chapter five will include summary, conclusion and recommendation.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The purpose of this Chapter is to discuss the main concepts which have been offered to account for the notion of tax compliance in Tanzania. Literature review for the rationale of developing the conceptual framework of this study dwells on theoretical and empirical evidence from the discussions on tax compliance, social norms and tax system. The chapter will also wind up by presenting a theoretical framework and a conceptual model derived from reviewed literature. The theoretical framework is aimed at analyzing the influence of social norms and tax system on tax compliance.

2.1.1   Tax Compliance Defined

Tax compliance typically means, true reporting of the tax base, correct computation of the liability (accuracy), timely filing of the return, and timely payment of the amounts due i.e. timeliness (Franzoni, 1999). Tax compliance in respect to income tax is defined as the ratio of declared income to actual income (Chang *at el*, 2000). Tax non-compliance or evasion, on the other hand, happens when taxpayers intentionally fail to comply with their tax obligations, resulting to loss of revenue, which may cause serious damage to the proper functioning of the public sector (Franzoni, 1999).

Tax non-compliance can be addressed from a variety of perspectives, including prevailing social norms and morals, complexity of tax laws and regulations, ethical and sociological motivations, audit rates and penalties. Most of the analysis of non-compliance has focused on how non-compliance or evasion is deterred through detection and sanctions (Franzoni, 1999), which approach cannot satisfactorily explain non-compliance among taxpayers.

Alm, *at el* (1995), have come up and said that, tax compliance cannot be explained entirely by levels of enforcement.

2.1.2 Social Norms and Tax Compliance

Social norms refer to injunctive norms (Cialdini *at el*, 1991) that is normative prescriptions regarding tax compliance or, conversely, the normative acceptability of noncompliance. Likewise, it has been argued that social norms, that is, the perceived practice or endorsement of evasion among reference others, impact on tax compliance (Wenzel, 2004). Social norms, if internalized, should reduce the perceived opportunity structure and, as mentioned, reduce the will to cheat on taxes. Social norms have usually been studied as the perceived prevalence or acceptance of tax evasion among a reference group (DeJuan, *at el* 1994; Porcano, 1988; Webley *at el*, 2001); or as naturally varying between different cultural or sub cultural groups (Alm, *at el*, 1995). In either case, the evidence is only of a correlation nature and we do not know whether social norms causally affect one's taxpaying behavior or whether social norms are constructed so as to explain and justify the behaviour.

None the less following the logic of the moral/social actor view, social norms should influence taxpaying behavior, when they are internalised through a process of identification with the relevant social group (Wenzel, 2004). That is, perceived social norms which will causally affect tax compliance when taxpayers are identified with the group to which the norms are attributed. The causal effect will be mediated by the internalisation of social norms through which they become part of the taxpayer's own individual make-up. However, from a sociological perspective, it is often assumed that human behavior is determined by social norms to a substantial extent. Sometimes this also includes tax behavior as well as other economic behavior (Etzioni, 1988).

In this literature, it is argued that tax evasion, or tax compliance, is determined by prevailing social tax norms to a substantial extent. For example, McClelland *at el* (1999) turn to social norms of tax compliance in order to understand the puzzle that underreporting is not higher than it is, considering the low likelihood of detection and the weak penalties for tax cheating in most countries. Smith & Kinsey (1987) develop a social-psychological model for taxpaying behavior where normative expectations are given a central position. Lewis (1982) takes a similar position. Wentworth & Rickel (1985) conclude that norm commitment may be a crucial factor in the decision to comply with or evade legally mandated taxes. McKee *at el* (1992) give experimental evidence for such a conclusion, and Frey & Weck-Hanneman (1984) draw the same conclusion based on tax surveys. They found that their measure of tax morality was significantly related to the size of the hidden economy, estimated with the technique of unobserved variables.

According to Edlund & Åberg (2002), Taxpayers have a sense of reciprocity. Hence, they are less resistant to earmarked taxes where they perceive the benefit of a tied government service. Another example of is that people are more likely to comply with a tax when they perceive that other taxpayers comply (Cummings *et al*., 2004), the evidence that norms affect tax compliance. For example, people tend to contribute to public goods when they perceive that others contribute, even though they would maximize their own return by not contributing.

However the process of formation of norms and moral values related to tax behavior has, to our knowledge, not been empirically studied and the arguments claiming that norms exert strong influences on tax behavior are not totally convincing (Hessing *at el*, 1988). The authors cast further doubts on the effectiveness of social tax norms in affecting tax behavior.

While according to Alm *et al.,* (2006) the existence of social norms suggests that citizens will comply as long as they believe that compliance is widespread and thus the accepted social norm. Social norms have usually been studied as the perceived prevalence or acceptance of tax evasion among a reference group (DeJuan *at el*, 1994; Porcano, 1988; Webley *at el*, 2001); or as naturally varying between different cultural or sub cultural groups (Sanchez *at el*, 1995).

Taxation is thus a key arena for the development of norms of generalized state-society reciprocity, defined as "a continuing relationship of exchange that is at any given time unrequited or imbalanced, but that involves mutual expectations that a benefit granted now should be repaid in the future" (Paler, 2003).

2.1.3   Tax System and Tax Compliance

A central issue in public economics is the appropriate design of a tax system. Such a system is usually viewed as balancing the various desirable attributes of taxation, taxes must be raised (revenue-yield) in a way that treats individuals fairly (equity), that minimizes interference in economic decisions (efficiency), and that does not impose undue costs on taxpayers or tax administrators (simplicity).

It is widely acknowledged that the extent of tax compliance in many developing countries has been decreasing. The underdeveloped tax system/structure is one of the major causes for this phenomenon. In the Fischer Model, the effectiveness of tax system is affected by complexity of tax system, probability of detection and penalties and tax rates.

As the tax law has become increasingly complex, complexity has come to be recognized as a possible reason for tax noncompliance (Jackson and Milliron, 1986). In the context of

tax compliance decisions, complexity should include two dimensions, excessive detail in the tax rules and numerous computations required. Taxpayers should be able to understand the tax rules for computations by which they are to be taxed. These tax rules should aim to be simple, understandable and clear in order to enhance tax compliance.

In general, complexity of tax system should increase as the number of criteria specified by tax laws increase. Clotfelter, (1983) reveals that complexity of tax system has been associated with greater underreporting of tax. Milliron, (1985) also finds that complexity has a significant effect on tax compliance decision. Richardson, (2006) also reports that tax law complexity is significantly related to tax evasion.

In general, higher audit probabilities and severe penalties encourage tax compliance. Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Individuals normally would like to evade their tax liabilities entirely and the only reason they might not do so is that there is some non-zero probability of being caught (Massimo, 1993). Raising the probability of detection will increase tax compliance and tax audit represents one of the effective detective measures used by tax authorities (Alm, 1991).

 In fact, tax audits are considered to have both direct deterrent effect on the taxpayers actually audited and indirect deterrent effect on taxpayers not audited (Alm et al., 2004). Witte and Woodbury, (1985) find a significant positive relationship between the risk of tax audit and the rate of voluntary tax compliance. However, the study by Beron et al. (1990) reveals that tax audit exert only a modest positive effect on tax compliance. Another important factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of penalties prohibits tax noncompliance

behavior. Establishing an effective system to penalize tax evaders is an important measure to encourage tax compliance. Taxpayers will be more likely to comply if noncompliance may result in severe penalties. According to the theoretical work conducted by Allingham and Sandmo (1972), tax compliance can be increased by increasing the penalties associated with it. To be effective, penalties must be applied speedily and forcefully. Witte and Woodbury (1985) report a significant relationship between the severity of criminal sanctions and tax compliance. Other studies by Grasmick and Scott (1982) and Tittle (1980) also indicate that respondents acknowledging some form of tax noncompliance are less likely if such acts would result in severe penalties. The experimental studies conducted by Hasseldine et al. (2007) also show that severity of sanctions has significant effects on tax compliance behavior.

Another major construct of tax system/structure in the Fischer model is tax rates. Empirical evidence has suggested that progressive versus flat tax rate is the significant structural variable in association with tax compliance behavior (Clotfelter, 1983). Research using experiments typically find that high tax rates are linked to less tax compliance (Friedland et al., 1978). Using the audited tax returns for individual taxpayers in Jamaica, Alm et al. (1993) also reveal that the probability of underreporting and the level of underreporting are positively related to the marginal tax rate.

2.2 Tax Compliance Evaluation

Levels of tax compliance among different group of people and from different location do differ. To understand difference in tax compliance, the following sections evaluate tax compliance from different perspectives. From the evaluated tax compliance level from different perspectives researcher will be able to understand the general tax compliance level worldwide, Africa and at country level.

2.2.1 Tax Compliance in Worldwide Perspective

Questions about tax compliance are as old as taxes themselves and will remain an area of discovery as long as taxes exist. To understand the impact of a tax system, it is important to know who complies with the tax law as well as who does not. Tax evasion is a large and growing problem in almost all countries. Unfortunately, we know very little about tax morale. Economists see the problem as one of rational decision made under uncertainty. This means that cheating on taxes is a gamble paying off in lower taxes or, with the probability of detection, ending in sanctions. This view of taxpayer behavior was first presented in a formal model by Allinghamand Sandmo (1972), influenced by the economics-of-crime approach (Becker 1968). Nevertheless, such a portfolio analysis cannot explain why many households comply more fully than predicted by this approach.

2.2.2 Tax Compliance in Africa

Most African countries face a trilemma with respect to taxation. One there is an urgent and Obvious need for more revenues to enable resource poor states to provide and maintain even the Most basic public services. Two the reality is, however, that those with political power and economic ability are few and do not want to pay tax. Three moreover, those without political power are many, have almost nothing to tax, and do also resist paying taxes. The trilemma is amplified by three trends common to many African countries (Fjeldstad et al.,2000). One is a recent process of democratization, which, if western experiences hold, will have profound implications for taxation. It is likely that governments, seeking power on the basis of popular consent, face restrictions in their use of coercion in tax collection. The other is that aid flows, which presently constitute more than half of state budgets in some countries, are declining, making tax revenues even more important for state incomes. Aid flows are, furthermore, increasingly conditioned on improved domestic revenue mobilization.

The third trend is that globalisation leads to increasing integration of the world's goods and capital markets. Countries shave to adhere to international trade and investment agreements. These developments impose severe constraints on the ability of developing economies to choose their own tax policy directions. It follows that the challenge for taxation is to raise domestic revenues from consenting citizens in poor and increasingly open economies. It should be added that most of these economies are not growing rapidly. Elected governments in African countries are therefore facing hard choices about taxation. These decisions will most likely have profound impacts on the future of democratization itself and on public service provision. They will also have considerable implications for the politics and sustainability of aid.

2.2.3   Tax Compliance in Tanzania

Odd-Helge (2006) showed that, the tax base in Tanzania tends to be narrow, excluding relatively important sectors in the economy that are not fully monetized or incorporated in the formal economy, such as large segments of agriculture, small-scale trade and services. Moreover, tax evasion by large segments of the formal economy is particularly widespread in the trade sector and among self-employed professionals and property owners, and tax exemptions are still common. Thus, if the tax net captures only half of the economic activity (not an unreasonable estimate), a 20 percent tax ratio translates into a 40 percent ratio on the average for those who pay taxes.

2.2.4 Evaluation of Tax Authorities

Motivational postures have been used in past research to capture the way regulatees position themselves in relation to regulatory authority (Braithwaite etal., 1994; Braithwaite, 1995). Authorities may have legal legitimacy, but this does not guarantee them psychological legitimacy. Individuals and groups evaluate authorities in terms of

what they stand for and how they perform. As evaluations are made, revised, shared and accumulated over time, individuals and groups taxing democracy develop positions in relation to the authority. A psychological concept that is central to positioning is social distance (Bogardus, 1928).This term was used to refer to the degree to which individuals (or groups) had positive feelings for other ethnic groups and ascribed status to other ethnic groups.

In the regulatory context, social distance indicates liking and the ascription of status to the regulatory authority. When individuals and groups decide how much they want to associate or be aligned with an authority, and how much they want to be out of reach of and out of contact with the authority, they are indicating the social distance they wish to place between themselves and the authority. The distance placed between regulatee and regulator may be intuitive at first, but it does not remain that way for long. Individuals and groups articulate their beliefs, develop rationalisations for their feelings, and use values and ideologies to justify the ways they position themselves in relation to legally sanctioned authorities (Sykes and Matza, 1957; Rokeach, 1973; Griffin and Buehler, 1993; Bersoff, 1999).

These interconnected sets of beliefs and attitudes are shared, borrowed, challenged, and elaborated upon even further as part of the social life of a community. The interconnected sets of beliefs and attitudes that are consciously held and openly shared with others are called motivational postures. Five motivational postures have been identified as important in the context of taxation compliance: (a) commitment, (b) capitulation, (c) resistance, (d) disengagement, and (e) game playing. The two postures that reflect an overall positive orientation to authority are commitment and capitulation. Commitment reflects beliefs about the desirability of tax systems and feelings of moral obligation to act in the interest

of the collective and pay one's tax with good will. Capitulation reflects acceptance of the tax office as the legitimate authority and the feeling that the tax office is a benign power as long as one acts properly and defers to its authority.

In contrast to these postures of deference, are three postures of defiance. The first is the familiar posture of resistance. Resistance reflects doubts about the intentions of the tax office to behave cooperatively and benignly towards those it dominates and provides the rhetoric for calling on taxpayers to be watchful, to fight for their rights, and to curb tax office power. Disengagement is also a motivational posture that communicates resistance, but here the disenchantment is more widespread, and individuals and groups have moved beyond seeing any point in challenging the authorities. The tax office and the tax system are beyond redemption for the disengaged citizen, the main objective being to keep both socially distant and blocked from view.

The fifth posture is game playing. Unlike the previous postures, game playing has not been examined in other regulatory contexts, emerging instead from discussions about posturing with tax officials and taxpayers. The behaviours previously have been described by social scientists working in fields involving economic regulation (McBarnet, 1992; McBarnet and Whelan, 1999). McBarnet sees game playing as a particular kind of attitude to law. Law is seen as something to be moulded to suit one's purposes rather than as something to be respected as defining the limits of acceptable activity. Game playing was included as a motivational posture for the purposes of testing whether or not players consciously adopted this style of engagement with the tax system and the tax office.

2.3 Theoretical Framework

In my study theoretical framework will explain how variables under study behave. Two

theories are going to be discussed namely standard theory of tax compliance and prospect theory. Standard theory of tax compliance will explain how personal income, tax rate, probability of being audited, fine and government expenditure affects tax compliance. On other side prospect theory will discuss how individual decision making process do affect tax compliance.

2.3.1 The Standard Theory of Tax Compliance

The standard theory of tax compliance is based on the work of Allingham and Sandmon, (1972). With this theory an individual is assumed to have a fixed endowment of income I, and must choose the amount to report to the tax authorities. Declared income D is taxed at the rate t. undeclared income is not taxed but the individual may be audited with probability p, at which point a fine f is imposed on each unit of unpaid taxes. The individual chooses D to maximize the expected utility of the evasion gamble.This framework suggests that there is demend of declared income that depends upon I, t, p, and f.

D= D (I, t, p, F)

It is straight forward that D increases with increase in the probability of detaction of penalty rate ,while the impact of t and I depends upon the individual attitude toward risk. Nearly all imperical work is based on this general specification.

There are also other factors that seem likely to affect the compliance decision. An obvious and largely neglected factor is government expenditures. As emphases by Cowell and Goldon (1988) "this seems a curious oversight ,since while the government takes away it also give back, and the latter activity surely exerts some influence on evasion. The demand for declared may therefore be modified to reflect the individual's receipt of government expenditures G:

D= D (I, t, p, F, G)

Among the variables discussed in this theory tax rate "t" and penalty rate "f" are ingredients of tax system. It is therefore from this theory tax system may influence the level of tax compliance. Individual will choose the Income to report D depending on among many factors the tax rate "t" and penalty rate "f".

2.3.2 Prospect Theory

Prospect theory recognizes that individuals have limited cognitive abilities and the theory envisions an editing step in the decision process that helps the decision maker simplify the process. In the editing step, the decision maker may simplify the decision by attending to only some factors, ignoring others, and encoding aspects into meaningful forms such as gains or losses. Most applications of prospect theory in the tax compliance research area have examined the violation of the expected utility tenet of description invariance, called the "reflection effect" (gain/loss framing effect). That is the same outcome can be edited as either a gain or a loss depending on the reference point presented in the decision frame, and a different decision is likely depending on the frame adopted. The decision maker focuses on changes in wealth or welfare from the reference point (current wealth position) rather than focusing on the final wealth state.

Income then is not the only argument of the cardinal utility function, and marginal utility is not always positive and strictly decreasing. Rather, prospect theory proposes that individuals will display a value (utility) function that is concave for gains and convex for losses, with' the latter being steeper than the former. The shape of this value function suggests that individuals will be risk averse for gain frames and risk seeking for loss frames, where risk averse is defined as preferring a certain choice over a risky choice of equal or greater value (Kahneman and Tversky,1979).

The framing effect described by prospect theory is by no means 'considered to be universal (Tversky and Kahneman, 1982). It is merely descriptive of how some individuals will be behave some of the time. Other factors, such as social norms, ethics, and personal characteristics, may affect how a decision is edited and thus affect the ultimate decision made. Failing to consider these factors, much of the tax research examining framing effects has produced inconsistent findings (Chang *at el,* 1987; Schepanski and Kelsey, 1990, Casey and Scholz, 1991).

The conclusions that can be drawn from prior research may be summarized as follows, one specific ethical values differ from individual to individual, two specific ethical values correlate highly with self reported tax compliance, three specific ethical values can limit the choices considered in decision making, four the findings regarding the effect of tax rates on taxpayer compliance are inconclusive and five the findings regarding the applicability of the prospect theory framing effects to tax behavior are inconsistent.

It is proposed that ethical beliefs are one of the screening factors that taxpayers use in the editing phase of decision making. Ethical values set bounds on behavior and reduce analysis of choices by eliminating all alternatives that are not congruous with the ethical beliefs held by the decision maker. Thus, taxpayers may edit out of the possible choices all those that are not viewed as consistent with their moral duty of tax compliance. However, not all taxpayers will view tax evasion with the same sense of morality. Many taxpayers pay little attention to tax matters and may not even view tax evasion as an ethical issue. Likewise, their ethical values may be much more tempered by situational exigencies than idealistic expectations. For these taxpayers, the context in which the decision is made will have a greater effect on the outcome (Scholz, 1985; Smith, 1990).

Prospect theory suggests that the yearend withholding position of a taxpayer can be framed as a gain (receive a refund) or as a loss (taxes due), and this framing can affect the taxpayer's compliance decisions when filing an annual tax return. The theory predicts that taxpayers would be risk averse in a refund situation and risk seeking in a taxes due position.

2.4 Research Gap

While rarely examined, it is often taken for granted that social norms have a significant explanatory impact on tax evasion behavior. The purpose of this research is to analyze the relationships between social norms, tax systems and tax compliance. Tax compliance is a concern to governments around the world. Prior research has attributed unexplained inter-relationships and differences in compliance rates to differences in social norms and tax systems.

Therefore addressing this knowledge gap is the primary purpose of this study in order to find out how social norms and tax system influence tax compliance behavior in Tanzania especially in Tanga city.

2.5 Conceptual Framework

This study proposes a conceptual framework which consists summarized number of relationships discussed in the previous reviews of literature and theories.

Other Variables
E.g. Age, Gender, Education

Taxpayer Compliance Behavior

Social norms

Tax System/Structure
Complexity of the tax system, Probability of Detection and Penalties, Tax Rates
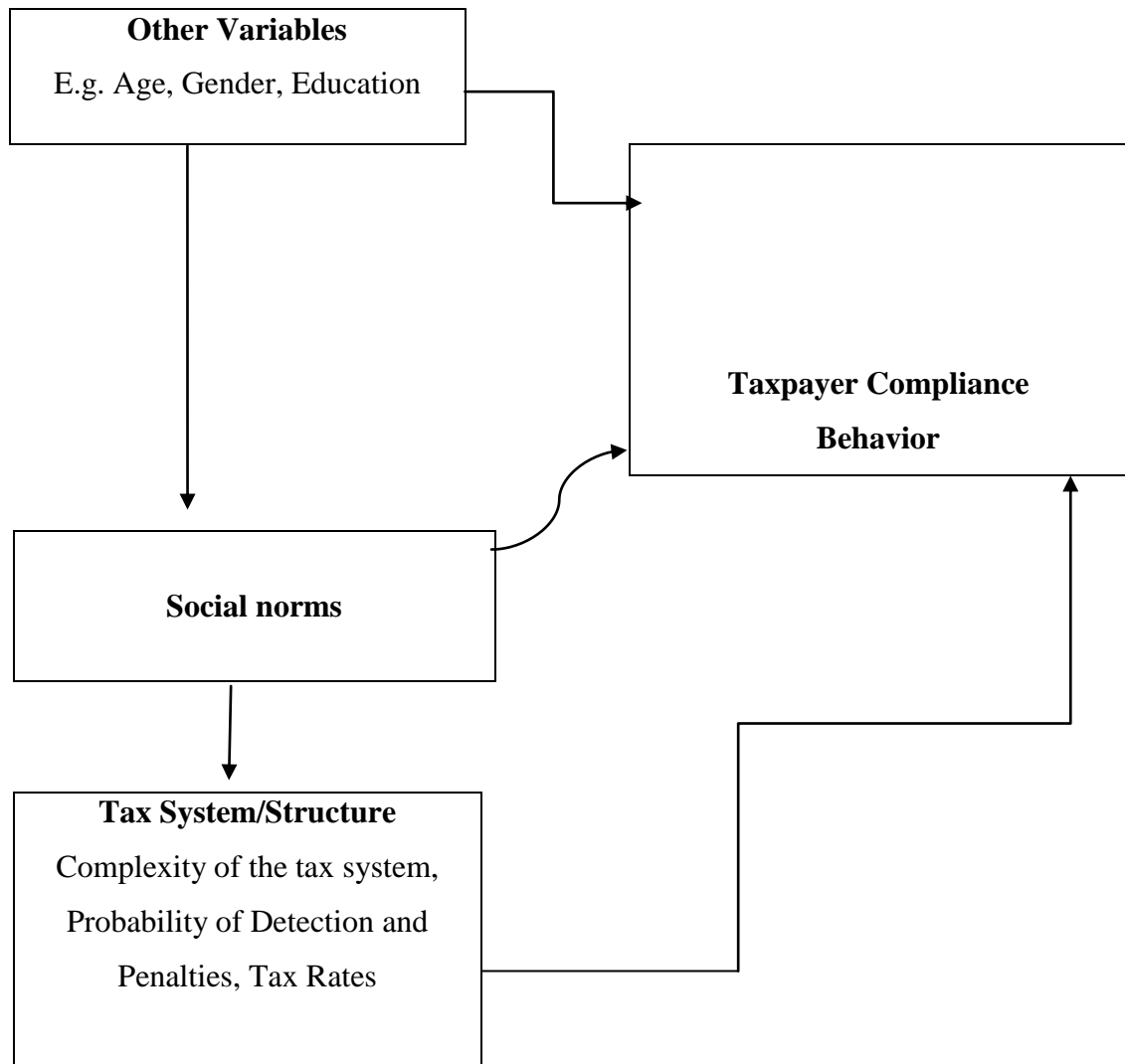
Figure 2.1: Conceptual Framework (Fisher,1992)

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the methods and techniques used in this research. The study methodology of this research is correlation and descriptive analysis. Also the chapter explains the study area, approach of data collection, tools for data collection, sampling design, data analysis and presentation procedures of results.

3.2 Study Area

The selected area for the research was Tanga city which is among the seven districts in the Tanga regions located in the northern coast of Tanzania. The city is located between Latitude: 54' 0. 012" S, Longitude: 396'0. 000" E. It is bordered to the East by the Indian Ocean and bordered to the North by Kenya(Mombasa) , West by Kilimanjaro region and South by Korogwe and Handeni Districts. According to the 2002 Tanzania National Census, the population of the Tanga city was 243,580. Currently the city is having 7,124 live taxpayers divided in three blocks, namely Mkwakwani with 1547 taxpayers, Ngamiani with 3065 taxpayers and Chuda with 2512 taxpayers (RM TRA Tanga, 2012). The selection of study area considered many factors including the presence of required taxpayers in all sectors and categories to be studied, accessibility due to good city planning and good infrastructure. Other factors were easy accessibility of secondary data from tax authority and so far the study has not been conducted in the city.

3.3 Source of Data

This study used both primary data which was originally collected from the field and secondary data of which its nature is merely that of compilation of others work on the

subject. For the purpose of this study the details of the two sources of data follows under the next subsections.

3.3.1 Primary Data

Primary data used in this study was collected from a cross section of current small and medium taxpayers through structured questionnaire to taxpayers operating their businesses in Tanga city. Information obtained included but was not limited to business experience of respondent, nature of business, social perception on tax matters, existing tax system, follow up of due dates for payment of taxes, role of tax consultants and tax officials, total tax compliance costs, etc.

3.3.2 Secondary Data

Secondary data were obtained from existing literatures on the subject. The literatures were obtained from various source e.g. websites and library. Also data from tax Authority was of great importance on the subject specifically number of taxpayers, type of taxpayers, tax payment due dates monitoring etc. Other relevant published and unpublished reports were visited.

3.4 Sample Size

The sufficient numbers of taxpayers were needed to be considered so as to yield estimate of reasonable precision. Total population was comprised by 7,124 taxpayers in Tanga city, divided in three blocks namely Mkwakwani, Ngamiani and Chuda, each block was comprised of four sub blocks. To be more effective Tabacknicks and Fidell (2001) suggested that it is not the overall sample size that is of concern rather the ratio of subject to items. Recommendation was five (5) cases for each item. Therefore, for twenty core subject items discussed at least 100 respondents were enough to draw unbiased conclusion, the sample size taken therefore was 108 respondents.

Also the sample size consider the following basic characteristics, a truly representative sample, a Sample which results in a small sampling error, a Sample which is viable in the context of funds available for the research study, a sample of which systematic bias can be controlled in a better way, and a Sample which results of the sample study can be applied in general for the universe with a reasonable level of confidence. In consideration of the mentioned characteristics the sample size was comprised of 108 correspondents under the following categories.

Table 3.1 Sample Size

S/no	Category	Number of Respondents
3	Manufactures	3
4	Whole sellers	28
5	Retailers	50
6	Service providers	27

Source : Field data 2013

3.5 Sampling Technique

A multi stage sampling technique was used to select the respondents, stratified sampling was applicable and our strata were of Manufactures, wholesalers, retailers and service providers. Random sampling was then used to select respondents from the identified stratus to fill questionnaires.

3.6 Data Analysis

Quantitative data collected was analyzed using SPSS of which the researcher was able to draw patterns of relationships on the subject. Descriptive analysis by frequency was used to study the characteristics of the sampled population including age, sex, type of respondent etc. Also description by graphs and charts were used to describe individual

components of social norms, tax system and tax compliance of which relationship between components were discussed. In most social and business researches our interest lies in understanding and controlling relationships between variables then with determining causes per se and as such it is considered correlation analysis as relatively more important.

Under this study two tailed Pearson's Correlation analysis was used to describe the strength and direction of the relationship between the selected variables and the significant coefficients were flagged. For three components under study its components indicators were selected to be correlated to one another. Under relationship between social norms and tax compliance, social norms component were taken as independent variables and correlated to dependent components of tax compliance. On other hand, under relationship between tax system and tax compliance, tax system component were taken as independent variables and correlated to dependent components of tax compliance. Lastly Under relationship between social norms and tax system, social norms components were taken as independent variables and correlated to dependent components of tax system. Correlation coefficients (r) can take values from -1 to $+1$. The sign out the front indicates whether there is a positive correlation or a negative correlation. The size of the absolute value provides an indication of the strength of the relationship. A perfect correlation of 1 or -1 indicates that the value of one variable can be determined exactly by knowing the value on the other variable. On the other hand, a correlation of 0 indicates no relationship between the two variables.

3.7 Data Presentation

Research report is a major component of the research study. As a matter of fact even the well formulated hypothesis, highly well designed and conducted research study, and the most striking generalizations and findings are of little value unless they are effectively

presented and communicated to others. The findings were presented by tables, matrixes and figures. Notes on qualitative information were presented whenever seen necessary by the researcher.

CHAPTER FOUR

4.0 PRESENTATION AND DISCUSSION OF FINDINGS

4.1   Introduction

This Chapter presents analytical findings from the study sample in order to determine the relationship between social norms, tax system and tax compliance. It begins with analyzing the general characteristics of the sample study, descriptive characteristics of individual components and lastly correlating the variables under study.

4.2 Demographic Characteristics

Demographic characteristics will address the category of respondent, age of respondent, sex and marital status of respondent, educational level of respondent, age and type of business and lastly taxpaying category of respondent.

4.2.1 Category of Respondent

From table 4.1 most of the businesses in Tanga are operated by owners comprising of 63.9% followed by managers 30.6% and directors with 5.6 %. Therefore, most of selected business were not large enough to employ others to operate on behalf of owners, this signify little or no separation of duties in most of businesses operations of small and medium taxpayers.

Table 4.1: Category of Respondent

Category of respondent	Frequency	Percent
Owner	69	63.9
Manager	33	30.6
Director	6	5.6
Total	108	100

Source: Field data 2013

4.2.2 Age of Respondents

Figure 4.1 classifies respondents according to their age, from the pie chart most of business owners are aging between 35 to 60 which make more than 60% of the sampled population followed by age of 18 to 35 taking approximately 40%.Age of 60 and above do not own or operate businesses in Tanga. This signify that it takes time to the age of above 18 years old to own a business and it needs physical and mental strength of not exceed age of sixty to operate the same. From the sample taken all businesses are not owned or operated by individuals bellow the age of 18.
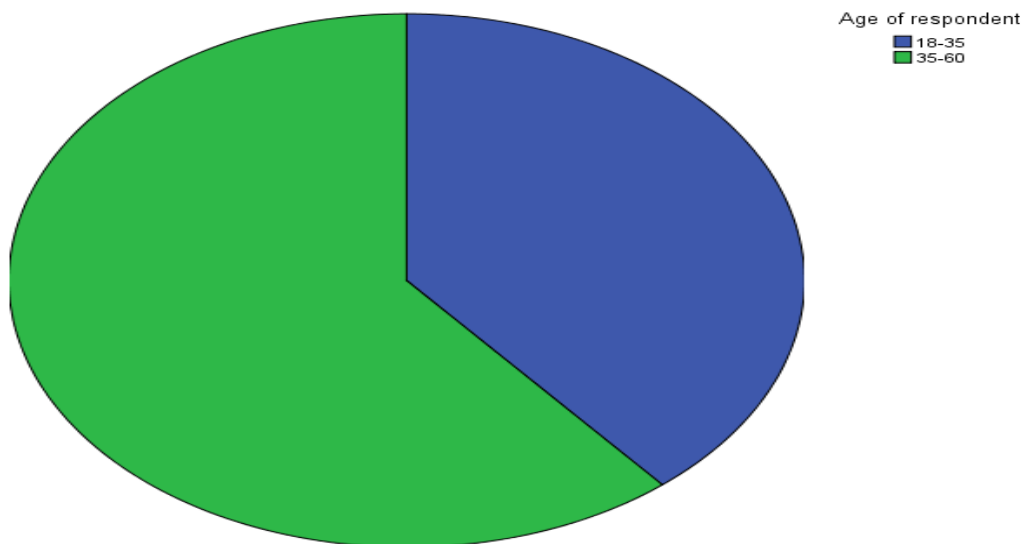
Figure 4.1:Age of Respondents

Source: Field data 2013

4.2.3 Sex of Respondents

As presented in table 4.2, most of the respondents were male. This accounted for a proportion of 77.8% as compared to 22.2% of the respondents who were female. It could be explained that in every four small and medium business enterprises two are owned or operated by men as compared to one by women.

Table 4.2: Sex of Respondents

Sex of respondents	Frequency	Percent
Female	24	22.2
Male	84	77.8
Total	108	100.0

Source: Field data 2013

4.2.4 Marital Status of Respondents

As presented in table 4.3, a significant number of the respondents were married. This accounted for a proportion of 66.7% as compared to 33.3% of the respondents who were single. The observed situation is supported by the fact that most of respondents reached were aging between 35 to 60.Other marital status categories of divorced and widow were not represented in a sample.

Table 4.3 Marital Status

Marital status of respondents	Frequency	Percent
Married	72	66.7
Single	36	33.3
Total	108	100.0

Source: Field data 2013

4.2.5 Educational Level of Respondents

The sampled population educational level as per Figure 4.2 were dominated by those with secondary education who took 52.8% as compared to primary level with 13.9%, certificate level with 22.2% and diploma and above with 11.1%.Simply more than 81% of the sampled population had education above secondary level of which researcher believed was enough for them to understand and take care of their tax affairs.
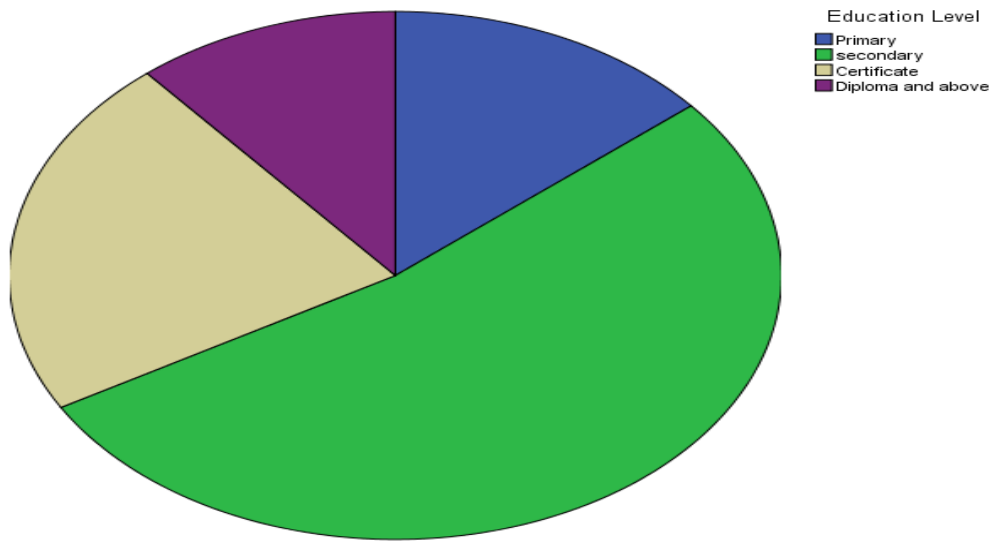
Figure 4.2 : Education Level

Source: Field data 2013

4.2.6 Age of the Business

From the table 4.4, majority of the respondents have been in business for period of 5-9 years represented by 33.3% as compared to 13.9%, 25%,and 27.8% for 0 to 4, 10 to 14 and above 15 years respectively. This explains the low rate of establishment of new businesses, also this explains most of businesses are matured and have existed for more than 5 years.

Table 4.4: Age of Business

Age of Business	Frequency	Percent
0-4	15	13.9
5-9	36	33.3
10-14	27	25.0
15 and above	30	27.8
Total	108	100.0

Source: Field data 2013

4.2.7 Nature of Business

Figure 4.3 classifies businesses according to their nature, this grouping showed that most of small and medium businesses in Tanga is comprised of retail businesses taking 46.3% followed by whole sellers taking 25.9% service providers 25.0%, and manufactures 2.8%.From the chart most of manufactures are not in Tanga and volume of purchase transactions by these existing traders are done from other regions.
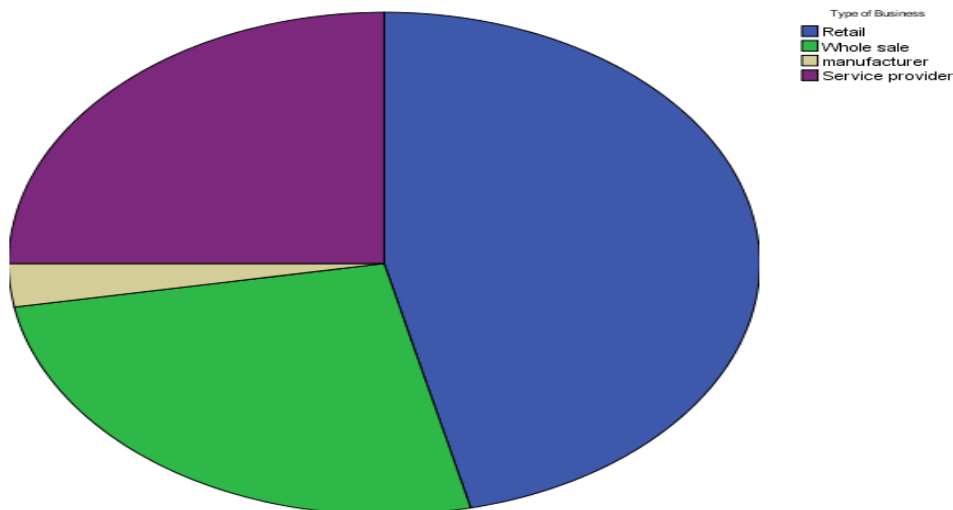
Figure 4.3 :Type of Business

Source: Field data 2013

4.2.8 Nature of Taxpayer

Table 4.5: Nature of Taxpayer

Nature of taxpayer	Frequency	Percent
Presumptive	72	66.7
Accounts case	36	33.3
Total	108	100.0

Source: Field data 2013

Table 4.5 shows that, most of the small and medium taxpayers in Tanga are presumptive taking 66.7% as compared to 33.3% of accounts case. This signifies that almost 67% of the sampled population do not keep proper accounting records or do not keep records at all, the situation endanger tax compliance for most of small and medium taxpayers in Tanga.

4.3 Descriptive Analysis of Study Variables

Under descriptive analysis a number of summary statistics using charts and tables will be seen. The aim at this stage is to describe the general distributional properties of the data collected, to take care of any unusual observations (outliers) or any unusual patterns of observations that may cause problems for later analyses to be carried out on the data so collected. The summary statistics will be done on individual component of variables under study which are social norms, tax system and tax compliance.

4.3.1 Social Norms

Under social norms, selected individual components that form social norms under study are discussed separately in order to assess sample's social norms regarding tax compliance. Expected impact of discussed components to tax compliance is also discussed in each social norm component selected.

4.3.1.1 Commitment of Society to Pay Taxes

Figure 4.4 explains the commitment of society to pay taxes, the figure shows that big part of the sampled population agreed on the statement that, their society is committed to pay taxes followed by those who disagreed and few who strongly disagree and lastly indifference group. This indicates that, sampled population society is committed to pay taxes as expressed by most respondents.
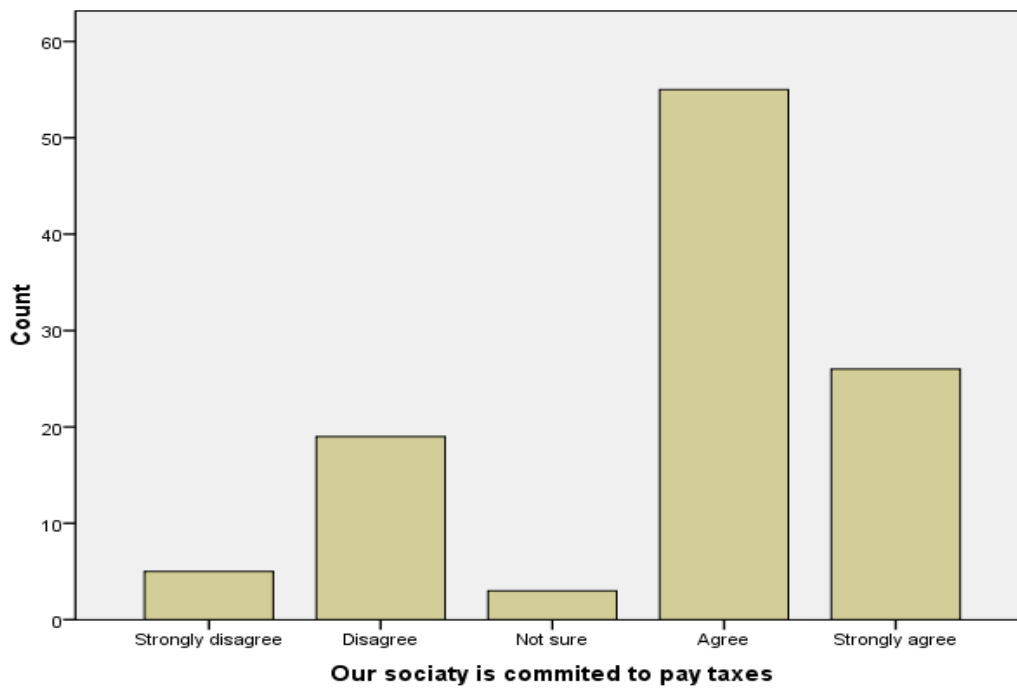
Figure 4.4: commitment of Society to pay Taxes

Source: Field data 2013

4.3.1.2 Influence to Pay Taxes

Table 4.6: Influence to Pay Taxes

our taxpaying behavior is influenced by some members of society	Frequency	Percent
Strongly disagree	16	14.8
Disagree	20	18.5
Not sure	7	6.5
Agree	43	39.8
Strongly agree	22	20.4
Total	108	100.0

Source: Field data 2013

Table 4.6 explains the influence on tax paying behavior, most of the respondents agreed on the statement "our taxpaying behavior is influenced by some members of society" they were followed by those who disagreed, strongly disagreed and lastly not sure group. This display therefore states that, payment or non payment of taxes is the function of key persons in the given society as most of respondent agreed to be influenced in their tax payment behavior.

4.3.1.3 Benefit from Taxes

Figure 4.5 explains if the sampled population benefits from the taxes they pay to TRA. The leading response was agreement to the statement followed by those who were not sure, disagree, strongly disagree and agree. This explains that, the population is benefiting from the taxes they pay to TRA. Despite of those who agreed still there are some respondents who did not felt the benefit of taxes they pay. This figure generally states that, there are benefits from tax payment made and this is expected to increase tax compliance level.
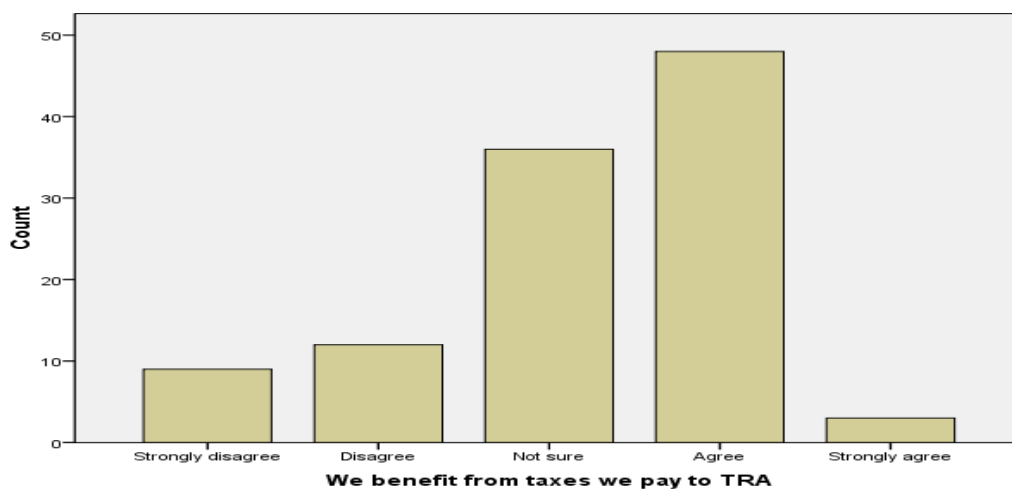
Figure 4.5: Benefit from Taxes
Source: Field data 2013

4.3.1.4 Person Required to Pay Taxes

Figure 4.6 shows the respondents views on the type of person required to pay taxes. From the field it has been observed that most of respondents agreed in their society every person who earns income should pay taxes. Few respondents were not sure, strongly disagreed and strongly agreed. These responses were enough to show society's will to pay tax and its implication on tax compliance is expected to be positive.
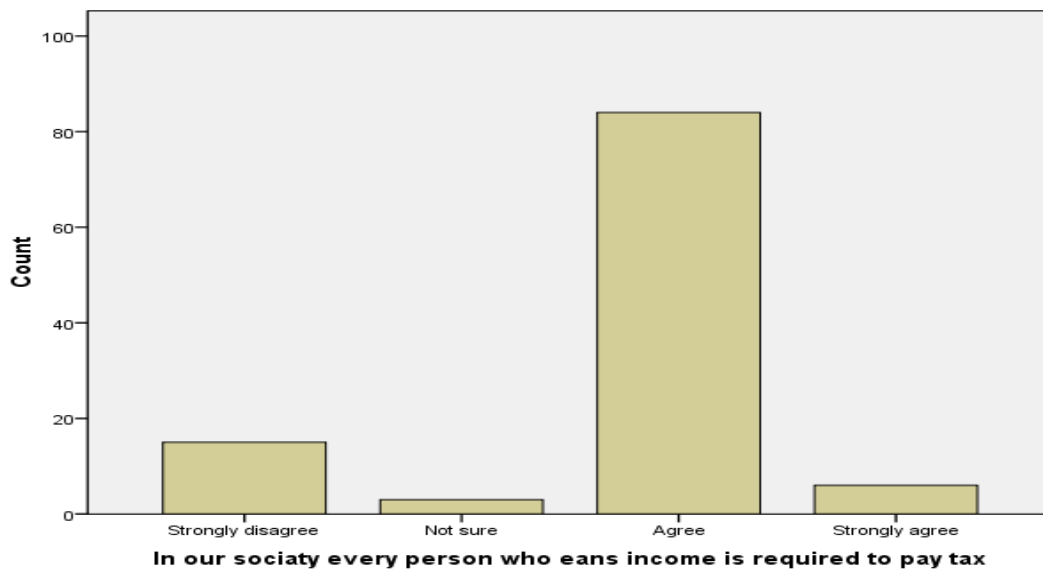
Figure 4.6: Person Required to Pay Taxes

Source: Field data 2013

4.3.1.5 Perception to Tax Evaders

Society's perception to tax evaders is displayed as per table 4.7, 55.6% of the sampled population agreed to have negative perception against tax evaders. Few respondents were in perception to see tax evaders as heroes. This shows that, the sample's society does not support tax avoidance and its implication on tax compliance is expected to be low level of tax evasion.

Table 4. 7: Perception to Tax Evaders

Tax evaders are not seen as heroes in our society	Frequency	Percent
Strongly disagree	27	25.0
Disagree	12	11.1
Not sure	3	2.8
Agree	60	55.6
Strongly agree	6	5.6
Total	108	100.0

Source: Field data 2013

4.3.2.6 Relationship between TRA and Taxpayers

Relationship between TRA and taxpayers was evidenced to be a long term with mutual benefits as displayed in figure 4.7. The following group was those who were not sure on the nature of their relationship with TRA, this group were followed by those who strongly agreed, strongly disagreed and lastly disagreed. This relationship always has great influence on tax compliance as is expected to see high level of tax compliance when there is good relationship between TRA and taxpayers.
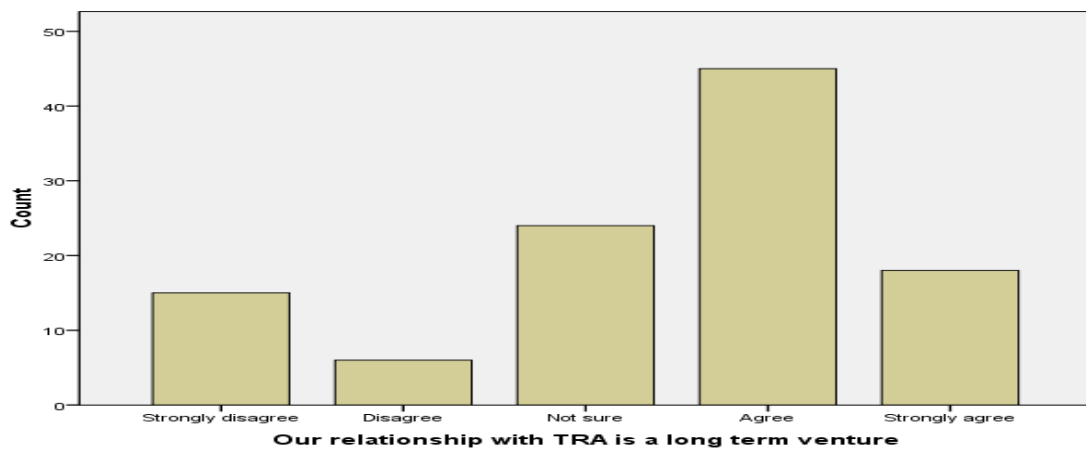
Figure 4.7: **TRA Relationship with Taxpayers**

Source: Field data 2013

4.3.2 Tax System

Under tax system, selected individual components that form tax system under study are discussed separately in order to assess existing relationship between tax system and tax compliance. Expected impact of discussed components to tax compliance is also discussed in each tax system component selected.

4.3.2.1 Tax Calculations and Procedures

Most of the sampled population respondents were able to perform their own tax procedures and calculations as shown in table 4.8 (80.6%). This might mainly be caused by small size of the businesses sampled or simplicity in tax procedures, few of the respondents were using tax consultants or both themselves and tax consultants. Simplicity in tax calculations and procedures is expected to increase level of tax compliance.

Table 4.8: Tax Procedures (Field data)

I perform my own tax calculations and procedures	Frequency	Percent
Strongly disagree	9	8.3
Not sure	6	5.6
Agree	87	80.6
Strongly agree	6	5.6
Total	108	100.0

Source: Field data 2013

4.3.2.2 Number of Taxes Administered by TRA

Table 4.9 explains the reasonableness on the number of taxes administered by TRA. Agreement on reasonableness was above strong disagreement on the statement "taxes administered by TRA are reasonable in number for the authority to manage. These groups were followed by strong agreement, disagreement and not sure groups. Reasonable

number of taxes will reduce compliance cost to both TRA and taxpayers and therefore implies high level of tax compliance among taxpayers.

Table 4.9: Number of Taxes administered by TRA

Taxes administered by TRA are reasonable in number for the authority to manage	Frequency	Percent
Strongly disagree	33	30.6
Disagree	12	11.1
Not sure	6	5.6
Agree	36	33.3
Strongly agree	21	19.4
Total	108	100.0

Source: Field data 2013

4.3.2.3 Tax Collection Methods
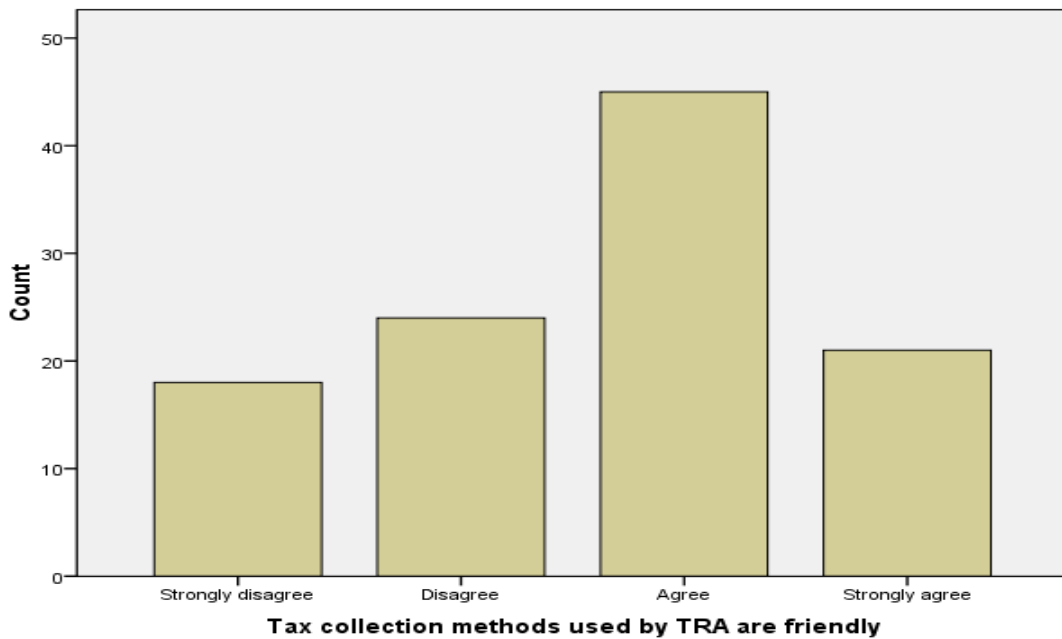
Figure 4.8: Tax Collection Methods Used by TRA

Source: Field data 2013

Sampled population views were as follows, tax collection methods used by TRA are friendly to taxpayers as seen in figure 4.8. This agreement was followed by other responses. This figure gives a credit to tax collection methods used by TRA which in turn is expected to improve tax compliance among taxpayers. This figure implies to have taxpayers who pay their taxes on due dates, pay the actual tax assessed, do not evade taxes etc.

4.3.2.4 TRA Use of Penalties and Offences to Combat Tax Evasion

Agreement to TRA use of penalties and offences will combat tax evasion was a common answer to most of the respondents as seen in Table 4.10. Despite of the agreement, some of the respondents strongly disagreed to the statement while few of them were in disagreement and not sure positions. From the field, use of penalties may enhance tax compliance as it impose fear on non compliance and in turn is expected to increase tax compliance in terms of issuance of receipts, payment of taxes on due dates etc.

Table 4.10: TRA Use of Penalties and Offences

TRA use of penalties and offences will combat tax evasion	Frequency	Percent
Strongly disagree	27	25.0
Disagree	12	11.1
Not sure	6	5.6
Agree	57	52.8
Strongly agree	6	5.6
Total	108	100.0

Source: Field data 2013

4.3.2.5 TRA Use of Tax Audit to Combat Tax Evasion

47.2% of the sampled population agreed that, TRA use of tax audit can be a measure to

combat tax evasion as seen in Table 4.11. Despite of the agreement, in between respondents was following big group to the statement while few of them were in disagreement and strongly disagreed positions. Tax audit discloses taxes which were not properly paid as required by tax laws, afterward tax audit is expected to improve taxpayer's compliance level, therefore with use of tax audit we expect to see high level of tax compliance.

Table 4.11: TRA Use of Tax Audit

TRA use of tax audit will combat tax evasion	Frequency	Percent
Strongly disagree	6	5.6
Disagree	3	2.8
Not sure	36	33.3
Agree	51	47.2
Strongly agree	12	11.1
Total	108	100.0

Source: Field data 2013

4.3.3 Tax Compliance

Under tax compliance, selected individual components that form tax compliance under study are discussed separately in order to assess its relationship with previously discussed social norms and tax system components. This will reveal the impact of social norms and tax system on tax compliance.

4.3.3.1 Payment of Taxes

Table 4.12 explains taxpaying behavior of the sampled population. Most of respondents have been paying their taxes since commencement of their business by agreeing and strongly agreeing to the statement, few had never paid tax while others were not sure. The situation indicates tax compliance among medium and small taxpayers. This compliance

of paying taxes is the outcome of the social norms and tax system components discussed

above.

Table 4.12: Payment of Taxes

I Have been paying taxes since commencement of my business	Frequency	Percent
Strongly disagree	13	12.0
Disagree	3	2.8
Not sure	8	7.4
Agree	52	48.1
Strongly agree	32	29.6
Total	108	100.0

Source: Field data 2013

4.3.3.2 Issuance of Receipts/Tax Invoice
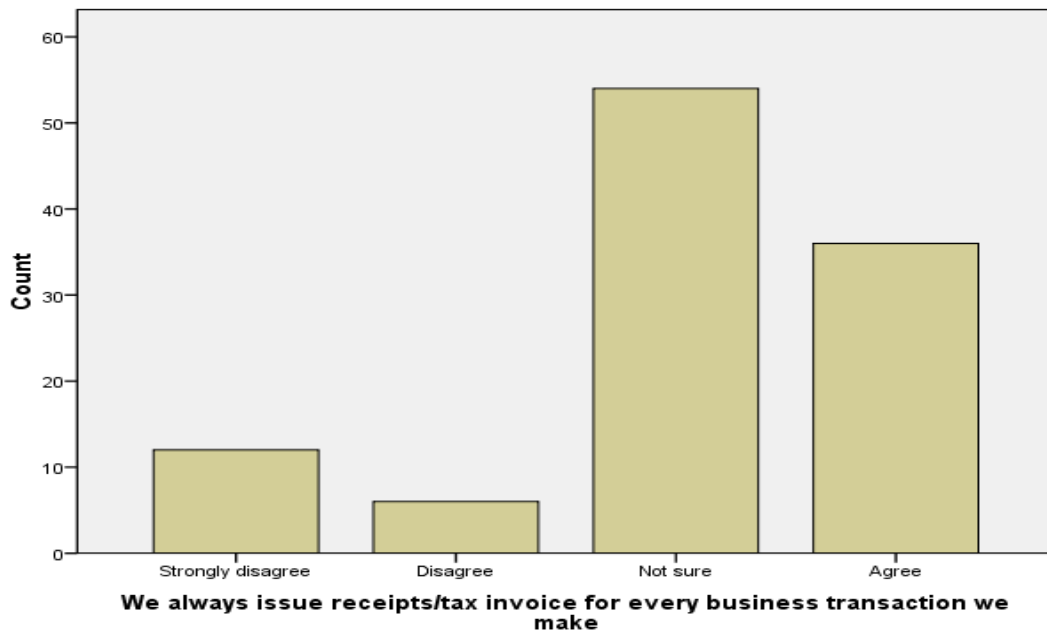
Figure 4.9: **Issuance of Receipt/ Tax invoice**

Source: Field data 2013

Most of respondents were not sure if they issue receipt/tax invoice for every business transaction they make. This suggests questionable tax compliance as per figure 4.9. The following group was those who agreed to issue receipts and lastly were those who disagreed and strongly disagreed to issue receipt for every business transaction.

4.3.3.3 Tax Avoidance

Figure 4.10 explains an attempt to avoid taxes by respondents. From the sampled population most of respondents never attempted to avoid taxes, another dominant group was those who attempted to avoid taxes, other few respondents were not sure if they had an attempt to avoid taxes. This implies good tax compliance level to sampled population and shows positive relationship with most of social norms and tax system components.
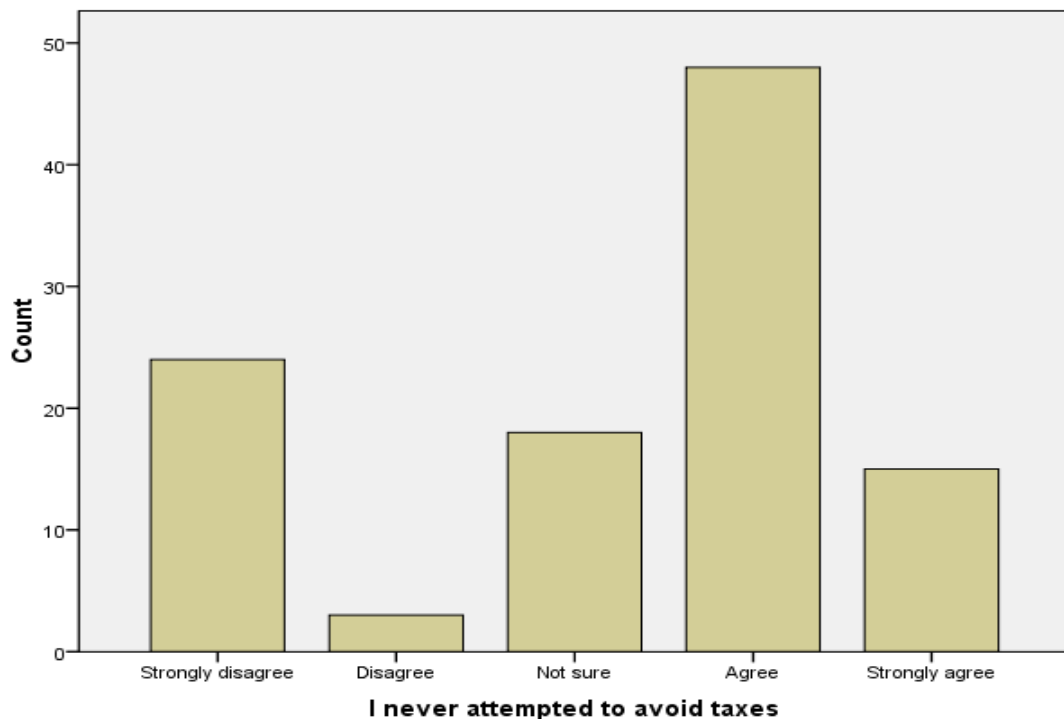
Figure 4.10: An Attempt to Avoid Taxes

Source: Field data 2013

4.3.3.4 Payment of Taxes on Due Dates

Payment of taxes on due dates was another indicator to measure tax compliance among medium and small taxpayers in Tanga city. Table 4.13 indicates that, most of respondents were paying their taxes on or before due dates as they agreed to the statement. Other groups of Strong agreement, disagreement and not sure were minority in terms of number. This good indicator of tax compliance level is a result of the previous discussed social norms and tax system components, this relationship are positive.

Table4.13 : Payment of Taxes in Due Dates

I always pay my taxes on or before due dates	Frequency	Percent
Strongly disagree	9	8.3
Disagree	15	13.9
Not sure	9	8.3
Agree	57	52.8
Strongly agree	18	16.7
Total	108	100.0

Source: Field data 2013

4.3.3.5 Income Disclosure for Tax Purposes

Agreement to income disclosure for tax purposes was a common answer to most of the respondents as seen in Table 4.14. Despite of the agreement, disagreement respondents were following big group to the statement while few of them were in strong disagreement .Another representative group who responded to the statement was strongly agreement group. This shows that, most of medium and small taxpayers in Tanga disclose their income for tax purposes. This implies good tax compliance level to sampled population and shows positive relationship with most of social norms and tax system components discussed.

Table 4. 14: Income Disclosure

I disclose all income earned for tax purposes	Frequency	Percent
Strongly disagree	10	9.3
Disagree	29	26.9
Not sure	10	9.3
Agree	43	39.8
Strongly agree	16	14.8
Total	108	100

Source: Field data 2013

4.3.3.6 Payment of Tax Assessed

Payment of actual taxes assessed was another indicator to measure tax compliance among medium and small taxpayers in Tanga city. Figure 4.11 indicates that, most of respondents are paying the actual taxes assessed as they agreed to the statement. Other groups of Strong agreement, disagreement and not sure were minority in terms of number. Generally the society is paying the so assessed taxes as a result of positive social norms in taxation and good tax system previously discussed.
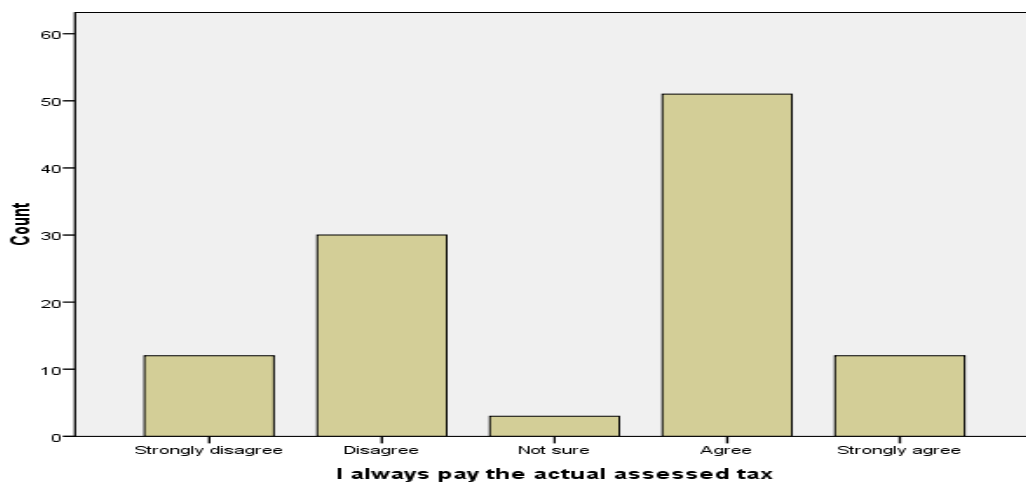
Figure 4.11: Payment of Tax Assessed

Source: Field data 2013

4.3.3.7 Role of Tax Consultants

Role of tax consultants on tax compliance has been in positive way. Most of respondents as shown in Table 4.15 agreed that, their tax consultants' advice them on how best to pay the correct amount of taxes as opposed to tax avoidance, this group was followed by those who were not sure and those who strongly disagreed the mentioned statement.

Table 4.15: Role of Tax Consultants

Tax consultants advice us on how best to pay correct amount of tax	Frequency	Percent
Strongly disagree	12	11.1
Not sure	30	27.8
Agree	60	55.6
Strongly agree	6	5.6
Total	108	100.0

Source: Field data 2013

4.3.3.8 Influence of Tax Officials Practices
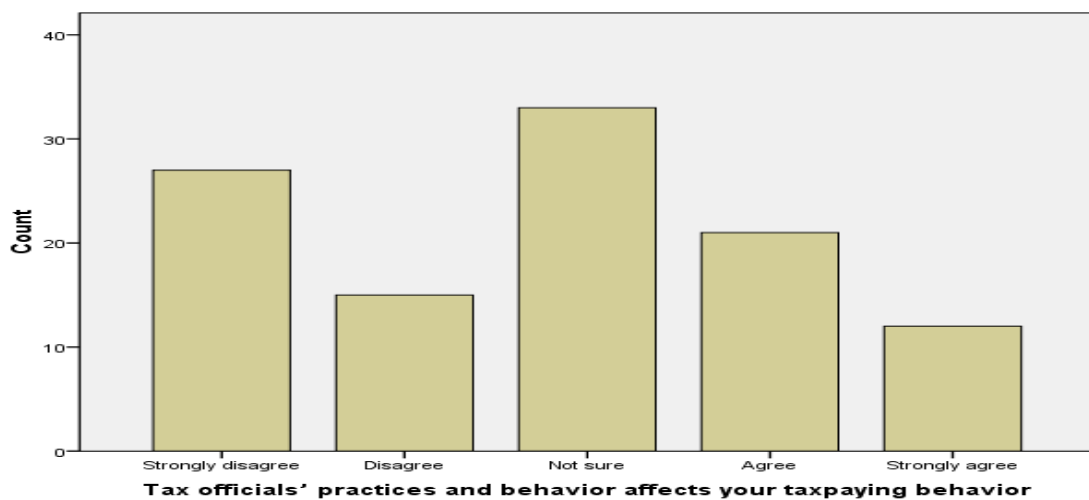
Figure 4.12: Influence of Tax Officials Practices
Source: Field data 2013

Most of the respondents were not sure if their tax paying behavior were affected by tax official's practices and behavior as displayed in figure 4.12. Strong disagreement group were following group and followed by disagreement and agreement groups.

4.4 Correlation Analysis

Under this study two tailed Pearson's correlation analysis was used to describe the strength and direction of the linear relationship between two variables. Correlation coefficients (r) can take values from −1 to +1. The sign out the front indicates whether there is a positive correlation or a negative correlation. The size of the absolute value provides an indication of the strength of the relationship. A perfect correlation of 1 or −1 indicates that the value of one variable can be determined exactly by knowing the value on the other variable. On the other hand, a correlation of 0 indicates no relationship between the two variables.

In this analysis columns are numbered and each number is defined with respective number labeled in the respective row, for example in table 4.16, column number 1 means commitment of society to pay taxes, 2 means influence to pay taxes, 3 means person required to pay taxes etc. With the tabled matrixes discussion was centered on correlation matrixes of items under study, table 4.16 will discuss correlation between components of social norms (number 1 to 5) and tax compliance (number 6 to 11). On other hand Table 4.17 will discuss correlation between components of tax system (number 1 to 5) and tax compliance (number 6 to 11) and Table 4.18 will discuss correlation between components of social norms (number 1 to 5) and tax system (number 6 to 10). In the matrixes the discussed correlation coefficients was shaded and from the discussed correlations, strong correlation coefficients was then selected, flagged and discussed in detail in order to determine the nature and magnitude of relationship between the components under study.

4.4.1 Social Norm and Tax Compliance

Table 4.16 explains relationships between the constraints of social norms and tax compliance discussed respectively, correlation coefficient between components number 1 to 5 and 6 to 11 are discussed as presented in table 4.16. From the matrix it can be shown that the commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects taxpaying behavior with correlation of (r = -0.162, -0.143, 0.212, 0.219 and 0.053). Also commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects an issuance of tax invoice/receipt positively with correlations of (r = 0.05, 0.045, 0.470, 0.397 and 0.078).

Also commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects non attempt to avoid tax positively with correlations of (r = 0.140, 0.135, 0.310, 0.097 and 0.07).On other hand commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects payment of taxes on or before due dates positively with correlations of (r = 0.254, 0.223, 0.280, 0.276 and 0.090).These social norms constraints, commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects disclosure of income for tax purpose positively with correlations of (r = 0.040,0.116, 0.171, 0.148 and 0.079). Also commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects the payment of actual tax assessed with correlations of (r = 0.056, 0.065, 0.257, 0.282 and 0.233).

By considering the observed strong correlations among social norms constraints and tax compliance constraints namely person required to pay taxes and payment of taxes with r = 0.212, perception to tax evaders and payment of taxes with r = 0.219, person required to pay taxes and issuance of tax invoices with r = 0.470, perception to tax evaders and issuance of receipt/tax invoice r = 0.397.Others are person required to pay taxes and attempt to avoid taxes with r = 0.310, commitment of society to pay tax and payment of taxes on due dates with r = 0.254, influence to pay taxes and payment of taxes on due dates with r = 0.223, person required to pay taxes and payment of taxes on due dates with r = 0.280 and perception to tax evaders and payment of taxes on due dates with r = 0.276. Others are person required to pay taxes and income disclosure for tax purposes with r = 0.171, perception to tax evaders and income disclosure for tax purpose with r =0.148. Lastly person required to pay taxes and payment of actual tax assessed r = 0.257, perception to tax evaders payment of actual tax assessed with r =0.282 and TRA relationship with taxpayers and payment of actual tax assessed with r = 0.233. These correlations signify the existence of positive relationship between social norms and tax compliance.

4.4.2 Tax System and Tax Compliance

Table 4.17 explains relationship between the constraints of tax system and tax compliance explained respectively, correlation coefficient between components number 1 to 5 and 6 to 11 are discussed as presented in table 4.17. From the matrix it can be shown that the tax calculations and procedures, number of taxes administered by TRA, tax collection methods used by TRA, use of penalties and offences and use of tax audit affects taxpaying behavior positively with correlation of (r = -0.220, 0.412, 0.381, -0.041 and 0.289). Also tax calculations and procedures, number of taxes administered by TRA, tax collection methods used by TRA, use of penalties and offences and use of tax audit affects issuance

of receipt/tax invoice positively with correlations of (r = 0.085, 0.585, 0.204, 0.088 and 0.227) .Also tax calculations and procedures, number of taxes administered by TRA, tax collection methods used by TRA, use of penalties and offences and use of tax audit affects non attempt to avoid tax positively with correlations of (r = -0.040, 0.444, 0.585, -0.108 and 0.132).On other hand tax calculations and procedures, number of taxes administered by TRA, tax collection methods used by TRA, use of penalties and offences and use of tax audit affects payment of taxes on or before due dates positively with correlations of (r 0.107, 0.259, 0.402, -0.027 and 0.074).

These tax system constraints namely tax calculations and procedures, number of taxes administered by TRA, tax collection methods used by TRA, use of penalties and offences and use of tax audit affects disclosure of income for tax purpose with correlations of (r =0.161, 0.312, 0.294, -0.150 and 0.108). Also tax calculations and procedures, number of taxes administered by TRA, tax collection methods used by TRA, use of penalties and offences and use of tax audit affects the payment of actual tax assessed with correlations of (r = 0.117, 0.309, 0.668, -0.116, 0.263).

By considering the observed strong correlations among tax system constraints and tax compliance constraints namely number of taxes administered by TRA and payment of taxes with r =0.412, tax collection method used by TRA and payment of taxes with r =0.381 and TRA use of tax audit and payment of taxes with r =0.289. Others are number of taxes administered by TRA and issuance of receipt/tax invoice with r =0.585, tax collection method used by TRA and issuance of receipt/tax invoice with r =0.204 and TRA use of tax audit and issuance of receipt/tax invoice with r =0.227, number of taxes administered by TRA and non attempt to avoid taxes with r =0.444, tax collection method used by TRA and non attempt to avoid taxes with r =0.585.Also number of taxes

administered by TRA and payment of taxes in due dates with r =0.259, tax collection method used by TRA and payment of taxes on due dates with r =0.402. Number of taxes administered by TRA and income disclosure for tax purposes with r =0.312, tax collection method used by TRA and income disclosure for tax purposes with r =0.294. Lastly number of taxes administered by TRA and payment of actual tax assessed with r =0.309, tax collection method used by TRA and payment of actual tax assessed with r =0.668 and TRA use of tax audit and payment of actual tax assessed with r =0.263. These explained correlations signify the existence of positive relationship between tax system and tax compliance.

4.4.3 Social Norms and Tax System

Table 4.18 explains relationship between the constraints of social norms and tax system discussed respectively, correlation coefficient between components number 1 to 5 and 6 to 10 are discussed as presented in table 4.18. From the matrix it can be shown that the commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects tax calculation and procedures with correlation of (r = -0.14, 0.157, -0.1, 0.034 and -0.032). Also commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects number of taxes administered by TRA positively with correlations of (r = -0.103, -0.082, 0.507, 0.440 and 0.187).On other hand commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects tax collection method used by TRA with correlations of (r = 0.156, 0.063, 0.081, 0.092 and 0.273).These social norms constraints, commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects use of penalties and offences

with correlations of (r = -0.13, -0.01, 0.082, 0.236 and -0.156). Also commitment of society to pay tax, the influence to pay tax, person required to pay tax, perception to tax evaders, and relationship between TRA and taxpayers affects the use of tax audit with correlations of (r = -0.064, -0.156, 0.089, 0.238 and 0.041).

By considering the observed strong correlations among social norms constraints and tax system constraints namely influence to pay tax and tax calculations and procedures with r = 0.157, person required to pay taxes and number of taxes administered by TRA with r =0.507,perception to tax evaders and number of taxes with r =0.444.Others are TRA relationship with taxpayers and tax collection method used by TRA with r =0.273, perception to tax evaders and TRA use of Penalty with r =0.263.Lastly is perception to tax evaders and TRA use of tax audit with r =0.238. These explained correlations signify the existence of relationship between social norms and tax system.

Table 4.16: Correlation Matrix between Social Norms and Tax Compliance Constraints

	1	2	3	4	5	6	7	8	9	10	11
Our society is committed to pay taxes (1)	1										
Our taxpaying behavior is influenced by some members of your society (2)	.222[*]	1									
In our society every person who earns income is required to pay tax (3)	.025	-.213[*]	1								
Tax evaders are not seen as heroes in our society (4)	-.096	-.093	.554[**]	1							
Our relationship with TRA is a long term venture (5)	-.134	-.184	.307[**]	.101	1						
I have been paying taxes since the commencement of my business (6)	-.162	-.143	.212[*]	.219[*]	.053	1					
We always issue receipts/tax invoice for every business transaction we make (7)	.050	.045	.470[**]	.397[**]	.078	.273[**]	1				
I never attempted to avoid taxes (8)	.140	.135	.310[**]	.097	.070	.398[**]	.660[**]	1			
I always pay my taxes on or before due dates (9)	.254[**]	.223[*]	.280[**]	.276[**]	.090	.036	.651[**]	.700[**]	1		
I disclose all income earned for tax purposes (10)	.040	.116	.171	.148	.079	.233[*]	.434[**]	.561[**]	.460[**]	1	
I always pay the actual assessed tax (11)	.056	.065	.257[**]	.282[**]	.233[*]	.308[**]	.521[**]	.730[**]	.718[**]	.537[**]	1

Source: Field data 2013

Table 4.17: Correlation Matrix between Tax System and Tax Compliance

Constraints

	1	2	3	4	5	6	7	8	9	10	11
I perform my own tax calculations and procedures (1)	1										
Taxes administered by TRA are reasonable in number for the authority to manage (2)	-.139	1									
Tax collection methods used by TRA are friendly (3)	.093	.100	1								
TRA use of penalties and offences will combat tax evasion (4)	-.085	.013	.025	1							
TRA use of tax audit will combat tax evasion (5)	-.067	.058	.316**	.647**	1						
I have been paying taxes since the commencement of my business (6)	-.220*	.412**	.381**	-.041	.289**	1					
We always issue receipts/tax invoice for every business transaction we make (7)	.085	.585**	.204*	.088	.227*	.273**	1				
I never attempted to avoid taxes (8)	-.040	.444**	.585**	-.108	.132	.398**	.660**	1			
I always pay my taxes on or before due dates (9)	.107	.259**	.402**	-.027	.074	.036	.651**	.700**	1		
I disclose all income earned for tax purposes (10)	.161	.312**	.294**	-.150	.108	.233*	.434**	.561**	.460**	1	
I always pay the actual assessed tax (11)	.117	.309**	.668**	-.116	.263**	.308**	.521**	.730**	.718**	.537**	1

Source: Field data 2013

Table 4.18: Correlation Matrix between Social Norms and Tax System Constraints

	1	2	3	4	5	6	7	8	9	10
Our society is committed to pay taxes (1)	1									
Our taxpaying behavior is influenced by some members of your society (2)	.222*	1								
In our society every person who earns income is required to pay tax (3)	.025	-.213*	1							
Tax evaders are not seen as heroes in our society (4)	-.096	-.093	.554**	1						
Our relationship with TRA is a long term venture (5)	-.134	-.184	.307**	.101	1					
I perform my own tax calculations and procedures (6)	-.014	.157	-.100	.034	-.032	1				
Taxes administered by TRA are reasonable in number for the authority to manage (7)	-.103	-.082	.507**	.440**	.187	-.139	1			
Tax collection methods used by TRA are friendly (8)	.156	.063	.081	.092	.273**	.093	.100	1		
TRA use of penalties and offences will combat tax evasion (9)	-.013	-.010	.082	.236*	-.156	-.085	.013	.025	1	
TRA use of tax audit will combat tax evasion (10)	-.064	-.156	-.089	.238*	.041	-.067	.058	.316**	.647**	1

Source: Field data 2013

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

This Chapter is divided into three parts. The first part presents summary of the study, the second part is about general conclusion and the third part provides recommendations.

5.1   Summary

This study was carried out with the view of determining interrelationship between social norms, tax system and tax compliance among small and medium taxpayers operating in Tanga city. Specifically this study had three main objectives first was to determine the relationship between social norms and tax compliance, second was to determine the relationship between tax systems and tax compliance and third was to determine the relationship between tax systems and social norms.

Literature review discussed the main concepts which have been offered to account for tax compliance and its relationship with social norms and tax system. Literature review for the rationale of developing the conceptual framework of this study dwells on theoretical and empirical evidence from the discussions on the tax compliance and its relation with tax system and social norms. The Chapter winded up by presenting a theoretical framework and a conceptual model derived from reviewed literature. The theoretical framework was aimed at analyzing the interrelationship between the three variables. The selected area for the research was Tanga city which is among the seven districts in the regions located in the northern coast of Tanzania. The city is having 7,124 live taxpayers divided in three blocks, namely Mkwakwani with 1,547 taxpayers, Ngamiani with 3,065 taxpayers and Chuda with 2,512 taxpayers (RM TRA Tanga, 2012) and the sample size taken was 108 respondents. This study used both primary data which was originally collected from the

field and secondary data of which its nature is merely that of compilation of others work on the subject.

Quantitative data collected was analyzed using SPSS of which the researcher was able to draw patterns of relationships on the subject. Descriptive analysis by frequency was used to study the characteristics of the sampled population including age, sex, type of respondent etc, also charts and tables was used to study relationship among study variables. Under this study also two tailed pearson's Correlation analysis displayed in correlation matrix was used to describe the strength and direction of the linear relationship between the selected variables and the significant coefficients were flagged.

With respect to the first objective of determining relationship between social norms and tax compliance, both charts and correlation matrix were used. Charts and tables alignment showed existence of positive relationship between social norms and tax compliance constraints. Using correlation matrix, significant correlations ranging from r= 0.2 to r= 0.5 among most of the social norms and tax compliance components were enough to display the nature and magnitude of this relationship between social norms and tax compliance. Considering the second objective of determining relationship between tax system and tax compliance also charts and correlation matrix were used. Charts and tables alignment showed existence of positive relationship between tax system and tax compliance constraints. Using correlation matrix, significant correlations ranging from r= 0.2 to r= 0.7 among most of the social norms and tax compliance components were enough to display the nature and magnitude of this relationship between constraints under second objective. With last objective of determining relationship between social norms and tax system both chats alignment and significant correlation coefficient ranging from r= 0.2 to r= 0.5 explained the relationship between social norms and tax system.

5.2 Implication of the Results

The findings have interesting implications for compliance management strategies that deliberately or incidentally affect social norms and tax system. The results suggest that regulatory strategies to increase tax compliance could refer to ethical beliefs, for instance through persuasive appeals that attempt to increase taxpaying ethics. However, it would be difficult to change each taxpayer's ethics individually. Because personal beliefs are based on social norms of groups with whom taxpayers identify, it would therefore be a better strategy to refer to broader social norms of a certain group to ensure that taxpayers identify with that group sufficiently. Also a tax system which is compatible with the identified social norms should be in place for improvement of tax compliance.

5.3 Conclusion

The study made on the influence of social norms and tax system on tax compliance using descriptive analysis and correlation analysis come out to show three major significant relationships. As a society become more committed to pay taxes, positively influence others to pay tax, have good relationship with tax authority and feel the benefit of paying taxes the level of tax compliance increases. This was supported with the discussed charts and graphs alignment of social norms and tax compliance components, also this was supported by significant correlation coefficients (ranging 0.2 to 0.5) between social norms and tax compliance components. Therefore there is positive relationship between social norms and tax compliance. The study also showed existence of significant positive relationship between tax system and tax compliance. This was elaborated by graphs, tables and correlation matrix (r ranging from 0.2 to 0.7) which showed that, as tax system and tax collection method become simpler the level of tax compliance increases and opposite is the same. Lastly the study determined existence of positive relationship between social norms and tax system. Society's perception to tax has great influence on how the tax

system should be and this makes different societies (countries) to have different tax system.

5.4 Recommendation

The following recommendations are made for improvement of the existing tax compliance level as related to social norms and tax system. First is practical implementation of penalties and offences provided under tax laws and associated regulations in order to build tax payment culture. Second is more simplification of tax laws or provision of tax laws interpretation manuals to taxpayers in order to encourage voluntary tax compliance to most of Tanzanians who cannot easily interpret tax laws. Lastly in order to enhance the existing tax compliance among small and medium taxpayers tax authority should improve harmonious working relationship with all stakeholders, this will also build strong positive public image of the revenue authority in Tanzania.

5.5 Limitations of the Study

This research has also some limitations including the following, while it was assumed that social norms would only be effective through their internalization as personal norms, personal norms are not necessarily the same as the internalized norms of a particular group. Personal norms may be fed by norms of many different social groups with which one identifies, except if a certain group context is so salient in a given situation that it totally dominates one's current self-concept (Simon, 1997). Personal norms may furthermore be based on one's individual identity, on intergroup comparisons and differentiation from other members of one's group, again except if the group is so salient that it is incompatible with intergroup differentiation (Turner, 1987a). If the in group had been made salient and a person identity been activated when personal and social norms were measured, a stronger mediation effect should have resulted. While acknowledging

the said limitation, the present findings suggest that social norms and tax system can influence tax compliance.

5.6 Areas for Further Research on Tax Compliance

Using Single location (Tanga city) may be difficult to generalize the influence of social norms and tax system on tax compliance for other locations, for future researches, a reanalysis should also be done comparing variances among different locations. The analysis would examine the different social norms, tax system, and demographic characteristics that may lead to tax compliance or non compliance among taxpayers from different locations under different categories.

REFERENCES

Alam, J. (1996). What is an optimal tax system . National Tax Journal, Vol 49, No 1, pp. 117-133.

Allingham G. and Agner S. (1972). Income tax evasion, jounal of public economics, vol 1 pp. 323-338.

Alm, J. (1999) . Tax compliance and administration. Georgia state university.

Andreoni, J. (1998). Tax compliance. Journal of Economic Literature. Vol 36, No.2, pp. 818-860.

Brian,E. and Fenstein, J. (1994). Honesty and Evasion in Tax Compliance. Rand Journal of Economics, Vol.25, No1, pp. 1-19.

Chau, G. and Leung, P. (2010). A Critical Review of Fischer Tax Compliance Model. Journal of Accounting and Taxation. Vol. 1(2), pp. 34-40.

Cowell, F. and James, P . (1988). Tax Evasion and Public Googs Provision, Jounal of Public Economics, vol 26 pp. 305-3321.

Fisher,C. (2010). Reserching and Writing a Desertation. 3rd ed, London: Ashford Colour press Ltd.

Fjeldstad,O.(2006). Tax evasion and Fiscal Corruption, A dissertation for the Degree of dr. oecon ;Norwegian School of Economics and Business Administration.

Landou, S. and Everitt, B. (2004). Statistical Analysis using SPSS, London :CRC Press Company.

Lederman, L. (2003). The Interplay between Norms and Enforcement in Tax Compliance. Ohio state law Journal, Vol 64, No 6, pp. 1453-1514.

Lumumba, M.(2010). Taxpayers' Attitude and Tax Compliance Behavior in Kenya .African Journal of Business and Management. Vol. 1, pp. 113-122.

Nabawesi, J. (2009). Social Norms and Tax Compliance Among Small Business Enterprises in Uganda ,Thesis for the Masters Degree of Science in Accounting and Finance; Makerere University.

Pallant, J. (2005). SPSS Survival Manual, 2nd edn, Sydney: Ligare Printers.

Reckers, M. (1994) .The Influence of Ethical Attitude on Taxpayer Compliance. National Tax Journal . Vol 47, No.4, pp. 825-836.

Slemrod, J. (2007). Cheating our Selves: The Economics of Tax Evasion .Journal of Economics Perspectives, Vol 21, No. 1, pp. 25-48.

APPNDICES

Appendix 1. Questionnaire

<div align="center">

Open University of Tanzania

Faculty of Business Management

Questionnaire for Masters of Business Administration

</div>

This questionnaire is to be filled in by **owners or managers** of Small and medium taxpayers operating in Tanga city.

Dear respondent,

I kindly request you to participate in this study of determining the influence of social norms and tax system on tax compliance. I would be grateful if you would volunteer your precious time to assist in this study by filling the questionnaire which is intending to capture your views and perceptions on the subject. The information given will be treated as a confidential and used for only academic purposes.

Part1: Demographic Information.

(a)

Category of respondent	Age of respondent	Gender	Marital Status
a. Owner b. Manager c. Director d. Accountant	a. Under 18 b. 18-35 c. 35-60 d. Above 60	a. Female b. Male	a. Married b. Single c. Divorced d. Widowed

b)

Educational level	Age of business	Nature of business	Type of taxpayer
(a) Primary	(a) 0-4	(a) Retail	(a) Presumptive
(b) Secondary	(b) 5-9	(b) Whole sale	(b) Accounts case
(c) Certificate	(c) 10-14	(c) Manufacturer	
(d) Diploma and above	(d) 15 and above	(d) service	

Part 2: Study questions

Please respond to the following statements by indicating the extent to which you agree or disagree, using the listed scale (please use tick for your choice).

Strongly Agree(SA)	Agree (A)	Not Sure (NS)	Disagree (DA)	Strongly Disagree (SD)
5	4	3	2	1

(a)	Social norms	SA 5	A 4	NS 3	DA 2	SD 1
1	Our society is committed to pay taxes.					
2	Our taxpaying behavior is influenced by some members of society.					
3	We benefit from taxes we pay to TRA					
4	In our society every person who earns income is required to pay tax.					
5	Tax evaders are not seen as heroes in our society.					
6	Our relationship with TRA is a long term venture					

(b)	Tax system	SA 5	A 4	NS 3	DA 2	SD 1
1	I perform my own tax calculations and procedures.					
2	My tax consultant performs my tax calculations and procedures.					
3	Taxes administered by TRA are reasonable in number for the authority to manage.					
4	Tax collection methods used by TRA are friendly.					
5	TRA use of penalties and offences will combat tax evasion.					
6	TRA use of tax audit will combat tax evasion.					

(c)	Tax Compliance	SA 5	A 4	NS 3	DA 2	SD 1
1	I Have been paying taxes since the commencement of my business.					
2	We always issue receipt/tax invoice for every business transaction we make.					
3	I never attempted to avoid taxes.					

4	I always pay my taxes on or before due dates.					
5	I disclose all income earned for tax purposes.					
6	I always pay the actual assessed tax.					
7	I Have once been audited by TRA.					
8	Every time I got audited by TRA there was no additional taxes realized.					
9	Tax consultants advice us on how best to pay correct amount of tax on time and not on how to evade tax.					
10	Tax officials' practices and behavior affects our taxpaying behavior.					

Thank you for your participation in this research