

**FACTORS CAUSING INEFFICIENCY ON TAX REVENUE COLLECTION IN
TANZANIA. A CASE OF TANZANIA REVENUE AUTHORITY LOCATED IN
TEMEKE TAX REGION**

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CERTIFICATION

The undersigned certify that he has read and hereby recommends for the acceptance by the Open University of Tanzania a dissertation entitled: **The Hindering Factors to Achieve Full Potentiality on Tax Revenue Collection in Tanzania, A Case of Tanzania Revenue Authority In Temeke Region**, in partial fulfillment of the requirements for the Degree of Master of Business Administration of the Open University of Tanzania.

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DECLARATION

I **Anitha Mtasiwa** declare that this research report is my own work. It has not been submitted for Bachelor degree or any other similar award in any higher learning institution.

.....

Signature

.....

Date

DEDICATION

I sincerely dedicate my research to my beloved husband and my family for their nice cooperation and assistance during my research. I also dedicate my research work to my fellow students since primary school up the level I am now.

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ABSTRACT

This study provides a theoretical analysis of the factors on failure to achieve full potentiality on tax revenue collection in Tanzania -A case study of the Tanzania Revenue Authority located in Temeke Region. The study intended to Identify the main resources of revenue available in Tanzania, Investigate the major problems/obstacles hinders performance of revenue collection process and Suggest the alternative means and strategies of the increasing the revenue base and revenue yield at TRA. The study used both primary and secondary data. The primary data involved use of questionnaire, and interviews. Secondary data used publication and TRA records. This study consist a total sample size of 200 respondents including 100 TRA workers and 100 tax payers. The study reveals that TRA is facing complaints and hindrances in collecting taxes due to tax evasion, tax avoidance, and tax complexities another challenge facing TRA today is misuse of tax exemptions extended to business communities and excessively used by tax officials On the other hand tax officials faces difficulties such as administering all tax laws by failure to accessing, collecting and accounting of the tax revenues, monitor ,oversee and coordinate all tax activities, promote voluntary compliance, take effective steps to counteract frauds and tax evasions. This study has highlighted the TRA tax administration and its effect on the performance tax collections. The study had determined persistent factors that hinder the TRA failure to raise adequate tax revenues for economic and social developments. We recommend that further research is required in TRA to know factors that affect the accuracy, fairness and timely tax collections. The findings of this study provide initial directions in determining the factors that leads to ineffective tax collections by TRA. The management should understand that proper tax collections are necessary in order to raise adequate revenues for social and economic development of the country. TRA management needs to determine what actions to do to ensure that it collects sufficient revenues.

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Problem

Tax system of Tanzania had evolved overtime to reflect socio-economic and political situation at the time. During colonial era, income, customs and excise taxes were under East African High Commission, while District Commissioners oversaw the collection of personal tax on behalf of Treasury. Local chiefs were given the mandatory to collect taxes for local government. After the establishment of East African Community (EAC) in 1967 all tax administration matters were placed under the community. In 1973 each country decided to administer income tax on its own while customs and excise taxes remained under the control of EAC.

Following the collapse of EAC, the administration of taxes was placed under Ministry of Finance. The Ministry administered all the revenue matters till 1995 when the parliament of United Republic of Tanzania passed a law to establish Tanzania Revenue Authority (TRA). The authority became operational in June 1996. TRA was established as autonomous executive agency aimed at bringing efficiency in revenue administration and collection.

Tanzania Revenue Authority has got four core departments namely Customs and Excise, Domestic Revenue, Large Taxpayers and Tax Investigations. Among them it is the Customs and Excise Department which deals with Customs Administration. Taxes, households or firms that consume the taxed items are assumed to pay the associated taxes. African governments and international development agencies increasingly acknowledge

that more effective tax systems are central for a sustainable development because they can (a) mobilize the domestic tax base as a key mechanism for developing countries to escape aid or single resource dependency; (b) reinforce government legitimacy through promoting accountability of the government to taxpaying citizens and good public financial management; and (c) achieve a fairer sharing of the costs and benefits of globalisation (Pretoria Communiqué 2008). There is also a growing realisation in Africa that taxation and state-building are linked (Ayee et al 2010). The way domestic revenue is raised significantly influences both economic growth and democratic consolidation (Braütigam et al 2008; Moore 1998, 2004; OECD-DAC 2006). In this perspective, the tax system may contribute to improved governance through three main channels (Moore 2008; Fjeldstad and Moore 2008). Bargaining over taxes is central to building relations of accountability between the state and citizens based on mutual rights and obligations, rather than on patronage and coercion.

Taxpayers' mobilization around common interests has potentially positive outcomes for governance. This idea of bargaining and negotiation over taxes is central to the concept of a social fiscal contract: a pattern of regular and routine accountability based on the principle of reciprocity and mutual obligations. This is essentially about stimulating good governance at the interface between state and society, in response to the demands of citizens. There is a strong argument that a substantial governance 'dividend' can be gained from mobilising domestic financial resources through the tax system. A 'virtuous circle' may be generated whereby the generation of government tax revenues leads to improved service provision, which in turn increases citizens' willingness to pay their taxes. Seen in this light, taxation is not just an administrative task for governments and citizens. It is also about politics and power - the way that authority is exercised in a country through its formal and informal institutions. Common interest processes which ensure that

governments have stronger incentives to promote economic growth since they are dependent on taxes and therefore on the prosperity of taxpayers. State capacity processes which require states to develop a bureaucratic apparatus for tax collection because of their dependence on taxes, particularly, direct ones. This is likely also to lead to broader improvements in public administration. Taxation may engage taxpayer-citizens collectively in politics and lead them to make claims on the government for reciprocity and accountability, either through short-term conflicts or long-term increases in political engagement. Governments are therefore compelled to respond to these citizen demands in order to enhance tax compliance and sustain state revenues.

In Tanzania there are a lot of factors which indicate the potentiality of tax revenue in medium and small sectors, especially on taxes like rental, capital-gain, royalties, directors and other employees, interest, income, management-fees, very small sectors like water sales, bites, commercial farming, employment taxes on small industries.

Although there are a lot of bases for tax collection in Tanzania, there still big problems in revenue collection in Tanzania, a lot of revenue is still not collected in Tanzania.

1.2 Statement of the Problem

A high tax burden is not necessarily due to high tax rates. Tax compliance costs can add substantially to the overall costs of formalizing a small business. While some costs arise in all areas of complying with laws and regulations, these costs tend to be particularly high in the tax area. This is the case even in countries with a modern tax system and a highly efficient tax administration. A 2006 complexity tax collection survey in Tanzania revealed that businesses allocated over 41% of total compliance costs to tax-related issues many survey respondents felt that tax compliance is too complicated and is stifling growth in small businesses, and that there is no relief offered to small businesses that would lead

to increased investment and growth. The remarkable revenue collection is not spared by the shortcomings derived from the tax administration complexities in the country. First, the authority is semi-autonomous rendering interference of decision making from government particularly in exemptions matters. Second, the nature of tax administration imposes duly discretion power to revenue collection agency and its officials on matters such as provision of tax exemptions, determination of tax liabilities, and selection of audits (Fjeldstad and Rakner, 2003).

Researcher asserts that since the Minister of finance can grant exemptions which are vulnerable to abuse and agency officials can cause problems in the tax collection systems and on the other side hamper the determination of tax liabilities, poor enforcement of the collection, poor tax administrations, and untimely implementation of prosecution and penalties to evaders, the problems which in some cases, that researchers think that the government loses a billion of shillings of its badly needed revenues.

The above factors which the researcher ponder to influence the untimely collections of tax revenues at full potential. The above assertions imply that there is a need to analyze thoroughly the problems caused by complexity of the tax collections.

1.3. Major Research Objectives

The overall objective of the study is to examine the hindering factors to archive full potentiality on tax revenue collection in Tanzania.

1.4 Specific Objectives

1. To identify the main resources of revenue available in TRA
2. To investigate the major problems hinders performance of revenue collection process

3. To suggest the alternative means and strategies of the increasing the revenue base and revenue yield at TRA.

1.5 Research Questions

1. What are the main sources of revenue available in TRA?
2. What are the major problems which hinders performance of revenue collection process?
3. What are the alternative recommendations can be made to improve the performance of revenue collection?

1.6 Significance of the Study

The study posits the complexity in tax administration in Tanzania hence acknowledging the roles of different stakeholders in the matter. TRA officials, business communities, government officials, academicians, other researchers, et cetera play significant roles in tax administration, each category aimed in attaining its goals regarding tax matters.

The findings from this study will help the authority to identify the bottlenecks in revenue collection mechanism and help to come up with solutions to eliminate the shortcomings in revenue collection. The study also will make an important contribution to policy makers and body of knowledge by providing in-depth understanding of complexities prevailing in revenue collect.

1.7 Limitation of the Research

TRA Temeke was the area of the study whereby the concentration was on the factors which hinder performance of revenue collection. While doing the field research, the following constraints in one way or another affected the quality of this study.

1. Time was limited compared to the research work fulfillment.

2. It was difficult to meet respondents timely as well as lack of motivation from respondents in answering questionnaires.
3. Lack of understanding of the importance of the study to some of the employees.
4. Confidentiality of some documents and information related to the topic and lack of fairness of some of the councils staff to give cooperation concerning the topic.

1.8 Delimitation of the Research

The study was conducted only in one Region of TRA areas where the researcher got enough data that brought good findings at right time.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Definition of key terms

2.1.1 Revenue

According to Tax Revenue Appeals Act No.15 of 2000, Revenue means taxes, duties, fees, fines and other monies imposed by or collected under the law or specified provision of the laws set out in the First Schedule to the Tanzania Revenue Authority Act, 1995.

Meigs and Meigs (1982) Defined Revenue as price of goods sold and sources. He continues to say that is equal to inflow of cash and receivable in exchange of service rendered or goods delivered during the period. According to Oxford Advanced Learner's Dictionary (2000), Revenue is defined as the money that a government receives from taxes or that an organization etc receives from its business.

2.1.2 Public Revenue

The income of the government through all sources is called public revenue. Public revenue has two senses – wider and narrow. In its wider sense it includes all the income or receipts which a public authority may secure during any period of time. In its narrow sense, however it includes only those sources of income of the public authority which ordinarily are known as “revenue sources”.

According to Mithani (2006), Public revenue includes only those sources of income of the public authority which ordinarily are known as “revenue sources”

2.1.3 Direct Taxes

These taxes are either charged on individuals or businesses incomes or gains. Therefore to an individual, the direct tax is raised to incomes obtained from wages, salary, bonuses, commissions, gratuities, and any other forms of payments that can be termed as gains or profits. Gains from businesses that are subject to direct taxation are service fees, gains from realization of assets or liabilities of the business, gifts and any other ex-gratia payments received, dividend et cetera. Direct taxes often include personal income tax (“Pay as You Earn”-PAYE), corporate tax, withholding tax, rental income, tax on interest in banks. The indirect taxes include taxes on domestic goods and services such as value added tax (VAT), excise duty on some items, import duty, VAT on imported goods and services.

2.1.4. Indirect Taxes

Indirect taxes are categorically on consumption and on international trade. The group of indirect taxes is made up of consumption taxes and other user fees or duties. The second group of indirect taxes is those in relation with international trade. Consumption taxes and other user fees or duties are: Value-Added taxes, Excise duty on locally manufactured goods, Stamp duty, Taxes on Motor Vehicles, Fuel Levy and, Port and Airport Service charge Taxes on international trade are: Import Duty, Excise Duty on imported items and Value-Added Tax on imports.

Reports from TRA evidenced that indirect taxes (taxes on consumption, on international trade, fees and charges on consumption and international trade) constitute the large percentages of revenue collected compared to direct taxes. Over the years now, tax administration in many developing countries has been the complex task to the government and its agencies. The complexities came in from different angles; tax payers behaviour,

interaction between tax officers and taxpayers, motivation either to pay or not to pay tax, abuse of power and abuse of incentives. Below are literatures which try to explore the complexities of tax administration in general:

2.1.5. Tax Administration

According to Gupta and Mookherjee (1998), tax administration comprises three interrelated activities: the identification of tax liabilities based on existing tax legislation s; the assessment of taxes to determine if the taxes paid are actually within tax liabilities; and the collection, prosecution, and penalty activities that impose sanctions on tax evaders and ensure that taxes and penalties due from the tax payers are actually collected.

This composite nature of tax administration imposes duly discretion power to revenue collection agency and its officials on matters such as provision of tax exemptions, determination of tax liabilities, and selection of audits (Fjeldstad and Rakner, 2003).

2.1.6 Corruptions

Corruption is not a new phenomenon in Tanzania. According to Mukandala (1983, p. 261), the public sector in the early 1980s was ‘increasingly riddled by corruption and embezzlement of public funds’. The Auditor General’s reports from the 1980s show that this trend continued (Semboja and Therkildsen, 1992, p. 1103). By the mid- 1990s, corruption in Tanzania was rampant in all sectors of the economy and politics (URT, 1996a). In tax administration, these issues were particularly worrying given the need to raise more tax revenues, but also to mitigate corruption in other parts of public services.

Extensive corruption and embezzlement of public funds are documented in a number of reports from both commercial and official sources. For instance, the Confederation of

Tanzanian Industries (CTI) estimated that the value of lost revenues from customs and sales tax due to inefficient tax administration and misclassification and undervaluation of imported goods amounted to more than TSh 250 billion for the period March 1993–March 1994 (Osoro et al., 1999, p. 5). According to ESRF (1996, p. 6), official import statistics underreported the value of imports by as much as 70%. One indication of the extent of this problem is that some types of textiles (including those used in the most popular type of clothing, the ‘khanga’) were sold in the early 1990s for 30% less than the value of the customs duty per metre of the textile. Official statistics on reported revenue from customs duties also indicate large leakages.

While the most commonly applicable import duty rate was 30% during 1988–1994, the customs tariff generated a revenue equivalent to less than 6% of the official import value during that period (Gandhi et al., 1995, p. 15). Evasion of other types of taxes

2.1.7 Factors Leading To Pervasive Corruption

The corruption scandals in the tax administration were instrumental in President Benjamin Mkapa’s decision to establish a Commission on the Causes of Corruption in Tanzania. The commission was appointed in January 1996 with a mandate to map the extent of corruption in the country and identify steps to deal with it (URT, 1996a, pp. i–iii). Investigations identified four factors as keys to explaining the extent and types of corruption pervasive in the Tanzanian tax administration:

Political intervention. This generally took place in the form of discretionary tax exemptions granted to business people who were willing to pay and/or had the ‘right connections’ (URT, 1996a, pp. 307–311).

High tax rates and complicated regulations. The potential gain from involvement in corruption could be considerable, both for officials and taxpayers. Relatively high rates and a complex and partly incoherent set of rules, especially for customs and corporate taxes, resulted in large potential rewards for taxpayers willing to bribe to cut their own tax burden and/or speed up customs clearance of their goods (URT, 1996a, pp. 291–295, 316–329). For customs officials, the bribes taken for clearing specific containers in Dar es Salaam harbour could be as much as a whole year's salary. In general, the system gave tax officials considerable discretionary powers.

Poor pay and working conditions. The low wage levels at the tax administration compared to the private sector invited corruption. The average public employee's salary including allowances in the early 1990s was sufficient 168 O.-H. FJELDSTAD Copyright # 2003 John Wiley & Sons, Ltd. Public Admin. Dev. 23, 165–175 (2003) to cover only about 40% of normal household expenditures (Mans, 1994, p. 378). Moreover, working conditions were characterised generally by a lack of technical equipment and poor office facilities, as well as unclear criteria for recruitment, promotion and rewards (URT, 1996a, pp. 100–117, 281).

Low probability of detection and punishment for corruption. Internal auditing and monitoring functions had become for the most part non-operative and ineffective (Cunningham, 1996; URT, 1996a, p. 50). For instance, the internal operational auditing unit in the Customs Department at the head office in Dar es Salaam had only

four staff members in early 1996 and five persons for the whole Dar es Salaam region, where about 80% of the total customs revenues in Tanzania are collected. Responsibility for internal auditing was therefore outsourced

to external auditors from the Office of the Controller and Auditor General, which stationed on a permanent basis six–seven people at the customs administration. But this compromised, of course, their independence and opened up for collusion between auditors and tax officers. According to Cunningham (1996, p. 66), these auditors were ‘part of the system and the peer network to be inspected’. Audits were further crippled by low skills.

The auditing staff lacked the training in auditing and inspection methods, and the required equipment and basic facilities to perform controls. In practice, the probability of being detected and punished for corruption was virtually non-existent.

2.2 Theoretical literature review

Economic analysis has a great deal to offer in understanding the need for a more comprehensive approach to tax research and reform than always takes place currently. Two particularly useful areas are the general theory of the second best and the theory of optimal taxation. Public choice theory also has much to offer but the implications of that analysis will be left to a later paper.

2.2.1 The General Theory of the Second Best

One of the themes of a wider approach to the issues of compliance and simplification is the interdependence between different economic, as well as political and social, variables and realities.

One important insight, probably not very well known outside mainstream economics, is the theory of the second best. This relates to the fact that the variables in an economic system interact so that changing one part will have effects on other variables that are not even directly involved in the initial change. A limited analysis may fail to anticipate such

changes, which could offset the original intended improvement. This can mean that a reform designed to achieve an economic improvement, far from actually doing so, might even make things worse. This does not seem to be consistent with normal intuition but it might be illustrated with a simple example where two economic distortions are offsetting each other. Suppose a monopolist – a single seller of some good or service – might wish to exploit its market power and push the price up but has only one customer who has the market power to keep the price down and the result might be something like the optimum price. However, to remove either the economic power of the monopolist or its customer without removing both could result in the market price moving away from the optimal position.

As a tax example, it is often suggested that taxes should be imposed to counteract external effects – say pollution – or some other environmental concern. This may be true if the external effect causes the price to give the wrong economic signal about the full cost of the output including the external costs. The tax could be used to represent the social cost in the market which would then be guided in the right direction. This is not the only possibility though. It may be that existing distortions have already pushed the price in this direction and, if tax policy makers have not considered all aspects of the change before implementing it, the resulting tax might move the price further rather than closer to the optimum position. More generally the theory of the second best states that it' is not true that a situation in which more, but not all, of the optimum conditions are fulfilled is necessarily, or is even likely to be, superior to a situation in which fewer are fulfilled '(Lipsey and Lancaster 1956,)

Indeed the general theory of the second best holds that if one of the Paretian optima cannot be achieved then a second best optimum can be reached by departing from all the other

optimum conditions. Furthermore, nothing can be said in general about the direction or the magnitude of the secondary deviations from optimum conditions made necessary by the inability to achieve the original optimum condition. Lipsey and Lancaster actually illustrate this with a tax example. They suppose that a tax is imposed on one good only and the revenue raised is returned as a gift to the purchasers so the only result is to distort relative prices. Given this distortion, the only general thing that can be said is that a second best optimum could only be achieved by a system of taxes on other goods and services, some of which may be more than, some less than, the original tax and in some cases a subsidy might be required.

As already indicated, the tax system is not an independent entity and imperfections in the tax system may have implications for the pattern of public expenditure. For example, Balestrino and Galmarini (2003) argued that imperfect income tax compliance implies it is desirable that the supply of public goods should be distorted downwards. At a more detailed level an infinite amount of such analysis is possible. For instance, West and Williams (2007) estimate the parameters required to calculate the optimal second-best gasoline tax. The implication of 'second best' analysis is that the failure to consider a much wider range of factors than is currently the norm might mean that an 'improvement' in tax compliance or simplification does not lead to an overall improvement at all. When the wider context is included, the overall disadvantages may be greater than the more obvious benefits of the initial change. The literature on optimal taxation adds further insights and is therefore also described briefly next.

2.2.2 Optimal Taxation

The work on optimal taxation is relevant here because the literature is concerned with tax structures that take account of both the requirements of economic efficiency and the need

to be fair between one taxpayer and another. It is concerned with questions such as whether income or commodity taxes should be used and how tax rates should vary across commodities.

The equity dimension relates to the question of how progressive the tax system should be. To some extent, of course, there is a trade-off between the two criteria of efficiency and equity. A tax system that is economically efficient may not be considered fair and vice versa and the purpose of much of the optimal taxation literature is to find the best balance between the two. Having said that, it is not always easy to model what is considered to be fair and there have been difficulties in incorporating important variables. One of the earliest and most famous contributions was Ramsey's (1927). He concluded that uniform commodity taxes were rarely optimal, though it might be noted that the analysis abstracted from the costs of operating different tax rates. There is now a considerable literature on optimal taxation though Broome's (1975) parody suggests that it should not always be taken literally. Frey (1976, p. 32) pointed out that optimal taxation will only be introduced if it is acceptable within the political-economic process.

Feldstein (1977) criticized the literature for concentrating too much on the features of the optimum and too little on the process of attaining it. An accessible summary is provided by Heady (1993) who also raised the specific question of the contribution optimal taxation could make to practical tax policy. Although that literature clearly offers some important insights, it cannot help in all areas of tax policy. Indeed the difficulty of applying much of the work in optimal taxation to policy issues is a constant theme. Alm (1996) suggested that previous attempts to derive an 'optimal tax system' were largely irrelevant to practical tax design since they ignored a range of considerations involving fiscal and social institutions. He argued that many of the relevant institutional features could be included in

an optimal tax framework but acknowledged that it would never be able to incorporate all of the ‘incredible complexity’ that must be considered in the design and reform of tax systems.

Nevertheless research relating to optimal taxation continues to develop and often in the right direction by including additional variables from the wider context. Gradstein (1999) examined political mechanisms that ensure efficiency enhancing restraints on taxation.

In the context of the present paper, the discussion of optimal taxation and evasion is particularly relevant because, as with other areas, the analysis results in important insights but not precise policy prescriptions. Cremer and Gahvari (1994) suggest that the optimum marginal tax rate is lower in the presence of tax evasion but this depends on their particular assumptions. An increase in tax rates may improve economic efficiency as it might cause some labor to move into the illegal labor market which may be less economically distorted than the legitimate one. However, as Sandmo (2005, p. 658) points out, there are some serious implications in viewing ‘anti-social behavior’ as a social gain in this way. There is the theoretical but rather crude insight that increasing the probability of detection by increasing the frequency of audits and penalties for evasion are substitutes. Concern about minimizing compliance costs might indicate a preference for the latter. However, shifting costs from the public to the private sector is no guarantee of a net gain and on equity grounds, if no other, that approach may lead to unacceptably high penalties for the few who are caught for crimes committed by many individuals who escape unscathed. In any case the decision to evade may well be heavily influenced by behavioral rather than economic factors narrowly defined (James et al. 2001).

The recent study by O’Donoghue and Rabin (2006) used the optimal taxation framework to examine ‘sin taxes’ – such as those on unhealthy foods that people might consume more

than they should because they lack self-control or some other problem. The existence of merit goods or merit bads where the government and individuals have different ideas about individuals' optimal consumption was raised by Musgrave (1959) and has been discussed ever since. In a sense an individual's consumption that does not take full account of future harm might be thought of as an internal externality with respect to that individual's future health – or 'internality' as Herrnstein et al. (1993) put it. O'Donoghue and Rabin show that introducing taxes on unhealthy items and returning the proceeds to the taxpayers can increase economic welfare, but such a conclusion can be reached without using optimal taxation analysis. The authors also acknowledge that the analysis has numerous limitations.

This is generally in line with the nature of the optimal taxation approach and so the policy implications are also limited. The optimal taxation approach once again reinforces the point that it is a difficult and complex process to develop changes to the tax system where the advantages outweigh the disadvantages. Yet it is also clear that giving the wider context less attention than it deserves is not the way to proceed. This can be illustrated by the issue of tax compliance examined in the following section.

2.2.3 Gordon-Li Model

Roger Gordon and Wei Li developed a model of tax enforcement based on Chinese experience in 1990s. During that time, the national government of China was unable to collect much of any revenue from small and medium sized firms, so that its tax revenue came almost entirely from taxes on larger state-owned firms. The model came to explain the reason behind the failure of the government from collecting revenue from small and medium sized firms (Gordon and Li, 2005).

Majority of these firms entirely rely on use of cash transaction which create the room for tax evasion hence narrowing of tax base. Gordon and Li (2005) assumed that firms can be monitored and taxed only if they make use of the financial sector, thereby leaving a paper trail. But firms will be using the financial sector if the benefits exceed the cost of using them. The model argued that the capital-intensive firms will value much the use of financial sector because of the expected benefits such as lending facilities et cetera.

2.3. General Discussion

2.3.1 Factors that led to Ineffective Revenue Collection

2.3.1.1 Corrupt Practices in Revenue Administration

According to Child (2008), corrupt practices in revenue administration involves tax officers, taxpayers, importers and customs clearing agents, therefore it can take many forms ranging from systematic- where individuals act together, systematically support evasion to individual corruption, where tax officers abuse their position for financial gain from tax payers. In most cases corrupt practices include: Charging for services that should be free, Charging for help to overcome complicated procedures and to qualify for exemptions or duty free treatment, Turning a blind eye to non-registration for taxation, smuggling, and fraud (in customs, for instance, the declaration of false values supported by fraudulent invoices),Overstating values, over-assessing tax to instigate corrupt deals with importers and tax payers, Aiding taxpayers and importers in understating income and value of goods, Losing' files, Facilitating or organizing the smuggling of goods, Receiving payments to complete tax returns for tax payers or customs entries for importers.

2.3.1.2. Tax Exemptions

Every year the Parliament of Tanzania carefully scrutinizes the Government's budget. Tax

exemptions, on the other hand, do not receive the same attention in the Parliament, effectively making them hidden expenditures. Tax exemptions involve very large sums of money. In 2009/10 alone, 2.3 percent of GDP or TZS 695 billion was granted in tax exemptions. The sheer size of the amount involved raises question about the purpose these incentives serve and whether the amounts spent on them are justified.

Could it be that tax exemptions are too high for a country that is struggling to collect sufficient resources to finance its budget? Could it be that Tanzania would be better off if fewer tax exemptions were granted and more money was spent on health, water or education? And why is information on who benefits not publicly available?

This policy brief does not take a position on these questions. Instead, by providing nine key facts about tax exemptions in Tanzania, it aims to contribute to a debate on whether the current practice is desirable. The analysis is based on information contained in Revenue Reports obtained from the Tanzania Revenue Authority (TRA)¹. It shows that:

- The size of tax exemptions increased substantially in the second part of this decade (2006-2010).
- If tax exemptions were harmonized with what is practice in Kenya (1 percent of GDP) the existing shortfall in tax revenue would have been avoided.
- TRA grants twice as much in tax exemptions in Zanzibar as it does on Mainland.
- Tax exemptions benefit mainly multinational investors with certificates of incentives from the Tanzania Investment Centre (TIC) and Zanzibar Investment Promotion Authority (ZIPA).

Reasons for Tax Exemption

Tax exemptions are granted for a variety of reasons. In Tanzania, exemptions may be

given for the following reasons:

- Where the foreign or official nature of the item in question doesn't warrant a tax for example, consumption on internationally bound aircraft or goods consumed by the armed forces and diplomatic missions.
- Where activities of certain organizations do not earn them a profit but have a direct benefit to society which the Government may not be able to otherwise procure. This basis is used to grant exemptions to charities including religious organizations.
- Where consumption of certain goods are deemed to have direct benefit to society.

For example, certain human and veterinary medicines are exempt from VAT, as are firefighting vehicles. Exempting such goods from taxes increases their consumption, which in return brings greater benefits due to their positive effects on society.

- Another reason exemptions are granted is to stimulate economic growth. These exemptions should normally lead to increased investment, employment, output growth and thus lead to more tax revenues in the long run. Groups of companies granted wide-ranging exemptions such as favourable corporation taxes on profits and reduced import duties fall under this category. Most notable among these are companies established under the Export Processing Zones Authority (EPZA) Act, mining companies and other companies which hold certificates of incentives from TIC and ZIPA.

Large firms often make use of this tax incentive mechanism to avoid paying taxes (Gauthier and Reinikka, 2001). Governments of developing countries are much eager to attract investment in their countries, in so doing they end up granting exemptions to large firms as incentive to boost investment whilst in other large firms see as the loophole to avoid paying taxes. The exemption granted either can cover one of these taxes; corporate income tax, sales tax/VAT and import duties or both of them to a specific firm.

According to Income Tax Act of 2004 section 10, 52 and 54, an exemption may be granted for variety of reasons such as promotion of investments, public interest ground, diplomatic and political grounds. For whatever reasons, exemption by definition and implication are selective and discriminatory, they are therefore the source of inequality in the tax system, thus exemptions are sources of complexities in the tax administration (Mponguliana, 2005).

The government can also grant exemptions to non government organizations on an ad hoc basis (that is, following no specific rules or criteria for granting exemptions) through the use of statutory instruments.

2.3.1.3. Evasion or Avoidance

One of the most important problems that any tax administration faces is cheating or evasion. It is important to distinguish between tax avoidance and tax evasion. Tax avoidance is changing one's behaviour in such a way as to reduce legal tax liability, and as such, tax avoidance is not illegal. Tax evasion is failing to pay taxes which are legally due. If a tax on oranges is levied and you sell fewer oranges, it is tax avoidance. If you fail to report your sales of oranges to the tax authorities, it is tax evasion.

Tax evasion is not a new problem. Even Plato observed, when there is an income tax, the just man will pay more and the unjust less on the same amount of income (Rosen, 1985, p. 322). In recent years the phenomenon of tax evasion has received a large amount of public attention. However, by its very nature it is difficult to measure.

Cheating may be habit-forming, that is, once people become accustomed to evading taxation, they will continue to do so even if the marginal tax rates are lowered. In the face

of this, there is no guarantee that the now existing low rates will significantly discourage incentives to evade income tax. Since the probability of being detected is small and the penalty rate is still low, evasion of income tax is likely to continue.

It is noteworthy that tax evasion is not the only factor that has adversely affected tax collection in Tanzania. The government participation in economic activity in the economy, since the Arusha Declaration of 1967 is one of the major factors that have also contributed to low tax collections. Public participation in the economy in form of parastatal enterprises, most of which operated inefficiently, and hence fall in production resulted in low tax collection of commodity taxes (sales tax and excise duty) and company taxes. However, this study concentrates on loss of revenue arising from tax exemptions, tax avoidance and evasion.

Rosen (1999) define tax evasion as the situation whereby a person fail to pay legally due taxes. He accounts for the environment that can lead to tax evasion; a person can keep two books of records, one with actual records and the other for the purpose of showing tax authorities; barter transactions, the situation whereby payments is received in kind; deal in cash, paying for goods and services in cash makes it difficult for tax authority to trace the transactions.

The above explanation of tax evasion by Rosen (1999) asserts that the act of evading tax is intentional. The bottom line is to create difficulties for tax authorities to establish the real gain or profits obtained from the transactions or businesses. The reason for tax evasion is to maximize gain or income also to maintain liquidity.

According to Fjeldstad (2003), high tax rates and complicated regulations were reasons behind tax evasion. He argued that high tax rates and complex set of rules, especially for

customs and corporate taxes, resulted in large potential rewards for tax payers to evade the tax burden.

Taylor (2001) asserts that tax compliance is determined by probability of detection and legal sanctions, when the probability of being caught and punished is high, non-compliance or rather tax evasion will be low. This provides the views that tax payers always weigh between benefits and losses resulting from tax evasion.

Grasmick and Scott (1982) not only acknowledged the relationship between the threat of legal punishment (detection probability) and intention to evade taxes but also pointed the issue of social stigma attached to tax evasion. This imply that how does the society consider the person who has evaded the tax, a hero or villain? And how does the person feels before the society, sense of guilty or sense of achievement?

Smith and Tyler (1996) pointed that Tax revenue authority collects revenue on behalf of governments. If the government is perceived to be representative then tax payers will be willing to pay taxes but when the tax payers perceives that government is not representative tax evasion is likely to occur. Fjelstad and Semboja (2001) see that line in terms of tangible benefits in return of taxes. They argue that taxes are perceived to be unfair and people receive few tangible benefits in return for tax compliance.

2.3.1.4. Cash Transaction

When business transactions are conducted through cash transaction, the situation complicates the enforcement of tax collection (Gordon and Li, 2005). Parties involved in this arrangement have the loophole of not being recognized by tax authority hence erosion of tax revenue.

2.3.1.5. How to Make Revenue Collection more Effective

The tax collection capacity of Government should be enhanced, so as to increase the size and predictability of tax resources. This implies adequate training of personnel on collection procedures as well as educating taxpayers the important of paying taxes. Periodic of evaluations of collection costs should also be performed to monitor and guide the development of the collection efforts. An effective provision of service must, nevertheless, accompany the increased tax collection effort in order to develop public trust and accountability of the Local government.

One reason why Tanzania has remained both heavily aid dependent and unable to invest faster in its own development is because of its low domestic revenue collections.

This brief has shown that tax exemptions in Tanzania (both Mainland and Zanzibar) are generous relative to its neighbors Kenya and Uganda and largely benefit large scale investors with certificates of incentives from investment promotion centers.

Becoming self sustaining in resources is priority for the Government, and could be supported by granting exemptions more prudently.

This can be achieved by:

- Reviewing various laws granting exemptions;
- Introducing new exemptions less liberally and making them time bound; and,
- Improving enforcement.

Moreover, it is not possible at the moment to establish how such high levels of exemptions benefit Tanzania. With more transparency, for example by consistently disclosing individual exempt companies and exemptions amounts granted on the internet, such analyses may be possible. This kind of information is at present not fully available to the public, even though tax exemptions are just another form of Government '*expenditure*'.

Just like expenses on health, water or education, tax exemptions should be subject to the scrutiny of Parliament and taxpayers (policy forum 2009)

2.4 Empirical Literature Review

Ndaba (1987) on the study on factors facing revenue collection in Local Government, revealed that, financing Local Government in Tanzania faces a number of problems. He explained that, Revenue Collection is hindered by; the loss in experienced staff and the temporary discontinuity of the local rates collection on individual and their property.

In order to improve revenue collection, Ndaba recommended several means; these are, to improve revenue collection mechanism; to have close supervision; to improve the recording of the business license owners and provision of reliable transport to inspectors/collectors.

Semboja and Therkliden (1992) in their study in Tanzania revealed that, local authorities were not able to collect enough revenue to finance the operations and maintenance of the basic service in their localities..

In their study, they pointed out four major cases of poor revenue collection in Tanzania Local Government Authorities. These comprises of the following:

- (i) The main basic sources of revenue are based on fixed rate per unit and therefore likely to be inelastic.
- (ii) The administration of revenue collection has generally been poor.
- (iii) Certain potential new sources have not yet been exploited.
- (iv) There has not been sufficient political and administrative support from Central Government, to tax a population accustomed to free public service since 1967.

Ojong, M. (2002), highlights some factors that inhibit the performance of local government generally. Some of them are such as; Poor financial base and limited revenue, Unqualified, inexperienced and unskilled staff, Corruption and misappropriation of funds, Lack of local plans and weak programming capacity, Limited autonomy, where, although constitutionally recognized, the federal and state governments dominate over the local government through the state government offices of local government affairs, the ministry of local government, and the local government service commission.

Ouma(2004), in his study on, “The Effectiveness of revenue collection procedure”- A Case of Tanzania Breweries Ltd TBL pointed out that, for any organization to be effective in collection of revenue, it should ensure that it minimizes or eliminate losses arising due to collection.

To achieve this it requires that;

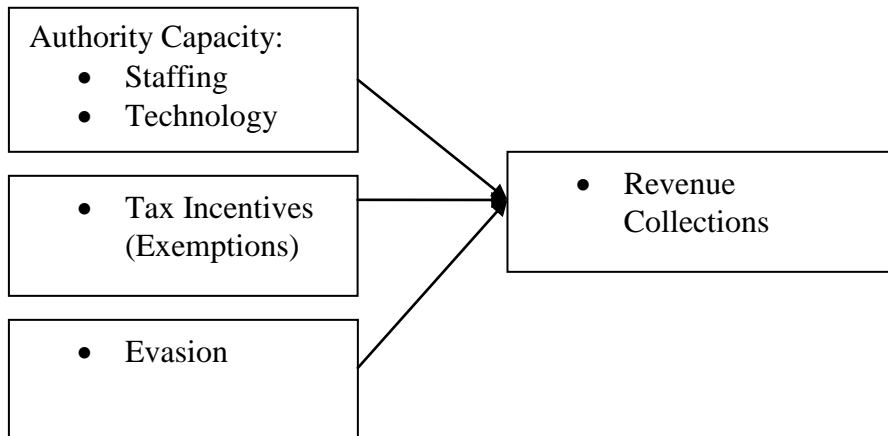
- (i) All cash/ cheques collected should not be used for settlement of other direct cash payment.
- (ii) The cashier should maintain a register for all cash collected.
- (iii) There should be separation of duties to ensure that the personnel dealing with cash are not involved in recording the same.

2.5 Research Gap

From the literature examined, studies show inadequacies in the way provides a theoretical analysis of the Hindering factors on failure to achieve full potentiality on tax revenue collection in Tanzania is carried out in organizations that utilize it in Tanzania, both public and private (Wilson, 2011; Mrema, 2007; Swai, 2009). However, their coverage as far as public institutions are concerned is not adequate. This study seeks to fill that gap

2.6 Conceptual framework

Figure 2.0: Revenue Collections



Source: Researcher model (Levin, 2004)

The conceptual framework above explains the relationship between the revenue collection, staff capacity, government efforts as well as taxpayer tax evasion. It tries to explain the factors that can contribute to ineffectiveness' of revenue collection as lack of enough staffs, behavior of such staffs as well as lack of modern way to conduct such examination, TRA cannot reach the target of tax collection. Tax incentives such as exemptions to several entities to motivate them as well as to encourage investment can lead to ineffective tax collection. Tax evasion also can lead to ineffective revenue collection. Due to these variables TRA should revise the policy used in revenue collection and reduce exemptions as well as filling the gap for tax evasion.

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology of the research. It explains the nature of the sample and the sampling procedures used by the researcher, the type of data and their sources; data type. It presents a description of the research design; that is, sampling frame, sample size, study area, the tools and procedures used in the data collection and analysis. The sequential patterns from nature of data, sampling procedures, data analysis and interpretations have been aligned to attain the purpose of the study.

3.2 Study Approach

The study uses qualitative approach where by all data were measured in a way that gives meaningful numerical results.

3.3 Research Design

Research design is the overall plan of the research. It is referred to as a blue print for the collection, measurement and analysis of data (Kothari, 2004). It also shows how the study is implemented from problem definition to conclusion of study. It is through research design that one can answer various questions such as “what is the objective of the project? What data is needed? How data will be collected and analyzed?” That being the case, a case study design is selected for this research in order to avoid time constraints. The aim was to gain knowledge on how the tax revenues will be easily collected and increased to boost government coffers.

3.3.1 Study Area

The study was conducted TRA offices located in Temeke tax region, audit department not all metropolitan sub offices were covered due to the financial and time constraints. Nevertheless the visited offices were potential eligible to be included in the sample, which represented a true picture of TRA as they involved responses available for TRA. Also time is limited factor to reach all officers.

3.3.2 Population of the Study

The populations of the study were TRA stakeholders in Temeke area. These include tax consultancy as well as tax payer around that area.

3.3.3 Sample Size and Techniques

This study consist a total sample size of 200 respondents including 100 tax consultancies and 100 tax payers. According to Saunders, Lewis and Thornhill (2003), there are four factors to consider when selecting the sample size:

The confidence researchers need to have in his or her data, i.e. the level of certainty that the characteristics of the data collected will represent the characteristics of the total population; The margin of error that researcher can tolerate, i.e. the accuracy required for any estimates made from the sample;

The sample size includes 100 taxpayers, 20 consultants, 20 law makers and 60 members of public. Total population was 200 customers of different priorities. Refer table 3.2 below:

Table 3.2: Tax Payers and Other Customers Sample Frame

Category	Responses		Percentage (%)	
	Expected	Actual	Expected	Actual
Tax Payers	100	88	50.0	52.3
Consultants	20	16	10.0	9.5
Law Makers	20	14	10.0	8.3
Public	60	50	30.0	29.8
Total	200	168	100.0	100.0

Source: Research Data

The targeted Tax payers and other customer sample was not reached because some customers were not able to complete filling the questionnaires because they were busy and requested fill them at their own free time.

3.4 Data collection

3.4.1 Types of data

Data to be collected were both primary and secondary data.

3.4.2 Data Collection Methods.

The study used both primary and secondary data. The primary data involved use of questionnaire, and interviews. Secondary data used publication and TRA records.

3.4.2.1 Questionnaires

Sanga (1991) defined questionnaire as a self administered schedule of questions and statements. It is a special interview schedule, which is completed by respondent himself instead of the interview. It consist of a number of questions printed or typed in a defined form or set of the forms.

This instrument was employed as the main tool of collecting data. Structured and self-administered questionnaires were employed. Questionnaires were distributed to the targeted respondents who were expected to read them, understand and answer the questions on their own. Structured questionnaires are simple to administer and relatively inexpensive to analyze over other instruments (ibid). The Likert rating scale which asks respondents how strongly they agree (5) or strongly disagreed (1) was used (Kelvin - 1999). The designed questionnaires were administered for employees (Appendix 1) and for tax payers and other customers (Appendix 2) to assess their feelings on the factors that causes tax revenues not being collected on time and as required.

3.4.2.2 Interviews

An interview guide was used in collecting information from respondents who will not be in a position to use these self-administered questionnaires. It is the most common method used in collecting data. This method involves presentation of oral-verbal stimuli and reply in terms of oral-verbal responses (Kothari 1990). The method was selected due to its greater flexibility in the questioning process, wide coverage (easily to collect data from literate and illiterate), control of interview situation and completeness of questions. The method used to get information even from individuals who are the mainly payers of revenue to the council.

Interviews were conducted as a supplement to questionnaires. Interviews were highly formalized and structured, using standardized questions for each respondents or were informal and unstructured conversations (Saunders, Lewis and Thorn hill, 2003).

3.4.2.3 Documentary Review

The researcher read various documents for the purpose of collecting secondary data. The method helped to add more data that would not be found in the former methods. Some of

the council's documents viewed were revenue collection file, market file, as well as social and economic profile of the district.

Secondary data are those data which have already been collected by someone else and passed through the statistical process (Kothari, 1999). This study utilized available sources of secondary data like: TRA Publications, articles, in-house reports and newsletters, Research reports from distinguished academicians connected with the industry, Books, magazines and newspapers, Internet facilities, eg TRA portal, Google etc, TRA records and statistics, historical documents, and other sources of published and unpublished information were also examined.

3.5 Data Analysis Technique /Plan

Data collected from the field was analyzed mainly quantitative. Preliminary analysis of information was sought through in-depth interviews that were done during the fieldwork. Such preliminary analysis has been suggested to be useful for improving questions during the fieldwork (Gibbs, 2002). However, the large part, of analysis was done after the field work. Interpretation of qualitative data involved organizing information into units, synthesizing, and searched for meaningful patterns and finally gained an understanding. Statistics package for social science (SPSS) computer programme was used to analyze data that was collected through questionnaires. Frequencies and percentages were used to summarize the collected data. Summary statistics including tables were used to present findings.

3.6 Validity

A conclusion of any study can be affected by either a researcher's bias or subjective judgment in the data collection process (Yin, 1994). Accordingly, the researcher must

provide supporting evidence that a measuring instrument does in fact measure what it appears to measure. Interviewing a single respondent at a time and carrying on discussions was a way of maintaining validity. But prior to the main survey, a pilot study was done whereby questions in the questionnaire were validated and the questionnaire was adapted based on the pilot study.

3.7 Reliability

Reliability on the other hand, is the central concern to social scientists because the measuring instruments they employ are rarely completely valid. Reliability is the extent to which a measuring instrument contains *variable errors*, that is, errors that appear inconsistently from observation to observation during any one measurement attempt or that vary each time a given unit is measured by the same instrument. Reliability of the data was checked by triangulation of the collected data and information (Kothari, 2009)

CHAPTER FOUR

4.0 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter presents findings, discusses and analyses the information collected from TRA Temeke. It tries to scrutinize the data into a critical analysis in order to obtain information that could provide the answers to the questions under study on the factors which hinders the performance revenue collections in Tanzania.

The analysis is directed at answering the main research question with the aid of answering the three specific research questions as stipulated in sec 1.5 which are, What are the main resources of revenue and its trend of the rest three years?, What are the major problems/obstacles hinders performance of revenue collection process? And what alternative recommendation can be made to improve the performance of revenue collection?

The above questions intended to capture the useful information and knowledge on the factors which hinders the performance of revenue collections in TRA, identifying main sources of revenue and suggesting on how to improve revenue collection in Tanzania.

Documentary reviews, questionnaires and interviews constituted the main sources of information and data gathered.

4.2 Study Findings

A total of 100 questionnaires were distributed to customers (taxpayers) only 84% were usable due to different excuse some response was negative. The customers who responded

positively were those who have tax accounts with TRA and the general public at large. The expected senior management team sample was 40 but only 29 which accounted for 73.3% were usable. A total of 60 questionnaires were distributed to employees but only 51 questionnaires were returned and were usable. Senior management team who responded was the ones who are directly responsible /involved in the policy formulation, directing and supervising tax operations and customer care.

The other employees who were involved were those who were directly responsible in the actual execution of tax policies, laws, provisions, regulations and tax collections. The Servqual method developed by Parasuraman, et.al, (1985) was used to calculate the difference in the score between the three items. The negative score indicated the existence of tax collectivity gap, where the tax payers were not having expectations that met by actual services performed by the tax employees in general.

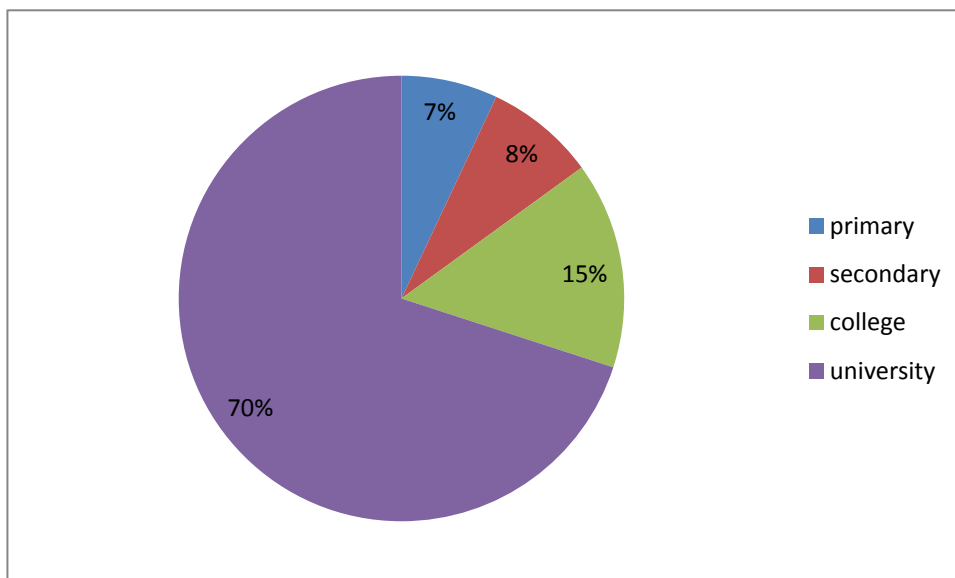


Figure 4.1 Respondent's Education

Source: Field data collection

4.2.1 Respondents' Education

Respondents participated in the study were of different level of education. Majority of respondents in the study 70% were university leavers, 15% were college leavers, 8% were secondary leaver while 7% were primary leavers. Basing on the information presented above and their implication to the matter under study, it can therefore be concluded that the respondents the study involves most had enough education to respond to the questionnaires

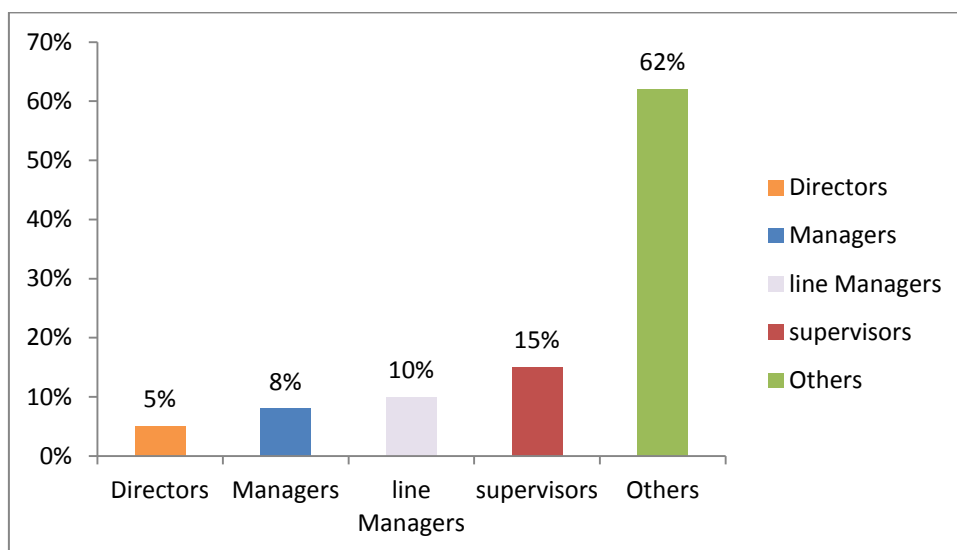


Figure 4.2 Positions of Respondents

Source: Field data collection

4.2.2 Respondents' Positions

Major participants involved in the study were respondents with no position in the dairy working of TRA 62% followed by supervisors 15%. Others are line managers 10%, managers 8% and directors 5%. The figure below shows the distribution of them based on the position. Basing on the results above, researcher concluded that majority of respondents have no position in TRA. This was seen as unbiased respondents since have no position in TRA. The figure 4.3 below shows the results.

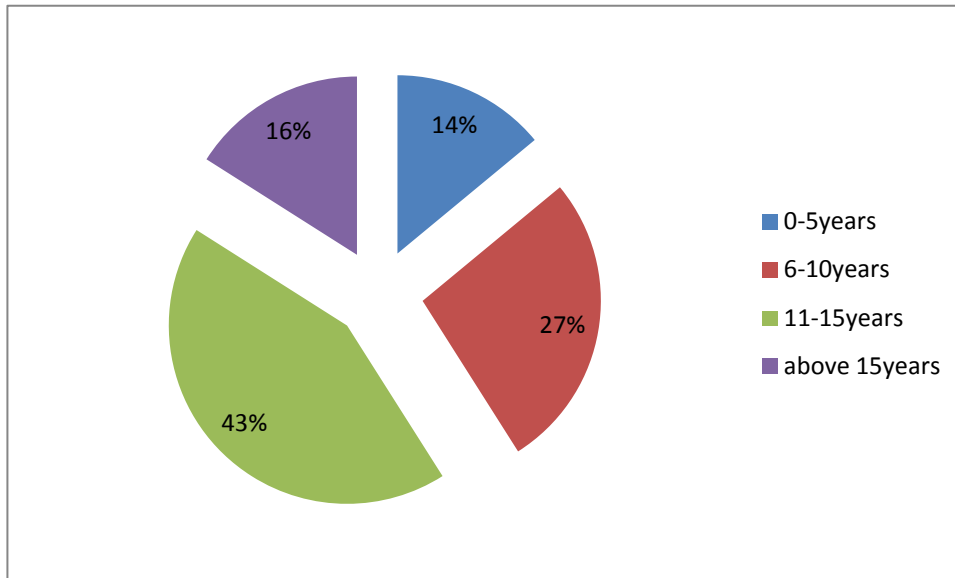


Figure 4.3 Duration of such position

Source: Field data collection

From the above the researcher found that most of respondents occupied the position they had for 11-15 years followed by those with 6-10 years followed with those above 15 years and those with 0-5 years being the last group. These results shows that those responded to the questions were people with enough experience with the TRA hence the information given can be relied upon.

4.2.4 Institutional Capacity

Human resources are the key factor for the revenue authority's achievement, according to TRA annual Report of 2007, the total number of TRA employees was 3,324, and out of them 69% were males while 31% were females. Table 2.1 indicates Staff position at TRA.

Table 4.1 TRA Staff and their Position

Department	As at 30 th June 2007		
	Male	Female	Total
Customs and Excise	769	242	1,011
Domestic Revenue	1,240	625	1,855
Large Taxpayers	65	34	99
Tax Investigation	38	17	55
Finance	15	18	33
Information System	30	6	36
HR and Administration	76	54	130
Internal Audit	21	9	30
Research, Policy and Planning	14	6	20
Legal	11	8	19
Taxpayer Education and Services	8	7	15
Commissioner General Office	6	3	9
Total	2,293	1,031	3,324

Source: TRA Annual Report 2007

From the table below it seems the TRA staffs are not adequate enough to collect enough revenue from all sources. The staff in all area of Tanzania is as shown above 3,324 these are not enough.

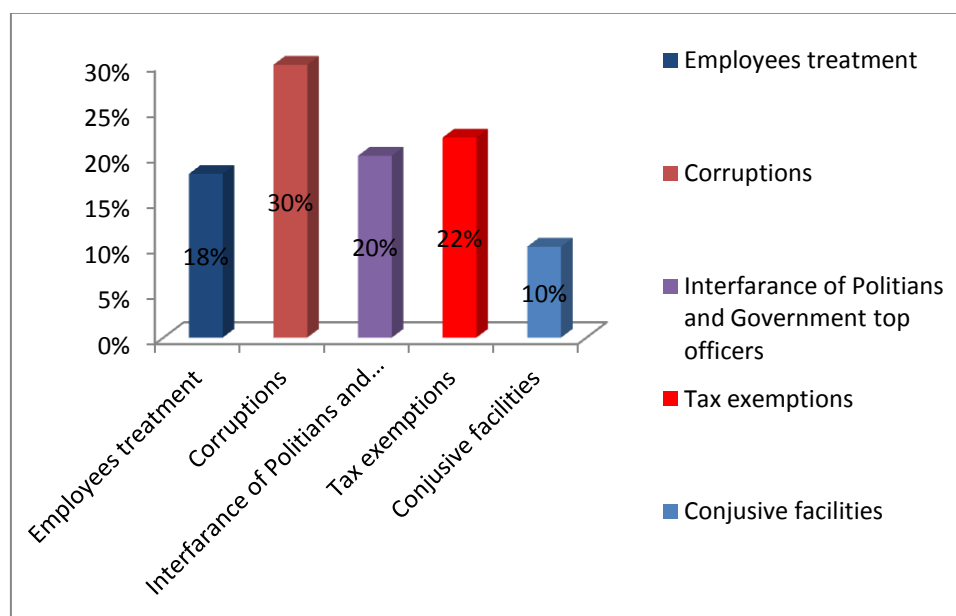


Figure 4.4 Factors Hindering Effective Tax Collection in Tanzania

Source: Field data collection

4.3 Factors Causes an Effective Revenue Collection

The researcher asked the respondents on factors affecting the revenue collection in their areas, the respondents results were as shown in figure 4.4. The corruption acquired 30% out of 100% followed by tax exemption with 22% followed by politicians and government top officers with 20% followed by negative employee treatment as well as conducive environment and facilities holding 10%. Customers (taxpayers) expressed opinions that business environments, communities and tax exemptions provisions are the sources of tax evasions and revenues losses, the factors that erode substantial amount of government revenues. The TRA senior management team and other employees differ extensively with the customers arguments and they have an perceptions/opinions that law provisions that exempts business communities and environments are the stimulant variables that motivates the taxpayers to fulfill their obligations and enjoy the benefits accrued from the tax exemptions, hence the tax collection performances gained by TRA were typically related to effectiveness of the Authority evasions and exemption policies and employees' perceptions of the rights and benefits of tax laws.

Other questionnaire were asked to directors, senior managers, middle managers, supervisors and employees as well as taxpayer to indicate whether the current tax laws and provisions are well understood, are they hindrance in tax collections, who sets and monitors tax goals, objectives, and collection performances, are all employees respect their customers (taxpayers) with due care, dignity, honest and do they impose cohesion and entertain corruptions loopholes. Also, they were asked if politicians and senior managers overrule tax provisions for their personal benefits. The respondents were also given the overall assessment on the availability and competences of TRA staff and ICT facilities, problems caused by tax exemptions and tax evasions. The results of those interviews were as follows.

4.3.1 The Tax payer's Expressed Opinion.

In this questionnaire respondents were asked to put a tick on strongly disagree, disagree, unsure, agree as well as strongly disagree concerning whether tax payer's expressed opinion the result were as shown below.

Table 4.2 Tax Exemptions Provisions Are Excessively Used by Authority (n=84)

Attributes	Frequency	Percentage
Strongly Disagree	24	14.3
Disagree	32	19.0
Unsure	52	31.0
Agree	36	21.4
Strongly Agree	24	14.3
Total	168	100.0

The research indicates that 14.3% of respondents (taxpayers) strongly disagree and 19.0% disagree that the tax exemption provisions are excessively used by the tax authorities hence in effective in collecting tax revenues. About 31.0 % of the respondents are unsure, 21.4% strongly agree and 8.8% agree. Therefore, respondents' opinions were evenly split that the TRA exemption provisions are excessively used

4.4 Impact of Tax Exemption

Table 4.3 Estimated Tax Revenues/GDP Ratios for the year 1998 to 2003

Particulars	1998/ 1999	1999/ 2000	2000/ 2001	2001 /2002	2002/ 2003
Tax Revenue(Including Exemptions)	16.9	14.9	15.3	16.1	14.7
TaxRevenue/GDP(Excluding Exemptions)	11.3	11.4	12.0	12.0	12.6
Difference	5.6	3.5	3.3	4.1	2.1

Source: TRA Revenue Reports

From the table above, Tanzania in 1998 up to 2003 would have collected 77.9% but due to exemptions it has collected 59.3%, 18.6% being exemptions. This revenue lost would have increased the capacity of the Government to deal with citizen's services. as the table shows in 1998/1999 5.6 were lost as exemptions, 1999/2000 3.5 were lost, 2000/2001 3.3 were lost, in 2001/2002 4.1 were lost while in 2002/2003 2.1 were lost as exemptions.

From focus group discussion the respondents replied that "Every year the Parliament of Tanzania carefully scrutinizes the Government's budget. Tax exemptions, on the other hand, do not receive the same attention in the Parliament, effectively making them hidden expenditures. Tax exemptions involve very large sums of money. In 2009/10 alone, 2.3 percent of GDP or TZS 695 billion was granted in tax Exemptions. The sheer size of the amount involved raises questions about the purpose these incentives serve and whether the amounts spent on them are justified".

From the interview one replied that "Could it be that tax exemptions are too high for a country that is struggling to collect sufficient resources to finance its budget? Could it be that Tanzania would be better off if fewer tax exemptions were granted and more money was spent on health, water or education? And why is information on who benefits not publicly available?"

From these findings it seems tax exemptions is not beneficial to the citizens, this shows that revenue should be collected and the government use them in serving its people. From Tanzania revenue reports, the amount of money Tanzania gives away in tax exemptions has always been substantial but has increased rapidly in the middle of this decade. At its peak growth, tax exemptions almost doubled in one year, rising from TZS 459 billion in 2004/05 to TZS 772 billion in 2005/06. In 2009/10 tax exemptions amounted to TZS 695

billion. This amount is more than half the TZS 1.3 trillion the Government plans to borrow from commercial sources

The level of tax exemptions in Tanzania is high. This can be seen by comparing the level of exemptions granted in Tanzania with that in Uganda and Kenya. In Tanzania, between 2005/6 and 2007/08 tax exemptions averaged 3.9 percent of GDP. In 2008/9 tax exemptions were 2.8 percent of GDP and in 2009/10, 2.3 percent. In comparison, in Kenya and Uganda exemptions amounted to 1 percent and 0.4 percent of GDP respectively.⁴ If Tanzania would harmonize its tax exemptions with the level achieved in Kenya, more than TZS 600 billion would have been saved in 2007/08 alone.

The significance of the amount granted in exemptions can be illustrated by comparing it to missed tax revenue targets. In 2008/09 and 2009/10 the Government missed its revenue target by TZS 453 billion on average. In the same period, tax exemptions granted averaged TZS 724 billion per year. If tax exemptions had been brought in line with the level of exemptions granted in Kenya, TZS 484 billion would have been saved in 2008/9 and TZS 302 billion in 2009/10. In other words, the shortfall in revenue collection would have been largely offset.

Table 4.4 Business Communities Evade Tax Excessively

Attributes	Frequency	Percentage
Strongly Disagree	10	6.0
Disagree	24	14.3
Unsure	36	21.4
Agree	46	38.1
Strongly Agree	34	20.2
Total	168	100.0

Source: Research Data

4.5 Tax Evasion

Tax policy refers to various taxation laws, provisions, regulations, by-laws and requirements which are enacted to realize specific objectives of revenue and non-revenue purposes. Thus taxation can be used for equalization of incomes differential in society, the efficient reallocation of resources and sometimes stabilization of the economy. The more efficient the tax administration system becomes the more the social and economic goals of the society are likely to be realized through tax policy. In assessing whether tax payer in Tanzania evade tax, the researcher used agree and disagree type question to respondents and the result are shown in table above.

From Table 4.3, 6.0% of respondents strongly disagree, 14.3% disagree and 21.4% were unsure that business communities evade tax very excessively. About 38.1% agree and 20.2% strongly agree with the above attributes in the statement. The majority of the respondents were evenly split that TRA provisions allow communities evade taxes excessively.

4.6 Reasons for Tax Evasion

In assessing the reason for tax evasion, researcher used to test whether the tax environment are the causes of tax evasion, the following in table shows the result.

Table 4.4: Business Environments Motivates Tax Evasions

Attributes	Frequency	percentage %
Strongly Disagree	14	8.3
Disagree	18	10.7
Unsure	16	9.5
Agree	62	36.9
Strongly Agree	58	34.5
Total	168	100.0

Source: Research Data

In Table 4.2 above, 8.3% and 10.7% of the respondents strongly disagree and agree that business environments motivate tax evasions respectively. While about 9.5%, 36.9% of the respondents unsure, agree and 34.5%, strongly agree that business environments motivates tax evasions respectively. In this regards majority of the respondents (71.4%) were in agreement that business environments motivates tax envisions meaning that most of Authority and government revenues are not properly accounted for and collected hence tax losses due to the business environments' considerations.

Table 4.6: The Performance of TRA (2005/2008)

Departments	Revenue Collection (Million TSh.)		
	2005/06	2006/07	2007/08
Domestic Revenue	376, 550.20	405, 576.10	506, 819.10
Large Tax Payers	750, 215.00	1,069, 370.70	1, 351, 517.60
Customs and Excise	902, 169.80	1, 166, 055.3	1, 486,669.3
Add: Treasury Vouchers	20, 657.20	25, 981.40	33, 787.94
Gross Total	2, 040, 592.30	2,666, 933.30	3, 378, 794

Source: TRA Revenue Reports

From observation and documentation the researcher observed the following

Tanzania Revenue Authority has got four core departments namely Customs and Excise, Domestic Revenue, Large Taxpayers and Tax Investigations. Among them it is the Customs and Excise Department which deals with Customs Administration. Taxes, households or firms that consume the taxed items are assumed to pay the associated taxes.

Statistics from TRA evidenced that taxpayers are grouped into four subcategories; large taxpayers, medium taxpayers, small taxpayers and micro taxpayers. The categorization is based on the turnover of the taxpayer entity; firm with turnover more than Tsh 1 billion is considered to be large taxpayer, entity is classified as medium taxpayer when its turnover is between Tsh.500 million and Tsh.1 billion. Entity with turnover between Tsh.100 million and Tsh.500 million is categorized to be a small taxpayer, while entity with turnover less than Tsh.100 million is regarded as a micro taxpayer. The categorization process is continuous hence the frequent transfer of entities from one category to another.

From TRA documents, the revenue administration based on taxpayers' categories, TRA has organized itself to handle the frequent movement of taxpayers by having large taxpayer department, large taxpayer unit, medium taxpayer unit and small taxpayer unit. The few large tax payers are contributing more than 70 % of the revenue collected in the country, followed by the medium enterprise which contributes about 10-25 % of the revenue collected, while the larger number of small and micro enterprises is contributing less than 10% of the revenue collected in Tanzania.

Each category is characterized by its unique tax behaviour towards shifting the tax burden. Since the large tax payers are contributing high percentage of the revenue collected, they consider themselves as having bargaining power hence they will shift the tax burdens through tax exemptions. Medium sized firms consider themselves as being over burdened by tax, and they will opt for evasion in collaboration with revenue officials hence corrupting revenue official to reduce the tax liabilities. Due to the nature of the working environment of small and micro enterprises, the segment will opt to evade the tax burden. Table 4.5 categorized the performance of TRA in departments, Customs and Excise department is the main revenue collector in the authority, followed by large tax payers and

lastly the Domestic Revenue department. Each department has equal significance in enabling the authority to perform as per targets set.

The main source of tax revenue under the jurisdiction of the Customs and Excise Department are Import Duty, Excise Duty on petroleum and non-petroleum imports, Fuel levy and VAT on both petroleum and non-petroleum imports. The population of large tax payers has been increasing since 2006/07 where they were 370 tax payers. The increase of large tax payers was the reason accounted for in the increase of revenue collected in the department.

From focus group one of the taxpayer said, *The main sources of tax revenue are in the jurisdiction of Domestic Revenue Department which are VAT on local consumption of cigarettes, textiles, soft drinks, soap and detergents. Also there are excise duty levied on soft drinks, spirits, cigarettes, shopping plastics bags and air time on mobile phones. Stamp duty, Departure charges, Business license and Motor Vehicles taxes fall in the Domestic Revenue Department. This is not fear since there are a lot tax bases left by the authorities due to political interference. This lead to poor people suffering.*

4.7 Solutions for TRA to collect Revenue Effectively

Among the reason Tanzania continues to rely heavily on foreign aid is because it fails to raise sufficient revenue. However, by comparing amounts of exemptions granted each year with grants received to fill the resource gap in the budget, it is evident that dependence on aid could be reduced significantly if exemptions were granted more prudently.

At its peak in 2005/06 and 2006/07 the ratio of exemptions to foreign budgetary grants was more than 70 percent. There has been a decline since then mainly as a result of a

sharp rise in foreign grants rather than a decline in exemptions. In 2009/10 tax exemptions were estimated to be at 33 percent of the budgetary grants. By reducing the exemptions by 50 percent, the Tanzania Government could reduce its dependence on foreign grants by roughly 16 percent. In terms of public finances, such a reduction would be an impressive accomplishment.

4.8 Further Discussion of Findings

The importance of adequate revenue collection cannot be overemphasized in terms of financing directly any government development programs particularly where governments have assumed an active and leading role in promoting economic growth. However, high tax rates and excessive use of tax exemptions may be counterproductive. Low tax rates and reasonable tax exemptions may be more desirable tax policy.

In this fact, the implementation of tax policies by tax officials is a crucial element in tax collections and controlling the taxpayer behavior of paying taxes. If the tax exemptions for instance are excessively used by tax officials, the tax payers will automatically utilize this loophole by not paying taxes on exemptions pretexts.

It should be noted that tax administration all over the world generally experience the same or similar difficulties in their efforts to reach taxpayers. Taxpayer behaviors' are virtually the same in both the economically developing and the industrialized nations in several aspects, in particular avoiding paying the right taxes whenever a loophole exists. Therefore, the tax officials must at all time should not use the tax exemptions very excessively because it is the main legal loopholes which the tax payers use to escape paying taxes.

The study reveals that TRA is facing complaints and hindrances in collecting taxes due to tax evasion, tax avoidance, and tax complexities another challenge facing TRA today is misuse of tax exemptions extended to business communities and excessively used by tax officials as well as corruption.

Tax policy refers to various taxation laws, provisions, regulations, by-laws and requirements which are enacted to realize specific objectives of revenue and non-revenue purposes. Thus taxation can be used for equalization of incomes differential in society, the efficient reallocation of resources and sometimes stabilization of the economy. The more efficient the tax administration system becomes the more the social and economic goals of the society are likely to be realized through tax policy.

The importance of adequate revenue collection cannot be overemphasized in terms of financing directly any government development programs particularly where governments have assumed an active and leading role in promoting economic growth. However, high tax rates and excessive use of tax exemptions may be counterproductive. Low tax rates and reasonable tax exemptions may be more desirable tax policy.

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The main source of tax revenue under the jurisdiction of the Customs and Excise Department are Import Duty, Excise Duty on petroleum and non-petroleum imports, Fuel levy and VAT on both petroleum and non-petroleum imports. The population of large tax payers has been increasing since 2006/07 where they were 370 tax payers. The increase of large tax payers was the reason accounted for in the increase of revenue collected in the department.

The main sources of tax revenue are in the jurisdiction of Domestic Revenue Department which is VAT on local consumption of cigarettes, textiles, soft drinks, soap and detergents. Also there are excise duty levied on soft drinks, spirits, cigarettes, shopping plastics bags and air time on mobile phones. Stamp duty, Departure charges, Business license and Motor Vehicles taxes fall in the Domestic Revenue Department. The statistics show that the department is the least contributor of tax revenue but in reality it is not because there is periodic transfer of tax payers from this department to large tax payers department. This periodic transfer is the main reason behind the small increase in revenue collection.

CHAPTER FIVE

5.0 CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The study set out to explore the notion of proper tax collections in Tanzania. The findings indicate that the broad dimensionality of tax collections as proposed by Parasuramam et. Al., (1988) is not adhered by TRA management and employees.

The analysis of the tax exemptions that are excessively use by tax officials show that there are differences between the tax collections efforts by TRA officials and those expected by taxpayers (customers).This indicated that Management were insensitive to taxpayers opinion. Nevertheless the taxpayer showed that there still a lot of tax bases which should be established apart from beverages, cigarettes and telephones

5.2 Recommendations

The findings of this study provide initial directions in determining the factors that leads to ineffective tax collections by TRA. The management should understand that proper tax collections are necessary in order to raise adequate revenues for social and economic development of the country. TRA management needs to determine what actions to do to ensure that it collects sufficient revenues.

The following practices and performances should be undertaken:

Leadership: TRA management visible involvement and commitment to Tax administration. Tax officials must; communicate corporate values and cultures related to

collect tax timely, recognize and appreciate efforts and success of all employees and actively promote service quality. Managers must provide strong leadership.

Market Research: The management should frequently undertake market research for the purpose of formulating efficient policies regarding taxpayers' needs and wants according to seasonal business and tax law changes. This will enable managers to provide services according to customer expectations and requirements.

Human Resources development and Management: Management should release the full potential of TRA personnel in order to improve the tax collections by implementing the following:

1. Training of staff in dealing with customers and in interpersonal communication.
2. Incorporate employee performance monitoring and evaluation within the customer need control loop.
3. Rewarding staff for meeting and exceeding tax collections and taxpayer satisfactions.
4. Audit tax personnel job satisfaction regularly. There is a high correlation between employee satisfaction and customer satisfaction and tax collectability.
5. Empowering of personnel to make decisions in addressing taxpayers problems on time in order to facilitate tax quality improvements.
6. There should be an effective top down and bottom up communication between management and employees and involvement of staff coming up with suggestions to improve tax collections.
7. In recruiting TRA employees Management should consider delivering service excellence as one of the key criteria and competencies.

Customer focus and satisfaction; The management must strive to look into how taxpayers requirement are met, taxpayers relationships management, complaints resolution for tax collection improvements,

ICT and New Technology Facilities: More resources should be invested for tax ICT facilities in order to realize long term benefits:

TRA Internal Communication: Management should strive to encourage interdepartmental communication (lateral or horizontal communication). When all TRA departments are linked properly it will encourage quick response to meet taxpayer's requirement and detect fraudulent transactions and tax evasion.

5.3 Implication of the Study

The study examines factors which cause ineffective revenue collection in Tanzania hence acknowledging the roles of different stakeholders in the matter. TRA officials, business communities, government officials, academicians, other researchers, et cetera play significant roles in tax administration, each category aimed in attaining its goals regarding tax matters.

The findings from this study will help the authority to identify the bottlenecks in revenue collection mechanism and help to come up with solutions to eliminate the shortcomings in revenue collection. The study also will make an important contribution to policy makers and body of knowledge by providing in-depth understanding of complexities prevailing in revenue collection.

The analysis of the tax exemptions that are excessively use by tax officials show that there are differences between the tax collections efforts by TRA officials and those expected by

taxpayers (customers). This indicated that Management were insensitive to taxpayers opinion. Nevertheless the taxpayer showed that there still a lot of tax bases which should be established apart from beverages, cigarettes and telephones

5.4 Recommendations for Future Research

This study has highlighted the TRA tax administration and its effect on the performance tax collections. The study had determined persistent factors that hinder the TRA failure to raise adequate tax revenues for economic and social developments. We recommend that further research is required in TRA to know factors that affect the accuracy, fairness and timely tax collections.

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APPENDICES

Appendix 1

QUESTIONNAIRE TO THE RESPONDENTS (EMPLOYEES)

Dear Respondent,

This questionnaire intends to capture data concerning the complexities in revenue collection. This study selected Temeke district as case study.

The Open University of Dar es Salaam student conducts research as part of her Master Degree Dissertation. Relevant information obtained shall be used for academic purposes only. You are therefore requested to fill the above questionnaire carefully to enable the student to reach the intended objective.

Please put a tick/circle for your choices or write on provided blank spaces.

Part 1: Personal Information

Please tick the correct answer

1. Age (in years)

A: Below 25 [.....]

B: Between 26 and 35 [.....]

C: Between 36 and 45 [.....]

D: Above 45 [.....]

2. Sex

A: Male [.....]

B: Female [.....]

3. Level of Education

A: Primary School [.....]

B: Secondary School [.....]

C: College [.....]

D: University [.....]

4. Your Department:

.....

6 How long have you been working with Tanzania Revenue Authority (TRA)?

A: 0 - 5 Years [.....]

B: 6 - 10 Years [.....]

C: 11 – 15 Years [.....]

D: More than 15 Years [.....]

8. Exposure to Tanzania tax matters

A: One year [.....]

B: Two year to Three [.....]

C: Three year to five year [.....]

D: Above five year [.....]

9. Your Position in TRA

A: Manager [.....]

B: Supervisor [.....]

C: Others (Specify) [.....]

10. How long have you been working in this position?

A: 0 - 5 Years [.....]

B: 6 - 10 Years [.....]

C: 11 – 15 Years [.....]

11. Current tax provisions understood by TRA employees?

A: Yes

B: No.

12. Current tax provisions create hindrance in tax collections?

A: Yes

B: No.

13. Who sets the tax collections objectives?

A: Director [.....]

B: Manager [.....]

C:Line Managers [.....]

D: Supervisor [.....]

14. Who monitor your t tax collections performances?

A: Director [.....]

B: Manager [.....]

C: Line Managers [.....]

D: Supervisor [.....]

15. Do you treat taxpayers with due dignity and respect?

A: Yes [.....]

B: No [.....]

16. Do you offer prompt services to all taxpayers?

A: Yes [.....]

B: No [.....]

17. Are some of TRA employees not honest and entertain corruption in order to offer services to taxpayers?

A: Yes [.....]

B: No [.....]

18. Are Tanzanian tax collection systems good enough to curb all taxpayer loopholes?

A: Yes [.....]

B: No [.....]

19. Are some of TRA employees not honest and entertain corruption in order to offer services to taxpayers?

A: Yes [.....]

B: No [.....]

20 Politicians and senior government officials' overrule tax provisions for their personal interests?

A: Yes [.....]

B: No [.....]

Part 2: Tanzania Revenue Authority

Below are statements indicating the ability of Tanzania Revenue Authority in administering revenue collection in the country. Please circle the correct answer using the following likert scale

1 = strongly disagree 3 = agree to some extent

2 = disagree to some extent 4 = strongly agree

21. TRA has sufficient number of staff 1 2 3 4

22. Staff has sufficient knowledge and skills 1 2 3 4

23 There is incentive scheme to TRA staff 1 2 3 4

24. The authority is utilizing modern technology 1 2 3 4

25. Expenditures of the authority are justifiable 1 2 3 4

Part 3: Tax Exemptions

Below are statements indicating the extent of tax exemptions and its impact on revenue collection. Please circle the correct answer using the following likert scale:

1 = strongly disagree 3 = agree to some extent

2 = disagree to some extent 4 = strongly agree

26 The provision is used excessively 1 2 3 4

27. Exemptions erode the revenue 1 2 3 4

28. Tax Exemption do not attract sufficient Foreign Direct Investment 1 2 3

4

29 Exemptions to NGO has positive effects 1 2 3 4

30. Exemptions are politically motivated 1 2 3 4

Part 4: Tax Evasion

Below are statements indicating the extent of tax evasion. Please circle the correct answer using the following likert scale:

1 = strongly disagree 3 = agree to some extent

2 = Disagree to some extent 4 = strongly agree

31. Business environment motivates evasion 1 2 3 4

32. Tax administration motivates evasion 1 2 3 4

33. Social aspects motivates evasion 1 2 3 4

34. Business community evade tax excessively 1 2 3 4

35. Tax evasion is not significant 1 2 3 4

36. Tax officials are involved in tax evasion 1 2 3 4

Appendix2

QUESTIONNAIRE TO THE RESPONDENTS (CUSTOMERS)

Dear Respondent,

This questionnaire intends to capture data concerning the complexities in revenue collection. This study selected Temeke district as case study.

The Open University of Dar es Salaam student conducts research as part of her Master Degree Dissertation. Relevant information obtained shall be used for academic purposes only. You are therefore requested to fill the above questionnaire carefully to enable the student to reach the intended objective.

Kindly indicate your perceptions you feel about your Tanzania Revenue Authority (TRA) regarding to services offered to you by describing it in each section by ticking a number related to your feelings:

Score Strongly Disagree Disagree Unsure Agree Strongly Agree

1 2 3 4 5

1. Tanzania Revenue Authority (TRA) has sufficient number of staff

(1) (2) (3) (4) (5)

2. Tanzania Revenue Authority (TRA) has sufficient knowledge and skills

(1) (2) (3) (4) (5)

3. The employees are always obedient to taxpayers (1) (2) (3) (4) (5)

4. Tanzania Revenue Authority (TRA) has modern and sufficient facilities

(1) (2) (3) (4) (5)

5. The Authority utilizing modern technology to easy tax matters

(1) (2) (3) (4) (5)

6. Tanzania Revenue Authority (TRA) tax provisions are mostly understood to taxpayers

(1) (2) (3) (4) (5)

7. Tanzania Revenue Authority (TRA) exemption provisions used excessively by tax officials (1) (2) (3) (4) (5)
8. Tax exemptions erode the Government revenues (1) (2) (3) (4) (5)
9. Tanzania Revenue Authority (TRA) tax exemptions issued to NGOs negative effects (1) (2) (3) (4) (5)
10. Tanzania Revenue Authority (TRA) tax exemptions are politically motivated (1) (2) (3) (4) (5)
11. Tanzanian business environment motivates tax evasions (1) (2) (3) (4) (5)
12. Tanzania tax administration motivates tax evasion (1) (2) (3) (4) (5)
13. Business community evade tax excessively (1) (2) (3) (4) (5)
14. Tax officials are involved in tax evasions (1) (2) (3) (4) (5)
15. Tanzania Revenue Authority (TRA) services available for 8 hours a day for the whole week (1) (2) (3) (4) (5)
16. Employees of the Tanzania Revenue Authority (TRA) provide the exact services promise (1) (2) (3) (4) (5)
17. When customers have problems employees show sincere interest in helping to solve the problems (1) (2) (3) (4) (5)
- 18.. Employees are able to tell their taxpayers about products/services offered by the Authority (1) (2) (3) (4) (5)
- 19.. TRA provides right services at the right time when the taxpayers need them (1) (2) (3) (4) (5)
20. Taxpayers get proper tax advices/statements of their accounts on time apart from public notice(1) (2) (3) (4) (5)
- 21.. Employees who deal with tax issues can tell exactly when the statements will be available (1) (2) (3) (4) (5)

22. Employees of Tanzania Revenue Authority (TRA) are courteous and respectful to taxpayers (1) (2) (3) (4) (5)

23. Employees of the TRA are always quick to respond to the taxpayers complains and queries (1) (2) (3) (4) (5)

24. Employees of the Tanzania Revenue Authority (TRA) are never too busy to help taxpayer s (1) (2) (3) (4) (5)

25. Employees have great ability and confidence with the services they provide to taxpayers (1) (2) (3) (4) (5)

26. Taxpayers' feel proper and safe when paying their taxes
(1) (2) (3) (4) (5)

27. Employees of the TRA have the knowledge to respond to taxpayers' questions and queries (1) (2) (3) (4) (5)

28. Employees show great creditability in educating customers on taxes provided by TRA
(1) (2) (3) (4) (5)

29. Taxpayers have easy access to all Tanzania Revenue Authority ICT services
(1) (2) (3) (4) (5)

30. TRA operating hours is convenient and flexible to all taxpayers
(1) (2) (3) (4) (5)

31. The Tanzania Revenue Authority employees give personal attention to all taxpayers
(1) (2) (3) (4) (5)

32. Are employees business oriented and professional in work approaches (1) (2) (3) (4)
(5)

33. Are employees fair and accountable for the decisions they make in their areas of responsibilities (1) (2) (3) (4) (5)

24. Are employees prompt in the delivery of services and are accessible
(1) (2) (3) (4) (5)

25. Employees treat all taxpayers, colleagues and stakeholders with dignity and all tax stakeholders with dignity and respect (1) (2) (3) (4) (5)
26. Are TRA employees honest and have integrity in their dealings (1) (2) (3) (4) (5)
27. Are TRA employees committed and motivated to the achievement of TRA goals and objectives (1) (2) (3) (4) (5)
28. Are TRA employees competent in the delivery of high quality services 1) (2) (3) (4) (5)
29. Dear taxpayer gives your opinions on TRA services and performances in general