

An Evaluation of Governments' Initiatives in Enhancing Small Taxpayers' Voluntary Tax Compliance in Developing Countries

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Abstract *Tax compliance has been a problem in many developing countries. Even though various mechanisms have been adopted to enhance compliance among tax payers, the success has not yet been achieved. The focus of this study is to access approaches on how to promote voluntary compliance among taxpayers in developing countries specific case of Tanzania. The study adopted cross sectional research design whereby a cross-sectional survey and descriptive analytical methods were adopted. Both primary and secondary data were collected and analysed. The study found that in order for the small tax payers to comply voluntarily with tax laws and regulations; the government should focus on the use of information technology communicating i.e. mobile phones; reduction in tax rate to minimize tax burden; increase accountability and transparency among tax authority officials. The study recommendation include: Improvement of tax-education to improve understanding between government and taxpayers in all tax matters, preparation of motivating mechanisms to influence the small tax payers to participate fully in paying tax voluntarily, adoption effective tax collection methods and proper utilization of collected revenues, improvement of social services, increase in tax knowledge to both small taxpayers and tax officials, frequently training of tax officials and tax payers education to increase transparency and accountability. Through the study recommendations will improve the Tanzania's government strategies in enhancing small tax payers' voluntary tax compliance.*

Key words Tax compliance, developing countries, Tanzania, small taxpayers

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1. Introduction

Tax is a main source of revenue for most governments in the world. Tax collections in most of developing countries face problems which account for insufficient revenues to support public expenditure. Most developed countries are characterized by a broad base for direct and indirect taxes with tax liability covering the vast majority of citizens and firms. In contrast, developing countries are confronted with social, political and administrative difficulties in establishing a sound public finance system. As a consequence, developing and emerging countries are particularly vulnerable to tax evasion and avoidance activities of individual taxpayers and corporations. This can be considered as one of the primary reasons for large differences in the ability to mobilize own resources between developed and developing countries (GIZ, 2010). In OECD-countries tax revenues amounted to almost 36% of gross national income in 2007, the share in developing regions amounts around 23% in Africa and 17.5% Latin America according to GIZ data for 2007 and 2004 respectively. Nonetheless, tax revenue has increased over time in many low-income countries. However, this development is mostly due to increased revenues from natural resource taxes, such as income from production sharing, royalties and corporate income tax on oil and mining companies and cannot be interpreted as a sign of an improved tax system or administration (OECD, 2010).

Tax compliance refers as compliance with reporting requirements, meaning that the taxpayer files and pays all required tax returns at the proper time and accurately report tax liability in accordance with the taxing system applicable at the time the return is filed (Devos, 2005). Mpongoliani (2000) refers tax compliance as the situation whereby the taxpayers either voluntarily or involuntarily abide by the requirements of the tax laws. A high degree of voluntary compliance saves the tax authorities from high cost of revenue collection, guarantees a steady flow of revenue for development and helps the realization of various tax policies. Non-tax compliance includes late payments of tax, late submission or non-submissions of documents and alike which lead to the non-realization of the required revenues. Thus

different tax policies may sometimes lead to conflicting social or economic objectives. Voluntary tax compliance refers to an assumption or principle that taxpayers will comply with tax laws and, more importantly, accurately report their income and deductions honestly. For the purpose of this study, voluntary tax compliance is referred as the timely filing and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action (Silvani and Baer, 1997).

An overview of the arguments of different studies and their respective results concerning the range of tax evasion and avoidance also proved the relevant figures relating to noncompliance behaviour of individuals in developing countries. Cobham (2005) reports that a sum of US\$285 billion per year is lost in developing countries because of tax evasion in the domestic informal economy while revenue lost due to corporate income shifting vary between US\$35 billion and US\$160 billion per year. Tax evasion by wealthy individuals is estimated to cause additional revenue losses in developing countries ranging from US\$15 billion to US\$124 billion annually. Global Financial Integrity (GFI)¹ calculates that developing countries loose between \$859 billion to \$1.06 trillion a year through illicit financial² flows. It is also estimated that African countries have lost US\$854 billion in cumulative capital flight over the period 1970-2008 (GFI, 2010).

Due to such situation of losing revenue in various ways as stipulated above recently all over the world, various governments have just attempted to enhance the level of tax compliance by adopting inflexible thoughts towards all taxpayers and by applying laws and regulations to sanction and fine evaders. These ways of enforcement showed to be lacking a considerable achievement since they increase people's negative perception towards the governments. Towards the end of the 20th century, governments have recognized that a change is required in order to enhance the amount of taxes collected by trying to induce some measures necessary for increasing voluntary compliance among taxpayers. Thus, using adequate policies founded on understanding the basis which drive compliance decisions is of greater assistance than severely applying laws and regulations in increasing tax revenues (Bătrâncea *et al.*, 2012).

Better understanding of the underlying factors that influence the attitudes and perceptions of taxpayer towards tax compliance or tax morale as other people use it synonymously provides a bottom up perspective that offers insights beyond those captured by administrative and quantitative measures such as tax to GDP ratio. Among other factors, voluntary compliance behaviour is affected by factors as stipulated by Heggstad and Fjeldstad (2012) which are beyond detection and deterrence measures. Heggstad and Fjeldstad (2012) pointed that factors which enhance clarity include taxpayer knowledge, that is skills to pay taxes; people's sense of moral obligation to pay taxes voluntarily; the extent to which taxpayers believe that the government spends their tax money wisely; fair and transparent treatment of taxpayers by the tax administration, and perceptions of whether others are paying their fair share.

Revenue mobilization in developing countries is challenging and especially when it comes to taxes to be generated from small enterprises; represents a huge challenge to policymakers and tax administrators. On the one hand, there is an undeniable need for revenues to meet spending and social objectives including some impression of fairness in taxation. At the same time, it is widely recognized that in many countries the cost of revenue mobilization from small firms including both administration and compliance costs that exceeds revenue potential. So even if policymakers decide to seek and tax small enterprises, the tax administration may have little interest for diverting resources from other seemingly more productive uses to enforce taxation of the small enterprises (Fox and Murray, 2013).

Fjeldstad and Rakner (2003) reported that widespread on tax resistance is observed in many local and central authorities in many developing countries. People may take to the extreme to evade taxes, for instance, by literally hiding in the bush when tax collectors are approaching. Many local and central governments in developing countries including Tanzania rely heavily on simple physical coercion to ensure and enforce compliance. Roadblocks manned by the local militia or police and village-by-village invasions by collectors are frequently used as tools of tax enforcement. The use of coercive methods yield higher taxes per capita, but the need for coercion also reflects higher levels of distrust in the governmental system and

¹ GFI includes the transfer of money earned through illegal activities such as corruption, transactions involving contraband goods, criminal activities, and efforts to shelter wealth from a country's tax authorities.

² Illicit financial flows are defined as money that is illegally earned, transferred, or utilized.

dissatisfaction with service delivery. Moreover, harsh tax enforcement combined with poor service delivery contributes to undermine the legitimacy of the local government and increases tax resistance.

Fjeldstad *et al.*, (2008) reported that peoples' perception on taxation levied on their daily activities can valuably inform policy makers to improve the taxation system in Tanzania. Improved tax compliance is dependent upon citizens perceiving that their local and central governments are responsible and that taxes are appropriately collected and used to provide public services for the sustainability of the country in various aspects. Tax system that is characterized with numerous and complex taxes cause difficulties in tax administration and compliance to taxpayers since taxes will be seen as unfair; no transparency in revenue collection and/or disbursement hence increased the level of noncompliance. Katera *et al.*, (2009) reported that, there is growth of demand from citizens for more information on revenue collected and how the revenues are spent; and one of the factors that determine taxpayers' compliance is whether citizens perceive the government to be trustworthy and act in the public interest. Therefore, to build trust between citizens and the government, dissemination of information to the public is crucial. Citizens' access to information on taxes collected and how revenues are spent is necessary to achieve accountable, transparent and participatory governance and people centred development.

In Tanzania for example, tax collection amounts to only around 18% of the GDP compared to the international standard of above 30% of the GDP (Ministry of Finance 2012/13). Even the use of some traditional methods instituted by tax authorities like fines and penalties to enforce tax collections from defaulters, but still tax compliance has remained a problem. This state of affairs makes the administration of taxation in Tanzania to be not only difficult but more costly socially, economically and at its worst politically. Apart from the huge expenditure needed to deploy forces to curb non-voluntary compliance, using rude and forceful methods to reprimand tax defaulters ruins government image and may end up to devastating public opinion against the government. Inadequacy in tax collection in developing countries has been associated with a larger proportion of the informal sector which is also a hard to tax group. In Tanzania, for example, the contribution of the informal sector was estimated at between 25% and 51% of GDP between 1969 and 1985 (Bagachwa and Naho, 1990). Osoro (2009) stated the estimate of the informal sector at 48.1% of GDP. Despite such handsome proportion, tax compliance voluntarily or otherwise, has been a problem. The larger composition of small business enterprises from the informal sector and other micro activities, have been the main reason of collecting significantly lower than expected taxes. Due to such handicap, the best solution would be for the government to capitalize in sensitizing small taxpayers to comply paying tax voluntarily. This would bring more benefits to society in reducing apathy and increasing government revenue.

Different countries have different criteria to define or recognize small taxpayers; for the purpose of this study, the small taxpayer is based on the size of the tax paid as part of turnover per year; therefore the Tanzanian small taxpayers are those taxpayers whose turnover is below TZS 20 million (Worldbank, 2007). This study is intended to evaluate on Tanzanian government's initiatives in enhancing small taxpayers' spirits on voluntary tax compliance. It involves identification of measures taken by governments to increase taxpayers' spirit on voluntary tax compliance; assessment of the adequacy of such measures in the Tanzanian context and to find out the best alternatives of raising taxpayers' spirit to voluntary tax compliance in Arusha and Dodoma tax regions.

2. Background of the problem

In an environment where taxpayers generally trust government, voluntary tax compliance is more apparent. Fjeldstad (2006) states that taxpayers' unwillingness to pay is not perceived to be the main problem in revenue collection; the misuse of tax revenues by council staff (particularly by tax collectors) and councillors is among the major problems which led to involuntary tax compliance in Tanzania. The study advised that, stronger punishment of council staff and councillors whose mismanagement is detected is perceived to be a key measure for improving the present system.

By fiscal year 1988/89, Tanzania's domestic revenue as a percentage of GDP had declined to 9.9% (World Bank, 2002). Following the establishment of TRA, revenue performance did not meet expectations in the initial years. Even though between 1997/98 and 2002/03, actual collections against budget averaged 99%, tax revenue as a percentage of GDP hovered around 10.7% of GDP. By 2007/08, Tanzania's tax as a

percentage of GDP had risen to 14.7%. However, non-tax revenues as a percentage of GDP remained consistently low from 1991/92 (1.6%) to 2007/08 (1.2%). Tax revenue between 1996/97 and 2007/08 grew at an average annual rate of 15.7%. It is notable, that the average annual revenue growth rate between 2004/05 and 2007/08 was even higher, at 20.9%. This increase was as a result of extensive reforms undertaken between 2003/04 and 2006/07 to broaden the tax base.

VAT was the best performing tax all over the period from 1998/99 to 2007/08. It grew at an average rate of 22.9% per year; For instance, 2007/08, VAT collection as a percentage of GDP was 4.6% (IMF, 2009); and amounted to 31.7% of total revenue collected in Tanzania mainland. It is noted that raising the threshold for VAT registration from 2004/05, resulted in increased collection because, several traders actually increased their revenue declarations so as to remain VAT registered and thereby were able to reclaim VAT inputs; and there was the deregistration of traders below the threshold where VAT input claims were no longer reclaimable. However, there is a view that VAT's contribution to tax effort would be much higher if there were fewer exemptions and zero ratings since the original law was passed (Nord et al, 2009).

Income tax revenues were the second largest contributor to domestic tax collections in the 11 years to 2007/08. Revenues grew at an average rate of 22.3% per year to a certain extent as a result of a floating macro-economic environment, increased coverage of large taxpayers, other efficiency gains in tax administration and pay rises particularly for public servants (IMF, 2004). In 2007/08, income tax revenue as a percentage of GDP was 4.3% (IMF, 2009); and constituted 26.6% of total revenue collected on Tanzania mainland. Pay as You Earn (PAYE) with a contribution of 14.8% of total revenue by 2007/08 it was the best performing income tax during that time.

It has been noted that the government of Tanzania has made concerted efforts to have policies, laws and regulations and put in place an adequate institutional framework to support development of small taxpayers which fall in informal sector. Despite all government efforts, there are a number of businesses which are not registered or captured in the government systems for taxation. There are a number of reasons for informal sector to escape registration in Tanzania: the main reasons include lack of knowledge and education, that is, taxpayer education, registration education and business management practices education which accounts to about 36.2%; lack of proper business premises, that is unrestricted premises it accounts to about 28.4%; and lastly cumbersome procedure, bureaucracy and corruption, which account to about 16.4% of all the problems associated with tax noncompliance. Due to such reasons, presumptive percentage of total TRA taxpayers in financial years 2005/06, 2006/07, 2007/08, 2008/09, 2009/10, accounts to 69%, 75%, 73%, 66% and 61%, respectively (TRA, 2011).

As indicated in Figure 1 the trend of the contribution of tax collection in Dodoma and Arusha regions tend to be dynamic mostly indicate a decrease from financial year 1996/97 to 2010/11. Despite being dynamic, it is clear that the percentage tax contribution of these regions demonstrate the total tax collection in the country has been declining from one year to another. This means that the internal tax collections within these regions are weakening and if this trend continues, it is obvious that the government is going to lose the huge amount from tax revenue. This will necessitate the government to depend on other sources of revenue which generally are not much dependable. In order to avoid such situation, appropriate measures should be taken so as to increase tax revenue collection. In order to achieve such goals, the government should invest much in ensuring that taxpayers are motivated in the sense that they become aware and responsive to their tax liabilities. However, one may ask as to why voluntary tax compliance could be the only possible solution to Tanzania. One reason is that it is efficient. The alternative, which would probably be some sort of canvassing and collection by tax collectors, is simply not feasible without a great increase in the expenditures devoted to administering the tax system.

Another reason is that the determination of liability may on the whole be more accurate. The taxpayer is in the best position to determine accurately the taxes due, since the taxpayer is the one that has the best knowledge of his own financial situation and has the best access to needed facts. A third reason is that a system based on voluntary compliance is less disturbing and less adversarial than the alternatives. Even with the comparatively low incidence of audits and collection cases present in the tax system today, the level of controversy and adversaries present in these cases suggests that minimizing such situations to the extent consistent with voluntary compliance, is highly desirable.

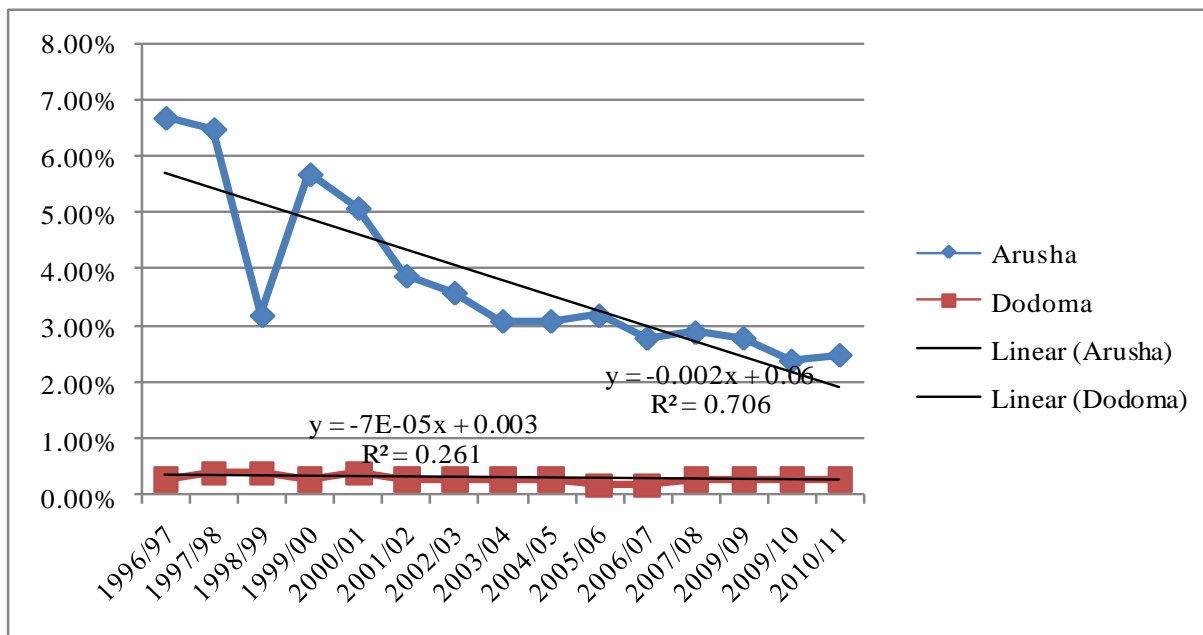


Figure 1. Percentage of Regional tax revenue collection statistics 1996/97-2010/11 [Source: TRA (2014)]

Finally, the concept of voluntary compliance is in part based on taxpayers’ recognition that they have a civic duty to participate in defraying the costs of government; the general recognition of this duty by taxpayers and the positive attitude toward self-assessment probably has a powerful positive impact on the percentage of tax liability that is actually collected. Due to such scenario, the study is of paramount value as it will pave the way forward to Tanzanian tax authorities in the ways through which the taxpayers is going to increase their response to their tax liabilities voluntarily.

3. Literature review

Many studies have been devoted to the analysis of tax compliance’ determinants as they are of key importance for tax levying, public spending and providing public goods. Allingham and Sandmo (1972), Srinivasan (1972), Yitzhaki (1974), and later on Erard and Feinstein (1994), Slemrod *et al.* (2001), or Anderhub *et al.* (2001) focus on the influence of economic factors, that is, tax rate, audit rate, income, and penalty on compliance behaviour. Andreoni *et al.* (1998) also stresses the idea that psychological factors such as guilt, shame, regret, envy, anger and sense of duty together with demographic, social, and moral factors should be incorporated into standard economic models. The necessity of this integration lies in the major discrepancy between theoretical models which over predict non-compliance and real-world compliance behaviour. In agreement with this suggestion, Feld and Frey (2002) focus on the role of trust as a psychological contract between taxpayers and tax authorities. Trust is once more the central point in Scholtz and Lubell’s (1998) article which shows that it increases tax compliance more than punishment aversion or civic duty. Braithwaite (2003) identified that motivational postures such commitment, capitulation, resistance, disengagement, and game playing can highly shape tax compliance behaviour. Torgler (2005) and Trivedi *et al.* (2004) support the idea that tax morale, that is, the intrinsic motivation to pay taxes, plays a key role in raising tax compliance levels. Kirchler (2010) provides a systematic description of the determinants of tax compliance, dividing all them into three categories. He states there are social psychological determinants comprising attitudes, different types of norms, fairness perceptions, as well as motivational features relating to tax compliance, political determinants such as complexity of law and tax system, or fiscal policy, and economic determinants like the rational decision-making process and the effect of audits, fines, tax rates, income on tax behaviour.

Fjeldstad and Semboja (2001) study found that, although most taxpayers cannot evaluate the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general imitation and thoughts regarding their own and others’ terms of trade with the government. Thus,

if the system of taxes is perceived to be unfair, tax evasion may, at least partly, be considered as an attempt by the taxpayer to adjust their terms of trade with the government. In this perspective, taxation and the provision of public goods and services can be interpreted as a contractual link between taxpayers and the government for increasing voluntary compliance among tax payers. Prichard (2010), reports that, manipulative nature of tax system affects the compliance level of taxpayers by discouraging them from voluntarily complying with the tax laws and regulations.

In relation to that, positive response in paying tax is anticipated to be wilful founded on a psychological tax contract representing a complex interaction between taxpayers and the government in establishing a fair and mutual exchange (Feld and Frey, 2007). The fair and mutual exchange under this situation can be in various ways such as the way government administers tax, methods of tax collection and in general the way the government treats its taxpayers. In respect to that Feld and Frey argue that taxpayers certainly are ready to pay taxes even though they were not given the exact value of public goods, as evaluated to the taxes they have paid, if they perceived the government practice as fair and lawful in collection of tax.

The study aims to evaluate the Tanzanian government's initiatives in enhancing small tax payers' spirit on voluntary tax compliance was valuable in the fact that when both government and taxpayers reach into a consensus, it is obvious that voluntary tax compliance in Tanzania is going to increase. The increase in voluntary compliance among small taxpayers especially those in informal sector is expected to increase government revenue due to high tax collection. The increase in government revenue will increase the ability of government to spend in various productive activities and hence contribute to the fast growth and development of the economy. In relation to that; the findings of the study will help to enlighten the government and tax authorities in terms of how they can motivate the tax payers to comply willingly and increase government revenue; the study assists to make the business community and all other Tanzanians to appreciate the need to pay taxes and the study opens an eye for other researchers in the area of tax payers' behaviour and tax compliance in Tanzania.

The problem stated in the study pertains to the negative attitude of tax payers and the way it hampers government revenue. This is reflected in its percentage contribution to the GDP of the country where it is only 18% in Tanzania compared to the international standard of being above 30%. Since taxation possess as the main source of government revenue, inadequate tax collection retards government ability to meet its expenditure. Since crude methods of collecting taxes prove to be counterproductive in many ways, the study attempts to look for mechanisms to enhance a spirit of voluntary tax compliance. In this regard the main objective of the study would be to evaluate Tanzania's government initiative in enhancing small tax payers' spirit on voluntary tax compliance taking the cases of Arusha and Dodoma Municipal Councils. The study is expected benefit both the government and small taxpayers in Tanzania since voluntary tax compliance among taxpayers affects public services received by the citizens. In trying to increase compliance among taxpayers, huge expenditure is needed to deploy forces to curb noncompliance. Hence, governments should resort in sensitizing small taxpayers to comply paying tax voluntarily, which may end up with more benefits to society in reducing apathy and increasing government revenue.

4. Methodology of research

The study used the inductive research method whereby the cross-sectional survey was considered as an ideal combining with descriptive and analytical methods. Both qualitative and quantitative data were collected from different sections of Dodoma and Arusha municipals using self-administered questionnaires and interviews; the questionnaire were tested to ensure its validity and reliability of the data from the field. Arusha is among the fastest growing city and Dodoma is the capital city of Tanzania, the need to have good infrastructure, improved social services such as health, education, and water in these areas is inevitable. To have a tax compliance attitude is crucial through various initiatives to enhance voluntary tax compliance within the areas. It will be easy to collect enough revenue to finance its projects to copy with the demand and growth of these areas. This study was carried out at markets. Thus, the population of this study was sellers at the market places. The sample was selected using simple random sampling. 120 participants were involved in this study where 4 markets were selected with 25 participants in each market. This makes 50

participants from Arusha and Dodoma municipal council respectively. The other 20 participants were randomly selected from each market to participate in interview. The collected data were analysed both qualitatively and quantitatively where MS Excel were used to analyse quantitative data, while content analysis used for qualitative data.

5. Study findings and discussions

5.1. Study findings

The study assessed the *type of business* activities which small taxpayers are involved, key focus was to look in who were dealing with retail business, services provision and other kinds of business. *Type of business*: 95% (109) of respondents who were involved in the study are dealing with retail trade such retail shops for clothes, food and other household based items, 3.5% (4) were providing services such as saloon, restaurants and secretarial services and the remaining 1.7% (2) were dealing with other types of business. The problem with this “other businesses” is that it was very difficult for the respondents to specify it. Also from these data it is clear that, due to the type and nature of businesses described by respondents the concept of hard to tax group arises and increases the probability of voluntary tax compliance.

Businesses status: Out of 115 small taxpayers involved in the study, 84 (73.04) respondents said the business condition was good, 23 (30%) claimed the business condition to be bad while 8 (6.96%) said the business is neither good nor bad. *The condition of the business in terms of their operations*, 73.06% of the respondents claimed that, the business condition is not good and hence it is not promising. 20% claimed the business to be fairly done and there are expectations about the future growth. The other 6.96% were not so sure about their business conditions since they claimed that sometime business is good and sometimes it is bad and for that reasons they cannot say that it is either good or bad. In one way or the other business condition contributes to the compliance behaviour of any taxpayer. This means good business condition can be the motive towards voluntary tax compliance or otherwise. From these results, it is evidently that most of the respondents are in position to pay their tax liabilities since their business condition is good. Despite the some of the respondents claiming that business conditions is bad, it was noted that the claims was not real since experience shows that small business men prefer to say “the business is not good” even if there is profitability in his operations as the means to lower their tax liability.

Age of business: Most of the businesses involved in the study have been in operation for an average of about 6 years. This means that different businesses have existed for different period of time, for example most of the businesses have been operating for 6 years and few of them for less than 6 years as a result an average operating period becomes 6 years. In relation to that existence in operations, most of the business generate annual sales turnover of about TZS 20,000,000/= (approximated to 10,000 USD) to TZS 30,000,000/= (approximated to 15,000 USD). Long period in operation has impact in experience; an experience in business can contribute to the taxpayer’s compliance spirit, since experience creates room for taxpayer to understand and apply the tax laws and regulation efficiently and effectively which is important to ensure voluntary tax compliance.

Filing Returns to Tax Authority: Out of 115 respondents who were involved in the study, 108 (93.9%) said that they filed their most recent returns last year. The other 7 (6.1%) respondents said they did not file their returns recently due to some difficulties in their business operations so they had nothing to pay as tax. By comparing these results, it is clear that most of the small tax payers make their best efforts in filing their returns in complying with rules and regulations of the government. As a result of such responsiveness, the average annual income paid as tax amounts to TZS 3,600,000 (approximated to 1,800 USD) to TZS 5,400,000 (approximated to 2,700 USD) for the person as per stated annual sales revenue.

Importance of Taxation in Economic Development: the respondents were asked if they have recognized the role of tax they pay in the economic development, 59 (51.3%) respondents strongly agreed and 4 (3.5%) respondent strongly disagreed, 37 (32.2%) respondents somewhat agreed, 5 (4.3%) respondents somewhat disagreed and 10 (8.7%) respondents had nothing to say concerning this issue. The compliance behaviour is to the great extent affected with the satisfaction derived from the government. The findings show that more than 80% of the respondents recognized and appreciated the importance of tax in the development of the society at their disposal and the whole country at large. This recognition reveals satisfaction of what the government does to the taxpayers. If this recognition is taken as a stimulus

towards improving and enhancing voluntary tax compliance among small taxpayers, the government and its tax authorities can be in a better position to generate more tax revenues. This is due to the fact; taxpayers will be motivated and have morale in paying tax since by doing so they are doing for themselves and for the society as well as the country at large and hence increased voluntary tax compliance.

Tax Payer Registration and Tax Collection Process: In responding to how the taxpayer registration and tax collection is conducted, 10 (8.7%) respondents strongly agreed that it is well conducted. 76 (66.1%) respondents somewhat agreed with the way it is conducted. 5 (4.3%) respondents neither agreed nor disagreed on the process. 24 (20.9%) respondents somewhat disagreed on the way the process is conducted. From these findings it was shown that, in Tanzania the taxpayers' registration and the tax collection are conducted in the way that is highly acknowledged and agreed by most of the taxpayers. This is due to the fact that more than 70% of the respondents appreciated the process and the other 20.9% who disagreed with the process did complain about the procedures and bureaucracy involved in the registration and collection process. This appreciation can act as one way to increase the voluntary tax compliance among small taxpayers by maintaining and improving the current system.

Complexity of Tax Regulations and Procedures: Concerning the complexity of tax laws and regulations; the result shows that 78 (67.8%) respondents who were involved in the study somewhat disagreed to the claim that tax regulations and procedures are very complex. 10 (8.7%) respondents and 23(20%) respondents strongly disagreed and somewhat agreed respectively. 5(4.3%) respondents neither agreed nor disagreed on the complexity of the tax regulations and procedures. Complexity of tax regulations and procedures can discourage taxpayers in their efforts to comply with tax laws and create a sense of inequality in a country (Mikesell and Birskyte, 2007). If more than 75% of all respondents involved in the study do perceive and agree that the tax regulations and procedures are not complex while only 20% of all respondents do view that the tax regulations and procedures are complex, the question rises now why they do not voluntarily comply with tax liabilities? It can be concluded that, small taxpayers are in need of something else more than the simplicity of the regulations and procedures that govern tax payment for them to comply voluntarily in paying their tax obligations.

Voluntary Declaration of Taxable Income: In the study, 9 (7.8%) respondents strongly agreed on the questionnaire which stated that "If I were responsible for making the decision, on whether to report the taxable income, I would voluntarily declare the income.", 43 (37.4%) respondents somewhat agreed and 62 (53.9%) respondents strongly disagreed while 1 (0.9%) respondent neither agreed nor disagreed. It is a very bad indicator for more than 50% of all respondents to strongly disagree on voluntarily declaration of taxable income if the decision of doing so were on their hands. This brings in a threat to tax authorities and government on revenue collection; this result from the fact that, without a clear and specific recognition of taxpayer's income it is very difficult to determine the tax liability. As a result government revenue collected from the taxpayers who are willing to voluntarily declare their income which accounts to less than 50% will be less than the expected.

Tanzania's Tax System and Loopholes for Non-compliance: In responding on the Tanzania's tax system existence of opportunities for non-compliance; 19 (16.5%) respondents strongly agreed, 34 (29.6%) respondents somewhat agreed, 27 (23.5%) somewhat disagreed, 31(26.9%) strongly disagreed and 4 (3.5%) respondents neither agreed nor disagreed. From the results above it indicates that Tanzania's tax system is neither too good nor too bad in offering opportunities for non-compliance. This is due to the fact that 50.4% of all respondents showed the trust and dependence on the tax system in reducing the opportunities for non-compliance while 46.1% of the all respondents did not show to have trust on the system in trying not to offer opportunities for non-compliance. The difference between those who have trust and those who do not have trust is very marginal to enable concluding that the system is good or bad in either limiting or offering opportunities for non-compliance.

Measures Taken by the Governments to Increase Voluntary Tax Compliance: The assessment on measures taken by the Tanzania government to increase voluntary tax compliance: 69 (60%) responded positively while 40 (34.6%) responded negatively. There were 6 (5.2%) responses which were not clear, that is respondents indicated both responses neither positive nor negative. Malima (2013) supported the study findings that, in order to improve revenue collections, the government have to develop the settings that raise the attentiveness and readiness of taxpayers toward voluntarily compliance.

5.2. Findings discussion

In any country in the world noncompliance behaviour can be the result of taxpayer's ignorance, inability or intention. Thus, tax administrations' mechanism to enhancing compliance generally has three main components; taxpayer education and outreach, which aim to ensuring that taxpayers are aware of their legal obligations; taxpayer services, that is, to secure that tax payment and processing are relatively simple and easy; and lastly deterrence and enforcement, which intends to create credible deterrent and consequence for those who look for ways to avoid their obligations (SARS, 2011). In connection to the study findings the following is important:

Tax Officials visits: Frequent visit by tax officers to collect business information increase voluntary compliance TRA (2013) stipulated that frequent visits made to taxpayers to collect business information which is known as block management system impact taxpayers' compliance. The block management system simplifies the collection task of necessary business information for tax purposes from the taxpayers. Under the system, revenue officers are given tasks of visiting taxpayers in their respective areas at least once for every three months. The aim of the visit is to find out client's general business information, identify non-filers, identify unregistered clients, and make sure that business tax information is up-to-date. This increases the understanding of taxpayers on tax issues that can enable them to comply voluntarily with the tax system.

Education and training: Education and training is essential to taxpayers; it provides clients with the skills necessary in raising their attitude of voluntarily complying with taxation systems. Education and training is valuable in raising the attentiveness of taxpayers on different issues including the importance of voluntary compliance in taxation. Mapunda (2013) supported the findings that, among other methods to provide education and training to taxpayers, seminars are the most preferred method whereby the use of brochures, radio and television can be used as a supplement. The Tanzania government through Tanzanian revenue authority under the department of taxpayers' education has the responsibility of disseminating tax education to taxpayers by the use of various methods such as the use of leaflets, brochures, advertisements and organizing numerous periodic trainings to taxpayers about the benefits of voluntary tax compliance. The study findings reveals as per Lubua (2014) that most of the small taxpayers operating in SMEs have never received tax education from experts through any method appropriate. Due to this, it is therefore likely that a big number of small taxpayers may not voluntarily comply with tax rules and regulation just because of low awareness and understanding of it as they have not received education or training sufficient to create such awareness or understanding. Therefore, awareness and understanding of the tax laws governing file of returns and determination of tax liabilities is very crucial to small taxpayers for them to increase voluntary compliance. Most of the respondents pointed out education and training as the popular means to create such awareness and understanding of tax laws and regulations. By creating awareness of tax laws to taxpayer cannot be conclude as an important aspect for increasing voluntary compliance since taxpayers are paying tax just because they might be fearing the consequences stipulated in the tax laws.

i. *Integrity of employees of the revenue authority:* Improvement of the employees' integrity of the revenue authority is important element to stimulate voluntary tax compliance. Employees play a vital role in ensuring that the revenue authority collects its tax from clients at the right time and the right amount. In relation to that they must also ensure that clients have the right knowledge of business taxation and laws relating to taxation. Low integrity to employees is reported to significantly affect efforts by the revenue authority toward improving voluntary compliance and revenue collection at large among taxpayers. Lubua (2014:89) supported the findings that, to a large extent, the use of ICTs in the Tanzanian revenue authority in taxes collections have addressed the challenge of corruptive behaviour by employees. In areas such as custom department, clients are able to conduct own assessments; however in domestic revenue; where small tax payers are dominant there is a low usage of ICTs. Clients depend on employees for assessment and this assessment depends on employees' rational ability and integrity. The use of ICTs for self-assessment addresses the challenge of the integrity of employees and promotes voluntary compliance.

ii. *Introduction of Electronic Fiscal Device (EFD) to taxpayers:* The introduction of EFD increased voluntary compliance (TRA, 2014), since the use of EFDs exclude possibilities to hide or manipulate the taxable amount as long as it were appropriately entered in the device. So this creates no room for any

deviation from paying the tax liabilities owed by taxpayers. Since this is not a taxpayer's freewill to pay tax it is just because the device force them to do what they do, then it cannot be taken as a means to improve voluntary compliance.

Improvement on provision of public goods: An improvement on the provision of public goods and services to general public is essential element prescribed by respondents. Government's construction and maintenance of roads, building and maintenance of health services, improvement in education services and provision of clean water were among the spotted services by many respondents. Despite the fact that there is no "quid pro quo" relationship in taxation and public goods, improvement in its provision and its availability creates a room for the small taxpayers to believe and feel that there is a return from the tax they pay. Feeling such return, small taxpayers are stimulated and harmonized to voluntary comply with the tax system since they see some tangible or physical things which resulted from the tax they pay. It is evidenced from the study that respondents are not satisfied on how funds are used in provision of public goods. This is due to the fact that about 63.3% of the respondents who said there are measures taken by the government to increase voluntary tax compliance claimed that there is misuse of funds by those who are entrusted with the projects related to public goods. In common, people do anticipate some class of service or benefit in return for the taxes paid. If the government did not succeed to provide such necessary public goods and services or provide them insufficiently, people may not be willing to pay tax liabilities and hence increase in tax evasion and avoidance (Brautigam *et al.*, 2008; Everest- Phillips, 2008; Pashev, 2005; and Lieberman, 2002).

5.3 Suggested solutions to enhance voluntary tax compliance spirit among small taxpayers

Basing on the study area, the suggested alternative measures that can be adopted by the government to enhance voluntary tax compliance spirit among small taxpayers include; Use of mobile phones to give education and information to small taxpayers, Reduction in the tax rates to minimize tax burden, Accountable and Transparent Administration, Improved quality of the goods and service in return for taxes, Rule of law and fiscal jurisdiction and Reduction in compliance costs.

Use of mobile phones to give education and information to small taxpayers: Almost all respondents who were involved in the study own mobile phones; the study found that the alternative way to increase voluntary tax compliance to small taxpayers is by the use of mobile phones to educate and disseminate tax information to small taxpayers. 89.6% of the respondents who were involved in the study suggested this method to be used by tax authorities in order to increase voluntary among small taxpayers. Lubua (2014) reports that, the online system must allow clients to subscribe for educative messages; the information should be provided freely or at a low price. More services are needed in the area of tax education through the use of mobile phones since currently, there are two main services to which the revenue authority supports users of ordinary mobile phones; they make online payments and make direct calls to the institution. Using this measure, taxpayers will be in position to accommodate and customize all necessary information concerning taxation. This will motivate them to build taxpaying culture and voluntary tax compliance at large.

Reduction in the tax rates to minimize tax burden: The literature proposed that high tax rates do promote non-compliance; the perception is that high tax rates raise the tax burden and, hence, lower the disposable income of the taxpayer (Alligham and Sandmo, 1972; Chipeta, 2002). 78.3% of all the respondents involved in the study pointed out reduction of the tax rate as one among the measures that can stimulate voluntary compliance. It is believed by the respondents that reduction in the tax rate is going to give them a relief on the tax burden or the amount of tax liabilities and hence motivate them to pay it voluntarily. This is built in the fact that reduction in tax rate will leave taxpayers with more disposable income compared to higher tax rates.

iii. Accountability and transparent administration: 75.7% of all respondents involved in the study spotted out accountability and transparency among tax administrators to be used as one among the motives to increase voluntary tax compliance to small taxpayers. The study revealed that, despite the improvement in the integrity of revenue authority employees the whole process of tax administration is subject to some malfunctioning. This is due to some faults created in the process of tax collection and revenue spending by both tax authorizes and the government. Kirchler (2007) asserts that, lack of

transparency and accountability in the utilization of public funds raises questionable trust both to the tax system in place as well as the government and hence increases the willingness to evade taxes. *Minimization of corruption* was among the raised cases by many respondents as an alternative means towards increasing voluntary tax compliance. 63.5% of all respondents mentioned combating corruption among responsible tax officers and other government officers entrusted with the use of public funds as an alternative towards voluntary tax compliance. Due to high levels of corruption, citizens cannot be confident whether the tax they pay is used to finance public goods and services as their willingness as a result demoralize voluntary compliance. As a matter of fact taxpayers might trade-off between evading taxes and paying it, if the cost of bribing a tax officer is lower than the potential benefit from tax evasion then it is better not to pay.

iv. Rule of law and fiscal jurisdiction: The study found that equal treatment among taxpayers in any legal matters can motivate and enhance the spirit of voluntary compliance. The study reveals that 83.5% of all respondents involved in study recommended strong consideration in rule of law and fiscal jurisdictions as one of the alternative measure in raising taxpayers' spirit towards voluntary tax compliance. GIZ (2010) asserts that, strong fiscal courts are necessary to protect taxpayer's rights and defend them from uncertainty. If the legal system does not function in harmony with the rule of law, citizens have to fear for many things such as uncertainty, discrimination, and unequal attendance in court. The lack of rule of law reduces transparency of public action and fosters distrust among citizens. As a result, citizens may not be willing to finance the state through taxes, and decide to evade these liabilities.

v. Reduction in compliance costs: High compliance costs that are the costs the taxpayer has to bear to gather the necessary information, fill out tax forms etc., can be an additional reason for tax evasion and avoidance. This situation led small taxpayers to worry more about the administrative burden than the actual tax burden; such situations can be assumed that compliance costs are very high and the probability of the taxpayer complying with such a great variety of taxes becomes low. Particularly small and medium sized enterprises (SME) suffer from high compliance costs; supported by a survey among South African firms on the regulatory costs of doing business revealed that taxes, in particular VAT, are perceived as the most problematic set of regulations followed by labour regulation (SBP, 2005).

6. Conclusions and recommendations

6.1. Conclusions

Among the important aspects in taxation for any country is the amount of revenue collected from its tax system. To generate sufficient amount of revenue depends much on the compliance behaviour of the taxpayers in the country. Any form of noncompliance behaviour leads to a reduction in tax revenue, which tend to affects the provision of public goods in the country. Motivating taxpayers' specifically small taxpayers to comply voluntarily in the tax system has a great importance to the development of a country in various aspects. In discussing the state where every taxpayer can feel voluntarily to comply with the tax system, one needs to take into account the measures taken by government in improving and increasing voluntary tax compliance among her taxpayers. It was found that more than 60% of the respondents do appreciate and recognize the measures taken by the government in improving voluntary tax compliance. Among other things, Tanzania Revenue Authority (TRA), the entrusted government body in collecting tax, in motivating taxpayers to voluntary tax compliance increased tax knowledge to both taxpayers and staff by developing a unified system for communicating various laws, regulations and their amendments; ensure availability of all tax information and to enhance partnership with tax practitioners (TRA, 2008).

The measures taken by governments to enhance small taxpayers' spirit on voluntary compliance and capability of such measures especially in Tanzania together with the suggested measures are alternative towards voluntary tax compliance. In order for a government to formulate a plausible tax system, a country must enhance compliance among taxpayers. Three main components need not to be overlooked; these are *taxpayer education and outreach, taxpayer services, and deterrence and enforcement*. In Tanzania for example, frequent visit by tax officers to collect business information, education and training, creating awareness and understanding of tax laws to small taxpayers, integrity of employees of the revenue authority, introduction of Electronic Fiscal Device (EFD) to taxpayers and improved provision of public goods and/or services were among the measures that has been taken by the government in trying to increase small taxpayers' spirit on voluntary tax compliance. But the study shows that the measures taken

were not sufficient enough to increase the small taxpayers' spirit towards voluntary compliance since they are inadequate. Due to that fact, the study disclosed that, the use of mobile phones to give education and information to small taxpayers, reduction in the tax rates to minimize tax burden, accountable and transparent administration, improved quality of the goods and service in return for taxes, rule of law and fiscal jurisdiction and reduction in compliance costs can act as a best alternative measures to be used by tax authorities in enhancing voluntary tax compliance spirit among small taxpayers in Tanzania.

Feld and Frey (2002) pointed that the way tax officials treat tax payers' impact tax compliance level. Murphy (2003) supported the argument that, fair treatment increase compliance, the study found that equal treatment among taxpayers in any legal matters can motivate and enhance the spirit of voluntary compliance. It was found that small taxpayers are not satisfied with tax exemptions given to other big taxpayers; this indicated notions of unequal treatment. In addition to that, compliance costs, that are the costs the taxpayer has to bear to gather the necessary information, fill out tax forms etc., can be an additional reason for tax evasion and avoidance; reduction in compliance costs can enhance voluntarily compliance among small taxpayers. The study findings found out that high compliance costs led small businesses taxpayers to worry more about their burden than about the actual tax burden, that limit small businesses taxpayers to comply with voluntary tax compliance.

6.2. Recommendations

The following recommendations are put forward in view of the foregoing conclusions and observations.

i. To reach the intended objectives for both government and small taxpayers in collecting sufficient revenue and profit respectively, the need to have a common understanding in tax matters should be taken as a serious concern in tax system. Common understanding on tax issues can be reached only if the two parties, that is, government and small tax payers change their attitudes towards one another through harmonization. Government and its respective tax authorities must prepare motivating mechanisms to influence the small tax payers to participate fully in paying tax voluntarily.

ii. The tax authorities should adopt effective tax collection methods and proper utilization of collected revenues which aims at archiving economic development of the country. The government should strive in improvement of social services such as transport and communications network, increase in investment activities, improvement in health service, and finally reduction of poverty gap between rich and poor; this will level differences of operations of both government and small taxpayers hence ensuring voluntary tax compliance.

iii. The government should increase tax knowledge to both small taxpayers and staff. This can be through developing a unified system for communicating various laws, regulations and their amendments; whenever amendments take place in respective tax laws or regulations, it is important for respective authorities to communicate to respective affected part in consideration of positive impact that can be obtained.

iv. Governments must allocate sufficient budget to enable training to their tax officers and provision of education and training to small taxpayers. In relation to that, the budget should focus on improving the welfare of tax officers so as to reduce the possibility of being pulled to any misconduct or any form that may cause them loose integrity. This will enable easy dissemination of information and education on tax compliance.

v. Transparency and accountability among tax authorities must be highly observed in order to enhance the compliance behaviours of small tax payers. In connection to that corrupt practices should be highly prohibited, discouraged, investigated and punished among tax administrators. For those who misuse revenues or funds or misbehave in any way, the disciplinary actions should be taken against them including legal actions in order to create transparency and accountability within the tax system. This will enhance trust among taxpayers and citizens at large towards the government as a result it will improve compliance behaviour among taxpayers.

vi. Lastly, *areas for further studies*: there are still many areas to be intensively studied on tax compliance specifically to stimulate voluntary tax compliance for small businesses in developing countries. Other areas i.e. management of records, improvement of small business environment; ICT infrastructures

for small business operators; etc. attract possible more studies that can impact voluntary tax compliance for small businesses operators.

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