

**IMPROVING TAX COMPLIANCE WITH EMPHASIS ON INTEGRATING
SOCIAL NORMS IN TAX COLLECTION PRACTICES IN TANZANIA**

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AUGUST 2018

DECLARATION A

I hereby declare that the dissertation is my original work and has not been presented for a degree or any other academic award in any University or Institution of Learning.

Name and Signature of the Student

Date

DECLARATION B

I confirm that the work in this dissertation was carried out by the candidate under my supervision.

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ABSTRACT

The study focused on improving tax compliance with emphasis on integrating social norms in tax collection practices in Tanzania. The specific objectives of the study were; to examine the relationship between social norms and taxpayers' morale, to examine the relationship between taxpayers' morale and tax compliance and to examine the relationship between social norms and tax compliance in Tanzania. Explanatory research design with mixed methods approach was used and incorporated descriptive research Data from interviews was analyzed qualitatively and those of questionnaire were analyzed quantitative using correlation and regression. Factor analysis was done to examine whether the constructs used were good measurements for the variables. All the constructs from all the variables were confirmed to a good measure of the variables.

The study found that the relationship between social norms and taxpayers' morale was 0.782 which meant the relationship between social norms and taxpayers' morale was strong. Also the relationship between taxpayers' morale and tax compliance was 0.767 which meant the relationship between taxpayers' morale and tax compliance was strong. Further the findings showed that the relationship between social norms and tax compliance was 0.855 which meant the relationship between social norms and tax compliance was strong. Regression analysis results showed a significant linear relationship between social norms, taxpayers' morale and tax compliance ($F = 40.465$, $sig = 0.000$). The study recommended among others TRA should nurture positive social norms, which will create an enabling platform for taxpayer satisfaction, trust and thus tax compliance.

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LIST OF ABBREVIATIONS AND ACRONYMS

ABG	AFRICAN BARRICK GOLD Plc
CATA	CASHEWNUT AUTHORITY OF TANZANIA
CED	CUSTOMS AND EXCISE DUTY
CP	COLLECTION PERFORMANCE
DRD	DOMESTIC REVENUE DEPARTMENT
EFD	ELECTRONIC FISCAL DEVICE
IR	INLAND REVENUE
IRS	INTERNAL REVENUE SERVICE
KIU	KAMPALA INTERNATIONAL UNIVERSITY
LTD	LARGE TAX PAYERS DEPARTMENT
RCP	REVENUE COLLECTION PERFORMANCE
SPSS	STATISTICAL PACKAGE FOR THE SOCIAL SCIENCES
TZS or Tsh.	TANZANIA SHILLING
UK	UNITED KINGDOM
VAT	VALUE ADDED TAX

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation is a general concept for devices used by governments to extract money or other valuable things from people and organizations by the use of law (Rolph, 2008). In developed countries it has played an important role in mobilization of national income (Lymer and Oats, 2016). For reliability in government financing, taxation made to be paid by tax payers. Lymer and Oats (2016) defined tax as a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return. This definition pre-supposes the existence of different types of taxes, imposed from different bases. However, Harris (2006) was of the view that taxes imposed on income, usually, cannot be passed over to other entity or individual. He argued that the burden has to be absorbed by the person or entity paying it. Accordingly, Harris referred to it as "direct taxes". A direct tax according to Gale (2008) refers to a tax in which the legal taxpayer cannot shift any of the tax liability to other people, such as customers or suppliers.

A tax is identified by the characteristics of its base, such as income in the case of an income tax, the quantity of distilled spirits sold in the case of a liquor tax, and so on (Rolph, 2008). The rate structure may be simple, consisting of one rate applying to the base, such as a specified number of cents per gallon for a tax on gasoline, or complex, for example, varying rates depending upon the size of the base for a tax on personal income (Gale, 2008). A clear illustration of a direct tax Gale argued is a lump-sum charge levied on a person which is sometimes called a head tax or poll tax. For example, income, death, net worth, expenditure, and sometimes property taxes are commonly classified as direct. Indirect taxes refer to those that are thought to be shifted from the legal taxpayer to others. Commonly, taxes on sales of commodities, import duties, and license fees are grouped together as indirect (Gale, 2008).

To the contrary, tax on consumption normally imposed on goods or services can be shifted from the person who pays it to the ultimate consumer through pricing

mechanism (Shanmugam, 2003). In this case, therefore, the point of tax incidence (the paying entity) is different from the ultimate point of tax burden [the one who absorbs the tax impact] (Lymer & Oats, 2009). This type of tax is referred to as "indirect taxes" example of which Value Added Tax (VAT), Sales Tax, and Excise Duty etc.

While the main objective of imposing taxes on the public is to generate revenues for the government's public expenditure (Shanmugam, 2003; Lymer & Oats, 2016), there are other functions of taxes as suggested by Lymer and Oats (2009). These include reduction of inequalities through redistribution of income and wealth, curtailing the consumption of certain goods considered harmful, protection of local industries from undue external competition, and environmental protection (Lymer & Oats, 2009). Often, direct taxes are structured progressively so that people with higher income pay more taxes thereby addressing income inequality and redistribution concerns. Furthermore, because direct taxes tend to reduce individual's disposal income, they are not really liked (Gale, 2008). Governments also impose excise duties on certain goods deemed as harmful, such as tobacco and alcoholic beverages, to reduce their consumption. Tariff (taxes on imports) and environmental taxes are used for protection purposes i.e. local industries and environment respectively (Shanmugam, 2003).

Since there are different reasons as to why governments impose taxes, such purposes for which taxes are imposed can only be achieved if the taxpayers comply with the introduced tax (Rolph, 2008). Therefore, it is important to assess tax compliance in any jurisdiction so that the effectiveness of tax system can be gauged against. But for tax administration purposes, Rolph argued that compliance is broad in nature and it cannot be construed to just mean payment of the concerned tax. Typical tax law will define the tax, identify the person to pay it and circumstance it becomes payable, the base within which the tax will be computed, the applicable tax rate, exemptions for applicability of the tax, the returns that need to be filled to declare the tax obligations and the dates by which returns have to be filed and the tax to be paid (Torgler, 2002). Therefore, to ensure that taxpayers declare their full tax obligations timely, lodge their tax returns and timely

and accurately pay the taxes, tax laws should impose penalties to defaulters to ensure compliance. It is therefore crucial to look at tax compliance from a broader perspective.

Traditionally, tax compliance has been examined in terms of levels of enforcement (Allingham & Sandmo, 1972; Cowell, 1990; Yitzhaki, 1974). Several researchers argue, however, that tax compliance cannot be explained entirely by levels of enforcement (Alm, Sanchez & De Juan 1995; Elffers, 1991, 2000; Frey 1997; Graetz & Wilde 1985; Torgler 2002). In the face of these difficulties, researchers have suggested other factors that need to be analyzed. It is plausible that tax compliance is affected by other factors such as government services, trust in institutions, perception of others' tax compliance and social norms among others. Alm, Sanchez & Juan (1995) and Alm, McClelland & Schulze (1999) suggested that social norms on tax could play an important role in determining compliance behaviour.

Tax compliance means true reporting of the tax base, correct computation of the liability, timely filing of the return and timely payment of the amounts due (Franzoni, 1999). It is easier for small business enterprises (SBEs) to remain outside the tax net because they can remain inconspicuous to the tax administration. Taxpayers find it beneficial to take advantage of loopholes in the tax system in order to minimize their tax payments, hence the non-compliance (Wallace, 2002). In the face of these difficulties, the presumptive income tax system was introduced, to streamline income tax collection and widen the income tax base in Tanzania (Juma, 2002). Despite the introduction of presumptive tax system as the method to tax individuals and business in order to improve their compliance, there is still non-compliance among the populace with 20% increase in domestic taxes from 48% (financial year 2001/02) to 68% (financial year 2006/07) (TRA report 2016). This could be due to factors that influence tax compliance like, a range of individual characteristics which include social norms, perceptions of fairness, perceived benefits and perceived penalty. Researchers from developed countries argue that social norms influence the level of tax compliance; it is possible that this could be the case in Tanzania.

Tax compliance continues to be a major concern for all governments (Kibuta, 2011). For instance Tanzania collected many developing countries such Kenya, Tanzania, Rwanda, Zimbabwe, Zambia had deficits in collections on their projection total tax payable. Since taxes have a tendency of reducing individual's disposal income, it is not really liked. With weak tax administrations compliance levels tend to be low. A number of measures have been implemented by many countries in order to enhance compliance hence increase revenue collection. These include strengthening of the tax audit and investigation prosecution of major cases, publishing of defaulters and the change of the assessment system for direct taxes from direct assessment to Self Assessment Systems (SAS). The change to SAS raised issue linked to the competency, honesty, capability and readiness of taxpayers the burden of calculating and assuring the accuracy of the tax returns. Hence, voluntary compliance is needed.

In Tanzania, tax collection is controlled and serviced by Tanzania Revenue Authority (TRA) which came into operation in 1996 after being established by Act of Parliament No. 11 of 1995. Drawing from most developing countries, Tanzania also depends heavily on tax as a key source of government revenue. Most development projects and recurrent spending are funded by tax revenues and also partially are funded by development partners (DPs). Also, local government authorities' projects and operating activities are funded by intergovernmental fund transfer (tax) from central government, internally collected revenues and borrowing (Machogu, et al, 2013).

Therefore, no doubt that tax is very important in both local governments and central governments. Local governments have constitutional obligation of providing public social services to citizens at local level. For the local governments to provide quality public social services like water, health, education and road infrastructure, there should be a discipline in collecting and spending tax revenues. For all these to be achieved, Tanzania needs strong tax administration equipped with tax awareness to tax payers, tax morale and voluntary tax compliance (Machogu et al, 2013). Tax administrators should be in a position of encouraging tax morale,

voluntary tax compliance through tax awareness and being able to fight against corruption in order to built trust amongst tax payers.

Tax compliance means taxpayers fulfilling their obligations (Kirchler, 2007). However, gathering enough tax revenue is a problem faced by many countries because of tax evasion and avoidance (Mahangila & Anderson, 2017). Tax evasion is a deliberate illegal act intended to reduce someone's tax liability, while actions taken to legally reduce one's tax liability is tax avoidance (Slemrod, 2007). Tax compliance may be more important today than in previous years because many countries are tackling budget deficits(Mahangila, et al, 2017).

In another development, Lubua (2014) points out that voluntary tax compliance is very important in the whole process of tax administration in Tanzania. Lubua's study revealed that tax compliance is influenced by awareness of tax laws, business experience, integrity of employees and training needs. Due to the importance of voluntary tax compliance, the author recommends effort on awareness of tax laws to all tax payers in order to improve government revenues. Also, Machogu & Amayi (2013) and Aiko (2013) found that tax knowledge is very important in promoting voluntary tax compliance. Tax knowledge can help tax payers to know the importance of tax and hence keep proper record of accounting for determining tax payments. Also, information communication technology (ICT) has strong influence on the performance of tax administrators in collecting tax revenues.

Epaphra (2014) further argue that Tanzania tax authority has greater advantage of raising tax revenue not by increasing tax rate; however, this can be achieved by enforcing tax and customs administration and engulfing tax evasion. Also, collection of government revenue can be improved by considering operations of Small and Medium Enterprises (SMEs). Mungaya, Mbwambo and Tripathi (2012) argue that current tax collection practices do not work in favour of tax payers. The authors opined that there is a need of tax collection practices restructuring in order to design appropriate practices that can help or enforce tax compliance.

According to Baker et al (2014), Global Financial Integrity (GFI) US based International Financial watchdog indicates that Tanzania loses annually approximately \$1.87 billion due to tax evasion caused by trade mis-invoicing. Also, Levin and Widell (2007) reported that tax evasion on imported goods is higher in Tanzania as compared to Kenya. For Tanzania, the situation is worse when compared to other countries such as Kenya (\$1.51 billion), Ghana (\$1.44 billion), Uganda (\$884 million) and Mozambique (\$585 million) (Levin et al, 2007). This situation calls for more effort on controlling tax evasion and strengthening tax administration in order to increase tax revenues. Global Financial Integrity analyses as reported by Levin et al, (2007) further shows high revenues lost by the respective countries due to mis-invoicing as compared to estimated country total revenue. For Tanzania, average tax loss due to mis-invoicing accounts to 7.4% of the average total revenue, indicating that there is a serious problem on tax administration in Tanzania, alarming responsible authorities to react quickly and attentively on this matter for the betterment of the national economy and citizens' social welfare (Baker et al, 2014).

As a percentage of tax revenue loss to average government revenue, Tanzania has lower rate of tax loss as compared to other countries but the amount lost is very substantial (Mahangila & Anderson, 2017). This does not mean that Tanzania is doing better in collecting government revenue as compared to other countries; however more effort is required to ensure that all tax evasion loopholes are controlled strongly in order to improve tax collection and maximize government revenue.

The Tanzania Revenue Projections and Statistics according to Roth, et al (1989) compliance is investigated when analysis of the revenue projection have been analyzed to check the deficit in revenue collection. Statistics of tax revenue projections have been discussed in this section.

Table 1.1: Tax Revenue Projections for Corporate Plan Period 2013/14 - 2017/18 (*Billion Shs*)

TANZANIA MAINLAND	2013/14	2014/15	2015/16	2016/17	2017/18
	Actuals	Actuals	Budget	Baseline	Baseline
GDP at Market Price	74,778.7	84,318.7	94,275.2	105,505.7	117,997.7
% of Total Revenue to GDP	12.5%	11.8%	13.1%	13.6%	13.9%
Total Revenue (1+2)	9,383.0	9,909.0	12,363.0	14,297.2	16,391.0
2. Gap Recovery /Efficiency gain	-	-	-	158.3	177.0
% of Gap Recovery to GDP	-	-	-	0.15%	0.15%
1. Total Net Baseline Revenue & TVCs)	9,383.0	9,909.0	12,363.0	14,139.0	16,214.0
% of Total Net Baseline Revenue & TVCs to	12.55%	11.75%	13.11%	13.40%	13.74%
Treasury Vouchers (TVCs)	24.6	20.5	32.4	32.4	32.4
Total Net Baseline Revenue	9,358.4	9,888.5	12,330.5	14,106.6	16,181.6
Total Refunds & Transfers	521.7	776.7	795.2	874.4	964.3
Gross Baseline Revenue Forecast	9,880.1	10,665.1	13,125.7	14,981.0	17,145.9
DIRECT TAXES	3,968.3	3,940.8	4,558.7	5,224.5	6,003.6
PAYE	1,626.5	1,750.8	2,053.2	2,345.2	2,685.9
B. Skills & Development Levy	168.7	216.1	250.1	285.4	326.5
Individuals	87.4	101.9	145.8	167.5	193.0
Corporate	1,483.9	1,182.7	1,272.3	1,473.5	1,710.9
Withholding Taxes	514.6	592.9	715.7	815.4	931.5
Other Taxes	87.1	96.4	121.6	137.4	155.8
INDIRECT TAXES	5,911.8	6,724.3	8,567.0	9,756.5	11,142.3
CONSUMPTION TAXES	2,035.6	2,337.7	2,978.5	3,408.2	3,909.6
Excise Duty - Domestic	747.1	825.8	989.6	1,115.5	1,259.9
Beer	186.3	202.5	242.4	269.1	299.2
Cigarettes	99.6	133.9	156.8	176.7	199.5
Soft Drinks & Beverages	52.0	37.3	46.1	51.2	57.1
Mobile Phones	217.5	250.9	307.5	351.2	401.8
Other	191.7	201.2	236.8	267.3	302.2
Aggregate Domestic VAT	1,288.5	1,511.9	1,988.9	2,292.6	2,649.8
VAT Domestic Products	343.2	405.2	690.6	796.1	920.1
Beer	118.6	136.3	235.6	269.7	309.7
Cigarettes	37.6	46.1	81.5	93.3	107.1
Soft Drinks	41.4	48.0	92.2	105.6	121.2
Others	145.5	174.8	281.3	327.5	382.2
VAT Domestic Services	945.3	1,106.7	1,298.4	1,496.6	1,729.6
Electricity	97.1	137.6	243.4	280.1	323.2
Telephones	168.8	219.0	370.7	430.4	500.9
Others	679.4	750.1	684.2	786.1	905.6
Other Domestic Charges	220.2	248.2	283.3	328.7	382.0
INTERNATIONAL TAXES	3,656.0	4,138.5	5,305.2	6,019.7	6,850.7
Import Duty	734.8	781.0	864.0	971.1	1,093.5
Excise Duty on non-petroleum	124.4	260.9	235.2	263.4	295.5
Excise Duty on Petroleum	637.5	656.0	725.3	789.9	861.8
VAT on Imports	1,329.7	1,543.0	2,042.2	2,413.9	2,858.1
Other Taxes (i.e.Fuel Levy, Export levy)	829.6	897.6	1,438.5	1,581.3	1,741.8

Source: Updated GDP from Ministry of Finance (June 2018)

Table 1.2: Tax Revenue Represented by Economic Activities 2013/14 – 2017/18*(Billion Shs)*

TANZANIA MAINLAND	2013/1	2014/1	2015/1	2016/1	2017/1
	Actuals	Actuals	Budget	Baseline	Baseline
Domestic Taxes					
Agriculture, forestry and fishing	39.4	38.	39.2	40.	43.1
Industry and construction	1,697.	1,690.	1,847.	2,107.	2,412.
Mining and quarrying	418.	388.	374.	395.	417.
Manufacturing	1,010.	1,013.	1,133.	1,320.	1,544.
Electricity, gas, steam and air conditioning Supply	148.	156.	181.	211.	242.
Water supply; sewerage, waste management	3.0	3.2	4.2	4.8	5.6
Construction	117.	128.	153.	175.	203.
Services	4,487.	4,798.	5,933.	6,812.	7,839.
Wholesale and retail trade; repair of motor vehicles and motorcycles	478.	483.	537.	605.	690.
Transportation and storage	317.	313.	380.	439.	505.
Accommodation and food service activities	158.	158.	182.	208.	242.
Information and communication	717.	874.	1,310.	1,530.	1,761.
Financial and insurance activities	918.	970.	1,180.	1,345.	1,553.
Real estate activities	35.0	34.	40.7	46.	54.1
Professional, scientific and technical	115.	115.	134.	154.	178.
Administrative and support service	501.	537.	625.	716.	831.
Public administration and defence; compulsory	596.	638.	743.	851.	990.
Education	49.1	50.	61.1	71.	81.1
Human health and social work activities	37.4	37.	43.9	50.	58.4
Arts, entertainment and recreation	1.4	1.5	1.8	2.0	2.3
Other service activities	502.	521.	622.	708.	797.
Activities of households as employers; undifferentiated goods- and services-producing activities of households for	52.5	54.6	64.9	74.3	84.4
Activities of extraterritorial organizations and	4.8	5.0	5.9	6.8	7.7
TOTAL	6,224.	6,526.	7,820.	8,961.	10,295.
International Trade taxes	3,656.	4,138.	5,305.	6,019.	6,850.
GRAND TOTAL	9,880.	10,665.	13,125.	14,981.	17,145.
Less Tax Refunds	521.	776.	795.	874.	964.
Add Treasury voucher	24.6	20.	32.4	32.	32.4
Add Gap Recovery /Efficiency gain	-	-	-	158.	177.
TOTAL TRA	9,383.	9,909.	12,363.	14,297.	16,391.

Source: TRA Actual, Likely Outturn and Estimates 2018

As reported in the TRA 2013/14 to 2017/18 Corporate Plan, collections in Mainland Tanzania in 2013/14 amounted to Shs 9,289.0 billion which was equivalent to 90.0% against the target of Shs.10, 320.0 billion. This reflects a growth of 19% over the previous year 2012/13. The underperformance in revenue collection is said to have been attributable to various factors including the underperformance of budgetary measures

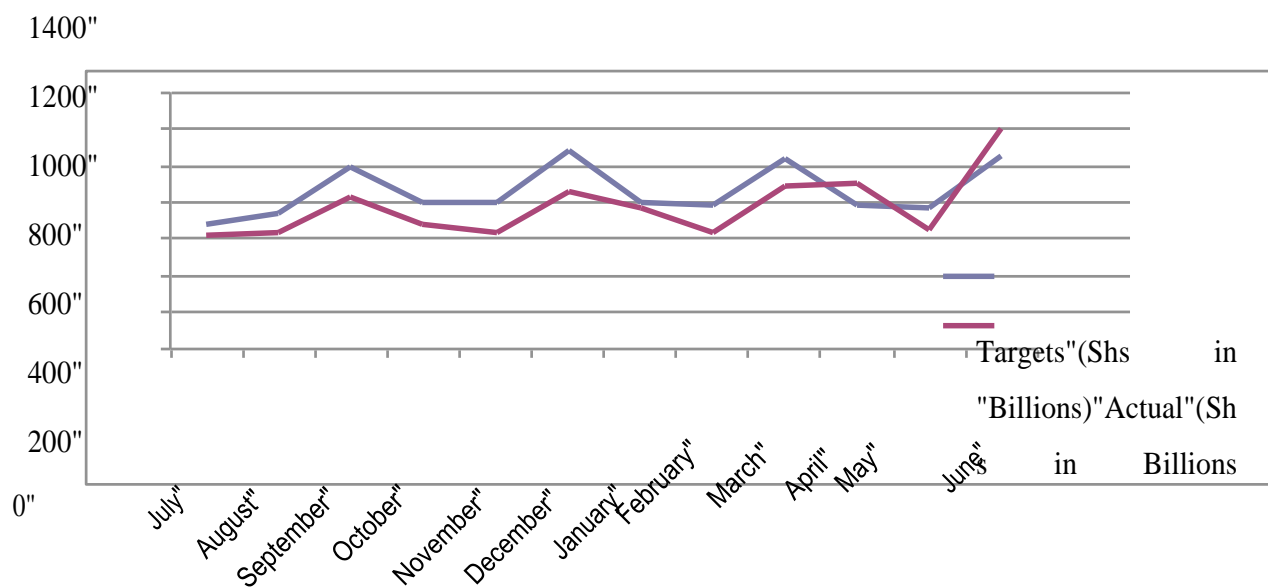
introduced in the financial year 2013/14; which resulted to an increase of Shs 858.0 billion over and above normal revenue projected for the first year of CP4 of Shs 9,555.0 billion. Collection grew further from Shs. 9.4 billion in 2013/14 to projected Shs, 16.4 billion in 2017/18. The total yield on mainland collection grew from 12.5% to 13.9% within that period. Revenue performance during that year was summarized in Table 1.3 and illustrated in Figure 1.1 below.

Table 1.3 Monthly Revenue (Tax) Collection Performances, for the Period July 2013. – June 2014 for Tanzania Mainland

Month	2008/9 Shs. Billions	2013/14 Shs. Billions
July	67	616
August	74	631
September	99	826
October	80	683
November	79	633
December	1,08	859
January	80	764
February	77	629
March	1,03	882
April	77	91
May	77	657
June	1,05	1,196
Total	10,32	9,289

Source: TRA Finance Department 2018

**Figure 1.1 Monthly Revenue Collection Performances, for the Period July 2013 – June 2014
For Overall Tanzania Mainland Shs in Billions**



Source: TRA Finance Department

The chosen topic is motivated by the growing importance of tax compliance behavior, especially when governments dealing with harsh budgetary cuts face the challenge of managing even less public funds collected through taxation. Starting from these realities, state authorities have to find ways of increasing tax compliance to ensure the provision of public goods and citizens' well-being. In order to achieve a desired level of compliance, authorities need to consider various factors which influence compliance and the way taxpayers comply to Tax payments. For instance Tanzania has been losing more than \$16.3 million in illegal tanzanite exports, as it emerged that only 25 out of 1,700 mining firms were paying tax, denying it much needed revenue. What could be done to motivate these taxpayers to pay tax? Even as talks between the government and Tanzanite Mining companies, the government (2018) observed tanzanite trading company has been cheating on the actual value of the precious gemstone for a long time. Why should tax payers underestimate tax? The case also is the same to the 90,000 tonnes of consignment of edible oil revealed that some importers of the consignment had lied to TRA (URT, 2018). With these questions lingering in the mind of the researcher, was motivated to investigate if social norms can help to facilitate tax payment and discourage underestimations.

According to Machogu and Amayi (2013) the Revenue Performance Report, for Mwanza City, 2007/2008, shows that 25% of the collected revenue resulted from audit and enforcement activities such as fines and penalties, while 75% as paid voluntarily. For the financial year 2006/2007, 29% of the revenue collected resulted from audit and enforcement activities, while 71% was paid voluntarily. For the financial year, 2005/2006, 36% of revenue collected, resulted from audit and enforcement activities, while 64% was paid voluntarily. This is a positive development. In order to increase the voluntary tax compliance among the entrepreneurs in the SMEs sector, and at the same time maintaining the economy canon of taxation, Machogu et al, (2013) asserted that, tax education is continuously being provided to these entrepreneurs in Mwanza City.

Other strategies such as the use of the presumptive tax system, audit and enforcement are also being used. There has been increase in the revenue performance and the level of voluntary tax compliance. Although there has been an increase in voluntary tax compliance, this could be due to other factors. This study explored the role of integrating social norms in tax collection practices in Tanzania. while holding constant other influencing factors. The

knowledge from this study justifies the decision of using social norms and taxpayers' morale as a tool of enhancing voluntary tax compliance in Tanzania.

Most of the studies in the area of tax compliance, as outlined in the empirical literature have concentrated on how to change the taxpayer behavior towards more compliance using a mix of strategies, such as audit, deterrent measures of penalties and fines, as well as quality service delivery strategies. Only few studies have concentrated on how tax compliance behavior is affected by social norms and taxpayers' morale while holding constant other influencing factors.

1.2 Statement of the Problem

Non-compliance of tax by people in Tanzania is still a complex phenomenon that cannot be eradicated by partial diagnosis of its determinants and ignoring the social norms and morale of taxpayers. Majority of the taxpayers under the presumptive tax system in Tanzania have continued to be difficult to monitor and mutate hence poor tax compliance (URT, 2016). This could be partly caused by social norms, because they play an important role in compliance, though often ignored by public and tax policy makers. Juma, (2016) observed that taxpayers in Tanzania pay taxes out of fear and this results to cheating in tax declaration as observed in 2017 on the gold concentrate export where tax payer underestimated tax just to comply. Also, Acacia mining company was caught in 2017 underestimating tax just to comply (Gurdian Newspaper, 2017). Just "complying" and complying by payment of real correct tax is different altogether. This causes the government to lose a lot of revenue as it is not known how many tax payers underestimate tax payable to "just comply" to TRA. This raises the question "could social norms help in tax compliance in Tanzania?" Maliyamkono, (2009) did a study on "Why Pay Tax? What are the behavioral factors behind paying tax in Uganda: Osoro (1992) investigated Tax Reforms in Tanzania: Motivations, Directions and Implications. Also, Torgler, et al. (1984) investigated Tax Morale and Tax Compliance in Pakistan. These studies did not focus directly on integrating social norms and payment of tax in Tanzania. Therefore, this set the basis for the researcher to investigate the importance of social norms towards tax compliance among taxpayers in Tanzania.

1.3 Purpose of the study

The study basically intended to examine problems associated with tax compliance in Tanzania. It looked deeply at the possible causes emanating from non-adherence to ethics and ineffective tax administration procedures that deter full compliance by tax payers in the context of social norms. The study wanted to unearth if social norms could be important once integrated in tax collection methods and help in tax payers compliance. The assumption was that there is a gap of trust between these two sides and the study was contemplating of how to fill it. Investigations were to find out whether this had anything to do with the lack of implementing social norms. The researcher also assumed that accountability, responsibility and commitment of tax administrators could be low as a result emphasis on efficient collection practices was difficult. Therefore the assumption behind such tendency was that, there was a direct relationship between compliance performance and tax administration performance.

And that huge collection was not the lone indicator of compliance adequacy but rather a sign that some efforts have been carried out differently for the purpose of attaining collection goals. Such efforts could be cohesive and intimidating measures with little impact on taxpayers' voluntary compliance attitude. The long lasting compliance measure should be instilled through persuasion, education, understanding, dedication and motivational drives. In order to attain the expectation behind this assumption, leaders have been emphasizing on TRA accountability, discipline, patriotism and commitment to ethical requirements as the panacea to the problem. The researcher addressed the factors mentioned above and any other contributions attempting to solve this problem.

1.4 Purpose of the Study

The main Purpose of this study was to explore the role integrating social norms in tax collection practices in Tanzania.

1.4.1 Specific Objectives

The study had the following specific objectives.

- i. To examine the relationship between social norms and taxpayers' morale in Tanzania.

- ii. To examine the relationship between taxpayers' morale and tax compliance in Tanzania
- iii. To examine the relationship between social norms and tax compliance in Tanzania.

1.5 Research Questions

Research questions that guided this study were:

- i. What is the relationship between social norms and taxpayers' morale in Tanzania?
- ii. What is the relationship between taxpayers' morale and tax compliance In Tanzania?
- iii. What is the relationship between social norms and tax compliance in Tanzania?

1.6 Hypotheses

Hypotheses that guided this research are-

1. There is positive significant relationship between social norms and taxpayers' morale.
2. There is positive significant relationship between taxpayers' morale and tax compliance.
3. There is positive significant relationship between social norms and tax compliance.

1.7 Scope of the Study

The scope of the study was discussed under the following headings:

Geographical Scope: The research was conducted in Dar es Salaam region where substantial amount of tax is collected. Limitation of this research in Dar es Salaam was prompted by the size of tax collected, the number of tax payers and the nature of tax administrative complications in comparison with other areas in the country.

Theoretical scope: Five theoretical foundations or 'schools of thought' comprising of: (1) economic deterrence theory; (2) fiscal exchange theory; (3) social influences theory; (4) comparative treatments theory; and (5) political legitimacy theory were used to guide the study.

Content Scope: The major content of this research is to investigate problems in the tax administration environment at a national level so that individuals and institutions can be directed to function in a friendly manner in order to support the government exercise its jurisdiction. Taxes are pervasive as its effect come later in many varieties and affect the life of tax payers and the society with grave impact. Therefore the study has utilized the dynamics of professional tax collection so as to get every possible fact together with the

results from responses that assisted in the endeavor to bridge the assumed gap of how the social norms can play part on tax compliance trend in Tanzania.

Time Scope: The study focused on time period 2013 To 2018. This period was selected because this is the period TRA developed various practices in tax collection. In this period there has been a strong government advocacy to pay tax.

1.8 Significance of the Study

Provide relevant information and knowledge that will help tax administrators, policy makers and collectors identify factors that may affect tax compliance and obtain knowledge on social norms and taxpayers' morale as factors that influence tax compliance among tax payers.

- i. This will enable them draw applicable policies that will enhance tax compliance.
- ii. Provide an understanding of the implications and impact of tax policies in Tanzania
- iii. Appreciate the importance of tax compliance, the factors that may impact compliance and consequences of compliance. This will enable them make improvements.
- iv. Add to the existing knowledge on tax compliance in Tanzania and close the knowledge gap that exists in the tax compliance discipline since few studies have been undertaken on tax compliance in Tanzania.

1.9 Operational Definition of Key Terms

In order to properly understand the study some concept and terms commonly used were defined;

Tax is defined by the Oxford English Dictionary (2010) as a compulsory contribution to the support of government levied on persons, property, income, and commodity transactions etc. Tyler (1981) states that, the definition above is inadequate in terms of having a limited view as to the purpose of taxation while enforcing contribution from persons and properly levied by state by virtue of its sovereign power raising money for public purposes. The state does not directly engage itself in commercial or trade activities but only levy traders and other commercialists legally accepted fraction on profits gained.

Presumptive Taxation: Presumptive taxation involves the use of indirect means to ascertain tax liability, which is different from the usual rules based on the taxpayer's accounts. The term presumptive is used to indicate that there is legal presumption that the taxpayer's income is not less than the amount resulting from application of the indirect method (Thuronyi, 1996).

Tax payer is again described by Tyler (ibid) as any person or organization required by law to pay a tax to a governmental authority. The term personal refers to both persons (individuals) and corporations. Corporations are entities organized under the law of the land (nation). In Tanzania all tax payers are registered and identified by Taxpayers Identification Number (TIN).

Tax base is an item, occurrence, transaction or activity with respect to which a tax is levied. Taxes are usually characterized by reference to their bases and are usually expressed in monetary terms.

$$\text{Tax (T)} = \text{rate (r)} \times \text{base (B)}$$

A single percentage that applies to the entire base is described as a flat rate. Many taxes use a graduated rate structure consisting of multiple percentages that apply to specific portions or brackets of the tax base, Jones (2010). Tax is a function of both the rate and the base. The government can increase revenues by increasing either of these two variables in the design established by the law.

Tax policy is a governments' attitude, objectives, and actions with respect to its tax system.

Compliance is generally defined as one's willingness to abide to the law, regulations and procedures set by the authority. In this case, to pay tax in a manner and style required by law. Otherwise the word compliance is taken as the practice of obeying rules or requests made by people in authority, Oxford Advanced Learners' Dictionary (2010). Compliance is ordinarily taken to mean the action of acting in accordance with a given command or wish. Income tax, payroll tax normally known as Pay-As-You-Earn (PAYE), provisional assessments, withholding taxes, transfer taxes etc, are all self-assessed taxes. TRA explicitly

requires persons liable for any of these taxes to compute the tax due, file the proper return and maintain adequate records supporting the calculations presented on such return.

Performance as defined in Oxford Advanced Learner's Dictionary (2010) is how a person or machinery does a piece of work or an activity. Its measure is always hinged to the time taken to complete the assigned work/activity and the level of promptness/ precision of the desired output. In short people need both ability and motivation to perform well and that if either ability or motivation is zero there will be no effective performance. Performance is always attached to outcomes or results as predicted by set objectives (Armstrong, 2009). Therefore, here performance refers to the measure of attainment of expectations to an individual or group. Tax compliance can be measured by looking at the extent the government fulfills its budget or looking at the cost involved in collection of that tax at a certain given period. Complaints and objections can also signal the smoothness of administering tax issues. Armstrong (2009) depicted this relationship in the expression: $f(\text{Ability} \times \text{Motivation})$.

1.10 Reflections

Peoples' willingness to comply with the law regarding tax matters such as payment of tax and filing of different tax returns through persuasion can automatically raise the level of tax compliance. Firstly, when TRA announces any demand on any tax issues to be completed within short notice and failure of attract hash penalty, the turn-up on the exercise becomes huge sometimes forcing deadline to be extended such as the recent process of checking and confirming Tax Identification Numbers. Secondly, during compliance field visits by tax officials, people close their shops avoiding officials. Why? It is an open expression of fear to meet tax administrators (Armstrong, 2009).

This reflects wrong perception on tax administrators approach using outdated techniques of force instead of applying social norms in tax administration. The researcher believed that may be ineffective tax administration practices and unequal treatment can hinder tax payers' willingness to comply with tax obligations, may be tax assessment or collection approaches alienate the tax payer from complying with the tax administration procedures due to inadequacy of tax knowledge and education on the part of tax payers and may be

harshness and humiliations in tax assessment or collection procedures by tax officials create a gap of negative trust among taxpayers and tax officials. The aim was to test if at all appropriately social norms could be useful in mending this relationship and increase taxpayers' compliance level in Tanzania.

The more TRA officers integrate social norms in Tax collection, will conduct, maintain and apply fair and transparent assessment and collection procedures. Then taxpayers will greatly be induced to comply on the basis of social norms. This entails that fair and transparent assessment and collection procedure within given social norms context, tax payers will be induced to comply and pay more tax voluntarily. Then difficulties faced by taxpayers on tax collection process, such as intimidations, closure of business and penalties increase tax evasion attempts and late submission of returns. Conducting appropriate assessment and collection procedures is measured by comparing between actual practice and deviations. Difficulties or inefficiency in assessment and collection of tax resulting from the behavior and attitudes of officials can lead to distrust. The state powers that have been conferred to TRA employees should not be measured in terms of time spent on dealing with objection raised by tax payers, the non agreed assessed amount that the taxpayer feels was inappropriately and unfairly approached should immediately be reviewed with a more experienced staff even before the official objection is lodged.

The study expects financial reports which determine the performance standards that are clearly understood by tax officials and that make them take keen interest in reading. Set standards can be tangible, intangible, vague or specific but tailored to make officials understand what it is expected. Financial statements of taxpayers and their presentations must be clearly understood and communicable to users. Communication alone is not sufficient but clear understanding of them is absolutely necessary.

On the other hand the more adequate are the assessments and collection procedures arising out of proper applications of social norms, the less complaints and more compliance on payment of tax. The resulting less tax complaints and increased compliance on payment of tax may lead to some questions such as; how tax payers felt and responded to assessments and collection procedures? To what extent the tax payer understood the

system used and to what extent the tax payer appreciated or agreed on the assessment given.

In the situation where relations are established without first identifying the actual circumstances, convictions and environmental assessment on how tax payers operate their business, the effectiveness of such relations would likely to be minimal. Therefore without having that done accountability and compliance to standards could have slim chances of succeeding. Adequate information was needed to enable the study exactly to unearth how tax payers in their capacity as contributors to the national development feel satisfied with TRA services. It was only through that relationship which could result into real and sustainable harmony between administrators and tax payers and eventually lead to more compliance on tax payment.

1.11 Organization of the Study Report

The study report is made up of five chapters. Chapter one introduces the study by discussing background to the study, the statement of the problem, purpose of the study, research objectives and questions, the scope of the study and the conceptual framework.

Chapter two is a review of the variables in the study which are social norms, taxpayers morale and tax compliance. From the works of various scholars and academicians the variables are discussed and the relationship between them derived.

Chapter three describes the methodology that was used by the researcher to collect data in order to achieve the objectives of the study. This chapter describes the research design, study area and population, the sample size, sampling design, data sources and data collection methods as well as methods of presentation, interpretation and analysis of the findings.

Chapter four is a presentation, interpretation and analysis of findings of the study in light of the research objectives and questions.

Chapter five presents summary, conclusions and recommendations that have been made from the discussions and interpretation of findings in the previous chapter. Areas for future research are also recommended.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter starts with the theoretical background where relevant theories of the construct have been visited and discussed. Further, matters relating to the research objectives and questions are also discussed alongside relevant supporting studies.

2.2 The Idea of Tax Compliance

There is no single definition of Tax Compliance. Anol (2012) defines Tax compliance as a phenomenon where by tax payers willingly, fully and timely fulfill their obligations of payment their due taxes. Alternatively Mohammed et al (2011) defined tax compliance as the taxpayer's willingness to comply with tax laws, declare the correct income, claims the correct deductions, relief and rebates and pays all taxes on time without using any forces. Furthermore Tax compliance has also been defined as process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation in time willingly (Palil & Mustapha, 2011). As far as this study is concerned consideration was given to all the above definitions since there is a thin line in their difference.

The challenges presented by high costs of collection are also significant. According to TRA, as cited in Banda (2012) there is no major empirical work that has directly measured operating costs of the Tanzania tax system; that is the compliance costs for taxpayers and administrative costs for the revenue authority. But sketchy evidence and other evidence from other African developing nations suggests that the costs of collection will be high and represent a major challenge for the system. For example, Evans (2007) suggests that compliance costs in developing nations are typically four or five times higher than in developed countries.

In its endeavour to enhance compliance and to be efficient, Banda (2012) argued that TRA moved from tax-type revenue administration to functional type. This saw the organising of employees in functional groupings (i.e. registering, processing returns and payments, accounting, auditing, and collecting arrears and handling disputes). As per TRA report (2006), this amalgamation better placed TRA to exploit the benefits of integrated

administration including improved taxpayer compliance (e.g. the ability to conduct joint audits for all taxes) (Banda, 2012).

Enforcement is an integral part of the role of TRA that enhance compliance. As per the authority's policy (TRA, 2006), where encouragement and assistance to comply are not effective, the compliance model promotes an escalating regime of enforcement actions culminating in forceful and direct measures (such as audit and prosecution), for those who have chosen not to comply. For these enforcement strategies to work, TRA has according to Banda, (2012):

- i. Enhanced the Block Management System (BMS) (Banda, 2012). The objective of this initiative Banda (2012) said is to promote compliance by registering all eligible small and medium taxpayers within geographical locations and gather relevant tax information on the level of economic activities carried out for ease of follow up for enforcement purposes and eventually increase voluntary compliance. The BMS has simplified the registration of traders and brought non-filers and non-tax payers into the tax net through closer monitoring and in collaboration with the Local Authorities (Banda, 2012).
- ii. Establishment of the Large Taxpayers Department (LTD). The formation of this department is to augment audit programs, to improve collection and management of tax debts and to secure revenue. It was established to serve as One-stop shop for large corporate taxpayers, who have complex business activities and consequently more complex tax affairs.
- iii. Introduction of Enterprise-Wide Risk Management System (ERMS). This initiative was launched in July 2011 for effective risk management and to augment other enforcement strategies. Under this strategy, audit cases are selected basing on risk assessment and the automated risk profiling.
- iv. Established Tax Investigation Department (TID). This department was created to directly support the revenue departments in enforcing the various tax laws through regular investigation of tax cases in which substantial amounts of revenue are at risk. It is charged with identifying cases of tax fraud and tax evasion through

investigations and recommending criminal prosecution. Additionally it gathers data and information which is analyzed and utilized for field audits.

- v. Introduction of Taxpayer Identification Number (TIN). The existence of a TIN “forms the basic building block for revenue administration IT systems, as it allows connecting taxpayers to their returns, payments and major taxable transactions with third parties”. Field surveys to detect unregistered taxpayers, as well as extensive publicity campaigns, have often accompanied the introduction of TINs.

From the enforcement strategies discussed, it is clear that the major enforcement strategies used by TRA are audit and investigation. The other strategies in place are there to support these two functions. It appears, as Ongwamuhana (2011) notes, that TRA’s attraction to enforcement methods is that they are readily measurable and said to have direct deterrence effect which increases tax compliance.

However, Banda (2012) stated that the effectiveness of tax audits and investigation in combating non compliance is relative, as it depends on the resources available to the tax administration. Additionally tax investigation goes hand in hand with prosecution and punishment. If the discovered fraud is not effectively prosecuted and sufficiently punished, it leaves the offender feeling immune to sanctions (Banda, 2012).

According to Banda (2012), voluntary compliance is likely to occur where fiscal ignorance is tackled and reduced, where taxpayers feel that they are getting a fair deal from the exchange relationship with the state, where the environment is cooperative and where positive attitudes towards taxation are nourished. Taxpayers, and potential taxpayers, need to be aware of the general concept of taxation and why they should pay taxes.

Based upon this analysis, Banda argued revenue authorities in many countries have undertaken community awareness campaigns. TRA has also joined the bandwagon and introduced some strategies geared at enhancing voluntary compliance. Contrary to Ongwamuhana (2011) views that voluntary tax compliance has only received, at best, a token mention in the form of a tax payers charter, TRA (2011) reports that it prefers to use strategies of support and encouragement. This is evidenced by adoption of initiatives, Banda further said including;

1. Implementation of e-Filing. In the report on implementation of strategic plan, TRA (2011), the aim of implementing the e-filing module in the ITAX is to improve integrity of taxpayer's returns by capturing data at source and submit the same to TRA electronically. The system also eases documentation, reduces transaction processing time and enables taxpayers to conduct business without their physical presence at TRA offices.
2. Electronic Tax Payment through Mobile Phones: TRA has launched a system of electronic payment of taxes through mobile phones with effect from 13th June, 2011. Through the system the taxpayers under presumptive assessment and owners of buildings will be able to pay Personal Income Tax and Property Tax of amount less than Shs 500,000 using the system.
3. Establishment of Dar-es-Salaam Tax Service Centres (DTSC): The objective of establishing the tax centres is to promote voluntary tax compliance and enhance tax knowledge to taxpayers through a closer and well focused relationship with taxpayers located far from tax regional offices. The establishment of DSTC in July 2010 covered the operations of Dar-es-Salaam tax regions of Ilala, Kinondoni and Temeke. The activities covered in these centers include taxpayer registration, tax assessments, tax collection and desk audits. Currently there are eight tax centers. This strategy is still being piloted, and if successful, the authority intends to apply it to other regions (TRA, 2011).
4. Electronic Fiscal Devices (EFDs): EFDs have been introduced with the objective of enhancing compliance management, reducing the risk of tax evasion and ensuring proper reporting of business turnover by VAT registered traders.
5. Stakeholders Forum: This platform has been created for both the administration and taxpayer representatives to "iron out" the difficulties and differences they encounter. It is also intended to also give TRA feedback on issues from the taxpayers. The forum is conducted quarterly.
6. Taxpayers Charter: TRA has also developed a taxpayer charter, a policy document that charts out taxpayer's rights and obligations, as well as the responsibility and quality of services that the authority must provide to taxpayers.

7. Taxpayers' Perception Survey: TRA undertakes surveys every other year in order to get taxpayers' feedback so as to enable the Authority improve services provided to taxpayers.
8. Outreach Taxpayer Programme: Under this programme, TRA officials move the taxpayer services from the offices to taxpayers by visiting taxpayers in their business sites and attend to their tax problems. Additionally there are open public- opinion receiving systems, toll free hotlines and bonus arrangement to suppliers of anti-evasion information.

Review of literature as observed by Banda (2012) shows that the TRA, in carrying out its mandate has attempted to forge some form of partnership with taxpayers. This however has not resulted in widening of the tax base nor has it enhanced the compliance level. This paper attempts to investigate why all these strategies have not yet yielded the relative increase in tax compliance levels.

2.3 Theoretical Framework

The understanding of taxpayers' compliance is an important stage to consider in describing how tax payers behave toward the institution governing tax collection. Taxpayer behavior in response to tax compliance can be described through five theoretical foundations or 'schools of thought' referred to as: (1) economic deterrence; (2) fiscal exchange; (3) social influences; (4) comparative treatments; and (5) political legitimacy (Fjeldstad, Schulz-herzenberg and Sjursen, 2012).

2.3.1 Economic Deterrence Theory

Economic Deterrence theory according to Banda (2012), is a theory under criminology and was developed by Becker (1968). The basic point advanced by theorist of this model is that, taxpayer's compliant behavior is influenced by factors such as the tax rate, the probability of being detected and penalties imposed by the state (Backer, 1968). The economic analysis thus concludes that since compliance decisions are based on an assessment of costs and benefits, high probabilities of detection for non-compliance and large penalties for discovered violators would encourage greater compliance, hence maximizing tax revenue streams.

This theoretical principle of economic deterrence has been widely adopted by tax administrations in developing countries where good governance has not fully been established when developing strategies that rely principally on penalties and the fear of getting caught when not paying the required tax (Fjeldstad, Schulz-herzenberg and Sjursen, 2012). The theory is relevant to this study because it has helped to explain the fact that deterrence is essential for compliance especially in tax collection.

2.3.2 Fiscal Exchange Theory

The fiscal exchange theory suggests that, the presence of government expenditures may motivate tax compliance from the tax payers (Moore, 1998). According to Moore (1998), tax compliance among society increases with perception of the availability of public goods and services being developed in relation to the tax paid. They suggest that government can increase tax compliance by providing goods and services that citizens prefer in a more efficient and accessible manner, emphasizing that taxes are necessary for the receipt of government services. Accordingly, taxpayers are concerned with what they get in return for their tax payments in the form of public services. In this perspective, taxation and the provision of public goods/ services become catalysts to taxpayer in compliance to the tax paid (Fjeldstad and Semboja, 2001).

This theory is more practical and acceptable than the previous one (economic deterrence) because, it advocates individual's willingness to comply without direct coercion. Furthermore, it serves the government from high collection costs resulting from enforcement measures. The main argument of this theory is that bargaining over taxes is central point to building relationships of accountability between state and society, based on mutual rights and obligations, rather than on coercion (Fjeldstad, et al., 2012). This theory was used in the study in order to understand if tax compliance was due to coercion or self tax compliance.

2.3.3 Social Influences Theory

It is said that, human behaviour in the area of taxation is influenced by social interaction in much the same way as other forms of behavior (Snively, 1990). Compliance behavior and attitudes towards the tax systems may therefore be affected by the behaviour of an

individual's reference group such as relatives, neighbors, and friends. If a taxpayer knows many people in his group who evade taxes, his commitments to comply will decline. On the other hand, social relationships may also help motivate individuals to comply and shy away tax evasion behaviour in fear of the social sanctions imposed once discovered (Grasmick, 1982).

This theory to a large extent, support the fiscal exchange theory and negate the economic deterrence theory. The society with government advocating good governance has better chances to comply with laws and orders including tax laws and vice versa. This theory was used to find out if there are references groups that may be evading tax and may be making tax payers reluctant in paying tax.

2.3.4 Comparative Treatment Theory

This theory suggests that, individuals are more likely to comply with rules if they perceive that the system determining those rules is not impartial (McKerchar, and Evans, 2009). Citizens may not consider their relationship with the state in a vacuum where both parties are actors. Likewise, they may not think about their fellow citizens without considering their own relationship with the state (D'Arcy, 2011). If the state treats certain groups preferentially, this may distort the citizen's relationship with the state and the group receiving favours. This theory is more related with the exchange theory as well because, it addresses inequities in the exchange relationship between the government and taxpayers that results in improved compliance behaviour. The theory was used to determine if there was impartiality in determine tax payable between various tax brackets. This could guide the study to show why non compliance is justified according to the theory.

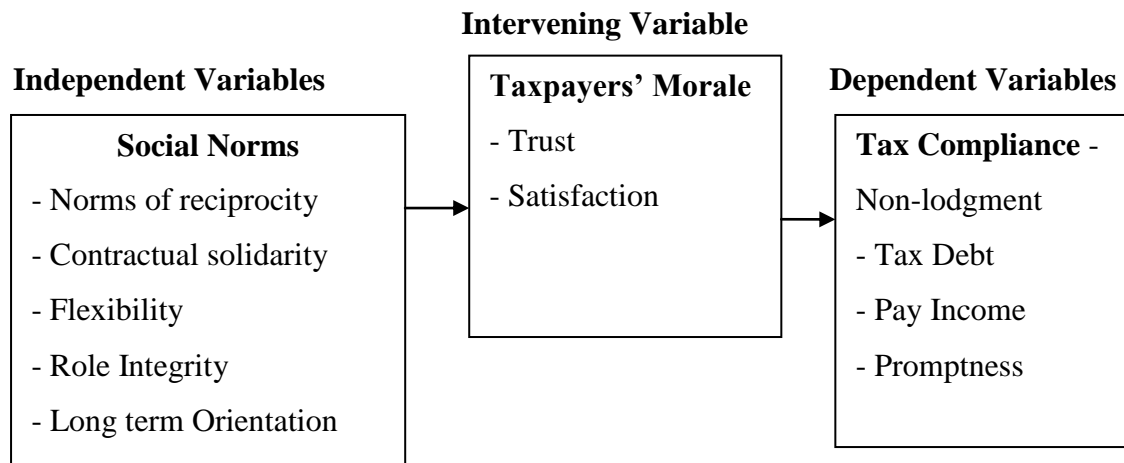
2.3.5 Political Legitimacy Theory

Legitimacy is described as belief or trust in the authorities, institutions, and social arrangements to be appropriate, for the common good (Tayler, 2006). According to the political legitimacy theory, tax compliance is positively related to perceptions about the government's trustworthiness. Researchers have suggested that, the group identification deriving from national pride fosters cooperative behavior and willingness to pay taxes (Torgler and Schneider, 1984). Political legitimacy theory is also related to social influence theory and comparative treatment theory and, all support fiscal exchange theory while negate the economic deterrence theory. With exception of the first theory, the remaining four theories work towards enhancing individual's freedom and willingness to

pay taxes voluntarily. This theory helped to understand whether taxpayers had trust with authorities especially TRA.

2.4 Conceptual Framework

The conceptual framework was designed basing on the literature review and diagrammatically is shown in figure 2.1 below.



Source Researcher, 2016

Figure 2.1: Conceptual Framework

According to the figure 2.1, social norms (Independent variable) influence taxpayers' morale (Intervening variable), which in turn influences the level of compliance (Dependent variable). Social norms and morals have been cited as reasons for high compliance with rules (Elster, 1989) and collective actions (Naylor, 1989). Tax Compliance has three constructs (Non-lodgment, Tax Debt, Pay Income and Promptness. The Social Norms had three constructs (Norms of reciprocity, Contractual solidarity, Flexibility, Role Integrity and Long term Orientation while Taxpayers' Morale had Trust and Satisfaction.

According to the model, social norms (Independent variable) influence taxpayers' morale (Intervening variable), which in turn influences the level of compliance (Dependent variable). Social norms and morals have been cited as reasons for high compliance with rules (Elster, 1989) and collective actions (Naylor, 1989). From a sociological perspective, it is often assumed that human behavior is influenced by social norms to a substantial extent.

Sometimes this also includes tax behavior as well as other economic behavior (Etzioni, 1988).

In a broader sense different studies try to investigate attitudes towards paying taxes which can be seen as a proxy for *tax morale*: the intrinsic motivation to comply and pay taxes and thus voluntarily contribute to the public good (Torgler & Schneider, 1999). If Individual attitudes, which according to this research mean morale, toward compliance are a function of social and cultural norms, then enhancing these norms may be a desirable policy option. According to Cummings *et al* (2004), Taxpayers' morale evolves from perceptions that the government is trust worthy, that the tax enforcement mechanisms are fair and that the fiscal exchange is beneficial. Ultimately in all the cultural settings investigated by previous researchers compliance does increase with enforcement efforts but this has been found to be a less effective mechanism than taxpayers' morale (Cummings *et al.*, 2004). Literature further indicates other factors that independently influence tax compliance such as personal ethics based on religion or cultural norms (steenbergen, McGraw & Scholz, 1992), levels of enforcement and perceived fairness. However, this research scope did not cover these other factors.

The fact that the hate continued growing even after independence as Tanganyika continued with that colonial tax system but under the administration of local authorities. TRA was established in 1995 to assess, collect and account for all central government revenues in accordance with laws and policies enacted by parliament. The institution was conferred with enormous tax administration powers and became operational as an autonomous government agency for enhancement of tax gains on compliance in Tanzania. It was intended to educate and emancipate people refrain from the negative feelings about tax.

Maliyamkono *et al* (2000) also proved that TRA has however faced set-backs on compliance and similarly has since resorted to enactment of laws which sometimes bear unfriendly elements on assessing and collection of tax. It included unfriendly detecting methods of tax defaults resulting into mercilessly punishing non-compliant.

Taxpayers' compliance level should be the reflection of the national revenue collection habit translated into ones discipline and morale to pay tax by abiding to the guidelines and rules

formulated by the state. The researcher roamed behind the fact that the level of tax compliance in Tanzania is low. If so, does it have any connection with taxpayers' administrative treatment by officials? TRA should appear as a good and trusted agent of the government in the administration of tax.

The essence of tax officials as performers of Tanzania Revenue Authority (TRA) on behalf of the government can be explained within the framework of agency theory. That agency is a contractual relationship which exists between one party called the principal and another called the agent. The principal (in this case the government) delegates some authority to the agent (TRA) who accepts responsibility to perform some services and/or take certain actions on behalf of the principle. It is presumed that in doing so, the agent will always act in the best interests of the principal.

Johnsen and Meckling (1976) have argued that both the agent and the principal are utility maximizers; there will always be a tendency for divergence of interests. The need would then arise for the principal to establish appropriate incentive for the agent and also monitor his activities in order to limit any such divergence of interests to avoid harmful repercussion. Therefore, the relationship between the government through the Ministry of Finance and planning (the principal) and Tanzania Revenue Authority (the agent) is sufficiently fitting the above description. This is particularly so under situation in which there is separation between the government as service provider of its people and TRA as the administrative of government financing. TRA in modern theory of the firm is conceptualized as a coalition of individuals with diverse objectives of the entity (Cyert and March 1963). In that context taxpayers also need a sort of motivation from the government so are the agents. Taxpayers are oriented by given social norms to deliver the required willingness to pay tax.

2.5 Departmental Tax Performance in Mainland Tanzania

The 2013/14 to 2017/18 Corporate Plan, show that TRA has continued registering positive performance in all tax revenue departments in terms of revenue growth. Revenue growth by departments was 20.5% for Customs and Excise, 20.9% for Large Taxpayers whereas 23.9% for Domestic Revenue. Revenue contribution by department to the total tax revenue collected was 38.4% for Customs and Excise 44.2% for Large Taxpayers and 17.4% for

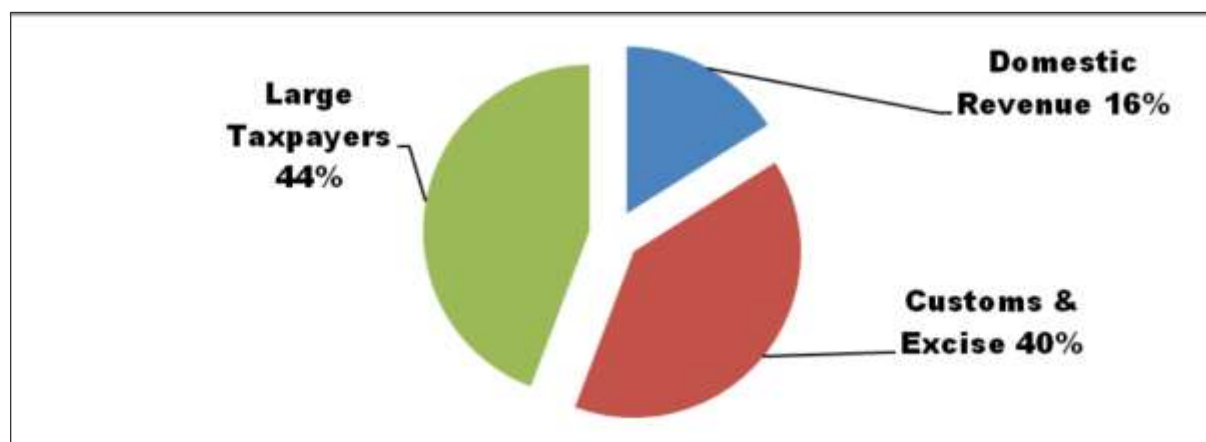
Domestic Revenue. Table 3 and Figure 3 show the summary of the performance and visual presentation for each department respectively.

Table 1.6 Departmental Net Collections for Mainland Tanzania 2012/13 -2013/14 Shs in Billions

DEPARTMENT	July 2012 - June 2013			July 2013 – June 2014			
	Target	Actual	Perf.	Target	Actual	Perf.	Growth
Domestic Revenue	1,266.2	1,320.2	104	1,781.7	1,490.9	83.7	12.9
Large Taxpayers	3,416.6	3,427.7	100	4,382.0	4,110.8	93.8	19.9
Customs & Excise		2,991.3	94	4,156.3	3,687.3	88.7	23.3
Total	7,871.4	7,739.3	98	10,320.0	9,289.0	90.0	20.0

Source: TRA Finance Department

Figure 1.3: Departmental Net Revenue Share Contribution for the Year 2013/14



Source: TRA Revenue Reports and Audited Accounts

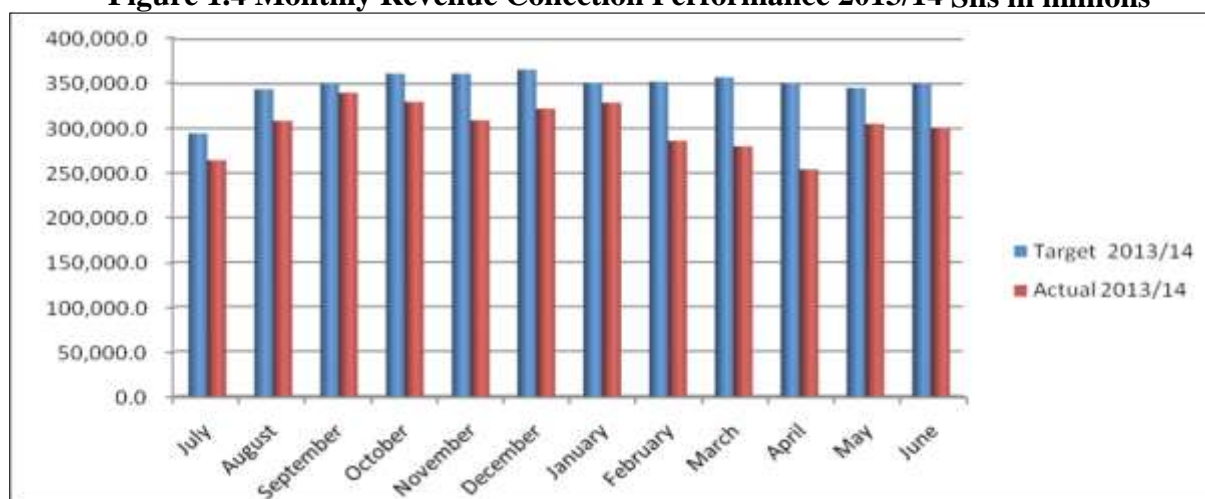
2.5.1 Customs and Excise Department

The 2013/14 to 2017/18 Annual Corporate Plan reveals that the department collected a total of TZS 3,687.3 billion in 2013/14 against the target of TZS. 4,156.3 billion, this represented a performance level of 88.7%. During the year under review the following tax items performed above 85% namely Import Duty (90%), Excise Duty imports (89%), and VAT imports (87%), Fuel Levy (89%) and Petroleum levy (91%).

The challenges that the Department faces for the year ended 30th June 2014 was revealed by the administration to include; clearance of cargo from arrival to removal at Ports, airport and cross boarder stations still pose a big challenge to TRA. However, the introduction of the new Customs Management System was expected to enhance controls, facilitate trade and reduce clearance time at Ports, Airport and Border stations.

Customs and Excise department faced a decline in revenue collection performance whereby up to end of June 2014, the department's performance was 89% compared to 94% obtained in the year 2012/13 The graphical presentation of the total revenue collection by the department on monthly basis for the year 2013/14 is shown in Fig. 1.4 below

Figure 1.4 Monthly Revenue Collection Performance 2013/14 Shs in millions



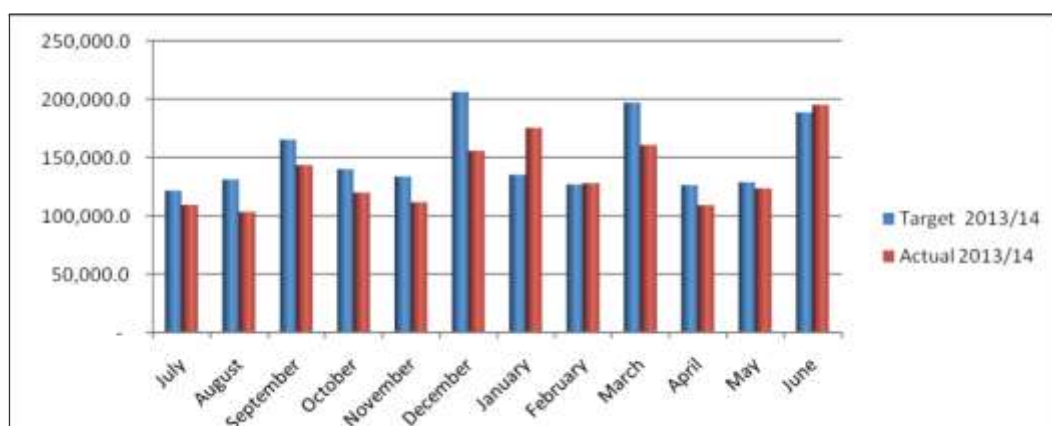
Source: TRA Revenue Report

2.5.2 Domestic Revenue Department

TRA Annual Corporate Plan 2013/14 to 2017/18 show that during 2013/14 the Domestic Revenue Department collected revenue net of refund TZS 1,490.9 billion against the target of TZS 1,781.7 billion which is a performance of 83.7%. The department had targeted to collect gross VAT on local consumption of TZS 456.5 billion with actual collections being TZS 378.8 billion, representing 83% performance rate. The tax revenue collected from stamp duty, departure charges, and motor vehicles taxes were TZS 201.9 billion against the target of TZS 257.7 billion hence a performance rate

of 78%. Additionally, the direct taxes contributed TZS 1,140.3 billion against the target of TZS 1,187.1 billion which is equivalent to 96%. The targets of Direct Taxes were attained in the following sectors: Limited Companies 126%, Individuals 105%, Withholding Tax (G&S) 170%, Skills and Development Levy 98%, and PAYE 99% (TRA, 2014). The Department's performance for the year on monthly basis is shown in Figure 1.5 below.

Figure 1.5 Monthly Revenue Collection Performance 2013/14 Shs in millions

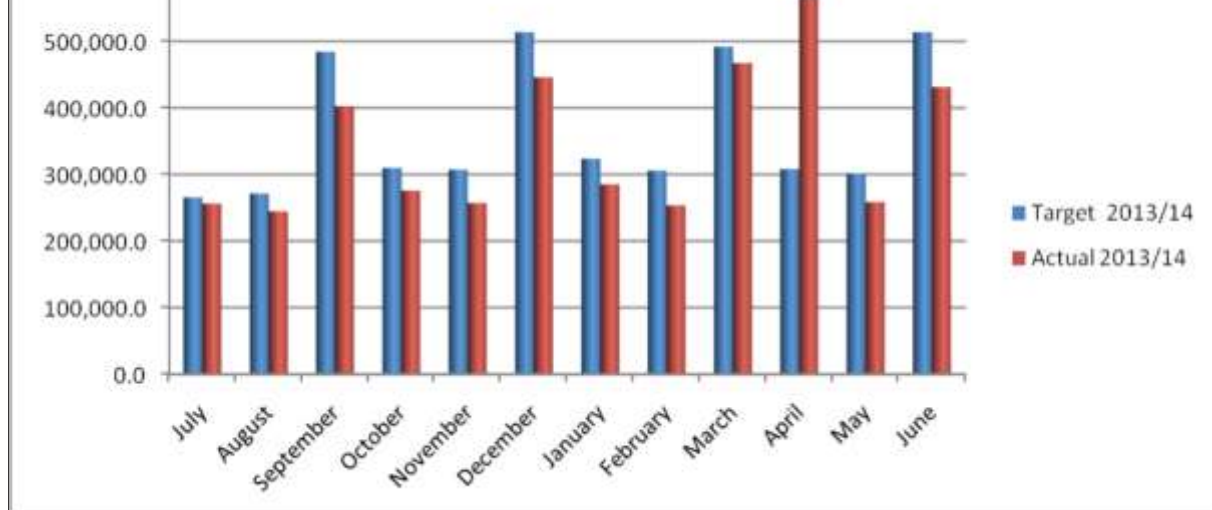


Source: TRA Revenue Reports

2.5.3 Large Taxpayers Department

In that same plan the Large Taxpayers' Department which serves 450 taxpayers countrywide on domestic taxes related services collected net revenue amounting to TZS 4,110.8 billion against the target of TZS 4,382.0 billion which represents a performance rate of 93.8%. The revenue performances item-wise during the year were as follows: Corporate Tax 121%, Employment Taxes 95% and Excise Duty 77%. Other item performances include VAT 93%, Withholding Taxes 103% and Departure charges 67%. The Department's performance for the year on monthly basis is shown in Figure 1.6 below:

Figure 1.6 Monthly Revenue Collection Performance 2013/14 Shs. in millions



Source: TRA Revenue Reports

1.2.2 TRA Collections in Zanzibar

Table 1.7: Tax Revenue Projections for Corporate Plan Period 2013/14 - 2017/18 Zanzibar (Billion Shs)

TANZANIA ZANZIBAR	2013/14	2014/15	2015/16	2016/17	2017/18
	Actuals	Actuals	Estimates	Baseline	Baseline
DIRECT TAXES					
PAYE	27.4	29.9	34.7	40.0	46.2
Corporation tax	9.1	10.7	12.7	14.7	17.0
Individuals	3.9	5.4	6.2	7.1	8.2
Withholding taxes	3.7	4.5	4.9	5.6	6.5
SDL	4.9	5.4	6.3	7.2	8.3
Sub-Total	49.1	56.0	64.7	74.7	86.3
INTERNATIONAL					
Import Duty-Goods	33.8	33.4	24.9	28.5	32.6
Excise Duty-Goods	6.3	5.8	8.7	9.9	11.3
Excise Duty-Petroleum	4.6	4.5	6.6	7.6	8.6
VAT	38.3	38.8	55.4	63.3	72.3
Trade Levy	4.7	4.5	6.2	7.1	8.1
Others	0.0	0.8	0.2	0.2	0.2
Sub-Total	87.6	88.0	102.0	116.6	133.2
TOTAL	136.7	143.9	166.7	191.3	219.5
% of Total Revenue to	8.0%	7.3%	7.3%	7.2%	7.2%
Zanzibar GDP	1,717.8	1,984.1	2,291.6	2,646.9	3,057.1

Source: TRA & Ministry of Finance and Economic Affairs, Zanzibar

The plan sited in Table 1.7 above show that during 2013/2014 revenue collections for Zanzibar was Shs 136.7 billion which is a performance of 92.0% against the target of Shs 147.9 billion. The collection represents a growth of 31.6% compared to actual collections of the previous year 2012/13 which was Shs. 103.9 billion. This grew from Shs. 136.7 billion in 2013/14 to Shs.219.5billion in 2017/18 however the yield

declined from 8% to 7.2% in the same period as summarized in Table 1.8 and figure 1.7 below.

Table: 1.8 Monthly Revenue Collection Performances for the Period July 2013 – June 2014 for Overall Zanzibar

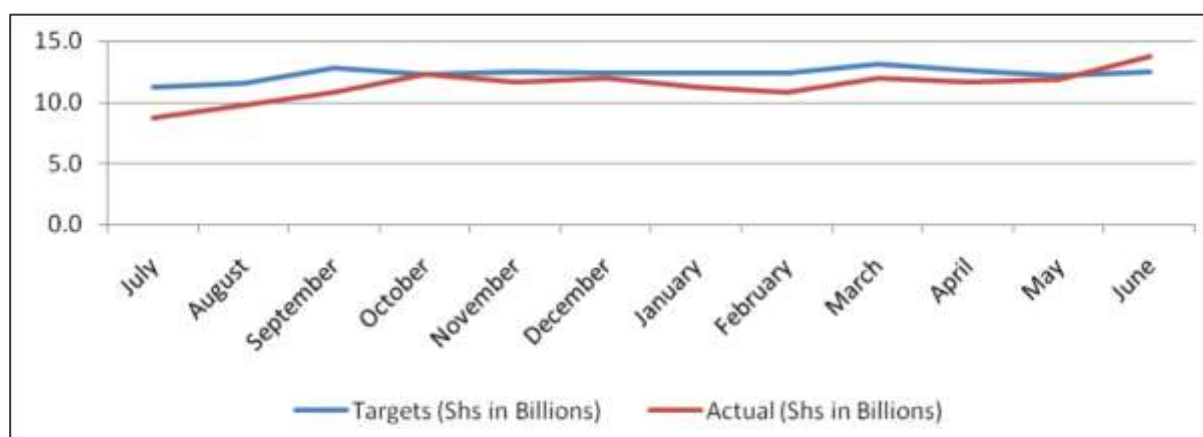
Month	2008/9 Shs. Billions	2013/14 Shs. Billions
July	11.2	8.7
August	11.5	9.8
September	12.8	10.8
October	12.3	12.3
November	12.5	11.7
December	12.4	12.0
January	12.4	11.2
February	12.4	10.8
March	13.1	12.0
April	12.6	11.7
May	12.2	11.9
June	12.5	13.8
Total	147.9	136.7

Source: TRA Finance Department

Figure 1.7 Monthly Revenue Collection Performances for the Period

July 2013 – June 2014 for Overall Zanzibar

Shs in Billions

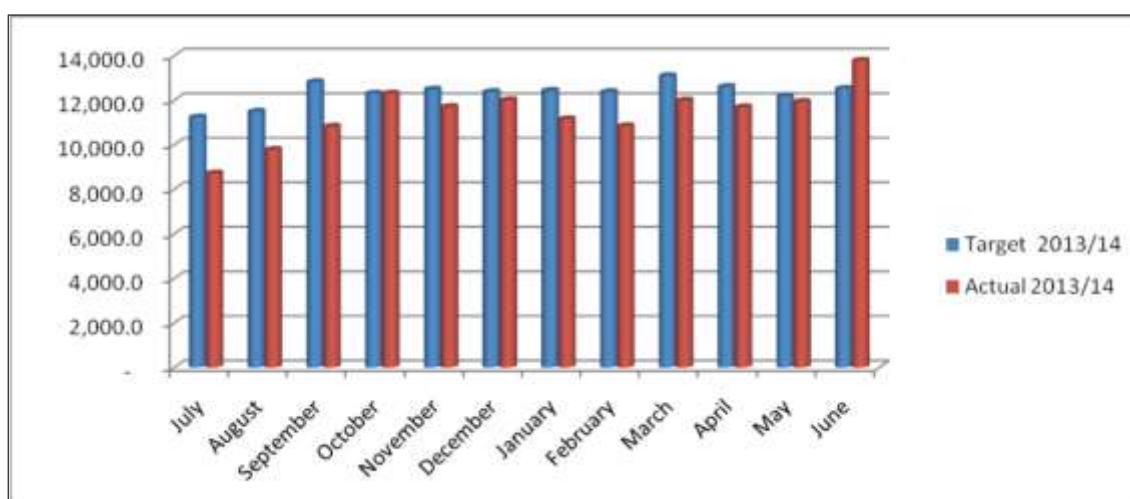


Source: TRA Finance Department

2.5.4 Revenue Collections in Zanzibar

TRA Zanzibar is mandated to collect Income Taxes and Customs Taxes. Other domestic taxes in Zanzibar are collected by the Zanzibar Revenue Board (ZRB). During the year ended 30th June 2014 revenue collection by TRA Zanzibar amounted to TZS 136,690.8 million compared to TZS 103,866.3 million in 2011/12 which represents a growth rate of 31.6%. In terms of meeting targets, TRA Zanzibar performed 92% of the targeted amount TZS 147,899.7 million. This is according to the report in the TRA 2013/14 to 2017/18 Corporate Plan.

Figure 1.7 shows monthly revenue collection against the targets TRA Zanzibar for the year 2013/14



Source: TRA Revenue Collection Reports

Report from 2013/14 to 2017/18 Corporate Plan revenue collection by the TRA Zanzibar from Customs was TZS 87,614.5 million against TZS 63,835.4 million realized in the year 2012/13. There was an increase of 37%. The revenue collected from Customs during the same year represents 64.1% of the total TRA collections in Zanzibar. The revenue collection from Domestic Taxes for the year 2013/2014 was TZS 49,073.7 million against target of TZS 49,107.2 million thus making a performance rate of 100%. The revenue growth for Domestic revenue in the year 2013/2014 was 23% compared to revenue collection was Sh. 40,043.7 million in 2012/2013.

2.5.5 Results on Key Performance Indicators

The target for registered taxpayers for TIN by 30th June 2014 was 2,128,460, the actual taxpayers registered was 1,783,511 which is a performance of 84%. The target for VAT registration by 30th June 2014 was 28,550; while the actual number of VAT registered was 24,346 by 30th June 2014 which is a performance rate of 85%. Another indicator was to process 85% of the total refund claims where the actual performance rate achieved was 74%.

Customs operations indicate that TRA attended to 86%, 32% and 76% of Customs clearance within 24 hours; against annual targets of 92%, 50%, and 85% for land border stations, Dar es Salaam Port and Julius Nyerere International Airport (JNIA) respectively. On the other hand, an average of 12,031 Pre-Arrival Declarations (PADs) were assessed and time taken to process PADs from application to issuance was less than 2 days hence making an average performance of 100%. The target of effectiveness, in terms of revenue collection performance; Domestic Revenue Department (DRD) was 90.8%, Large Tax Payers' Department (LTD) was 94% and Custom 86% (TRA, 2014).

Table 1.9 Corporate Tax compared with Gross Domestic Product (GDP) for 2013/14 to 2017/18

(In billions/=)

	2013/14	2014/15	2015/16	2016/17	2017/18
GDP Growth	74,779	84,319	94,275	105,506	117,998
Direct Taxes	3,968	3,941	4,559	5,225	6,004
Indirect Taxes	5,912	6,724	8,567	9,757	11,142
Consumpt. Tax	2,036	2,338	2,979	3,408	3,910
Agg/D VAT	1,289	1,512	1,989	2,293	2,650
Other D/C	220	248	283	329	382
Intern. Taxes	3,656	4,139	5,305	6,018	6,851
TOTAL Growth	17,081	18,902	23,682	27,032	30,939
Cost of collection %	2.8	3.0	3.0	3.1	2.7
Average	2.9				

Source: TRA Actual, Likely Outturn and estimates, Forth Year Corporate Plan

2.5.6 Tax administration and the application of relevant Social norms in Tanzania

Tax administration and the application of relevant Social norms in Tanzania was not well understood as we have seen threats, penalties, and closure of business and even to extent of Tax payers closing their business when TRA officials are in their areas of business (Banda, 2011). Social norms are assumed to be the vehicles of transformation to increase the level tax collection. Social norms propagate fairness as motivation strategies among people versus weak practices of tax compliance linking it with unjust, forceful and unfair treatment affecting tax payers. The Income Tax Act 2004 requires all people liable to pay tax to abide to the rules and procedures given by the government through Tanzania Revenue Authority (TRA) but Tanzania Revenue Authority Administration Act 2015 (TRAAACT) does not detail out openly rules and other guidance on administrator behavior on taxpayers (TRA, 2015).

The study therefore tried to build the fundamental aspect of integrating social norms in tax collection, giving the historical perspective of peoples' incompliance on tax obligations. It also aimed to investigate why people seem reluctant to pay tax or fail to file several tax returns to TRA at the appropriate time and look for an alternative strategy. Returns are necessarily received by TRA at different periods to enable the government cross check each tax payers' information and position. If the information on the return appears to reflect a mathematical error or any discrepancy, TRA will appropriately react explaining the problem and if possible additional tax or penalty could be raised or award a refund (TRAACT, PART IX, Sec. 73) in the event of overcharge (TRA, 2015). However there are questions on whether such calculations (especially on penalties and interests) do express fairness and consideration on ones' ability to pay.

Tanzania Revenue Authority Administration Act (TRAACT) Part X Sect. 78 explicitly requires taxpayers to pay all tax due and file the proper return to the authority in a manner prescribed by the law. Likewise it emphasizes on maintaining adequate records supporting all calculations on each respective return. It is however through the complexity of the tax law that taxpayers sometimes engage tax practitioners (TRAACT, PART III Sect. 28) for assistance in the preparations of their returns. Therefore compliance process involves the following; Filing and payment of tax and penalties, Return processing and Statute limitations: This bears the fact that sometimes taxpayers do place unjustified significances on TRA receipt of the return and payment of the calculated amount but subsequent events may prove that their returns had not been accepted on the grounds that it had inaccuracies (TRA, 2015).

Peoples' perception about fairness of rewards they receive for their contributions affect their motivation. Therefore, these norms are important to play part in encouraging willingness to comply with given instructions. When social norms are left unconsidered by tax administrators and planners negative

behaviors can sway the administrators' good path and destroy its characters at the expense of tax payers. Social norms can help administrators easily win the hearts of tax payer's willingness to pay tax. The researcher believes that corruption and cohesion are social menace particularly when the environment becomes rough full of unfairness and confusion of objective, a situation that conceals transparency (TRA, 2011).

United States of America (USA) and Canada use Federal Tax Laws. The law in USA is known as 'The Internal Revenue Code of 1986'. It harmonizes tax laws and procedures of state governments in order to ensure that people are always closer to the government in terms of tax compliance (Milliron and Toy, 1988). The subdivision of the Treasury responsible for the enforcement of the law and collection of tax is known as the Internal Revenue Service (IRS). This body is responsible for all tax matters as TRA does in Tanzania.

The USA federal government enacted the first personal income tax in 1861. The purpose was to raise money to support the union armies during the civil war but the congress planned and allowed that tax to expire in 1872. However its revenue generating capability made a lasting impression on the legislative memory (Jones 1992). As a result in 1894 the Congress made it a permanent source of funds and launched a campaign to change the constitution. The campaign ended victoriously on February 25, 1913 when Wyoming became the 36th state to ratify the Sixteenth Amendment that produced a permanent personal tax. The act stated that;

"The congress shall have the power to lay and collect taxes on incomes from whatever source derived without apportionment among several states and without regard to any census or enumeration"

These facts are given by Jones (1992) and show how smooth, coordinated procedures and efficiency created the motivation to make that law stay.

In Tanzania, the same happening occurred as tax laws have been amended severally. But the adoption of colonial designed laws to third world countries imparted wrong perceptions on the importance of tax revenues to the development of the countries and their people. The history of tax in Africa and in other less developed continents has revealed a bitter struggle of people reacting against all tax regimes imposed on them in different forms (Ongwamuhana, 2011). People were not motivated to pay tax at all and all procedures seemed forceful. Tanganyika inherited the Imperial Tax System of the United Kingdom (UK). U.K exported tax systems to its colonies in form of Ordinances applicable to territories but with rates relative to the economic and social awareness of that colony. By doing so indigenous peoples' tax understanding never existed and was not taught nor the expected payers made to understand its benefit (Ghai, 1993).

The people of Tanganyika hated tax because they had no prior knowledge or training about tax and believed that tax was to benefit rulers. Literacy level was low and people were largely engaged in crude farming and cattle keeping. In pre-colonial period taxes were levied by tribal chiefs in form of labor that benefited the chiefs. When colonialist arrived in 1888 Sultan Khalifa of Zanzibar granted a lease and specific rights to the Germans to impose taxes on his mainland territories (Ilife 1969).

The German East African Company (Ostafrikanische Gesellschaft) established the first official European Colonialists system of tax to finance and conduct the affairs of colonial administration. The success of that event was in 1891 when all mainland territories of the Sultan were declared protectorate under German putch (colony). The regime strengthened enforcement measures and continued with the same impositions (Maliyamkono and Bagachwa 1990).

In 1892, the German putch administration introduced a more organized hut or house tax alongside poll tax to all males over 16 years. However most of these people had no huts. As colonial taxation system kept on improving and

changing year after year with new enforcement procedures being introduced such delinking was realized and corrected (Ilife, 1969).

The first money-tax in Tanganyika was introduced in 1898 to correct the obstacle of what could be the medium of exchange and tax was imposed on indigenous population at one rupee per year on every hut built. In 1900s poll tax on all adult men was introduced and levied at three "rupees" per head per year. The money was intended to finance the Tanganyika central railway project. In 1912 poll tax amounting to 3.8 million "rupee" was collected with tremendous efficiency though that efficiency was said to have been backed by dehumanization of natives through whipping, slapping and kicking as a way speeding and controlling collection work. As a result many died (Ilife 1969).

In 1934 the native Tax Ordinance provided a new tax system whereby nomadic tribes e.g. the Masai were levied on group basis. Provincial Commissioners (Regional Commissioners) and area commissioners (district commissioners) sub divided their territories into divisions headed by chiefs in order to control nomadic behavior of some tribes. The Maasai embarked on scattering and shifting in search of pastures and that style enabled them to avoid paying tax and this became their habit to-date. Tax compliance efforts by colonialists kept on improving by creating area (districts) administrative control locations to ease tax collection.

Hut tax was easily to collect compared to poll tax as huts were easily spotted and ambushed. Improved collection method was required on poll tax but colonialists made sure that all males were liable to pay tax and compliance measures on payment per head were exerted. Tax base was further improved and expanded to include graduated personal taxes and this brought about grading and classifying male individuals economically (to justify their worthy and abilities to pay). It was the beginning of Pay-As-You-Earn (PAYE) tax (Ilife, 1969) levied on every employee today.

In 1947 immediately when Tanganyika became a British Protectorate, the new colonialist also inherited the German system of taxation whereby a rate of two shillings per year per head was introduced under the taxation services act of East Africa which was inherited by the laws of Income Tax 1961 Order that became operational on 1961 i.e. two days after independence these laws were implemented (Ilife 1969). Territorial Income Tax Act or Ordinance with Amended Act No. 16 of 1965 also enforced compliance demands as articulated by Income Tax 1961 Order. But the law was differently applied to each of the East African territory in relation to those rates of tax levied on personal allowances (Ongwamuhana, 2011).

Article 138(1) of independent Tanganyika constitution forbade any tax to be imposed out of the law enacted by parliament or pursuant to a procedure lawfully prescribed and having the force of law or by virtue of the law enacted by parliament. This strategy softened the hate in the newly established national state. Though tax collection system continued with several modifications, the people in independent Tanganyika continued with these hateful tendencies on any form of tax imposed (Mariyamkono, Mason, Ndunguru and Osoro, 1990).

During the third phase of governance of the Republic of Tanzania, that is in June 2005 budgetary session the Minister for Finance officially scraped poll-tax from the list of tax revenue collections of the government.

Ongwamuhana (2011) argues that in those days (2005) people suffered enormously because of the collection methods. Ambushes in villages forced many villagers to hide in forests, on islands, in hills and valleys for months. It seriously spread animosity in villages and that was a clear manifestation of how bitter the method was.

This study does not believe that TRA will succeed on compliance endeavors by using threats and intimidations followed by harsh punishments to people not complying with enforcement procedure; instead it has to introduce appropriate and friendly laws and procedures to catalyze for incentive in terms of

allowances and rewards where it deems fit. The study sees this as a technique of compelling people to pay tax by whipping them. 'Compliance by the Whip' could ruin the good tax payers who only need appropriate education on tax issues and attracting directions as to when, where and how to comply with all tax requirements (Ongwamuhana, 2011).

Whipping does not necessarily mean the use of stick to deliver the message. Laws and intimidation steps can act in similar ways. History never dies. Its transitional capability can easily destroy contemporary minds particularly when laws remain on the old path and educational campaigns still wrongly directed leaving the crux of the matter untouched as Ongwamuhana (2011) further laments that;

"There is very little effort to educate tax payers on their rights. The tax which was adopted at the end of 2006 stands out as a lone effort in the tax payers' education. TRA has only taken seriously the duty to impart knowledge of taxes and tax payment procedures, as a civic obligation".

Paying tax is a citizenry obligation and that no one is supposed to impose threats so as to force them consider tax as a civic responsibility. The government has to honor taxpayers with respect on their contribution and make them understand the fact that paying tax is not only a culture inherited from colonialism but a system of their evolving society for their own development. This can be done more scientifically by the application of social norms. Unfair enforcement can result into counter-productive outcomes and thereby decrease tax payers' voluntary compliance. The research intended to discover the extent of compliance weakness in Tanzania and suggest ways to increase tax acceptability and compliance by integrating social norms in tax collection practices.

Tax compliance means true reporting of the tax base, correct computation of the liability, timely filing of the return and timely payment of the amounts due

(Franzoni, 1999). It is easier taxpayers to remain outside the tax net because they can remain inconspicuous to the tax administration. Tax payers find it beneficial to take advantage of loopholes in the tax system in order to minimize their tax payments, hence the non-compliance (Wallace, 2002). In the face of these difficulties, the presumptive income tax system was introduced, to streamline income tax collection and widen the income tax base in Tanzania (Juma, 2002).

Despite the introduction of presumptive tax system as the method to tax, tax payers in order to improve their compliance, there is still non-compliance among taxpayers (TRA Corporate Plan 2002/03-2006/07). This could be due to factors that influence tax compliance like, a range of individual characteristics which include social norms, perceptions of fairness, perceived benefits and perceived penalty. Researchers from developed countries argue that social norms influence the level of tax compliance; it is possible that this could be the case in Tanzania

2.5.7 TRA Compliance Procedures

Compliance includes the filing of several tax returns to the government through TRA. Returns pour into TRA offices at different periods and times to enable the government cross check each tax payers' information and tax position. If the information on the returns appear to reflect late submission, a mathematical error or any discrepancy TRA will react or respond explaining the problem and additional tax or penalty will be imposed or else receive an additional refund in case of any unfortunate or wrong charge.

Compliance is also determined when looking at taxpayers' willingness drive to pay tax on time. This can be enhanced by tax officials' transparent measures to reduce unnecessary practical hindrances. Returns are usually submitted to TRA on different periods for different purposes. Late submissions are subject to penalties and interests. Some of these returns are:

- a) Income Tax Provisional Return
- b) Income Tax Annual return

- c) Withholding Tax Return
- d) Pay As You Earn Monthly Return
- e) Pay As You Earn Employees Annual Return

All in all the Income Tax Act 2004 requires TRA to deal with every tax payer in a fair, professional, prompt and courteous manner. The act stipulates further that TRA should provide the highly needed assistance by tax payers to comply with the law. The centre of the problem faced by tax payers is the arbitrary assessments which have left most of them closing their small or petty businesses. In their mind the government stands as everything and suffer heavily without protesting.

The procedure of protesting mentioned by Section 51(1) of the tax Administration Act is by itself a terrorizing factor though there is a clear cut procedure to contest on any disagreed assessment. Tax payers feel that the procedure is cumbersome, complex and long, useful only to the educated and wealthy commercialists or industrialists. The system does not favor simple or small businesses and no absolute cutline or preferential to consider levels of income when compared to the UK Tax management Act. Section 54, T.M.A., 1970, which has remained operative to-date gives statutory recognition to settlements reached between the Inland Revenue (IR) and taxpayer who has given notice of objection or appeal to the General or Special Commissioners, thereby avoiding the appeal going forward for formal actual hearing and decision in the usual manner. The main provisions of Section 54 are as follows;

- a) The procedure that applies to appeals against assessments to Income Tax, Surtax, the Capital Gain Tax and Corporation Tax, and any agreement reached, whether in writing or not, is treated as if it were a determination of the appeal.
- b) After the agreement has been reached, the appellant or claimant has 30 days during which he may by written notice, revoke it.
- c) Any agreement so made is effective only after it has been communicated by the Inland Revenue to the taxpayer or vice versa,

in writing, the period of 30 days mentioned in 2 above running from the date of such confirmation.

- d) Notice of appeal may be withdrawn, either orally or in writing, in which event the proceedings are regarded as determined by rejection of the claim contention involved, unless the Inland Revenue give written notice requiring that they should proceed despite the proposed withdrawal.
- e) Where notice of agreement is made by, to or with an agent (the accountant) of the taxpayer, it has effect as though made by, to or with the taxpayer, as the case may be.

The UK modal of objections and appeals on judicial proceedings is as clear as seen above. In Tanzania, it is the researchers' recommendation that Sections 50 to 52 of the ITMA of TRA be made precise, clear and easily understandable. Whatever the outcome/results of the assessment or of such calculation, officers should behave reasonably and clearly understand the impact of those mistakes on the taxpayers' position and clearly distinguish their nature in terms of their commitment as to whether they were mere honest mistakes, committed through negligence, amounted civil fraud and criminal fraud (referred to as tax evasion). Contesting procedures should be open and clearly stipulated to enable the taxpayers seek their rights when they feel that they were unjustifiably assessed. The appeal or objection procedure should be displayed in open places. Lack of knowledge on this matter has left many tax payers victims of disorderly taxes as contesting procedures in case of any tax grievance is not open or transparent enough to the entire spectrum of taxpayers.

2.5.8 Tax Administration and Practices in Tanzania

The primary function of the tax administration is to scrutinize compliance and also to enforce sanctions to offenders as provided in the rules and regulations (Bird, 2004). The effective tax administration needs to be connected with identification, assessment and collections of tax revenues (Gurawa & Mansor,

(2015) and Bird, 2004). Effective tax administration is a key machinery of tax revenue collections in both developed and developing economy. Vehorn and Ahmad (1997) point out four models of tax administration in a decentralized environment which are central government tax administration, central government tax administration with assignment of taxing powers to different levels of government, multilevel administration with revenue sharing and self-administration by each level of government. The choice of the tax administration model depends on the structure and complexity of the country governing system for example for unitary states or federal states. Another tax administration model which is mostly preferred by most Tanzanian local governments is contracting out services to private companies. Mikesell (2003) expounds that the extent to which national and sub national authorities cooperate independently the more reliance is likely to continue. In this situation, intergovernmental fund transfer becomes revenue building capacity for financing local government operations. In either way, tax administration is very important and tax authorities need to design tax administration reform that can help to identify bottlenecks (Silvan and Baer; 1997) that in one way or other affects tax administration operations.

Globalization is expanding and the number of critical taxpayer services and compliance oversight tools such as policing transfer pricing practices emerge which helps to administer taxes effectively. However, as stressed by Burgess and Stern (1993), taxation mechanism in developing countries remains fundamentally different from developed countries. This contention is not surprising because most economic activities in developing economy occur in the informal or shadow economy and thus bypasses taxation rules and regulations. Additionally, the tax administration capacities for developing and transition governments are usually weak may be due to poor technological infrastructure.

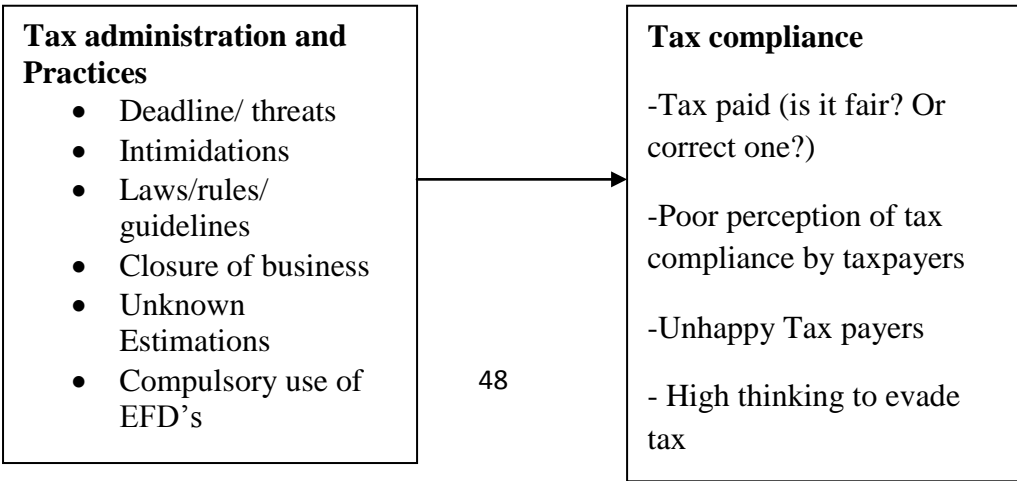
Stiglitz (2009:2) proposes that redesigning taxing institutions and policies, including what he calls "corruption resistant tax structures", should be a central

concern of fiscal reform for developing countries. However, while the shadow economies of developing countries are characterized by low capital intensities, small scale of operation, traditional technologies, and often low profit margins; unsanctioned production in transition economies is more often done in big enterprises (Stiglitz; 2009). Fiscal reform should help to transform informal sector into formal sector in order to allow tax rules and regulations to work through and enforce voluntary tax compliance.

Aurioll and Warlters (2005) suggest that developing country governments consciously need to relax and open barriers to entry into the formal sector in an effort to enhance tax administration and maximize tax revenue. According to Aurioll and Warlters (2005), Governments in developing countries need to work out observed internally degrees of corruption, malfeasance, and general administrative inefficiencies in tax revenue collection. In an attempt to address the challenges of tax administration on collecting government revenue in developing countries, Abiola and Asiweh (2012) examine tax administration focusing on its crucial role of reducing tax evasion. Their study revealed that effective enforcement machinery is very significant in increasing tax revenue. The objective of maximizing revenue should be in line with effective tax administration that can help to work against corruption, tax evasion and all other bottlenecks of the system.

TRA has been given the mandate to administrate tax collection in Tanzania, however, currently they use practices such as giving deadline, threats, business closure over-estimations, laws etc. as shown in Figure 1.8.

Figure 1.8 Current Tax administration and practices



Source: Researcher (TRA, 2017)

As shown in figure 1.8 some of the tax administration and practices currently in use are use of deadlines, intimidations, use of laws of taxation enacted by government, closure of business, unknown estimations and compulsory use of EFD's. By use of this methods and practices the public pay tax however, what is the perception of the tax payers on paying of tax voluntarily? Is it the fair tax to be paid? Is the relationship between tax payer and tax officials be friendly or unfriendly? Why do tax payers close business when they get information that TRA officials are within their area of business operations? These are some of the questions which underpinned this study to understand if social norms should be incorporated in tax administration and practices in Tanzania. Bird and Goldman, (1999) opines that;

- a) Tax payers with good perception about taxation will always pays tax voluntarily.
- b) Friendly relation between tax payers and tax officials may amplify tax compliance.
- c) Fair tax estimations enhance tax compliance by tax payers and tax payers will unlikely want to evade tax payments.

Since 1988, Tanzania has been implementing fairly comprehensive tax reforms as part of widening economic reform program to bolster growth and achieve sustained macroeconomic stability (low inflation, prudent fiscal stance, stable exchange rate and favorable balance of payments position). Reforms on the fiscal front have focused on improving revenue administration, reducing of tax rates, simplifying the tax structure, introducing value added tax and broadening

of the tax base. In spite of these reforms, Tanzania still has a relatively low tax to GDP ratio, which lies considerably below average for sub-Saharan Africa.

Tax stands as a major source of government revenue not only for developed countries but also for developing countries such as Tanzania. Tax revenues guide national government development and also are used to finance substantial part of government operations including provision of public social services (Jamala et al; 2013). In any country, taxation policy acts as a fundamental element for economic policies and also helps to ensure countries' economic growth and improvement of global competitiveness (Taha and Loganathan; 2008). The efforts of collecting tax revenues cannot be achieved unless there is strong tax administration which ensures proper tax collections and minimizing or engulfing tax evasion.

One of the problems which faces developing countries to collect low tax revenues is inefficient and ineffective tax administration (Okoye and Ezejiofor; 2014). The main advantageous of effective tax administration is to help countries to collect all taxes appropriately and also to rethink on the proper ways of administering tax revenues, tax evasion and fight against corruption on taxation issues.

In addressing the importance of internal generated revenues, Adenugba and Ogechi (2013) reveal that revenue administration agencies are very important in fostering revenue collections however; their mechanisms need to be reviewed in order to work out any weaknesses noted in their operations. In general, under-funding of basic social services remains critical (Ame, Chaya & John; 2013) impediment to economic growth and progress in sustainable human development. Moreover, a large proportion of the budget still depends on unpredictable funds from development partners (DPs). These challenges prompt and motivate a re-examination of Tanzania's tax system on the aspects of tax administration's efficiency and effectiveness in enhancing government revenues. The focus on tax administration is motivated by the fact that most government revenues are lost due inefficient and ineffective administration, poor taxation policy and improper management in encouraging tax morale and

voluntary tax compliance. It is notable that tax is the main source of government revenue, such that recommendations for improving its administration are of importance to the policy makers and implementers across the world. Also, the study has surveyed in greater detail all various government statistics which signify the whole role of tax administration in Tanzania and the rest of the world.

2.5.9 Compliance and Measures of Enforcing Voluntary Tax

Compliance

Facilitating compliance involves strengthening key elements such as improving services to taxpayers by providing them with clear instructions, understandable forms, and assistance and information as necessary. James and Alley (2004) assert that tax compliance is very important in the whole process of collecting tax revenues. It is of particular importance as compared to self assessment and electronic commerce which are strongly given high attention currently. Monitoring tax compliance is very important and requires proper maintenance of taxpayer current accounts and management information systems which include both taxpayers and third-party agents involved in the tax system as well as appropriate and prompt procedures to detect and enforce tax payment promptly (Bird, 2015). Notwithstanding, penalties can be used as one of the methods of enforcing tax compliance but creating tax awareness to tax payers is very significant in sensitizing them to fulfill tax obligations effortlessly (James and Alley; 2004).

Improving compliance requires a mix of both measures as well as additional measures to deter non-compliance such as establishing a reasonable risk of detection and the effective application of penalties. According to Gemmel and Hasseldine (2014), tax compliance is generally concerned with tax evasion, tax avoidance, compliance and non compliance. The proper means of achieving tax compliance need to be designed in such a way that can help to deal with tax evasion and tax avoidance. Ideally, such measures should be combined so as to maximize their effort on tax compliance and maximizing government

revenue. In addressing electronic transparent as a means of enhancing voluntary tax compliance, Lubua (2014) reveals that awareness of tax laws, business experience and the integrity of employees together with training needs are very important in compliance process.

Improving tax compliance is not the same as discouraging noncompliance. Tax administration exists to ensure tax compliance and discourage non compliance (Alm and Martinez-Vazquez; 2003). "The standard Economic Approach to taxation usually ignores such key administrative issues as evasion and avoidance, administrative and compliance costs and how the way in which taxpayers and tax officials conceptualize and carry out the process of assessing, collecting and enforcing taxes may profoundly alter the effects of the system" (Bird, 2015 pp1). Also Thiga and Muturi (2015) divulge that tax rate and tax compliance cost are very significant aspects of tax compliance and tax awareness to tax payers. Administrative and compliance cost are very important aspects of tax compliance and should not be ignored when designing efficient and effective compliance strategy. Also, Alabede, Ariffin and Ichis (2011) reveal further that tax payers' attitude on tax evasion has positive relationship with compliance behavior. In a broad sense, it can be argued that some tax payers do comply with tax laws not only because they want to comply, simply because they understand the importance of tax and tax compliance for the prosperity of the nation. For this reason, tax awareness is very important and also can help to engulf tax evasion and tax avoidance. Also, non compliance behavior can be reduced by focusing on changing rules rather than reducing tax gap in the tax system (Gemmell and Hasseldine, 2014).

2.5.10 The Role of Tax Morale in Tax Compliance and Tax Collections

Tax morale is one of the key factors which determines the level of compliance for tax collections in most developing countries (Sa, Martins and Gomes; 2014). It is a motivational behavior of paying taxes as a civil (constitutional) obligation (Torgler, 2002). In general, tax morale is very important in the whole mechanism of tax administration and plays significant roles on reducing tax

evasion through encouraging smooth tax compliance. The most factors that contribute to low tax collections in developing economy among others are tax evasion (Lis, 2013). An attempt of changing a nation's broadly embedded culture of non-compliance into one of improved voluntary compliance warrants more qualitatively oriented and interactive research from its tax administrators (ATO, 1998). In order to react against tax evasion, regulators and policy makers need to strengthen monitoring and impose severe penalties to tax evaders. However, Frey (2003) claims that enforcing citizens to pay tax is very costly strategy, instead, authorities need to work closely with citizens in all material aspects of taxation policy. Authorities are challenged to build a trust on the use of public funds and to act against corruption in order to raise tax morale. In a nutshell, when thinking about the improvement of tax collections, tax morale and tax compliance should be in a forefront of the whole mechanism of tax administration.

According to Adebisi and Gbegi (2013), proper use of public funds has strong influence on enhancing tax morale and compliance for tax payers. The system of fairness, trust and a sense of acceptance or belonging among citizens who share a unified, national identity (Uslaner, 2003) may bear very significant consequential situations and alternative acts of social conduct that mitigate non-compliance. The efficient and effective provision of quality public goods has embedded effect on lessening tax evasion and tax avoidance.

Tax payment is constitutional obligation of the citizens, but bad behavior of the government officials can enforce tax payers to shift to shadow economy. Also, institutional arrangement of the public governance can affect tax morale as well. Guth, Lerati and Sausgruber (2003) point out that decentralization and centralization have different operating environment on tax collection issues. In a decentralized system, citizens are easily ready to pay tax given the idea that they can enjoy directly benefits of tax but it is otherwise for centralization system. Following this contention, the idea of raising tax awareness to tax

payers is inevitable (Sumartaya and Hafidiah; 2014) and for sure this strategy can help to fight against tax evasion.

Martinez-Vazquez and Wallace (1999) point out that personal income tax compliance rate is higher as compared to VAT compliance rate. A high level of tax evasion jeopardizes government's ability to provide fundamental services. There is a growing recognition that there are notable differences across countries in their levels of tax compliance and that standard economic models of taxpayer compliance are unable to explain these differences. In the face of these difficulties, many researchers such as Sa, Martins & Gomes (2014), Daude, Guterrez & Melguizo (2013) and Lillemets (2010) have suggested that the intrinsic motivation for individuals to pay taxes differs across countries and that these differences in tax morale across countries which may explain much of the differences is observed in compliance behavior.

For example with reference to developing countries, Daude, Guterrez and Melguizo (2013) explain that tax morale is driven by age, religion, gender, educational level and employment status. Also, they further argue that satisfaction of the quality of social public services provided by the government has high impact on the tax morale and tax compliance. Also, in their study Torgler and Scheneider (2007) reveal that improved social institutions such as tax morale, voice and accountability, the rule of law, government effectiveness and reducing corruption helps to reduce shadow economy activities. Following this discussion of tax morale, it is now clear that tax revenue collections can be improved by lessening shadow economy activities, raising awareness to tax payers, encouraging voluntary tax compliance and building trust to citizens in order to inbuilt tax morale in their hearts.

One of the most serious problems undermining tax compliance is the perception among citizens that the taxes they pay are not spent on public services. Despite significant

improvements in public service delivery in recent years, data show that citizens still feel getting little in return for taxes paid in Tanzania. This perception erodes residents' confidence in the capacity of local councils to supply essential services which, in turn, impacts their willingness to pay taxes (Odd-Helge et al, 2006).

Kelly (2000) points out that major problem exist in property tax administration particularly for developing countries. For the property tax, the case is somehow astonishing because tax rate are very minimal and enforcement against non compliance is simply missing. In order to facilitate efficient revenue collection, Jenkins (1994) calls for a restructuring of revenue administrations to provide independence for the authority responsible for tax collections. The authority should establish clear and transparent operating policies to be well adhered by tax collectors. It is clear that independent revenue administrations should be given mandate and being fully responsible for their own recruitment, training, and salary structure in order to control general conduct of the tax collectors.

Tax morale is a societal phenomenon that is difficult to explain. Questions about tax compliance are as old as taxes themselves and will remain an area of discovery as long as taxes exist. To understand the impact of a tax system, it is important to know who complies with the tax law as well as who does not. Tax evasion is a large and growing problem in almost all countries. Unfortunately, we know very little about tax morale. Economists see the problem as one of rational decision made under uncertainty. This means that cheating on taxes is a gamble paying off in lower taxes or, with the probability of detection, ending in sanctions.

This view of taxpayer behaviour was first presented in a formal model by Allingham and Sandmo (1972), influenced by the economics-of-crime approach (see Becker 1968). Nevertheless, such a portfolio analysis cannot explain why many households comply more fully than predicted by this approach. A lot of economic approaches to tax compliance continue on this framework (see Cowell 1990). This survey focuses on tax morale and tax compliance and

intends to outline alternative theories and empirical findings. James Andreoni, Brian Erard and Jonathan

Feinstein (1998) wrote: "adding moral and social dynamics to models of tax compliance is as yet a largely undeveloped area of research" (p. 852). Over fifteen years ago, Pommerehne (1985) wrote in the *Rivista Internazionale di Scienze Economiche e Commerciali*: "the attitude can extend to ... supposed factors influencing tax morale, particularly the subjective sense of tax burden ..., the individual perception of fairness of the tax system ..., the relation between taxpayer and administration, but also to what is seen as a fair exchange between the subjective sense of tax burden and the service offered by the state" (translated, p.1164).

This is therefore an opportunity to take a stroll through theoretical and empirical findings in the tax morale literature, focusing on personal income tax morale. The question about tax morale is rather why people do not cheat so much than why they do. Most people pay their taxes. Tax compliance is a finally observable action. Complying or not is not only a function of opportunity, tax rates, and probability of detection, but also the function of an individual's willingness to comply or evade. When the tax morale is high, tax compliance will be relatively high too. To analyse the puzzle of tax compliance, it is thus important to go one step back to explain tax morale. The focus is rather on the process than just on outcomes.

In this study three key factors that seem to be important for understanding tax morale have been discussed; moral rules and sentiments, fairness and the relationship between taxpayer and government.

a) Moral Rules and Sentiments

Analysing morale poses some problems for economic analysis. The only possibility to quantify it is looking at its effects. Economists like Günter (1951/1952, 1960, 1962, 1970a, 1970b) and Kantona (1971) have emphasised that economic phenomena should not only be analysed from the traditional

point of view. It has been noted that compliance cannot be explained entirely by the level of enforcement (Graetz and Wilde 1985, Elffers 1991). Countries set the levels of audit and penalty¹ so low that most individuals would evade taxes, if they were rational, because it is unlikely that cheaters will be caught and penalised. Nevertheless, a high degree of compliance is observed.

Compliance decisions must be affected by other factors. How can moral rules and sentiments directly guide tax morale? In the literature we find psychological theories which are discussed in the context of tax morale. It may seem astonishing, but a lot of people do comply with the rules and laws. Kelman's (1965) work, adapted to tax compliance by Vogel (1974), illustrates how people comply for different reasons. Compliance, identification and internalisation are Kelman's tripartite typology. "Compliers" pay their taxes, because people are required to do so and fear the consequences if they do not. "Identifiers" are influenced by social norms and the beliefs and behaviours of people close or of importance to them. "Internalizers" have a consistency between their beliefs and their behaviour. In the first part the study focus on social norms and discuss the four sentiments guilt, shame, duty and fear. In the second part the study present two interesting economic theories which intend to explain tax morale and tax compliance by showing the limits of traditional economics. The theories imply an extension of the economic model of man.

Social Norms

One factor is social norms. There has been a renewed interest in the social basis of political and economic life (Knight 1998). Putnam (1993) claims the importance of social capital for the effective governance of democracy. Other authors have singled out trust as an important feature of productive social relationship (e.g., Gambetta 1988, Hardin 1993). Slemrod (1998) argues that the social capital derived from the willingness to pay taxes voluntarily lowers the cost of the operating government and of equitably assigning its cost to citizens. Knack and Keefer (1997) tested the impact of civic duty and trust on growth and investment rates in a cross section analysis of 29 countries. To

measure civic norms they used the World Values Surveys of 1981 and 1990-1991. One of the five particular actions to assess the strength of civic norm was "cheating on taxes if you have the chance". In this way, tax compliance emerges as one dimension of civic norm. Knack and Keefer (1997) find a strong and significant positive relationship between social capital variables and economic growth.

When working with social norms, we have the difficulty that it is difficult to specify their exact meaning. Social norms consist of a pattern of behaviour that must be shared by other people and sustained by their approval and disapproval (Elster 1989). Fehr and Gächter (1997) define social norm as: "behaviour regularity that is based on a socially shared belief how one ought to behave which triggers the enforcement of the prescribed behaviour by informal social sanctions" (p. 12). and state: "Reciprocity provides a key mechanism for the enforcement of social norms. In view of the fact that most social relations in neighborhoods, families and work places are not governed by explicit agreements but by social norms the role of reciprocity as a norm enforcement device is perhaps its most important function" (p. 11). If others behave according to a socially accepted mode of behaviour, the individual will also behave appropriately. Thus, individuals will comply and pay taxes as long as they believe that compliance is a social norm (see Alm, McClelland and Schulze 1999). Polinsky and Shavell (2000), who presented a survey of the economic theory of public enforcement of law, emphasise the aspect of social norms for future research. Social norms can be seen as a general alternative to law enforcement² in channeling individuals' behaviour.

The violation of social norms has consequences like internal sanctions (guilt, remorse) or external legal and social sanctions as gossip and ostracism. As Polinsky and Shavel (2000) state there is an expanding literature on social norms because of the influence social norms have on behaviour, their role as a substitute for and supplement to formal laws and the possibility that laws themselves can influence social norms.

There is evidence that many countries with similar fiscal systems have different compliance experiences (Alm, Sanchez and De Juan 1995 for the United States, see Yankelovich, Skelly, and White 1984, Vogel 1974 for Sweden, Lewis 1979 for the United Kingdom and De Juan, Lasheras, and Mayo 1993 for Spain). The main conclusions are that;

- (i) Individuals who comply tend to view tax evasion as immoral
- (ii) Compliance is higher if moral appeals are made to the taxpayer,
- (iii) Individuals with tax evaders as friends are more likely to be evaders themselves.
- (iv) Compliance is greater in societies with a stronger sense of social cohesion. Alm, Sanchez, and De Juan (1995) find in their experimental results strong evidence that in compliance the role of social norms is the most important determinant.

However, some points remain unexplained. How do social norms arise in the first place? How can these norms be changed by deliberate government policies? There are limits for a government to increase compliance using traditional policies such as audits and fines. If the government can influence a norm, tax evasion can be reduced by policy activities. Taxpayers may be aware that their evasion could damage the welfare of the community they live in. As a consequence, evasion can produce psychological costs. People may not be comfortable with dishonesty (Spicer 1986). However, when a taxpayer is convinced that she pays too many taxes compared with the provided public goods, her psychological costs will be reduced.

In literature we find two interesting theories that enable us to integrate moral constraints in a rational taxpayer model. The first theory is an altruistic approach (e.g., Chung 1976). Here, taxpayers are not only interested in their own welfare but also concerned about the general welfare. The decision to evade is constrained by the knowledge that their evasion will reduce the

amount of resources available for social welfare. The second is the “Kantian” morality approach (Laffont 1975, Sugden 1984). This approach, broadly related to Kant’s definition of morality, is based on the assumption that a fair tax is a tax which a taxpayer believes to be fair for all other taxpayers to pay. A false declaration will generate anxiety, guilt or a reduction in taxpayer’s self-image. It is assumed that a taxpayer feels these costs only if he believes that his tax share is not higher than what is defined fair. If he is paying a higher amount, evasion can be seen as a sort of self-defence.

a) Guilt and Shame

The sentiments guilt and shame may influence reporting behaviour, reducing the perceived benefits of cheating. According to Lewis (1971), guilt arises when individuals realise that they have acted irresponsibly and in violation of a rule or social norm they have internalised. Since the obligation of paying taxes to the government is an accepted social norm, it makes sense that individuals who choose not to pay all of their taxes may feel guilty. Aitken and Bonneville (1980) found in a Taxpayer Opinion Survey that over 50% of the respondents claimed that their consciences would be bothered “a lot” after having engaged in any of the following activities:

- (i) Padding business activities
- (ii) Overstating medical expenses,
- (iii) Understating income,
- (iv) Not filing a return or
- (v) Claiming an extra dependent.

Grasmick and Bursick (1990) interviewed 355 individuals in another survey, regarding their future inclination to perform various legal offences, including tax evasion. Their findings indicated that the anticipated guilt associated with committing tax evasion served as a much greater deterrent than the perceived threat of legal sanctions.

While guilt is associated with an impersonal rule or norm, shame has a "human face", implicating the self-image. Lewis (1971) writes that shame is an experience where an internalised other "seems to scorn, despise, or ridicule the self"(p. 39). Erard and Feinstein (1994) incorporate shame and guilt directly into the taxpayer's utility. They hypothesise that a taxpayer feels guilty when he under-reports and escapes detection. He also feels ashamed when he under-reports and gets caught. The authors also looked at the issue of misperceptions. Many taxpayer surveys indicate that taxpayers tend to overestimate the probability of an audit (e.g., Harris and Associates 1988, evidence from psychology experiments (Kahneman, Slovic and Tversky 1982). Individuals tend to overestimate the probability of unlikely events, such as tax audit, in a wide variety of contexts (Alm, McClelland and Schulze 1992). Kahneman and Tversky (1982) have developed the theory of "representativeness" influenced by the principles of cognitive psychology. Individuals form a rough assessment of the likelihood of an event by constructing scenarios of the future. They use these scenarios to estimate the probability of the event occurring. Some scenarios are more available than others, for example, rare and dramatic events. Tax audit can be seen as such a salient event. Memories of audits a taxpayer has personally experienced or which he was informed of support the imagination of a possible future audit. Erard and Feinstein (1994) argue that their results indicate that moral sentiments and audit misperceptions are necessary to provide a reasonable explanation of actual compliance behaviour. Their results suggest that taxpayers have substantial and varied misperceptions of the probability of an audit.

Taxpayers overestimate its level and the rate at which it rises as the reported income falls. They anticipate guilt when filling out their return underreporting and escaping from detection, and anticipate shame if caught subsequently. Nevertheless, this approach has some weaknesses. It cannot be derived from economic or psychological theory how guilt and shame should enter into the utility function.

Furthermore, as guilt and shame are not directly observable, identification is based on the form of the assumptions.

b) Duty and Fear

Citizens' sense of duty could play a role in the analysis of tax morale. Scholz and Pinney (1995) argue that the uncertainty about the probability of getting caught imposes sufficient difficulties that citizens rely on heuristics to derive subjective estimates of risk. They focus on the implications of "duty heuristic" for the relationship between fear and duty, and hypothesise that the taxpayers' sense of duty to pay taxes significantly influences the perceived probability and risk of being caught when cheating.

The empirical findings support the idea that the subjective risk of getting caught is more closely related to the sense of duty than to objective risk factors. Duty influences taxpayers tempted to cheat as much as anyone else. Objective audit probabilities, on the other hand, affect only taxpayers who are more subject to the temptation to cheat. These findings have an interesting implication for tax policies. Increasing audits and penalties will not increase tax compliance significantly. Scholz and Lubell (1998) find that duty and fear increase significantly when taxes decrease, and decrease when taxes increase. So, a citizen's attitude toward compliance with a collective obligation and his/her fear of retribution varies according to changes in costs or benefits associated with the collective.

Theories

Two theories are presented and show their relevance for explaining tax morale and tax compliance. The approach of both theories is characterized by including a partially specific psychological effect to catch the relative importance of an effect without losing the spirit of the integrated psychological effect and without giving up economic foundations. Frey (1993) states:

"Inspirations from other social (and literary) sciences are very well compatible with the basis of modern economics, which has proved to be so useful. Indeed,

the economic model of human behaviour properly understood perfectly lends itself to the integration of so far neglected aspects of people's actions. What is needed, however, is an effort to overcome the model of "homunculus economicus" who is at all times in full control of his or her emotions, who does not know any cognitive limitations, who is not embedded in a personal network, who is but extrinsically motivated and whose preferences are not influenced by processes of discussion ... It is time now to embark on a new course and to switch from an exporter to an importer of ideas" (p. 97).

a) Intrinsic Motivation

Other sciences like sociology and psychology have stressed the importance of a behavior based on moral and ethical considerations. In economic analysis, internalised values are taken as exogenously given and not influenced by prices or regulations (see Becker 1976 and Hirshleifer 1985). However, a few economists such as Hirschman (1965) and Sen (1977) took the relationship between external and internal human motivation into account. Frey (1997) demonstrates that intrinsic versus extrinsic motivation are also relevant for explaining compliance behaviour. He looks at tax morale as a particular kind of intrinsic motivation. It is an attempt to introduce a psychological effect into economics without giving up the rational choice framework. His approach includes a crowding-out effect of intrinsic motivation in the analysis of tax compliance.

Increasing monitoring and penalties for noncompliance, individuals notice that extrinsic motivation has increased, which on the other hand crowds out intrinsic motivation to comply with taxes. Thus, the net effect of a stricter tax policy is unclear. If the intrinsic motivation is not recognized, taxpayers get the feeling that they can as well be opportunistic. This puts into account the relevance of policy instruments in supporting or damaging the intrinsic motivation. Intrinsic motivation depends on the application of policy instruments and collection practices. But Frey (1997) claims that tax morale is not expected to be crowded out if the honest taxpayers perceive the stricter policy to be directed

against dishonest taxpayers. Regulations which prevent free riding by others and establish fairness and equity help preserve tax morale.

b) Alternatives Theory

Under certain circumstances human actions can be constrained by a set of possibilities which is considered to be relevant only for oneself. Other alternatives are disregarded (Frey and Foppa 1986). Frey (1997) calls it the "ipsative possibility set" (p. 196). The theory behind strongly relies on psychological evidence and can be seen as an attempt to model an aspect of a human imperfection. The ipsative possibility sets are characterised by Frey (1997) as;

- (i) Non-marginal (alternatives are either considered fully or not at all)
- (ii) Asymmetric (alternatives outside the set are out of consideration)
- (iii) Personal (relevant to a certain person).

Frey claims that an under extension of the impassive set is a common phenomenon among rational actors. Tax morale can be seen as such an issue, which is not open to a marginal but rather an absolute evaluation. There are taxpayers who do not even search for ways to cheat at taxes while others act contrarily. Relative price changes, as a reason of higher punishment, are only considered by taxpayers with a low tax morality who cheat. Frey even speaks of a perverse effect that arises when the government threatens citizens of high tax morality with increased punishment. Citizens can take this as an indication that the government does not honour compliant behaviour. If the government distrusts them, tax morale can be undermined.

Fairness

Another important factor is the taxpayer's perception of the fairness of his tax burden. For a long time, fairness was considered of no relevance for economic analysis. Aspects of justice and fairness have been discussed by Rawls (1972), Buchanan (1976), Baumol (1986) and Sen (1987). Closely related theories

were analysed as, e.g., altruism by Becker (1981), social norms by Opp (1983), Elster (1990) and Coleman (1990) and cognitive dissonance by Schlicht (1984). Empirical researches are rarer than theoretical studies. We find first studies in the context of the analysis of behavioural anomalies (Thaler 1992, Frey and Eichenberger 1989). The most common type of analysis are natural experiments (Kahneman, Knetsch and Thaler 1986, Frey and Pommerehne 1993) and laboratory experiments (for example, Fehr and Kirchsteiger 1994 and Rabin 1993).

How do we know what is fair and what is not? Binmore (1998) states: "When a dish in short supply is shared at a polite dinner party, there is seldom any verbal dispute ... If things go well, the dish gets divided without any discussion or intervention by the host. When questioned, everybody will agree that each person should take his fair share ... What is judged to be fair according to our current standards of morality depends on a complex combination of contingent circumstances – such as who is fat and who dislikes cheese. Moreover, if we observe what actually happens, rather than what people say should happen, we will find that it also depends on how each person at the table fits into the social pecking order. Woe betide the poor relative sitting at the table on sufferance in the last century who helped himself to an over-generous portion of his favorite dish" (p. 275).

An unfair tax system could enhance the incentives to rationalise cheating. Different studies analyse the relationship between tax evasion and perceived inequities in tax systems. A number of survey research studies have reported positive correlations between perceptions of fiscal inequity and tax evasion (Spicer 1974, Song and Yarbrough 1978). Social psychology research suggests that a lack of equity in an exchange relationship creates a sense of distress, especially for the victim (Walster and Berscheid 1978). Homans (1961) argues that disadvantage is followed by anger, advantage by guilt. Tax evasion may be seen as a reaction to restore equity (for general empirical evidence, Adams 1965). Spicer and Becker (1980) find in an experiment with fifty-seven

students, at the University of Colorado, that the percentage of taxes evaded was the highest among those students who were told that their tax rates were higher than average, and lowest among those told their tax rates were lower than average.

However, other experiments (Webley et al. 1991) could not find such an effect. Bordonon (1993) introduces fairness as an additional motivation to the evasion decision. He rationalises the ethical norms supporting tax compliance by making them dependent on tax structure, public expenditure and perceived evasion by other taxpayers. According to the approach of Spicer and Lundstedt (1976), taxpayers perceive their relationship with the state not only as a relationship of coercion, but also as one of exchange. Bordonon (1993) assumes that the taxpayer can compute the fair terms of trade between his private consumption and government provision of public good. Taxpayer wish to evade if the terms of trade differ from computed fair terms, in order to re-establish fairness, constrained by the risk of being caught. This approach is able to show that some people do not evade even if it would be in their self-interest to do so.

Alm, McClelland and Schulze (1992) suggest that compliance occurs because some individuals value the public goods their tax payments finance. If there is an increase in the amount individuals receive from a given tax payment, their compliance rate increases. Individuals pay then in taxes to receive government services even when there is no chance to be detected or punished when evading. Cowell and Gordon (1988) and Falkinger (1988) attempt to explain the links between public expenditure and tax compliance. They introduce a government financed public good in the standard portfolio choice model of tax evasion. Their results imply a converse relationship compared to the empirical research. This modification can explain the observed relation of evasion to the tax rate, but not the reasons why non-evasion is so prevalent. To capture that aspect Gordon (1989) modifies the standard model by including non-pecuniary costs of evasion. He appeals to the literature on social customs (Akerlof 1980,

Naylor 1989) to provide a motive for the reason why there can be a utility loss by the act of evading. Nonpecuniary or psychic cost increases as evasion increases.

The developed model can explain why some taxpayers refuse a favourable evasion gamble. Furthermore, dishonesty is endogenised as reputation cost. Non-pecuniary costs have a dynamic component, varying inversely with the number of individuals having evaded in the previous period. Interestingly, there is a stable interior equilibrium where evaders and honest individuals coexist. However, non-pecuniary costs are exogenous to the analysis so that they can rationalise, but not explain, differences in tax behaviour across consumers or social groups. Myles and Naylor (1996) state that the model of Gordon is a step forward but lies outside the mainstream of the social custom literature because psychic costs depend on the extent of evasion. They see no reason why such a relation should hold. Myles and Naylor argue that if the psychic cost is due to the shame at prosecution then the extent of evasion is irrelevant, or if it is due to the fear of detection then it should be dependent on the detection probability rather than the extent of evasion. Based on the social custom literature where it is accepted that once a social custom is broken, all utility from it is lost, Myles and Naylor (1996) suggest a model in which a social custom utility is derived when taxes are paid honestly, but is lost when evasion is undertaken. In their model, taxpayers face a choice between evading or not. If a taxpayer chooses evasion, the standard model of tax evasion becomes operative. The intention of Myles and Naylor is to combine social customs and social conformity with the standard model of tax evasion as a choice with risk.

Cowell (1992) shows that the economic analysis can come to the same results as psychological research if forms of personalised inequity are incorporated in the economic model. Taxpayers will reduce tax evasion when perceiving equity. Falkinger (1995) has pointed out concrete economic situations in which individuals reduce evasion if the socioeconomic system is considered to be relatively equal and fair. The fairness of a system a person lives in may result

in bad reputation for evaders if people consider evasion to be blameworthy, so that risk aversion will increase with perceived equity. Falkinger uses the notion "equity" for the perceived exchange relationship between taxpayers and government. He argues that risk aversion increases with equity, if the value of consumption characteristics, produced by the supplied good, increases.

Another dimension of moral and social influence is the degree of satisfaction taxpayers have with the government. This dimension is strongly correlated with aspects of fairness, especially with regard to the concept of procedural fairness. The study found this concept in the regulatory literature, in the literature on disputes and civilians' encounters and institutional analysis, where the relationship between taxpayer and government is modelled as an implicit contract. Positive actions by the state are intended to increase taxpayers' positive attitudes and commitment to the tax system and tax-payment and thus compliant behaviour (e.g., Smith 1992, Smith and Stalans 1991). One of the most important social psychological reasons for expecting cooperation is reciprocation (see Gouldner 1960, Axelrod 1984, Cialdini 1984, Regan 1971). We distinguish between positive and negative reciprocity. Positive reciprocity is the impulse to be kind to those who have been kind to us.

On the other hand *an eye for an eye, a tooth for a tooth* is a principal example of negative reciprocity (Fehr and Gächter 1997). Positive behaviour of the state toward taxpayers will increase the likelihood of compliance. As Smith (1992) argues, cycles of antagonism between the tax administration and the taxpayer might be broken up by a positive concession of the administrator. Taxpayers are more inclined to comply to the law if the exchange between the paid tax and the performed government services are found to be equitable. Frey and Holler (1998) argue that an increase in deterrence disrupts such a balance based on reciprocity for honest taxpayers. This feeling gets stronger when taxpayers, who consider themselves to pay fair dues, are audited and fined. The balance will also be disrupted when they notice that other taxpayers who are violating the tax law do not get punished.

Tyler's research (1990a, 1990b, 1997) provides support for the importance of legitimacy and allegiance to authority in compliance decisions. The way people are treated by the authorities affects their evaluations of authorities and their willingness to co-operate (e.g., Lind and Tyler 1988, Tyler, Casper and Fisher 1989, Tyler and McGraw 1986). Tyler (1997) argues that understanding what people want in a legal procedure helps to explain public dissatisfaction with the law and points towards directions for building public support for the law in the future. He proposes to create a moral climate which associates various forms of property law with public morality. To do so, a better understanding of public morality is needed to comprehend what the public views as fair and unfair. This leads to the argument that taxpayers who they are treated fairly and respectfully by the tax authorities, tend to cooperate better. But the question remains how these effects occur. Is personal experience more significant than second-hand information?

Survey findings of Yankelovich, Skelly and White (1984) suggest that there may be a problem with Internal Revenue Service (IRS) status as a credible authority. Only a small majority of 58% of the public agrees that the IRS and its staff are "expert/knowledgeable", while a large minority of 37% does not. The same results are found for the perceived trustworthiness (59% versus 38%). There seems to be a problem of credibility. This problem appears to stem from the IRS's association with a tax system, the majority of the public considers as complicated and unfair. Complexity leads to public perception of errors and inconsistencies among IRS personnel in dealing with the public. It also may allow for various tax-loopholes that contribute to the view of a biased and unfair tax system.

Spicer and Lundtstedt (1978) as well as Smith (1992) hypothesize that taxpayers will feel cheated if they believe that their tax burden is not spent well. Smith (1992) analyses the 1987 Taxpayer Opinion Survey in order to study positive incentives which increase citizens' normative commitment to tax

compliance. He calls attention to aspects of reciprocity, legitimacy, and procedural fairness for tax compliance and finds that responsive services and procedural fairness are effective positive incentives to increase the commitment to tax compliance. Alm, Jackson and McKee (1992) use experiments to test this idea. What they find is a greater willingness to comply, when participants perceive that they will receive benefits from a public good funded by the taxes collected. Another examination of the role of taxpayers' satisfaction with the government was done by Webley et al. (1991). They found that those participants whose responses to a survey were taken several months after the experiment indicated alienation from the government or a negative attitude towards laws and were significantly more likely to have engaged in evasion during the experiments. To deal with this on a theoretical basis, Pommerehne, Hart and Frey (1994) used a dynamic, recursive analysis of the relationship between government public good provision, government waste, fairness considerations and taxpayer compliance. The message in their simulation is the need of adjusting the output of the political sector to people's needs. They conclude: "The less severe the principal agent problems due to appropriate choice of political framework, the better the outlook for survival of the system and the better the performance of the political system under conditions of sustainability" (p. 66). They further state that tax payments are higher and the performance might be better in a direct than in a representative democracy.

The importance of the institutional aspect for the extent of tax morale has been shown by Pommerehne and Weck-Hannemann (1996). They used Switzerland as a suitable test because the various cantons have different degrees of political participation possibilities, and due to strong fiscal decentralisation considerable variance in the potential determinants of tax evasion. They hypothesized that the more extended political participation possibilities in form of citizens' meetings (obligatory and optional referenda and initiatives), the higher tax morale and so tax compliance. Using a cross section/time series multiple regression they find that in cantons with a high degree of direct political control, tax morale is higher

Feld and Kirchgässner (2000) pointed out that these results could be seen as an evidence for higher satisfaction⁸ among citizens and therefore for greater efficiency for the provision of public services. The strong link between tax prices, public services and higher tax morale in direct democracy indicates that citizens in direct democracies feel more responsible for their community. Feld and Kirchgässner see this as an indirect evidence for the opinion that self-interested preferences can partially be reversed in the referendum discourse towards the common interest of the community. Generalising the empirical evidence, Frey (1997) notes that there are two kinds of tax systems which can be compared. The first is based on the premise that citizens are generally responsible persons. This presupposes that citizens are prepared to pay a fair share, in order to contribute to the provision of public goods and the redistribution of income by the state, if the process is considered efficient and fair. Tax laws, in such a system, allow citizens to declare their own income and to make generalised deductions. If the tax authorities doubt the declaration's correctness, they bear the burden of proof. A lack of taxable income is, first of all, attributed to an error on the taxpayer's side, rather than a result of tax cheating. The second tax system assumes that citizens want to cheat on taxes. As a consequence tax laws deduct the taxes directly from gross income. Citizens are then charged to claim back from the government.

It is up to the citizens to prove that there are incorrect deductions. Important reactions to such distrustful public laws are tax evasion or efforts to minimise the tax burden by illegal activities. In this case the interaction between individuals and government is characterised by high transaction costs and low productivity. These empirical results suggest that the standard economic approach to tax evasion should be extended by integrating institutions. Pommerehne and Weck-Hannemann (1996) perceive: "Only when the interaction between citizens and government is fully accounted for and the often-cited aspects of morale are endogenised, can the model provide a proper

base for tax compliance policies, possibly by revealing suitable incentive mechanisms” (p. 168).

In their study Feld and Frey (2002) analyse how tax authorities treat taxpayers. Using a data set of tax authorities’ behaviour (26 cantonal tax authorities), they find that tax authorities of cantons with more direct participation rights, compared to cantons with less direct democracy, treat taxpayers more respectfully and are less suspicious if taxpayers report too low incomes. On the other hand, not submitted tax declarations are more heavily fined. This empirical evidence indicates the importance of institutional differences (here political participation rights) for explaining the relationship between taxpayers and tax authorities which influences tax morale.

2.5.11 Challenges and Opportunities in Tanzania Tax Compliance

Blake and Kriticos (2019) assert that, Tanzania has undergone impressive political and economic developments and improvements in social welfare in recent years. However, the country continues to face considerable development challenges, not least in essential areas such as economic distribution, population growth, corruption and a stronger division between party and state. At the same time, new opportunities are arising which have the potential to become decisive for the necessary changes and reforms.

According to Blake and Kriticos (2019), Tanzania has been a macro-economic success story for nearly two decades. The rate of economic growth increased from 3.5 pct. in the 1990s to 7 pct. in the 2000s. Despite the global financial crisis, growth rates have been remarkably stable over the last decade, and they are expected to continue or even increase in the foreseeable future. At the same time, the country has experienced high population growth – from 11 million people in 1963 to around 45 million in 2012. Population growth remains high, at nearly 3 pct. annually. If this growth rate continues, there will be 53 million Tanzanians in 2018 and 100 million in 2042 (Blake & Kriticos, 2019).

Economic growth and decades of massive international aid have created many good results, but it is important to recall that the growth began from a very low starting point and that poverty in Tanzania has proven extremely stubborn. With an annual GDP per capita of USD 532 (2011) and a Human Development Index rank among the lowest 20%, Tanzania is one of the poorest 15 nations in the world. More than two-thirds of the population lives below the internationally recognized income poverty line of USD 1.25 per day and almost 90 pct. live on fewer than two dollars per day. Around one-third live below the "basic needs poverty line" corresponding to around USD 0.96 per day.¹ Measured by this limit, official poverty levels declined slightly from 39% of the population in 1992 to 34% in 2007, to 28% in 2012. Due to population growth, however, this relative decrease still means that the actual number of people living below the poverty line has remained relatively constant level of 11-12 million Tanzanians. Official surveys show a constant level of inequality from 2001 to 2007 (Gini 0.35). Other calculations, however, show a 20% increase in inequality in the same period.² The degree of inequality can be illustrated by the fact that the richest 20% of Tanzania's population accounts for 42% of total consumption, whereas the poorest 20% consume only 7% (Blake & Kriticos, 2019).

The modest reduction in poverty illustrates that economic growth has not been sufficiently broad-based. Growth is concentrated in telecommunications, financial services, retail trade, mining, tourism, construction and manufacturing. While growth was formerly driven largely by public spending and international aid, this is no longer the case. Growth today is generated mainly by the private sector, but the sectors with the highest rates of growth are predominantly capital-intensive and concentrated in large urban areas. Growth has largely failed to affect the great challenges, generating more employment and additional jobs in all parts of society and improving incomes for the vast majority of the population (Blake & Kriticos, 2019).

One major cause for the lack of poverty reduction despite economic growth is that Tanzania has not succeeded in raising productivity in agriculture over the

last decades. Tanzania remains predominantly agricultural, with three quarters of the population living in rural areas. Eighty percent of Tanzania's poor live in rural households. Growth in the agricultural sector remains low, at around 4% per year, and in the rural areas the growth in productivity can barely keep up with population growth. The birth rates in rural areas are high (6.1 births per woman compared to 3.7 in the urban areas) (Blake & Kriticos, 2019).

While donors and the government have used significant resources to improve the social sectors, similar necessary support has not been given to agriculture and other productive sectors. Lack of secure land tenure to ensure that the traditional users in the rural districts do not lose their land is one of the most essential issues, constraining investments that could enhance productivity. Processing of food and other agricultural produce and other forms of manufacturing is also very limited in the rural areas creating very few additional employment opportunities (Blake & Kriticos, 2019).

For the same reason, Tanzania is experiencing significant out-migration of young people from low productivity agriculture to urban informal service sectors, where productivity is just as low. Unemployment is high and growing rapidly, especially in the urban areas and among youth. The official unemployment rate is 12% and is highest in the cities, reaching 32% in Dar es Salaam in 2006 (Blake & Kriticos, 2019). In addition, one-third of those employed are so-called "working poor": technically employed, but whose income is less than the basic needs poverty line of USD 0.96 per day. They often work either in farming or in the urban informal service sector in low-productivity, part-time jobs. An estimated 700,000 new young job-seekers enter the labour market each year, but only a fraction of them have a realistic possibility of obtaining a stable job that can give them the possibility to provide for a family. The flow from countryside to city of rural-urban migration will continue in years ahead, and Dar es Salaam is already one of the fastest growing cities in Africa (Blake & Kriticos, 2019).

In sharp contrast to the largely stagnating extreme poverty, Tanzania has seen the emergence of a small, but growing urban middle class. It is a relatively small group, only around 10% of the population, but it has growing purchasing power, substantial political influence, and it has posed political and economic demands - for cheap electricity, imported goods, and better urban social services and infra-structure in the urban areas (Blake & Kriticos, 2019). The Government is working hard to meet these demands, through for instance, large subsidies for cheap electricity, comprehensive tax exemptions to foreign and national companies as well as government employees, and large non-taxed per diem allowances for civil servants. These government's attempts to satisfy the middle class run the risk of further increasing, rather than reducing, the inequality in society. This can threaten the continued peace and stability as well as social cohesion in Tanzania.

With the recent discoveries of significant gas reserves in addition to its already large mineral resources, Tanzania's long-term economic prospects appear promising, and these resources have already attracted foreign investors. However, the benefits to be derived from the exploitation of natural resources will not significantly materialize for another 10 years or so, and it is crucial to ensure macroeconomic management. In recent years, the Government has increased its use of both interest-bearing and low interest concessional borrowing. As a result of the increased borrowing, Tanzania's public debt has jumped from 28% to 40% of GDP in only four years (Blake & Kriticos, 2019). The debt continues to grow rapidly, with corresponding increase in debt servicing and repayment. The country's financial sustainability is not yet threatened, but debt management has become increasingly more important, and there is a strong need for significant strengthening of control of public investments. There is especially a need for greater openness in public contracts and procurement.

2.5.12 Motivation behind choosing the research topic

The chosen topic is motivated by the growing importance of tax compliance behavior, especially when governments dealing with harsh budgetary cuts face

the challenge of managing even less public funds collected through taxation. Starting from these realities, state authorities have to find ways of increasing tax compliance to ensure the provision of public goods and citizens' well-being. In order to achieve a desired level of compliance, authorities need to consider various factors which influence compliance and the way taxpayers comply to Tax payments. For instance Tanzania has been losing more than \$16.3 million in illegal tanzanite exports, as it emerged that only 25 out of 1,700 mining firms were paying tax, denying it much needed revenue. What could be done to motivate these taxpayers to pay tax? Even as talks between the government and Tanzanite Mining companies, the government (URT, 2018) observed tanzanite trading company has been cheating on the actual value of the precious gemstone for a long time. Why should tax payers underestimate tax? The case also is the same to the 90,000 tonnes of consignment of edible oil revealed that some importers of the consignment had lied to TRA (URT, 2018). With these questions lingering in the mind of the researcher, was motivated to investigate if social norms can help to facilitate tax payment and discourage underestimations.

2.6 Social Norms

According to Leslie, Larson & Gorman (1973) "...social norms are rules developed by a group that specify how people must, should, may, should not, and must not behave in various situations". These rules are based on interests, values and attitudes developed within the group. Therefore Social norms refer to individuals' perceptions of what most other people believe is appropriate (Wenzel, 2001). However Edlund & Åberg (2002) puts it that, social norms are generally accepted ways of thinking, feeling or behaving that people in a group agree on and endorse as right and proper.

The essence of a social norm is not basically what is legally defined; rather, it is informal or socially defined rules specifying what actions are regarded as proper and correct, or improper or incorrect. These rules are based on interests, values and attitudes developed within the group. Thus, a social norm

is composed of a socially defined rule of behavior based on common values. Fehr & Gächter (2000), define a social norm as a behaviour regularity that is based on a socially shared belief of how one ought to behave which triggers the enforcement of the prescribed behaviour by informal social sanctions. The concept of sanction goes hand in hand with the concept of social norm; sanctions are the group's punishments for violation of social norms. A social norm is composed of a socially defined rule of behavior based on common values, backed up by a system of sanctions.

As pointed out by Coleman (1990), social norms are usually taken for granted in social theory. Norms are system-level properties and, as such, supposed to bear some influence on individual behavior in the system. Following Coleman (1990), we assume that social norms do not exist unless a significant number of members of the system have an interest in upholding them.

According to McNeil (1983) there are ten dimensions of social norms which include; norms of reciprocity, contractual solidarity, role integrity, flexibility, long term orientation, implementation of planning, the linking norms, creation and restraint of power, harmonization with the social matrix and Propriety of means. However in this study, social norms is identified using five dimensions which include;- norms of reciprocity, contractual solidarity, role integrity, flexibility and long term orientation as the most critical dimensions in relation to social norms (Ivens, 2004).

2.6.1 Norms of Reciprocity

According to MacNeil (1983) a freely entered exchange will only occur when both parties expect a consequent improvement in their pre-exchange position and each party assumes it will get something back for something given. Thus exchanges are not seen as necessarily being of roughly equal value. Indeed, the discharge of obligations incurred as a result of services received in the past entails obligations not specified in advance and the exact nature of the return

is left to the discretion of the respondent (Blau, 1967). Reciprocity therefore is treating others as they treat you.

In relational arrangements, not all conditions of exchange are specified in formal contracts. In fact, they trust the other to conform to the relationship-specific norms. As a consequence, the actors readily accept that their respective imaginary rights-and obligations account is not always balanced. However, they expect that in the long run advantages they draw from the exchange with one another are distributed in a fair manner (Kaufmann & Stern, 1988; Kaufmann & Dant, 1992). This norm may be considered as a form of inter-temporal compensation (Dwyer et al., 1987; Pilling et al., 1994; Frazier et al., 1988). In the language of the relational exchange literature, this norm of distributive justice is referred to as reciprocity or mutuality.

Mutuality is reflected by an actor's attitude that the realization of one's own success depends on the partners' overall success (Dant & Schul, 1992). Such an attitude prevents the parties from maximizing their individual relationship benefits at the expense of the exchange partner. When a government taxes people it has to provide benefits in return, beginning with services, accountability and good governance but ending with liberty and representation. This reciprocal bargain – between taxation and representation – is what gives governments legitimacy in the modern world (Paler, 2003).

2.6.2 Contractual Solidarity

MacNeil's view is that "the fundamental root, the base, of contract is society" (MacNeil, 1980) because no society can operate without exchange. If a society is not to break down then the greater number of its contacts must be orderly (i.e. operate within a set of rules of behaviour which are accepted by the majority of that society) and individuals must hold a belief that most others are dependable (Blois & Ivens, 2005).

Solidarity is expressed through behaviors which contribute directly to relationship maintenance (Heide & John, 1992; MacNeil, 1980). The effect of

solidarity is farreaching. It assures "the preservation of the unique and continuing relationship in which transactions take place" (Kaufmann & Stern, 1988).

The extent to which an actor's behaviors express solidarity with the exchange partner thus functions as an indicator of the importance he attributes to this long term relationship. Along with economic motivations emotional factors such as pity or personal friendships may also lead economic actors to show solidarity in the form of making important concessions to the other party (Heide, 1994). Contractual solidarity can therefore also be described as the Preservation of the relationship (Kaufmann & Stern, 1988; Achrol, 1997).

2.6.3 Role Integrity

The partners in an exchange naturally retain a desire to achieve their own goals. Such an approach is more likely to be effective where the individuals involved believe that they are dealing with others who, from experience, can be expected to behave "properly or adequately in all circumstances" (Misztal, 1996). Gill & Stern (1969), describe a role as a "set of prescriptions defining what the behavior of a position member should be". The role expresses an actor's rights as well as his obligations for example paying taxes. Role integrity implies honoring such obligations by showing a consistent and constant behavioral pattern (Werner, 1997). Kaufmann (1987) goes ahead to say role integrity is the maintenance of complex multidimensional roles forming a network of relationships.

2.6.4 Flexibility

Relationships are contingent on environmental conditions. These constellations of external factors are not static. They are often characterized by a high degree of volatility. This may lead to situations in which initial agreements between the actors may no longer meet the current environmental conditions and thus become inadequate (Thompson, 1967). The probability that at least one party feels the need to adapt at least parts of the original agreement after a certain

lapse of time increases with the length of the time horizon underlying the initial agreement (Ganesan, 1994).

In order to face problems arising because of environmental volatility the economic actors concerned may adapt the existing agreement (for example on prices, timing issues, contents) to the changed conditions. An actor's readiness to adapt an existing implicit or explicit agreement to new environmental conditions is called flexibility (Noordewier et al., 1990). "It represents assurance that the relationship will be subject to good-faith modification if a particular practice proves detrimental in the light of changed circumstances" (Heide & John, 1992).

Along with the general readiness to react to unforeseen changes, flexibility may also be displayed through an actor's willingness to reduce the time span of agreements with the partner. However, such an attitude supposes a minimum degree of certainty about the other's intention to maintain the existing relationship, particularly on the part of the service provider which is TRA in this case. It represents a sequential, adaptive approach to decision making and an increasing level of interaction between the parties who need to renegotiate the content and processes of their relationship frequently (John & Weitz, 1988).

Any contract running into the future has to have the capacity to be changed or it may run into problems. Indeed, in the case of long-term relationships, it has been asserted that the formal conditions under which they can be made "renegotiation proof" are "so extreme as to have only a tenuous connection with agreements of the kind which are observed in practice" (Deakin & Wilkinson, 1998). Indeed Whitford points out that the law provides "an array of strategic weapons in case the relation breaks down" (Whitford, 1985).

By comparison, in the case of relational exchanges, flexibility tends to exist within the transaction or the negotiation of, and agreement upon, mutual obligations between potential partners. The relational exchange school posits

that contracts are agreements intentionally left incomplete in order to preserve the actors' flexibility to adapt to changes in environmental conditions (MacNeil, 1978).

2.6.5 Long-term Orientation

There is a close link between solidarity and long-term orientation. Both norms are directed towards relationship maintenance. Apparently, the partner attributes a high level of importance to his service provider's relational orientation. One explanation might be that long-term relationships may require specific investments that can hardly be reallocated to alternative uses. Terminating the relationship might imply excessive costs for the recognition of the system. Therefore, partners are willing to commit themselves, if they perceive their service provider to be interested in long-term cooperation.

Long-term orientation is an economic actor's desire and utility of having a long term relationship with a specific contract partner (Ganesan, 1994)

2.7 Taxpayers' Morale

Taxpayers' morale is defined as the intrinsic motivation to pay taxes. It is the individuals' willingness to pay taxes or, in other words the moral obligation to pay taxes or the belief in contributing to the society by paying taxes (Cummings et al., 2004). In a broader sense a number of studies have tried to investigate attitudes towards paying taxes which can be seen as a proxy for tax morale: the intrinsic motivation to comply and pay taxes and thus voluntarily contribute to the public good (Torgler & Schneider, 1999). However, most of the attempts failed to consider how tax morale may arise or which factors have an impact on it.

Tax morale is used as a residuum to capture unknown influences on tax evasion (Frey & Feld, 2002). Rather than just being extrinsically motivated by material incentives, intrinsic motivations largely determine tax compliance (Carroll, 1987). In this study, tax payer's morale is identified to include trust and satisfaction in the state and tax officials as well as with the current political

process. These might have a positive impact on tax morale. When the political system works well, and people are satisfied with the government, then their intrinsic motivation to pay taxes tends to increase or will increase (Alm et al 2006).

2.7.1 Trust

Anderson & Narus (1986) define trust as “the party’s belief that another party will perform actions that will result in positive outcomes for the party as well as not take unexpected actions that would result in negative outcomes for the party”. Trust is an attitude that influences behavior (Ivens, 2004).

Higher trust in the state might improve taxpayers' positive attitudes and commitment toward paying taxes, with a positive effect on overall tax compliance. Indeed, there is now some evidence that institutions that taxpayers perceive as fair and efficient might have a positive effect on tax morale (Alm & Torgler, 2006). Thus trust influences citizens’ incentives to commit themselves to obedience (Togler & Schneider 2006).

2.7.2 Satisfaction

Geyskens & Steenkamp (2000) interpret satisfaction in relationships as a two construct. They distinguish between economic and social satisfaction. The first dimension refers to “evaluation of the economic outcomes that flow from the relationship”, the other to “psychosocial aspects of (the) relationship”.

Much of this work also suggests that, aside from trust, satisfaction with the current political process might have a positive impact on tax morale. When the political system works well, and people are satisfied with the government, then their intrinsic motivation to pay taxes tends to increase or will increase (Alm et al., 2006).

2.8 Tax Compliance

Tax compliance typically means, true reporting of the tax base, correct computation of the liability (accuracy), timely filing of the return, and timely payment of the amounts due (timeliness) (Franzoni, 1999). Tax compliance in

respect to income tax is defined as the ratio of declared income to actual income (Chang-Gyun, Hyun & Yoo, 2000). Tax non-compliance or evasion, on the other hand, happens when taxpayers intentionally fail to comply with their tax obligations, resulting to loss of revenue, which may cause serious damage to the proper functioning of the public sector (Franzoni, 1999).

Tax non-compliance can be addressed from a variety of perspectives, including prevailing social norms and morals, complexity of tax laws and regulations, ethical and sociological motivations, audit rates and penalties. Most of the analysis of non-compliance has focused on how non compliance or evasion is deterred through detection and sanctions (Franzoni, 1999), which approach cannot satisfactorily explain non-compliance among taxpayers. Alm, Sanchez, & De Juan (1995), Elffers (1991), (2000): Frey (1997); Graetz & Wilde (1985); Torgler (2002), have come up and said that, tax compliance cannot be explained entirely by levels of enforcement.

Policymakers can encourage compliance by increasing the perceived benefit of tax payment and by increasing the ease of tax payment. That is, taxpayers are far more likely to voluntarily comply with property taxes if they see them as the legitimate price paid for decent local public services. Two-thirds of urban residents in Tanzania have said they would be happy to pay more property tax if it meant better services for them and their city. To keep its side of this bargain, the TRA needs to not only provide decent services but also needs to communicate to citizens that these services can only be provided if they pay their taxes.

Currently, many local urban governments in Tanzania struggle to electively communicate to citizens how their taxes are used. Forty-five percent of urban residents do not even realize property taxes go to the local rather than the union government. Ninety percent say they would like more information on how their taxes are spent. In many cases, collection practices only serve to add

to citizen's lack of understanding. However, the municipalities do not actually provide some of the associated services (e.g., waste collection) in return. Such discrepancies fundamentally undermine the link between property taxation and the local services needed to support high compliance. One clear way to demonstrate the link between taxes and better service delivery is to hold public consultations on how people want their taxes spent. The government can then electively communicate that taxes have been spent on public priorities, or if such communication fails, could even consider earmarking spending for particular public priorities. Dar es Salaam provides a useful case study of elective public participation and political communication to increase tax compliance.

2.8.1 Social Norms and Tax Compliance

Social norms refer to injunctive norms (Cialdini, Kallgren, & Reno, 1991) that is normative prescriptions regarding tax compliance or, conversely, the normative acceptability of noncompliance. Likewise, it has been argued that social norms, that is, the perceived practice or endorsement of evasion among reference others, impact on tax compliance (Wenzel, 2004). Social norms, if internalized, should reduce the perceived opportunity structure and, as mentioned, reduce the will to cheat on taxes. Social norms have usually been studied as the perceived prevalence or acceptance of tax evasion among a reference group (DeJuan, Lasheras, & Mayo, 1994; Porcano, 1988; Webley, Cole, & Eidjar, 2001); or as naturally varying between different cultural or sub cultural groups (Alm, Sanchez, & DeJuan, 1995).

In either case, the evidence is only of a correlation nature and we do not know whether social norms causally affect one's taxpaying behavior or whether social norms are constructed so as to explain and justify the behavior. None the less following the logic of the moral/social actor view, social norms should influence taxpaying behavior, when they are internalized through a process of identification with the relevant social group (Wenzel, 2004). That is, perceived

social norms will causally affect tax compliance when taxpayers identify with the group to which the norms are attributed. The causal effect will be mediated by the internalization of social norms through which they become part of the taxpayer's own individual make-up. However, from a sociological perspective, it is often assumed that human behavior is determined by social norms to a substantial extent. Sometimes this also includes tax behavior as well as other economic behavior (Etzioni, 1988).

In this literature, it is argued that tax evasion, or tax compliance, is determined by prevailing social tax norms to a substantial extent. For example, Alm, McClelland & Schultze (1999) turn to social norms of tax compliance in order to understand the puzzle that underreporting is not higher than it is, considering the low likelihood of detection and the weak penalties for tax cheating in most countries.

Smith & Kinsey (1987) develop a social-psychological model for tax paying behavior where normative expectations are given a central position. Lewis (1982) takes a similar position. Wentworth & Rickel (1985) conclude that norm commitment may be a crucial factor in the decision to comply with or evade legally mandated taxes. Alm, Jackson & McKee (1992) give experimental evidence for such a conclusion, and Frey & Weck-Hanneman (1984) draw the same conclusion based on tax surveys. They found that their measure of tax morality was significantly related to the size of the hidden economy, estimated with the technique of unobserved variables.

According to Edlund & Åberg (2002), Taxpayers have a sense of "reciprocity." Hence, they are less resistant to earmarked taxes where they perceive the benefit of a tied government service. Another example of is that people are more likely to comply with a tax when they perceive that other taxpayers comply (Cummings et al., 2004), the evidence that norms affect tax compliance. For example, people tend to contribute to public goods when they

perceive that others contribute, even though they would maximize their own return by not contributing.

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

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

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

2.8.2 Social Norms and Taxpayers’ Morale

If individual attitudes towards compliance are a function of social norms, then enhancing these norms may be a desirable policy option (Cummings et al. 2004). According to the World Values Survey, social norms reflected in higher levels of trust in the state, lead to higher tax morale. And still in Cummings et al. (2004), the more citizens trust the government, the higher the intrinsic motivation to pay taxes.

If individuals notice that many others evade taxes, their willingness to pay taxes may decrease, crowding out their intrinsic motivation to comply with

taxes; that is, taxpayers may believe that they can be opportunistic, and any moral costs of evading taxes decrease (Alm & MartinezVazquez, 2003; Frey & Torgler, 2004). Thus, we hypothesize that tax morale will decrease if people perceive that others are in general not compliant. Frey & Torgler (2004) and Torgler (2005) found evidence for such an effect.

2.8.3 Taxpayers' Morale and Tax Compliance

The intrinsic motivation for individuals to pay taxes (Frey, 1997), what is sometimes termed their "tax morale" – differs across countries; that is, if taxpayer values are influenced by social norms, with different societal institutions acting as constraints and varying between different countries, then tax morale may be an important determinant of taxpayer compliance and other forms of behavior. However, isolating the reasons for these differences in tax morale is notoriously difficult. In particular, taxpayers' morale is seen as an important and integral attitude that is related to tax non-compliance (Edlund & Åberg, 2002).

Taxes paid by individuals can be interpreted as the price paid for government's positive actions. Taxpayers generally are sensitive to the way the government uses tax revenues. Thus, individuals' tax compliance might be influenced by the benefits received from the government in the form of public goods and services relative to price they have to pay for them. Individuals might feel cheated if taxes are not spent adequately (Cummings et al., 2004)

Tax compliance is enhanced when individuals view the paying of taxes as a fair fiscal exchange. In such situations compliance is likely to increase, *ceteris paribus*. In particular when the services provided by the government are viewed as widely desired and the decisions as to which services to provide are transparent and fair, compliance is likely to be higher than when these conditions are not met (Edlund & Åberg, 2002).

Thus, in a study of public attitudes towards taxation in OECD countries, Peters (2000) concludes that willingness to pay certain types of taxes is closely linked to perceptions of fairness. Scholars widely agree that the public will not pay taxes unless some public goods and services, such as education, infrastructure, security and healthcare are provided in return.

A higher trust in government might tend to increase taxpayers' positive attitude and commitment to the tax system and tax payment, which has finally a positive effect on tax compliance (Smith 1992, Smith & Stalans 1991).

Indeed, in the eyes of most citizens, the connection between tax payments and government spending is murky at best. While this appears to have negative implications for the relationship between taxation, accountability and responsiveness, it suggests that what matters most to citizens are general perceptions of government trustworthiness. I return to the link between government trustworthiness, legitimacy and accountable, responsive governance in Section (Edlund & Åberg, 2002).

Taxpayers are also sensitive about the ways in which the government uses their taxes. Individuals' tax compliance might be influenced by the benefits received from the government in form of public goods compared to the taxes that they pay for them. Individuals might feel cheated if taxes are not spent efficiently. Taxpayers perceive their relationship with the state not only as a relationship of coercion but also as one of exchange. Taxpayers are more inclined to comply with the law if the exchange between the paid tax and the performed government services are found to be equitable. Thus, if taxpayers trust the government, the legal system, the justice system, and/or the public officials, they are more willing to be honest in the payment of their taxes and previous studies found support for such a relationship (Torgler, 2004, 2005, Alm & Torgler, 2006).

2.8.4 Social Norms, Taxpayers' Morale and Tax Compliance

According to Alm & Torgler (2005), taxpayers' morale differs across countries because taxpayer values are influenced by cultural or social norms, with different societal institutions acting as constraints and varying between different countries. The authors go ahead to note that taxpayers' morale may then be an important determinant of taxpayer compliance and other forms of behavior (Edlund & Åberg, 2002).

As expressed by Sandmo (2005), people refrain from tax not only from their estimates of the expected penalty, but for reasons that have to do with social and morale considerations. The existence of social norms suggests that citizens will comply as long as they believe that compliance is widespread and thus an accepted social norm. On the other hand if individuals notice that many others evade taxes, their willingness to pay taxes may decrease, crowding out their intrinsic motivation to comply with taxes (Frey & Torgler, 2004; Alm & Martinez- Vazquez, 2003). Thus, an individual taxpayer is strongly influenced by what he or she perceives to be the behavior of other taxpayers. If taxpayers believe tax evasion to be common, their tax morale decreases; if they believe others to be honest, their tax morale increases (Togler, 2004).

2.8.5 Tax compliance behavior models

The analysis of any type of compliance behavior cannot start without taking into consideration the theoretical model of homo economicus, the prototype of the rational economic agent proposed in 1759 by Adam Smith in his work *Theory of Moral Sentiments*. Tax compliance models tackled in the present dissertation are economic and behavioral. Economic models have as a starting point the classical model of income tax evasion developed by Allingham and Sandmo (1972), which assigns taxpayers the hypothesis of perfect rationality and states that, in order to increase tax compliance, the penalty should be applied to the amount of undeclared income.

The shortcomings of the classical model were solved with Yitzhaki's (1974) recommendation of applying the penalty to the evaded taxes. Nevertheless, Yitzhaki's intervention generated unexpected results (i.e., compliance level increases along with increasing tax rate), contradictory with empirical results or economic reality. Developed after extensive empirical studies and built on political and socio-psychological determinants of tax compliance behavior (i.e., attitudes, norms, beliefs, sentiments, social and cultural features), behavioral models come to complete the portrait of the taxpayer who, until their appearance, was perceived exclusively through the feature of perfect rationality. The most famous are "slippery slope framework", Australian Taxation Office Compliance model (ATO) and New Zealand Inland Revenue model.

a) The Slippery slope framework

This was developed by Kirchler, Hoelzl and Wahl (2008) analyzes tax compliance behavior through two dimensions, trust in authorities and power of authorities. Trust in authorities is defined as the "general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for the common good", and power of authorities is "taxpayers' perception of the potential of tax officers to detect illegal tax evasion ...and to punish evasion" (Kirchler, Hoelzl & Wahl, 2008: 212).

According to these dimensions, the quality of compliance differs: voluntary compliance is generated by increasing the level of trust in authorities; enforced compliance is generated by increasing authorities' power.

According to the model, the relationship between taxpayers and tax authorities can be antagonistic or synergistic. In the antagonistic climate, tax authorities perceive taxpayers as rational individuals maximizing their benefits and ready to evade taxes anytime there is an opportunity. Thus, tax authorities behave as "cops" and treat taxpayers as potential "robbers". Taxpayers feel in turn persecuted and reject the actions of tax authorities; moreover, many taxpayers evade taxes.

The antagonistic climate is characterized by lack of trust and it is managed through the "enforcement paradigm" (Alm & Torgler, 2011), in other words authorities try to eliminate tax evasion by using frequent auditing and harsh penalties. In the synergistic climate trust and mutual respect prevail, and tax authorities display a "service and client" type of attitude toward taxpayers. As feedback, taxpayers are less tempted to evade taxes and comply voluntarily with the tax law.

The necessity of a trust relationship between taxpayers and tax authorities, therefore creating a synergistic climate, has a practical side: implementing a system entirely based on enforcing taxpayers to pay liabilities is extremely expensive and cannot succeed unless "there is a tax agent under the bed of each taxpayer" (Torgler & Schaltegger, 2005). In addition, many studies have shown the limits of fiscal systems based solely on enforcement (Graetz & Wilde, 1995; Alm, McClelland & Schulze, 1992; Frey & Feld, 2002). The shortcomings of implementing such systems are discussed also by Slemrod (1992) who states; "From the tax collection standpoint, it is extraordinarily expensive to arrange an enforcement regime so that, from a strict cost-benefit calculus, noncompliance does not appear attractive to many citizens. It follows those methods that reinforce and encourage taxpayers' devotion to their responsibilities as citizens play an important role in the tax collection process".

b) New Zealand Inland Revenue Compliance Model

The New Zealand Inland Revenue has designed a model of compliance aimed at grasping the determinants of tax behavior in order to increase the long-term level of compliance. The compliance model from New Zealand tax authorities resembles the ATO (Australian Tax Office Model) and incorporates an important element called BISEP, which is the acronym for the following determinants:

- **B**usiness: type of business taxpayers are in; size and how their business structure; location and focus on the business.

- **Industry:** competition, seasonal factors, profit margins, degree of regulation; infrastructure.
- **Sociological:** norms of the group they belong to; age, gender ethnicity.
- **Economic:** inflation, interest rates, tax rates; governmental policies.
- **Psychological:** opinions concerning equity, fairness, trust, risk attitudes.

BISEP is designed to assess the reasons that go behind taxpayers' attitudes and behavior. The variety of factors creates different types of attitudes, according to the different situations taxpayers face (Morris & Lonsdale, 2004). Morris and Lonsdale further argue that BISEP gives insights into why people decide or not to comply, why non-compliant individuals don't necessarily belong at the top of the pyramid and why individuals don't always adopt the same attitude.

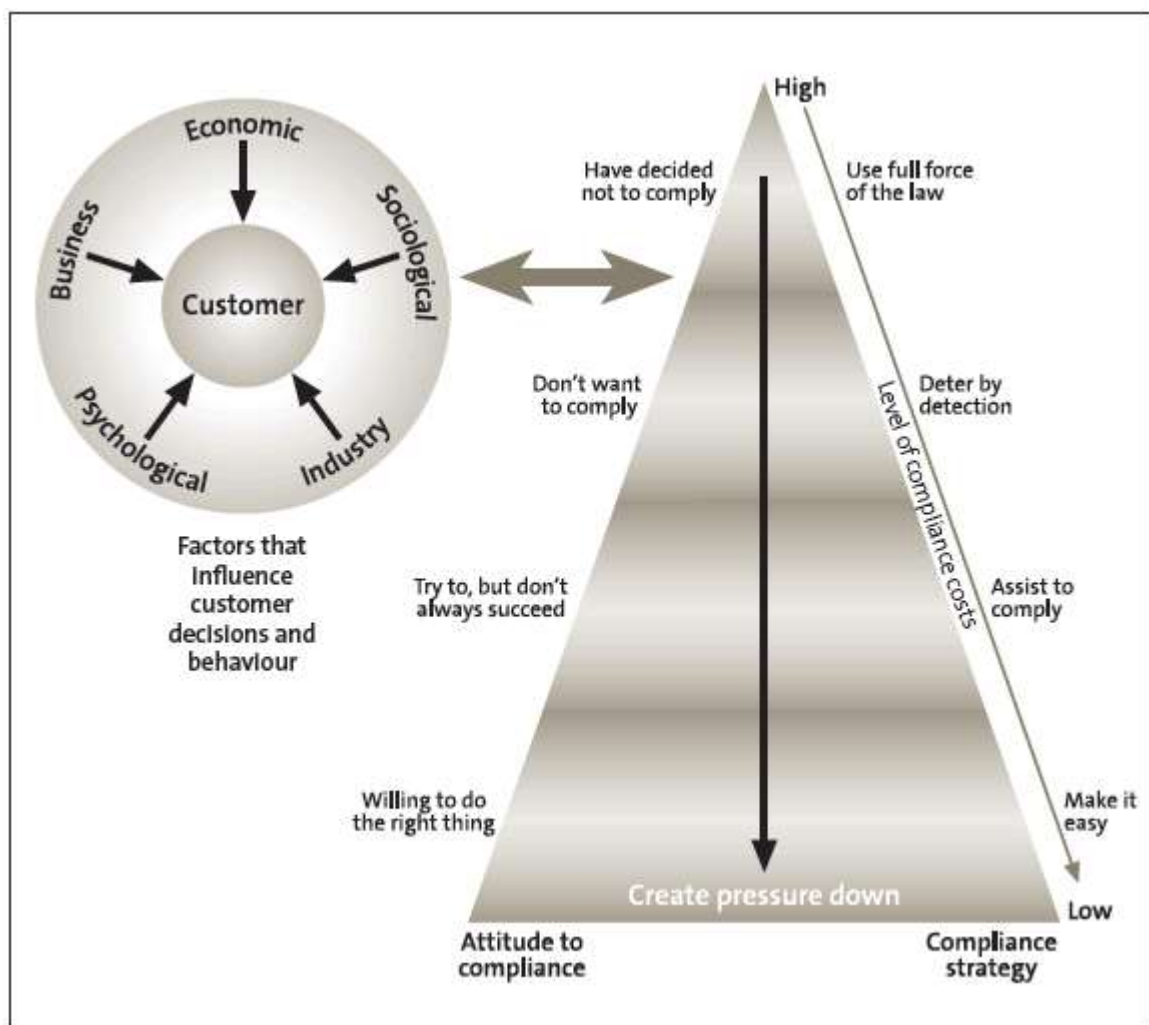


Figure 2.1: New Zealand Inland Revenue Compliance Model

Source: Adopted from Morris & Lonsdale, (2004)

c) Australian Taxation Office Compliance Model (ATO)

Empirical studies on tax behavior accomplish the ultimate goal when their results are applied in the real world tax system. This is what happened in some countries which, after studying thoroughly the determinants of taxpayers' behavior, have managed to create models in order to serve as tools in raising tax compliance on the long run. One of the most famous models, the Australian Taxation Office Compliance Model (ATO), was created in the late 1990s and was based on Valerie Braithwaite's concept of "motivational postures".

ATO model proves the existence of a synergy between scientific research and fiscal practice. Braithwaite's achievement is that her theorization crosses academia borders, ending up in the real economy. The structure of the ATO model came as a consequence of a series of reforms that tried to engender a more voluntary taxpaying culture among the citizens. The reforms departed from the idea that tax enforcement strategies, i.e., the full use of the law, audits, fines, prosecution, etc., are by far insufficient means of increasing public proceedings.

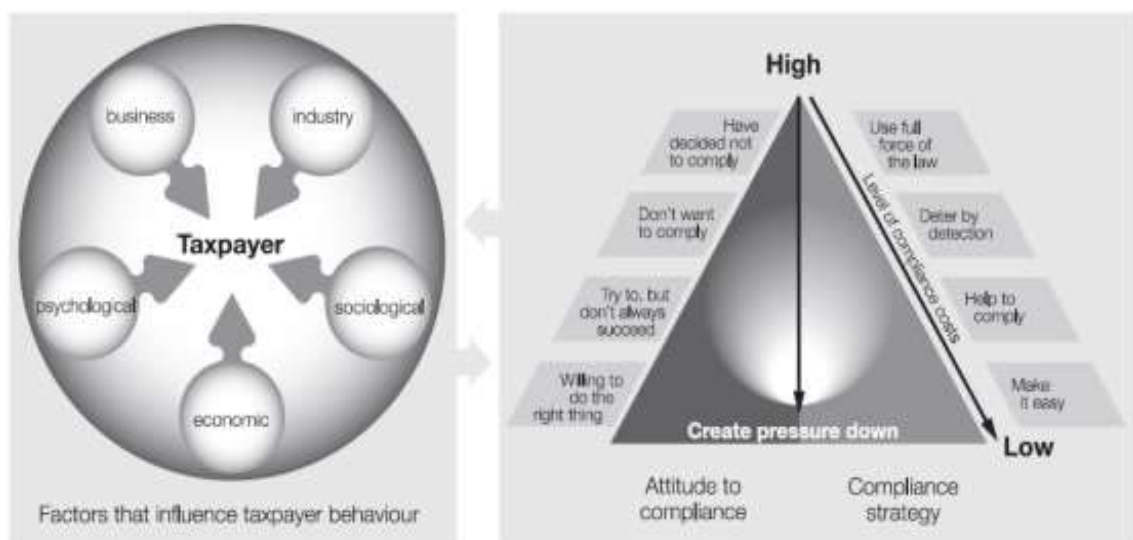


Figure 2.2: Australian Taxation Office Compliance Model (ATO)

Source: Adopted from Kirchler, (2007)

2.9 Related Empirical Literature

Machogu and Amayi (2013), in a study sought to establish the effect of taxpayer education on voluntary tax compliance, among Small and Micro-Enterprises (SMEs) in Mwanza City- Tanzania. Specifically, the study establishes the level of taxpayer education among SMEs, the level of voluntary tax compliance among the SMEs and the effect of taxpayer education on the level of voluntary tax compliance, among entrepreneurs in Mwanza City. A cross-sectional descriptive research design was used. Both primary and secondary data were collected using a questionnaire. 85% of the respondents, admitted to have gained understanding on the basic tax laws and procedures, while 15% showed that there was no improvement in understanding the basic tax laws.

78.7% of the respondents agreed that through the taxpayer education, they had been able to understand and become aware of their taxpayer rights and obligations. 21.3% of the respondents stated that taxpayer education had not been able to help them in understanding and becoming aware of their tax rights and obligations. 83% of the respondents agreed that taxpayer education helped them in understanding clearly the procedure of paying taxes, while 17% claimed that despite the tax education they received, they did not understand clearly the procedure of paying taxes. Responses from the staff indicated that 80% of the returns were lodged timely, while the remaining 20% were not lodged within statutory periods and would attract penalties and fines for late filling. Of the returns lodged 67% declared accurate tax liability, while the remainder contained errors. Additional taxes were assessed through auditing. 78% of those who were required to pay taxes, actually paid within the stipulated time frame according to the law, while the remaining 22% were late in paying taxes, which necessitated the use of enforcement strategies. It is thus recommended that taxation should be taught at all levels of education, starting from primary schools upwards with an emphasis on promoting voluntary tax compliance.

However, the study did not indicate what type of approach was used and focused mainly on tax education without consideration for social norms.

Manaye (2018) investigated the determinants of Taxpayers' Voluntary Compliance with Taxation: The Case of Wolaita Sodo and Tercha Town in Dawuro Zone. The primary objective of this study was to identify the major determinants which affects the voluntary compliance behavior of tax payer's in wolaita sodo town and Tercha Town in Dawuro zone. The study used an explanatory method of research design. Given the scaled ranking information of the dependent variable (tax compliance), a multiple linear regression model was applied to examine determinants of tax compliance in Wolaita Sodo and Tercha Town, Ethiopia. The study results from the survey conducted in study area using 290 respondents, indicate that tax compliance was influenced by the probability of being audited, financial constraints, and changes in government policy among thirteen potential determinants of tax non-compliance were examined in this study.

The tax payers should always be treated equally, involve taxpayers (which are conclusive stakeholders in this tax system) on each of the tax issue and should work jointly, the tax authority needs to be strong enough as well as should be perceived as powerful by the taxpayers and voluntary compliance is enhanced when the tax authority administers the law fairly and the authority needs to strengthen itself by educating and training its employees both at home and abroad were few of the recommendations and implications forwarded to the tax authority in the study area in particular and the country in general based the findings and discussions. Similarly, the study did not looked at how social norms impact tax compliance which is the focus of this study.

Chenya (2012) conducted a research concerning Evaluation of Electronic Fiscal Device on Value Added Tax (VAT) In Revenue Collection in Tanzania. He found out some of the problems that face the tax payers on the use of EFD on VAT in revenue collection such as lack of enough knowledge on the effective use of EFD in revenue collection, unwillingness of the tax stakeholders to pay their taxes as they complained that they don't see any output of the tax paid to the

Government, Lack of enough tax payer sensitization seminars and workshop on various tax laws as well as clear education concerning the use of EFD in revenue collection hence majority of the payers avoid paying tax on the right time at the right place. Since EFD is a new system of revenue collection, the suppliers of the machine are very few hence become a big problem for every tax payer to have a machine at the right time. This study evaluated the use EFD's in revenue collections however did not feature in integrating social norms in the collection of taxes.

Banda (2012) carried out an "Assessment of the compliance strategies used by Tanzania revenue authority". This paper explores the taxpayer compliance strategies used by TRA and the challenges and constraints in implementing the said strategies. Tanzania has made considerable investment in legislative tax reforms, taxpayer education programs, tax enforcement strategies, and increasingly sophisticated systems of tax administration using new technologies. However despite all these initiatives, Tanzania still experience high levels of non compliance, as evidenced by the tax gap. Currently total revenue collected stands at 15% of GDP.

This is low by both regional and international standards. Inductive approach was used in explaining the relationship between compliance strategies and compliance behaviour. Embedded case study of TRA's compliance function was undertaken. Primary and secondary data were collected through interview schedule and content analysis instruments respectively. Judgemental sampling was used to select the sample for the study. The results showed that TRA is employing both enforcement and voluntary compliance strategies; however voluntary compliance strategies were contextualised to TRA only, impairing the effectiveness of these strategies. The recommendation made is that taxpayers rights must be adequately entrenched in tax laws, so that taxpayers get the benefit of enforcing them should the need arise. Undoubtedly there are lessons to be learnt from studying best practice in developed economies.

Mahenge (2018) carried out an "Assessment on factors influencing tax compliance in Tanzania, A case of Tanzania Revenue Authority located in Mbeya Region" The study was carried out to assess factors influencing tax compliance in Tanzania, a case of Tanzania revenue authority located in at Mbeya Region. The researcher used a descriptive survey design, where Mbeya Region was chosen because is familiar place by the researcher hence easy of getting required information. The researcher collected two types of data, the primary data and the secondary data. Primary data were collected through questionnaire, while secondary data were collected through documentary review. All data were analyzed and presented in tables and figures with the help of descriptive analysis under SPSS version 23. Study findings unveiled that tax compliance is highly encouraged by the availability of tax information provided by tax authorities and in order to improve compliance, education for taxpayers should be increased. Researcher recommends the followings for future researches: (i) the effect of tax education on revenue collections in local governments in Tanzania. (ii) The effect of the abolition of Graduated tax on revenue collection in local governments in Tanzania. (iii) To what extent has TRA Mbeya been able to address voluntary tax compliance? The study is purely quantitative study with small sample and was conducted in a remote area.

Mahangila (2017) investigated "The impact of tax compliance costs on tax compliance behavior". The study was based on a study that determined whether or not an increase in income tax compliance costs leads to a decrease in income tax compliance. The tax context experiment involved 75 small and medium entrepreneurs based in Dar es Salaam, Tanzania's business hub. The participants were first randomly assigned to one of the three experiment treatments. In the first treatment, the tax compliance cost was TAZ 50,000; in the second, it was TAZ 100,000; and in the third, it was TAZ 166,667. Each participant in each treatment received income of TAZ 1,000,000. TAZ is a laboratory currency which, at the end of the experiment, was exchanged at the rate of TAZ 120 for 1 actual Tanzania shilling (Tsh). Generally, the results indicated that tax non-compliance significantly increased as tax compliance costs increased. Although the study used small samples of SME taxpayers, therefore the results may not be generalisable, the results imply that tax compliance costs may be responsible for the unsatisfactory tax compliance

levels of SME taxpayers. Therefore, there is a need for tax system simplification.

Another study by Kipilimba (2018) was conducted on the "Impact of Tax Administration Towards Government Revenue in Tanzania- Case of Dar-es Salaam Region". Purpose of the study was to assess the impacts of tax administration on government revenue in Tanzania- case of Dar es Salaam region. This study is more scientific and effective, whereby questionnaires have been used to access the required information. Researcher has been able to collect information from 85 respondents out of 100 targeted respondents from the area of the study. Findings of this study have been analyzed and reveal that, Good tax design, Effective tax policy and laws, Tax administrative structure, Tax collection methods, Proper use of computerized system of maintaining taxpayer Register, Outsourcing revenue collections to private tax collectors, Internal and external capacity building, Intensive coordination with other entities and Proper maintenance of taxpayer's records are the main factors that enhance effective tax administration in Tanzania.

It is concluded that Corruption practices on taxation issues, lack of awareness of Local Tax payers, political pressure to relax tax collections, ineffective tax laws and policies, Insufficient budget or funds, High rate of Tax evasion and avoidance, Outsourced revenue retained by Revenue collectors, lack of tax compliance, are the challenges facing tax administration in Tanzania. Also concluded that eradication of the mentioned challenges above effects/results to, Adequate tax collections, Efficient tax system, High tax compliance by tax payers, Attainment of revenue targets, Increase in tax bases and declined cost of revenue collection, Minimum Tax evasion and avoidance, and High service delivery capability are the impacts that result from Tax administration.

Researcher has recommended for the following to be done on the way forward:- Emphasis has to be put on the tax laws and policies mechanism to be reviewed time to time in order to save the purpose due to the prevailing situation, international tax environments, and the changes on the technology on tax administration. Efforts should be put on improving the tax payer's

convenience in the assessment and payment process whilst at the same time entrenching effective and modern human resource management practices in the tax authorities in respect to vetting, recruitment and selection of employees. Tax collection Authorities should ensure that all revenue receivables are paid promptly into designated bank accounts and failure to do so within the stipulated period of time should attract to the severe penalties to the officers concerned.

Another study by John whit (2012) in Canada which used logit regression and the findings shows in Canada individuals who are more satisfied with the government's provision of basic health services and addressing educational needs are more likely to respond "wrong not to pay taxes", and are also less likely to respond "wrong but understandable" and "not wrong at all". This research is different from our research because it was done in developed world where people have advanced knowledge and governments have done a lot to uplift the livelihoods of the people unlike in Tanzania which is a developing country where government may not have done much as compared to Canada.

Mlagiri (2012) conducted a study on challenges of using electronic fiscal devices. According to him the Electronic Fiscal Device (EFD) has been introduced to VAT registered traders under the "The Value Added Tax (Electronic Fiscal Device) Regulation, 2010" Subsidiary Legislation, Government Notice No. 192 published on May 28, 2010, and enshrined in the Finance Act 2010 with the main aim of enhancing VAT compliance in Tanzania. TRA's new EFD system became effective on July 1, 2010 (Finance Act, 2010). The system aims at allowing the taxman to get correct sales information from business people; reduce tax collection costs and helping businesspeople to comply with the Value Added Tax (VAT) regulations among others. In his study he assessed the challenges of EFD adoption among VAT registered traders in Tanzania, exploring Dar es Salaam and Mwanza regions.

Yesegat (2008) examined VAT administration in Ethiopia and identified key problems including lack of sufficient number of skilled personnel and gaps in the administration in such areas as refunding, invoicing and filing requirements. The study also emphasized the need to strengthen the administration capacity in general and the tax audit program in particular.

Lumumba (2010) conducted the study concerning the Effectiveness of Electronic Tax Registers in processing of VAT Returns the perspectives from registered VAT taxpayers in Kisii town, Kenya and established challenges that need to be addressed within the Kenya Revenue Authority including expensiveness of ETR, hence Government needs to allow cost to be paid in installments, ETR should be compatible with computers in business premises, being free since they benefit the Government in revenue collection and not the businesses; KRA should introduce ETR that can handle field sales (Lumumba, 2010).

Mmanda, (2010) in his study, "Introduction of Electronic Fiscal Device (EFD) machines" is good in that once you enter information TRA gets information after 24 hours and if one tampers with the information, the machine reports everything. In addition, the machines keep the information for not less than five years. After all, it is the government that pays for the machines. However, the VAT registered businesses have to buy them first but when they install them, the costs are deducted from the VAT the businesses are supposed to pay to TRA. It is only when the amount is paid that the businesses start paying VAT.

Nyasha, et al (2012) in their study dealt with attitudes of employees towards the use of fiscalized electronic devices in calculating Value Added Tax (VAT). A case study of motor industry in Zimbabwe, the research sought to find the attitude of motor industry employees in Zimbabwe towards the use of fiscalised electronic device. The findings of the study revealed that fiscalised electronic devices had positively impacted on the motor industry through improvements

in tax collection, saves time in tax collection, reduces direct contact between tax collectors and hence minimizes corruption.

Naibei, et al (2011) in their research work "Impact of Electronic Tax Registers on VAT Compliance" had the purpose of assessing the impact of use of Electronic Tax Registers (ETRs) on Value Added Tax (VAT) compliance among private business firms in Kisumu city, Kenya. A sample of 233 private firms was selected from a population of 590 private firms using stratified sampling technique. The data was gathered by use of questionnaires and analyzed by use of correlation and descriptive statistics. Empirical results reveal that effective and regular use of ETR has a significant impact on the Value Added Tax (VAT) compliance. Based on the research findings the study concludes that use of ETR has a significant impact on VAT compliance in Kenya.

Weru ,et al(2013) in their study of Impact of strategic change: Introduction of electronic tax register for enhancement of tax collection at Kenya Revenue Authority addressed that, the effect of the change caused by implementation of the ETR project and if the ETR system enhanced the tax collection in Nairobi. The research study used quantitative and qualitative approaches. Quantitative approach applied in statistical data which was verified on the ground and computed in numbers and percentages. While qualitative research method was used to give opinions and more details about the respondents, the target population was 500 VAT holders on Luthuli Avenue in Nairobi who were using the ETR machines and Ninety eight (98) KRA managers in the Department of Domestic Taxes. In addition, the study applied probability sampling that involved simple random sampling technique to identify the sample size of the study. The major findings indicated that ETR system had enhanced tax collection in business premises in Nairobi and that the system had to a great extent assisted in sealing loopholes of tax evasion in Nairobi

Again, another study which also used logit regression by Mwangi (2010) in Kenya found out that those respondents who are more satisfied with

government handling of infrastructure such as roads and electricity are more likely to file their tax returns through the Electronic Fiscal Devices. However this study was done in Kenya where electronic filling of tax was introduced in 2004, much earlier than here in Zanzibar which started in 2010. Here in Zanzibar citizens may not be aware of how the system works hence limiting compliance.

In South Africa a study by Cyril (2011) on factors affecting Tax compliance found out that an increase in the perception of individuals about the difficulty of evading taxes makes citizens file their tax returns. However this study was done in South Africa where the law governing tax is very comprehensive and tight as compared to Tanzania.

Nyasha, et al (2012).in their study delt with attitudes of employees towards paying of their taxes using fiscal electronic devices by using a case study of motor industry in Zimbabwe, the research sought to find the attitude of motor industry employees in Zimbabwe towards the use of fiscal electronic device to file their tax returns. The findings of the study revealed that fiscal electronic devices had positively impacted on the motor industry through improvements in tax collection, saves time in tax collection, reduces direct contact between tax collectors and hence minimizes corruption. However this study based on fiscal electronic devices and in the motor industry where else our study will covers simply compliance of paying tax through any means even if it's manual filling of tax and in all areas of the economy.

2.10 Research Gap

Studies related to tax compliance have been done such as Chenya (2012) conducted a research concerning Evaluation of Electronic Fiscal Device on Value Added Tax (VAT) In Revenue Collection in Tanzania. Mlagiri (2012) conducted a study on challenges of using electronic fiscal devices. Yesegat (2008) examined VAT administration in Ethiopia, Lumumba (2010) conducted the study concerning the Effectiveness of Electronic Tax Registers in processing

of VAT Returns the perspectives from registered VAT taxpayers in Kisii town, Kenya, Nyasha, et al (2012) in their study dealt with attitudes of employees towards the use of fiscalized electronic devices in calculating Value Added Tax (VAT), Weru, et al(2013) in their study of Impact of strategic change: Introduction of electronic tax register for enhancement of tax collection at Kenya Revenue Authority, In South Africa a study by Cyril (2011) on factors affecting Tax compliance. It is with provide knowledge that this found scant literature on relationship of social norms and tax compliance and thus it investigated how social norms can be incorporated in to tax administration and practices to enhance tax compliance by tax payer in Tanzania.

2.11 Conclusions

Although a significant body of research has already been accumulated concerning tax compliance and tax morale, there are several topics that can merit further development. The main purpose of this chapter was to present the work that has been done in analysing tax compliance and tax morale in a systematic and comprehensive way. Tax compliance is not just a function of opportunity, tax rates, probability of detection and so on but of each individual's willingness to comply shaped by tax morale. This means that if tax morale is favourable tax compliance will be relatively high. This survey has shown that for future analysis of tax morale it can be fruitful to work with a model systematically integrating ideas borrowed from other social sciences. An extension of the economic model of man opens a new working instrument, without losing the main advantages of economic theory, its simpleness and robustness. Frey (1997) proposes the *Homo Oeconomicus Maturus*, endowed with a more refined motivation structure.

If we analyse tax morale and tax compliance we have problems to find data in adequate quality. Experimental techniques could probably provide a good instrument to get new insights. It has been shown that some points remain quite unexplained: i) how do social norms arise in the first place and ii) how can these norms be changed by deliberate government policies? One possibility

is to pay more attention to the institutional framework of tax morale. Experimental studies help also isolate the impact of fairness motives. As Fehr and Schmidt (2000) state: "In experiments real subjects make decisions with real monetary consequences in carefully controlled laboratory settings" (p. 4).

Positive reciprocity signifies that positive behaviour by the state towards taxpayers can increase the likelihood of compliance. On the other hand, tax evasion or tax avoidance can be a reaction of negative reciprocity. Accordingly, the influence of the institutional environment on the dominance of positive and negative reciprocity is an important question. As Fehr and Gächter (1997) state: "The influence of one type on the behaviour of the other is no "one-way street". Ultimately, the institutional environment is decisive, too" (p. 4).

Empirical evidence in the tax compliance analysis shows the need of adjusting the output of the political sector to the needs of the population to support tax morale. Rawls (1972) says that we have a "fundamental natural duty ... to comply with just institutions" (p. 115). It is clear that governments all over the world wish to increase tax morale and tax compliance. Government policy should take the significance of tax morale into account. The considered areas demonstrate that, despite the many improvements and fascinating insights, much future research can be done for better understanding of tax morale.

2.12 Reflections

Many scholars have vehemently argued by looking at different angles, facts and areas regarding policies, laws, procedures, rates and magnitudes but without seriously touching on the relationship that subsists between the tax payer and the administrator. For instance in commenting on the nature of the U.S. tax environment, Jones (1992), The Supreme Court Justice Porter Stewart said that; *"Virtually all persons or objects may have tax problems. Every day the economy generates thousands of sales, loans, gifts, purchases, leases, wills and the like, which suggest the possibility of tax problems for somebody. Our economy is "tax relevant" in almost every detail."*

Tax relevancies have many social implications which cannot be corrected by mere rules and procedures. In the quote above the Honorable Judge highlighted that there were problems in tax systems that needed careful consideration. The tax system and the enforcers' approaches should portray a just and fair behavior. Compliance flourishes where good governance and legitimate elements are explicitly manifested with appropriate motivating environment. It is therefore argued in this study that people will comply more on tax requirements when they feel that treatment is fairly executed and respect is just and clearly observed by all. However TRA is enduring in enhancing compliance through taxpayers' segmentation i.e. grouping them into large, medium and small taxpayers (TRA 2013/14 Corporate Plan) by perpetuating a comprehensive taxpayers' strategy that takes into account the compliance capacity of taxpayers segments. The strategy is also supported by comprehensive taxpayers' service and education program. This compels the need for the application of social norms.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the methodology used. It shows the Research philosophy, Research design, Study areas, Sampling and Sampling technique, Data collection techniques and the methods used in data analysis.

3.2 Research Philosophy

Research philosophy can be defined as the development of the research background, research knowledge and its nature (Saunders and Thornhill, 2007). Research philosophy is also defined with the help of research paradigm. In the words of Cohen, Manion and Morrison, (2000) research paradigm can be defined as the broad framework, which comprises perception, beliefs and understanding of several theories and practices that are used to conduct a research. It can also be characterized as a precise procedure, which involves various steps through which a researcher creates a relationship between the research objectives and questions. This study used Pragmatism philosophy which adopted Positivism philosophical approach where qualitative and quantitative methods were used to achieve the set study objectives.

3.2 Research Design

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose (Orodho 2003). An explanatory research design was adopted which incorporated descriptive and analytical research designs, in order to ascertain the relationship between social norms and tax compliance among tax payers in Tanzania. Explanatory research was used because it seeks explanations of observed phenomena, problems, or behaviors in this case, tax compliance by tax payers. Explanatory research seeks answers to why and how types of questions.

It attempts to “connect the dots” in research, by identifying causal factors and outcomes of the target phenomenon (Wario and Khalfan, 2015). Descriptive research design, was incorporated mainly because descriptive examines the what, where, and when of a phenomenon, give description of the state of affairs as it exists and also results in the formulation of important principles of knowledge and solutions to the problem investigated (Kombo and Tromp 2011). The researcher wished to explore the role integrating social norms in tax collection practices in Tanzania.

3.3 Research Approach

This study used Mixed Method Research (Triangulation) involving qualitative and quantitative methods because of the need to explore both quantitative and qualitative data. Both quantitative and qualitative data was triangulated concurrently to provide more detail insight into the problem of forensic accounting application in financial crime detection and prevention. The justification for the adoption and use of mixed method lies in its perceived benefits and ability to help in determining the attitudes, behaviours, perspectives of the research subjects, and in understanding the environment of the study.

Punch (2005) contends that there are five major benefits of employing a mixed methods approach. These includes:-

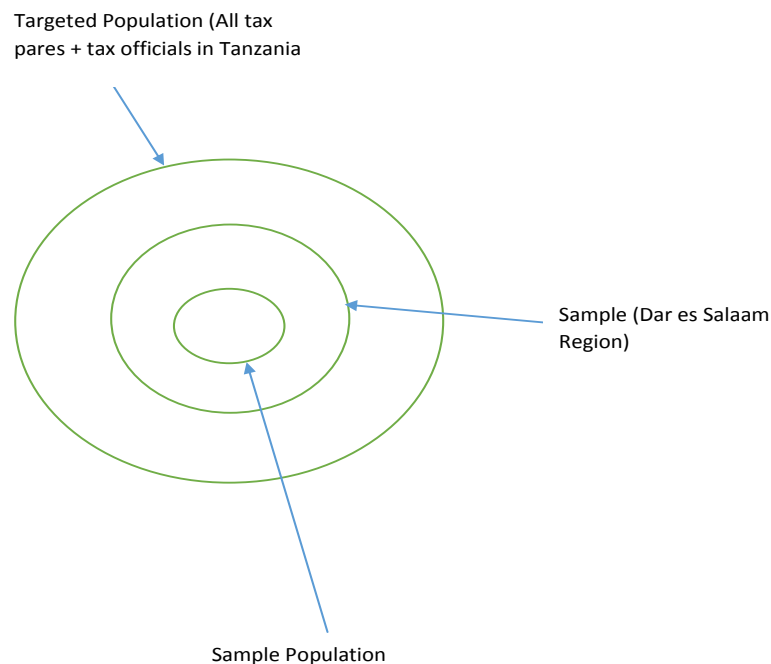
- i. Triangulation: – Using different sets of data and methodology in order to test hypotheses and consistency to findings.
- ii. Complementarity: – Confirming the validity of the result from one study by employing a different research method.
- iii. Development: – Applying the results from one method in the design of further research.
- iv. Initiation: – Challenging research results from one method.
- v. Expansion: – Developing methods in order to explore them further and garner additional detail.

Furthermore, a mixture of qualitative and quantitative methods provides the most reliable insights and research findings. Therefore, in the Mixed Methods, qualitative approach was used because of its suitability for social studies in collecting feelings of people and in this study it was important as the study was also interested on getting the feeling of taxpayers towards payment of tax. While, quantitative method was used to get percentages of variables, amount and relationship of the independent and dependent variables as advocated by (Kombo and Tromp 2011).

3.4 Population of the Study

Population is defined by Amin, (2011) as the complete collection (or universe) of all the elements (units) that are of interest in a particular investigation. The scholar further argues that it does not necessarily have a demographic meaning that consist people. It may be a complete collection of all the objects or people such as cars, animals, schools, households, plants, books, farms, companies etc, in a particular investigation. The researcher chose Dar es Salaam tax region as study area to represent the Tanzania. The researchers' choice of Dar es Salaam region was further narrowed by choosing a sample that Amin (op cit) defines as a collection of some (a subset) elements of a population. The aim was to have a generality of results of the data from the complete to the entire population from which the sample was drawn. For such generalization the characteristics of the population have to be represented in the sample. If the sample data does not represent the population, then the validity of such generalization of the results from the sample can be questionable.

A diagrammatical representation, depicting the relationship existing among the sample, the sampled population and the targeted population



Source: Adapted from Amin (2011)

Figure 3.1 Relationship of sample size and population

The basis for the choice of units for the population aimed at getting a typical representative of the whole. The first choice was the TRA officials and then tax payers in Dar es Salaam. The TRA officials included all employees in all TRA employees in Dar es salaam region (TRA officials included those in Kinondoni, Temeke, Ilala, Custom houses, Head Office (HQ), Kinondoni Zonal Offices, Temeke Zonal Offices and Ilala Zonal Offices). Also, included in the population was Large Taxpayers, small and medium tax payers. However, the taxpayers since their number was not static kept on increasing and again it was very large the study opted to select them randomly. The target population of the study was 1034 individuals.

Table 3.1 Distribution of Study Population

Category of respondents	No. of population
Large Taxpayers Department	430
Small and medium Tax Payers	584
TRA officials	20
TOTAL	1034

Source: Researcher (2016)

3.5. Sample Size and Sampling Technique Procedures

3.5.1 Sample Size

Sampling is the easiest way to determine something about the population. The study found it necessary to use sample because; It is not easy to check all items in the population when the population is big, The cost of studying all items in a big population is often prohibitive and also, that to contact the whole population could often be time consuming (Kothari 2004). The sample was taken from a total population of 1034.

Therefore the sample size was selected from the population using the formula developed by Robert, William and Douglas (1992);

$$n = \frac{N}{1+N(e)^2}$$

Where;

n = Sample Size

N = Population

e = Level of Significance which is either 0.05 or 5%

With a population of 1034 people using the sample was calculate as shown;

$$n = \frac{N}{1+N(e)^2}$$

$$n = \frac{1034}{1+1034(0.05^2)}$$

$$= \frac{1034}{1+1034(0.05^2)}$$

$$= 288.42 \approx 288$$

Therefore, from this calculation the sample was 288 respondents. However, the 288 respondents were given questionnaires; also to enhance data triangulation two respondents randomly selected from each category were interviewed.

In the sample size, each category of participants was represented by certain number of members derived using the Gay (2005) avowal, which observes that the number of members of group or category of 30% of the target population of the group is regarded as representative for small population of the group ($N < 1000$). Therefore the sample size of 288 was said to be constituted with representative members from each category. The size of each category was determined as shown;

$30\% \text{ } N \text{ (population of a category)} \leq 1000$ (According to Gay, 2005 is Acceptable and Representative)

For this study, all the numbers of the categories which were included in the sample size were selected such that they translated to more than 30% of N (target population of each category) as shown in Table 3.2.

Table 3.2: Sample size

Category: A Served with Questionnaire (Tax Payers)	No. of respondents
Large Taxpayers Department	98
Small and medium Tax Payers	170
Total	268
Category B: Interviewed (TRA officials)	No. of respondents
Kinondoni Tax Region	2
Temeke Tax Region	2
Ilala Tax Region	2

Head Office (HQ)	2
Customs Department Dar es salaam	2
Kinondoni Zonal Offices	2
Temeke Zonal Offices	2
Ilala Zonal Offices	2
Total	20
Grand Total	288

Source: Researcher (2015)

3.5.2 Sampling Procedures

Sampling methodology can either be probabilistic or non probabilistic.

Probability sampling, also known as choice sampling, is a sampling technique in which every item in the universe has an equal chance of being included in the sample. Chance plays an important role as it determines what should be included in the sample. Items of the universe are chosen as in lottery. The advantage of probability sampling is that, if the chosen samples are randomly chosen, they have more tendency of representing the whole universe. Indeed, probability sampling is considered the best way of choosing representative samples.

Singh (2006) lists some of the characteristics of probability sampling to include the following:

- In probability sampling, we refer from the sample as well as the population.
- In probability sampling, every individual of the population has equal probability to be taken into the sample.
- Probability sample may be representative of the population.
- The observations (data) of the probability sample are used for the inferential purpose.
- Inferential or parametric statistics is used for probability sample.
- There is a risk for drawing conclusions from probability sample.

- The probability is comprehensive. Representativeness refers to characteristic. Comprehensiveness refers to size and area.

In non-probability sampling, also known as deliberate samplings, items for sampling are deliberately and carefully chosen by the researcher. Every item in the population does not possess the same chance of being included in the research as the researcher's choice is supreme.

Nworgu (1991) defines the non-probability sampling techniques as "those which do not specify the chance or probability which an element has of being included in a given sample". Under this technique, sampling is not random and, therefore, there is no basis for determining the associated sample error.

In the non-probability sampling methods, the likelihood of every member of a target population being included in the sample is not known. These sampling techniques make generalizations grossly limited. Hence, they are not used for generalizations or inferences. They are generally used to obtain a rough impression of a group of elements. However, as suggested by Nworgu (1991), generalizability of non-probability samples can be achieved by the inclusion of probability sampling at some stage. But he explains that the extent to which the resultant sample will approximate to a probability sample is usually a matter of the researcher's judgment.

Choosing a reliable sample is one of the most important factors in any research undertaking. Determining the sample size depends on the size of the population taken for research. In many complicated researches that involve large number of population, sampling technique is preferred due to inadequacy of resources apart from time constraints. Also, that determination of the minimum sample size required for a given maximum error becomes important and prevents the researcher from being wasteful. Sample technique is the procedure a researcher uses to gather people, places or things to study. It is a process of selecting a number of individuals or objects from population such

that selected group contains elements representative of the characteristics found in the entire group (Wario and Khalfan, 2015).

The methods used in drawing samples from a population usually in such a manner that the sample will facilitate determination of some hypothesis/research questions concerning the population. The researcher used simple random sampling in order to obtain respondents selected for the study and secure respondents information. Simple random sampling was used due to the advantages enumerated above in this section and to give equal chances to all participants of the study because of the nature of topic at hand.

The researcher made sure that the selected sample had the best characteristics as advocated by Krzanowski, (2007). According to Krzanowski, (2007), best characteristics a sample include;

- Be Representative: This means that no section of the population should be cut off during the selection of sample. The only way to ensure this is by eliminating all forms of bias in the selection of your sample.
- Contain Less Error: The aim of sampling is to get information. This will be defeated if the information got from a sample contains many errors.
- Be Cost Effective: Most researchers work with limited resources. A good sample should take care of this. It should cost less, while not endangering quality output.
- Be Such that Systematic Bias can be Controlled: This will ensure objectivity of findings.
- Its Result should be Applicable to the General Population: A person who chooses sampling has the general population as its target. The aim of the sampling will be defeated if the result cannot be applied to the whole population.

3.6 Data Collection Methods

The researcher used self designed instruments in form of questionnaires and interviews to get most of the information required. These were the easiest and the cheapest way for the study due to the large number of respondents. The 288 questionnaires were distributed to respondents. Two to three weeks was considered as enough periods to fill the questionnaires. Questions were both structured in the format of Likert's scale.

The mode of interview employed was structured interview. It was based on pre-set questions which were administered to the units of enquiry. In fact open ended questions were used. The researcher preferred open ended questions because they made the interview less formal and provided the interviewees the opportunity to freely express opinions. Interviews were carried out to 20 respondents who were selected randomly from each category.

3.7 Measurement of Research Variables

Social norms: Was measured using norms of reciprocity, contractual solidarity, role integrity, flexibility and long term orientation as the most critical dimensions in relation to social norms (Ivens, 2004).

Taxpayers' morale: Was measured basing on trust and satisfaction with government and satisfaction with TRA practices and operations (Alm et al, 2006).

Tax compliance: was measured basing on the four items from (Wenzel, 2001) which include; non-lodgments, tax debt, Pay income and promptness. Non- lodgment; the researcher established from the respondent whether there had been attempts to avoid taxes by not declaring at all. Tax debt; questions whether one has an outstanding debt were used to measure compliance. Pay income; the researcher established whether the taxpayer had attempted to under declare taxes. Promptness; the researcher established from the

respondent whether he/ she has ever delayed to pay taxes beyond the stipulated time.

3.8 Tools of Data Collection

This study employed the following tools:-

3.8.1 Questionnaire

A questionnaire is a set of questions that is full of traits and clues in order that the respondents can tick the appropriate clue of his/her opinion or write short answers (Wario and Khalfan, 2015). Questionnaire has to do with formulating precise written questions for those whose opinions or experiences you are interested in. The researcher composed the questions and send them out through personal delivery to people who give answers to them and later went back to collect them from the respondents. The questionnaire was prepared following the problem statement, literature review and conceptual framework of this study. The questionnaires were distributed to the 288 respondents. Close ended questions were included in the questionnaire.

The questionnaire method was preferred for the study due to the advantages as enumerate by Kothari (2004) which include:

- i. It lowers the cost even when the sample size is large and is widely spread geographically.
- ii. It guarantees freeness from the bias of the interviewer; answers are in respondents' own words.
- iii. Respondents using questionnaire have adequate time to give well-thought out answers.
- iv. Respondents while using a questionnaire, who are not easily approachable can also be reached conveniently.
- v. Large samples can be made use of and, thus, the results can be made more dependable and reliable.

The questionnaire contents were written as per Nwana (2010) recommendations. According to Nwana (2010), a best sample of the questionnaire should contain the following items.

- i. Title: The title states what the study is all about
- ii. Biographical Information: Here, the person responding to the questionnaire gives information about himself. Such information that may be needed include: sex; age, occupation, experience and level of education.
- iii. Response Rubric: This is the advice which the researcher gives the respondents about how to complete the questionnaire.
- iv. The Questions: These are the questions that the respondents respond to. They must be clearly stated and separated from one another.
- v. Return Instructions: The researcher specifies where the completed questionnaire can be returned. He gives his name and address clearly or direct collection by the researcher.

3.8.2 Interview Guide

This was used to collect views from the respondents on the topic at hand. Savin-Baden and Major (2010) hold that the importance attached to interview as a method of research stems from the belief that "truths held by individuals need to be uncovered and unpacked in order to shed light on multiple, and often competing, realities." Hence, the realization that interview is a major way of accessing some of the knowledge possessed by individuals accounts for its adoption as a research method.

Data as obtained in the interview method through question and answer, or discussion. Here, the researcher posed some questions (oral or written) to the person who answered them, the respondents or interviewees. The researcher making use of the interview method has a problem of deciding who to interview for the information he needs. To solve this, the researcher made a

list of people he knew who can give him contact to people he can interview. After establishing positive contact with his potential interviewee, the researcher got ready materials that are necessary for the interview.

For the most part, the materials for the interview depended on how the researcher wanted to record the interview. In this study the researcher wanted to take notes, thus notebook and a pen (two or more pens were used). Taking note during interviews allowed the researcher to concentrate on the key points of the interview. On the negative side, taking note during interview can also distract the interviewee.

Blaxter et al (2006) argue that, whenever you put pen to paper in the course of the interview, it may make your interviewee think that he has made a great point. Conversely, he may think that he is making unimportant points whenever you do not put pen to paper. This influence the flow of the interview, and, in some cases, it may affect the truthfulness of the information, as the interviewee may sacrifice facts to impress the interviewer. The researcher, on the other hand, may decide to electronically record the interview. In this sense, he needs an audio or digital recorder.

This affords you the advantage of recording the details of the interview verbatim and of concentrating entirely on the interview. However, recording interview has the tendency to make the interviewee anxious that he fails to reveal confidential information thus this was not done during interview for this study. There is also the tendency for the tape recorder to malfunction in the course of the interview. Therefore, even as the interviewer uses the tape recorder, it is also advisable that he takes note of the essential issues of the interview. Interview method used structured interviews to the selected respondents to directly seek their opinion as advocated by Kothari (2004). 20 respondents were interviewed as shown in Table 3.2 to look for more insight on this topic. Saunders et al, (2007) argue that a minimum of five respondents for interview where other methods of collecting data have been used is

sufficient. However this study used 20 respondents to make the results more accurate for generalization.

Although there two types of interview; personal interview and telephone interview, this study utilized only personal interview. In personal interview, the researcher assumes the role of the interviewer and engages the interviewee in a face-to-face encounter, asking him questions about the study interest and recording the views of the respondent. Kothari (2004) lists the advantages of the personal interview to include:

- i. It generates more and in-depth information.
- ii. It offers the researcher the flexibility to restructure his questions as the demand calls.
- iii. It can also avail the interviewer personal knowledge about the interviewee.
- iv. The interviewer can always control which persons answers which questions.

3.8.3 Coding

For interview, each participant were given an alphanumeric code: R1, R2, R3...R20, representing research participant to ensure privacy and confidentiality (Wario and Khalfan, 2015).

3.9 Validity and Reliability of the Research Instrument

3.9.1 Validity

Validity is used to determine whether research measures what it intended to measure and to approximate the truthfulness of the results. Validity is concerned with whether the findings are really about what they appear to be about (Saunders et al, 2007). The researcher ensured that only valid questions were asked. This was done by giving the questions in the interview and the questionnaire to governance experts to crosscheck if the questions are valid

(relevant and irrelevant) against the objectives of the study. There after the researcher used the Content Validity Index (CVI), to test the validity of the instruments. The number of items ticked relevant by all experts in each instrument was summed up and divided by the total number of items in each instrument. The researcher then computed the Content Validity Index using the formula below:

$$\text{CVI} = \frac{\text{Number of items regarded relevant in the questionnaire}}{\text{Total Number of items in the questionnaire}}$$

This should be >0.7 according to Amin, (2005)

The researcher considered proceeding to collect data using the same instruments if their CVI was 0.7 and above (Amin, 2005). If the CVI was below 0.7 then the instruments were revised accordingly before proceeding to collect data.

3.9.2 Reliability

Reliability is the consistency of measurement, or the degree to which an instrument measures the same way each time it is used under the same condition with the same subjects. Reliability of the instrument according to Amin (2005) refers to the degree to which the said instrument consistently measures whatever it is measuring. The questionnaire reliability was done by pre-testing the instrument to confirm reliability using test-retest method. The interview reliability was done by use of cognitive method.

Test-retest Method: To actualize the test-retest method a sample of fifteen respondents from different but distant time points, correlation coefficient between the two time data was set and established. If a high coefficient was realized then the instrument was said to be highly reliable (Wario and Khalfan, 2015). To ensure reliability of the instruments, the internal consistency method using Chronbach's alpha co- efficient was used (excluding background information). The Chronbach's alpha co-efficient computed section by section as per the research variables using the SPSS programme and once the reliability index 0.857 was enough to guarantee reliability.

After testing the reliability of the instruments and finding that it is okay, the researcher proceeded to use the same instruments to collect data. The questionnaire was pretested on 15 people.

$$\alpha = \frac{k(1 - \frac{\sum \sigma^2 k}{k-1 \sigma^2})}{k-1 \sigma^2}$$

Where;

α =Reliability, Alpha Coeffeciencies (Cronbach)

K=Number of items in the instrument

$\sum \sigma^2 k$ = Variance of the individual items

σ^2 =Variance of the total instrument

Σ = Summation

When the CVI was calculated was 0.734 hence obeying Amin, (2005) rule.

3.9.2 Cognitive Test of Interview Guide

Cognitive testing was used to investigate how well the interview questions perform when asked to the respondents, that is, if respondents understand the question correctly and if they can provide accurate answers. Cognitive testing insured that a survey question successfully captures the scientific intent of the question and, at the same time, makes sense to respondents (Wario and Khalfan, 2015). Questions that are misunderstood by respondents or that are difficult to answer were improved prior to interview date, thereby increasing the overall quality of data.

3.10 Data Analysis

Data from the respondents was verified, complied, and summarized into themes before being analyzed by using Microsoft Excel and IBM SPSS Statistics version 20. The outcome of the analysis was discussed, cross examined using results from other authors who have done related studies or other benchmarks

by other authors on related issue to the topic under investigation. For qualitative data transcribing analysis methods were used to analyze data. The transcribing analysis included the following elements; tabulation, memoing, content analysis, logic analysis and thematic analysis. Factorial analysis was used to check the appropriateness of measurement of the constructs. Correlation analysis and multiple regressions were used to analyze quantitative data in order to measure the relationship between the variables.

3.10.1 Tabulation

The process of placing classified data into tabular form is known as tabulation. A table is a symmetric arrangement of statistical data in rows and columns. Rows are horizontal arrangements whereas columns are vertical arrangements. It may be simple, double or complex depending upon the type of classification (Wario and Khalfan, 2015). However, the study used only Simple tabulation which is commonly known as one way tabulation.

3.10.2 Memoing

Memoing was done to capture the emerging issues from the interviews. Wario and Khalfan (2015) state that memoing is effectively employed by both the novice and experienced researcher as a procedural and analytical strategy throughout the research process. Memoing served to assist the researcher in making conceptual leaps from raw data to those abstractions that explain research phenomena in the context in which the study is investigating. Memoing was done such that the researcher could be able to arrive at the themes from the interviews (Wario and Khalfan, 2015).

3.10.3 Transcribing

Data Transcription involves translating the analyzed data to give it a meaning in terms of the subject being investigated (Kothari, 2004). This was done to enable the researcher to fully identify the results.

i. Content Analysis.

Notes were made in the margin when interesting or relevant information was found from collected data. Types of information arising was noted and described as categories in a way that offered a description of what it was all about (Wario and Khalfan, 2015). Identification was done whether or not the categories were linked any way and listed them as major categories (or themes) and/or minor categories (or themes). The themes arising were compared. The categories or themes were examined in detail. Data was transcribed to give answers to the research questions.

ii. Logic Analysis

Logic is a formal system of analysis that helps writers invent, demonstrate, and prove arguments (Wario and Khalfan, 2015). It works by testing propositions against one another to determine their accuracy. People often think they are using logic when they avoid emotion or make arguments based on their common sense. To be logical, a proposition of the data collected was tested within a logical sequence.

iii. Thematic Analysis

Thematic analysis is one of the most common forms of analysis in qualitative research. It emphasizes pinpointing, examining, and recording patterns (or "themes") within data (Wario and Khalfan, 2015). Themes are patterns across data sets that are important to the description of a phenomenon and are associated with specific research question. The themes become the categories for analysis. Thematic analysis was performed through the process of coding in six phases to create and established meaningful patterns. These phases were: familiarization with data, generating initial codes, searching for themes among codes, reviewing themes, defining and naming themes and producing the final list of themes.

3.10.4 Triangulation

Triangulation involves using different and many sources and techniques in order to increase the validity and robustness of the research findings (Guion,

2011). According to Hussein (2009) there are various techniques and methods of triangulating may be used including theories, data, methods and analysis. The advantage of triangulation is that it limits the possibility of researcher bias and provides multiple ways and viewpoints from which analysis can be conducted.

Hussein (2009) lists the different types of triangulation methods that a researcher can use to produce vigour findings. The first one is data triangulation, also referred as data sources. Triangulation depicts the use of multiple data sources in the same study for validation purposes. The second one, theoretical triangulation, is defined as the use of multiple theories in the same study for the purpose of supporting or refuting findings, since different theories help researchers to see the problem at hand using multiple lenses.

Thirdly, there is the investigator triangulation in which one makes use of more than two researchers in any of the research stages in the same study. It involves the use of multiple observers, interviewers, or data analysts in the same study for confirmation purposes. The fourth method is analysis triangulation, also referred by some authors as the data analysis triangulation. It is described as the use of more than two methods of analysing the same set of data for validation purposes. The final method is Methodological triangulation is defined as the use of more than two methods in studying the same phenomenon under investigation. According to Ibid (2009), this type of triangulation may occur at the level of research design or data collection.

The advantages of triangulation are, that it increases confidence in research data, creates innovative ways of understanding a phenomenon, reveals unique findings, challenging or integrating theories, and it also provides a clearer understanding of the problem (Guion, 2011). This is because the combination of different components creates a holistic opportunity to study a phenomenon.

Triangulation techniques used for this study include theoretical triangulation, data collection and analysis triangulation. The nature of the research requires triangulation methods and techniques in order to produce robust findings.

3.10.5 Data Trustworthiness

One of the key challenges in research is ensuring data trustworthiness. Data trustworthiness can determine or undermine the research project's credibility, conformability, reliability and validity. According to Lincoln and Guba (1985), trustworthiness in research is used to determine in both quantitative and qualitative research, reliability, validity and confirmability. In this study it is trustworthiness was determined by researcher's objectiveness.

3.10.6 Creditability

Marshall and Rossman (2015) related creditability to validity, and established a fit between construct realities of participants, and how researchers present these facts. The researcher used meeting notes and other written reports from the interviews, together with interview transcripts to ensure the creditability of data. After the researcher transcribed interview, analyzed, and interpreted data, the researcher engaged participants to review transcribed interview responses and data analysis and interpretation to validate and confirm the accuracy of research findings.

An accurate description of participants' responses should stand out from the detailed transcription of interviews to capture every theme (Wario and Khalfan, 2015). Data collected through interview of participants, and member checking ensures methodological triangulation and establish accuracy and credibility of the research (Wario and Khalfan, 2015). Using interview protocol to ensure complete interview process, and researching of governmental documents on tax compliance ensured methodological triangulation to attain creditability of the study.

3.10.7 Conformability

Confirmability in research is concerned with the use of research mechanisms which are independent of the researcher's skills and perceptions (Shenton, 2004). This however, writes Shenton, provides the difficulty of ensuring real objectivity since the intrusion of the researcher's bias is inevitable in designing interview questionnaires. This is not to say that confirmability cannot be achieved. (Ibid, 2004) contends that; "the concept of confirmability is the qualitative investigator's comparable concern to objectivity. Here steps must be taken to help ensure as far as possible that the work's findings are the result of the experiences and ideas of the informants, rather than the characteristics and preferences of the researcher (ibid, 2004). Thus the researcher was cautious as not to put bias in researcher design or operationalization.

3.11 Limitations of the Study

The researcher faced some limitations on data collection specifically the TRA officials feared repercussions on giving information however, the researcher assured them of confidentiality of information given. Also the tax payers who mostly were business people had little time to attend on the questionnaires and interviews but the study minimized this by approaching them persistently and arranging appointments with the respondents.

Similarly, some respondents were not be able to fill the questionnaire on the spot as required so they were given additional time which led to delay in data gathering. This was minimized by researcher adopting an alternative way where by respondents are assisted by the research assistant in their departments to help them fill and also collect the completed questionnaire. Also, the researcher cannot administer the questionnaire on all the respondents alone, so research assistants were used in each organization to collect the questionnaire. There were also the limitations of time, money and logistics.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents and discusses the finding of the study as obtained from the field. Data was collected and analyzed using tables for easy interpretation and discussion in relation with the research questions and the questionnaire administered. Also the chapter presents the profile of the respondents and the study findings which are organized and presented according to the research

questions raised in chapter one. The objectives of this study were set respectively to answer research questions on integrating social norms in tax collection practices in Tanzania.

4.2 Response Rate

The study had a sample size of 288 respondents. A total of 288 questionnaires were administered to the respondents by the researcher. Since the questionnaires were delivered and collected by the research at convenience time agreed upon by the respondent all the questionnaires were returned posting 100% respond rate.

4.3 Profile of Respondents

This section aimed at discussing the respondent's profile to enable the study to establish the extent of judgment one might have in the area of the study. Among the researched respondents' characteristic include gender, age, and highest level of education. Perry (2000) contends that, personal attributes like gender, education, and age had significant effect on understanding of particular situations.

4.2.1 Gender

Gender was the first characteristic of the respondents that was analyzed. Wario and Khalfan (2015), opines that gender might have an effect on the responses of the individual under investigation. The summary of the results have been shown in Table 4.1.

Table 4.1 Respondents by Gender

Gender	Frequency	Percent
Male	160	55.6
Female	128	44.4
Total	288	100

Source: Researcher (2017)

The sample size of the study was 288 respondents. Table 4.1 shows that, the study was made up of 160 male representing (55.5%) and 128 were females representing (44.4%). The findings on gender showed that there were enough women and men to avoid gender bias. Tromp and Kombo (2014) observes that when dealing with a social subject involving human beings then gender balance should adhered to such that the results are not inclined towards one gender.

4.2.2 Age

The study was also interested to know the age of the respondents as could depict maturity in responding to the questions in the questionnaire. Table 4.2 is depictive of this data.

Table 4.2 Age of respondents

Age in years	Frequency	Percentage
18- 35	100	34.7
36-45	108	37.5
46-55	50	17.4
56 and above	30	10.4
Total	288	100

Source: Researcher, (2017)

Table 4.2 shows that, 108 of respondents equal to (37.5%) were between ages 36-46, 18- 35 years were 100 equal to (34.7 %), between 46-55 years were 50 equal to (17.4%) and 56 and above years were 30 equal to (10.4%). These data gave assurance that all members were in a mature age to respond to the questionnaire and that age was distributed throughout the age categories. Tromp and Kombo (2014) argues that respondents must of different ages such that views can be got for each age bracket as different age brackets may have different opinion on an issue.

4.2.3 Level of Education

The study analyzed the level of education of respondents. The summary of data is shown in Table 4.3.

Table 4.3 Respondents level of education

Qualification	Frequency	Percentage
Postgraduate	16	5.6
University degree	124	43.0
Diploma	74	25.7
Other	74	25.7
Total	288	100

Source: Researcher, (2017)

Table 4.3 established the respondents' level of education According to the findings, 124 respondents equal to (43%) had a university degree level of education, 16 respondents equal to (5.6%) had a postgraduate. Diploma and other qualifications had 74 respondents each equal to (25.7%). The other qualifications were such as certificates, informal training in entrepreneurship and school dropouts. Wario and Khafan (2015) argue that level of education is a quality that should be examined such that the study can gauge the kind of responses expected as level of education give a respondent a high capacity of thinking in the topic under investigation. Also, Saunders and Thornhill (2007) observes that level of education is an important factor to consider even to know if the respondents are able to answer the questions in the question, which language to be used and even how the interview will be conducted. The study found that all the respondents were able to understand the questions in the questionnaire and the structured type of interview, the respondents were able to give responses.

4.2.4 Experience in paying tax

The study also analyzed the experience of tax payers in payment of tax. Table 4.4 shows the summary of the results. Due to the nature of the question analysis of experience of paying tax was analyzed on the taxpayers (large taxpayers and small taxpayers who were 268). The TRA officials were excluded from analysis due they could bring bias to the results and the fact that were interested in taxpayers not the tax collectors.

Table 4.4: Experience in paying Tax

Years	Frequency	Percentage
1-2 years	30	11.2
3-5 years	50	18.7
6-8 years	30	11.2
7-9 years	48	17.9
10 and above years	110	41
Total	268	100

Source: Researcher, (2017)

Table 4.4 shows that, all respondents had experience of paying tax and were in a position to understand the topic at hand. This data also showed that the respondents were able to indicate or explain on their morale to pay comparatively in different years. This is recommended by Kinicki and Williams (2008) that respondents need to be aware of the investigative phenomena. Experience of paying the tax informed the study on the respondents had facts on hand in terms of paying tax.

4.3 Factor Analysis

Factor analysis was done to examine whether the constructs used were good measurements for the variables in the conceptual framework (Kothatri, 2004).

The principal component analysis method and varimax rotation methods were used. Items with correlation coefficients of less than 0.5 were excluded from the rotation table. Factor analysis is a statistical method used to describe variability among observed, correlated variables in terms of a potentially lower number of unobserved variables called factors (Wario and Khalfan, 2015). For example, it is possible that variations in six observed variables mainly reflect the variations in two unobserved (underlying) variables. Factor analysis searches for such joint variations in response to unobserved latent variables. The observed variables are modelled as linear combinations of the potential factors, plus "error" terms. Factor analysis aims to find independent latent variables. The theory behind factor analytic methods is that the information gained about the interdependencies between observed variables can be used later to reduce the set of variables in a dataset (Kothatri, 2004)

Proponents of factor analysis believe that it helps to deal with data sets where there are large numbers of observed variables that are thought to reflect a smaller number of underlying/latent variables. It is one of the most commonly used inter-dependency techniques and is used when the relevant set of variables shows a systematic inter-dependence and the objective is to find out the latent factors that create a commonality.

4.3.1 Social Norms

Table 4.5 Rotated component matrix for social norms

Statements	Long term orientation	Reciprocity	Flexibility	Role Integrity	Contractual Solidarity
We have an ongoing relationship with TRA	0.770				
Maintaining an ongoing relationship with TRA is important to us	0.679				

In this relationship taxpayers and TRA both expect a lot from each other.	0.663				
Our relationship with TRA will last	0.624				
Our relationship with TRA can be described as a long-term venture.	0.595				
In this relationship with TRA we expect long term goals	0.536				
TRA and taxpayers do not expect court resolved conflicts	0.529				
TRA is committed to improvements that benefit our business		0.726			
TRA treats us well		0.708			
During negotiations TRA is always fair		0.676			
TRA helps us when we face problems		0.652			
Our relationship with TRA will be beneficial in the long run		0.570			
TRA values our business		0.538			
TRA values our business			0.538		
As taxpayers we always adjust to meet TRA needs and demands			0.907		
As taxpayers we are flexible with TRA issues			0.796		
Our relationship with TRA is beyond the duty to pay tax.				0.803	
TRA's tax decisions are easy to understand				0.677	
In case of mistakes we are patient with TRA				0.621	
We are always fair to TRA					0.650

Our relationship with TRA is with a lot of benefit expectation					0.599
We are committed to paying our taxes					0.545
Eigen Value	3.577	3.347	2.676	2.232	1.990
% of Variance	15.552	14.552	11.636	9.705	8.651
Cumulative %	15.552	30.104	41.740	51.445	60.096

Table 4.5 shows that, the five constructs were extracted explaining 60% of social norms. Factor one Long term orientation, being the most important factor which explains about 16% of social norms, factor two Reciprocity explaining about 15% of social norms, factor three Flexibility explaining about 12% of social norms, factor four Role integrity explaining about 10% of social norms and factor five Contractual solidarity explaining about 9% of social norms. This confirms all the five constructs are measurements of social norms using construct validity.

4.3.2 Taxpayers' Morale

Table 4.6: Rotated component matrix for taxpayers' morale

Item	Satisfaction	Trust
TRA officials are always smart	0.850	
We are happy with TRA's friendliness	0.762	
We are pleased with TRA interest in us as taxpayers	0.753	
Our grievances are answered completely by TRA	0.609	
We are satisfied with TRA quality of services	0.586	
We are pleased with way TRA handles taxes	0.548	
TRA keeps the promise they make to us		0.841
TRA is always honest with us		0.831
TRA is trustworthy		0.767
TRA is interested in our success		0.597
Eigen Value	3.468	3.242
% variance	28.898	27.02

Cumulative %	28.898	55.919
--------------	--------	--------

Source: Researcher 2018

Table 4.6 show, the two factors explaining 56% of taxpayers' morale were extracted. Factor one satisfaction explaining 29% of taxpayers' morale and factor two trusts explaining 27% of taxpayers' morale. This confirms that trust and satisfaction are measures of taxpayers' morale.

4.3.3 Tax Compliance

Table 7: Rotated Component Matrix for Tax Compliance

Item	Timeliness	No Lodgment	Pay income	Tax Debt
We do not have outstanding debt with TRA	0.752			
TRA has never penalized us as we pay taxes on time	0.728			
We pay taxes in time	0.715			
We pay actual tax assessed	0.613			
We pay TRA bills first before any other bills		0.937		
We disclose all income earned for tax purposes			0.904	
TRA has never threatened us about an outstanding bill to clear				0.906
Eigen Value	2.112	1.327	1.299	1.262
%of variance	30.170	18.964	18.556	18.023
Cumulative %	30.170	41.133	67.689	85.712

Source: Researcher, 2018

The four factors explaining 86% of tax compliance were extracted. Factor one, timeliness explaining 30% of tax compliance; it explained more of tax compliance followed by factors non lodgment and pay income explaining 19% of tax compliance, followed by tax debt explaining 18% of tax compliance. This confirms that the four constructs are measures of tax compliance, as presented in the rotated component matrix table 4.7.

4.4 Inferential Analysis

Inferential analysis was done where by correlations were obtained to establish the relationship that exists between variables conceptualized in the framework. Inferential analysis uses statistical tests to see whether a pattern we observe is due to chance or due to the program or intervention effects. Researchers often used inferential analysis to determine if there is a relationship between an intervention and an outcome as well as the strength of that relationship (Kothari, 2004)

Table 8: Spearman's' Correlation Matrix.

	1	2	3
Social Norm (1)	1.000		
Tax Payer Morale (2)	0.591**	1.000	
Tax Compliance (3)	0.397**	0.400**	1.000

Source Researcher, 2016

4.4.1 Correlation Analysis

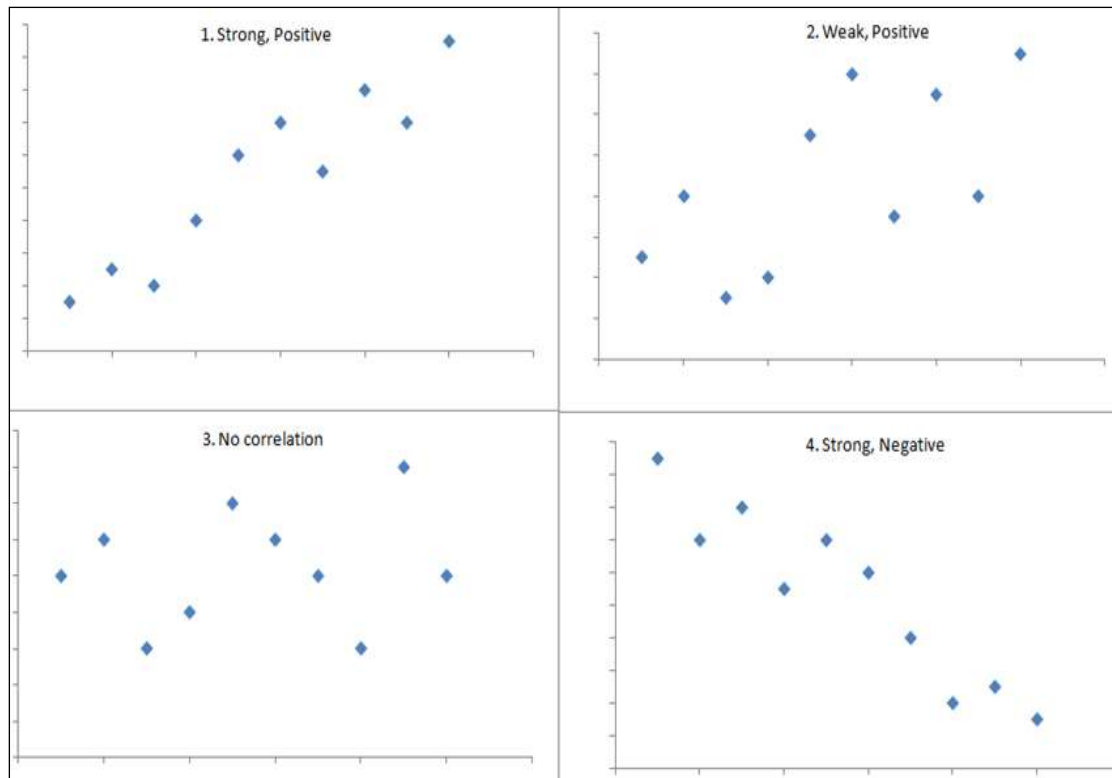
Correlation analysis was done to establish the relation of the variable. In correlation analysis, we estimate a sample correlation coefficient (Kothari, 2004). The study used the Pearson correlation coefficient. This was because Pearson correlation draw a line of best fit through the data of two variables, and the Pearson correlation coefficient, r , indicates how far away all these data points are to this line of best fit (i.e., how well the data points fit this new model/line of best fit). The sample correlation coefficient, denoted r , ranges between -1 and +1 and quantifies the direction and strength of the linear association between the two variables. The correlation between two variables

can be positive (i.e., higher levels of one variable are associated with higher levels of the other) or negative (i.e., higher levels of one variable are associated with lower levels of the other). The sign of the correlation coefficient indicates the direction of the association.

The magnitude of the correlation coefficient indicates the strength of the association. For example, a correlation of $r = 0.9$ suggests a strong, positive association between two variables, whereas a correlation of $r = -0.2$ suggest a weak, negative association. A correlation close to zero suggests no linear association between two continuous variables.

It is important to note that there may be a non-linear association between two continuous variables, but computation of a correlation coefficient does not detect this (wario and Khalfan, 2015). Therefore, data was evaluated carefully before computing a correlation coefficient. Graphical displays were particularly useful to explore associations between variables. The figure 4.1 below shows the four hypothetical scenarios in which one continuous variable is plotted along the X-axis and the other along the Y-axis.

Figure 4.1 hypothetical Scenarios



Source: Adopted from Kothari, (2004)

Explanation of the scenarios expected

- Scenario 1 depicts a strong positive association ($r=0.9$).
- Scenario 2 depicts a weaker association ($r=0.2$).
- Scenario 3 might depict the lack of association (r approximately 0)
- Scenario 4 might depict the strong negative association ($r= -0.9$)

The following equation was used to compute the Pearson r correlation which is the most widely used correlation statistic to measure the degree of the relationship between linearly related variables.

$$r = \frac{N \sum xy - \sum (x)(y)}{\sqrt{N \sum x^2 - \sum (x^2)} [N \sum y^2 - \sum (y^2)]}$$

r = Pearson r correlation coefficient

N = number of observations

$\sum xy$ = sum of the products of paired scores

$\sum x$ = sum of x scores

$\sum y$ = sum of y scores

$\sum x^2$ = sum of squared x scores

$\sum y^2$ = sum of squared y scores

This was computed using the SPSS (Statistical package for Social sciences) as argued by Kothari (2004)

4.4.1.1 Correlation between social norms and taxpayers' morale

Table 4.9 Correlation between social norms and taxpayers' morale

		social norms	taxpayers' morale
social norms	Pearson Correlation	1	.782**
	Sig. (2-tailed)		.000
	N	288	288
taxpayers' morale	Pearson Correlation	.782**	1
	Sig. (2-tailed)	.000	
	N	288	288

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher (2016)

Table 4.9 above, the relationship between social norms and taxpayers' morale was tested. From the test, the Pearson Correlation results was 0.782 which meant the relationship between social norms and taxpayers' morale was strong, and any change that would be made in the social norms would strongly change taxpayers' morale.

Secondly, the Pearson Correlation is positive (0.782) which meant any increase of social norms would lead to the increase of the taxpayers' morale. Further to that, the result of Sig (2-tailed) value was 0.000 which was less than 0.05

(<0.05), hence concluded that there was a statistical significant correlation between social norms and taxpayers' morale which meant any increase or decrease in social norms would significant increase or decrease taxpayers' morale. This also implied that increases in social norms would increase the taxpayers' morale since it increased better relationship between taxpayers and tax officials. Respondent RP4 contented that by saying;

"Social norms have high relationship with tax payer's morale"

Sserwanga, (2003) in his study on Tax Compliance among Small Business Enterprizes in Uganda found that social norms had a high relationship with tax payers morale of paying taxes. Also Steenbergen, McGraw, & Scholz, (1992) found that social norms affected taxpayers morale in paying tax in the UK.

4.4.1.2 Correlation between taxpayers' morale and tax compliance

Correlation between tax payers morale and tax compliance was done and Table 4.10 shows the results.

Table 4.10 Correlation between taxpayers' morale and tax compliance

		taxpayers' morale	tax compliance
taxpayers' morale	Pearson Correlation	1	.767**
	Sig. (2-tailed)		.000
	N	288	288
tax compliance	Pearson Correlation	.767**	1
	Sig. (2-tailed)	.000	
	N	288	288

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher (2016)

Table 4.10 above, the relationship between taxpayers' morale and tax compliance was tested. From the test, the Pearson Correlation result was 0.767 which meant the relationship between taxpayers' morale and tax compliance

was strong, and any change that would be made in increasing taxpayers' morale would strongly change tax compliance hence voluntary tax compliance.

Secondly, apart from the Pearson Correlation in Table 4.12 to be close to one but also shown in positive (0.767) which meant any increase in value of taxpayers' morale would lead to the increase of the same value to the tax compliance. Online to that, the result of Sig (2-tailed) value was 0.000 which was less than 0.05 (<0.05), hence concluded that there was a statistically significant correlation between taxpayers' morale and tax compliance which meant any increase or decrease in taxpayers' morale would significant increase or decrease tax compliance.

Therefore, from the results above simply indicated that there was strong relationship between taxpayers' morale and tax compliance. In addition the results indicated that the extent taxpayers' morale increases or decreases would consequently increase or decrease tax compliance.

Further, from the interview sessions with respondents RP11, it was confirmed when the respondent observed that;

*"Tax payers morale means everything, if the morale is down
then tax payers will defer payments tax and that
is where the problem of compliance begins"*

Wenzel M (2001), found that taxpayers morale is an important factor when thinking of tax compliance by taxpayers and advocated that, for tax compliance to be effective then tax payers morale must be kept at the maximum. On the same line Yitzhaki, 1974), on analysis tax evasion argued that most tax payers evade tax due to low morale on why they pay tax.

4.4.1.3 Correlation between social norms and tax compliance

Table 4.11 Correlation between social norms and tax compliance

		social norms	tax compliance
social norms	Pearson	1	.855**
	Correlation		
	Sig. (2-tailed)		
	N		
tax compliance	Pearson	.855**	1
	Correlation		
	Sig. (2-tailed)		
	N		

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Researcher (2016)

From the Table 4.11, the relationship between social norms and tax compliance was tested. From the test, the Pearson Correlation result was 0.855 which meant the relationship between social norms and tax compliance was strong, and any change that would be made in social norms would strongly change tax compliance. Secondly, apart from the Pearson Correlation in Table 4.1, to be close to one but also is positive (0.855) which meant any increase in social norms would lead to the increase of the tax compliance.

Online to that the result of Sig (2-tailed) value was 0.000 which was less than 0.05 (<0.05), hence concluded that there was a statistically significant correlation between social norms and tax compliance which meant any increase or decrease in social norms would significant increase or decrease tax compliance. Therefore, from the results above simply indicated that there was strong relationship between social norms and tax compliance

Also during interviews this was agreed by most of the respondents where respondent RP7 said;

"Social norms if implemented effectively and people change mind set according and up hold integrity then they will lead to tax compliance"

Sserwanga, (2003), observed that, people can change their mind set due to the degree of social norms. Also Osoro, (1992) on his study: Tax Reforms in Tanzania: Motivations, Directions and Implications explained that social norms may increase tax compliance.

Respondent RP18 said;

"We use deadlines and threats because there is no other understood method at our disposal. If another better come into board then there will be no need to use these"

Although most government use deadlines and threats, McKee, (2003), in his study in the USA on tax compliance found that threats and deadlines were counterproductive and lead to tax evasion. Also Maliyamkono, (2009) argued that, deadlines and threats should be treated carefully during collection of taxes such that they do not disturb the morale of the tax payers.

4.5 Multiple Regression Analysis

Regression analysis was performed using stepwise regression method to explain the variability of the relationship between social norms and taxpayers' morale as independent variables and tax compliance as a dependent variable among tax payers in Tanzania.

Table 4.12: Multiple Regression Analysis

Model	Standard coefficient Beta	t-test	Sig	R- square	Adj. R square	F	Sig. F
		4.251	0.000	0.259	0.252	40.465	0.000
Social Norms	0.370	5.100	0.000				
Taxpayers morale	0.187	2.569	0.011				

Source: Researcher (2017)

Regression analysis results as shown in Table 4.12 above, indicated a significant linear relationship between social norms, taxpayers' morale and tax

compliance ($F = 40.465$, $\text{sig} = 0.000$). It is a linear relationship because sig is < 0.05 . Social norms and taxpayers' morale explain 25.2% of tax compliance. Social norms ($\text{Beta} = 0.370$) explains/ influences more of tax compliance than taxpayers' morale ($\text{Beta} = 0.187$). This implies that a 100% change in social norms led to 37% change in tax compliance and 100% change in taxpayers' morale led to 18.7% change in tax compliance. This proves that social norms if adopted in tax collection and compliance model it can add revenue and at the same time taxpayers pay tax willingly.

4.6 Discussions of Findings

4.6.1 Relationship between Social Norms and Tax Compliance

The findings revealed a significant positive relationship between social norms and tax compliance. The study has supported previous literature by other researchers that social norms and tax compliance have a relationship. For example Cialdini, Kallgren, & Reno, (1991), Wenzel (2004), Etzioni (1988), who investigated the relationship between human behaviour and social norms and found that they are significantly related. Similarly in the literature, it is argued that tax evasion, or tax compliance, is determined by prevailing social tax norms to a substantial extent. For example in Alm, McClelland & Schultze (1999).

Then according to Alm *et al.*, (2006) the existence of social norms suggests that citizens will comply as long as they believe that compliance is widespread and thus the accepted social norm. Social norms have usually been studied as the perceived prevalence or acceptance of tax evasion among a reference group (DeJuan, Lasheras, & Mayo, 1994; Porcano, 1988; Webley, Cole, & Eidjar, 2001); or as naturally varying between different cultural or sub cultural groups (Alm, Sanchez, & DeJuan, 1995). Dimensions of social norms showed a significant positive relationship with tax compliance: flexibility, reciprocity, contractual solidarity, role integrity, long-term orientation influence positively tax compliance in terms of non lodgment, tax debt, pay income and promptness.

Social norms and morals have been cited as reasons for high compliance with rules (Elster, 1989) and collective actions (Naylor, 1989). From a sociological perspective, it is often assumed that human behavior is influenced by social norms to a substantial extent. Sometimes this also includes tax behavior as well as other economic behavior (Etzioni, 1988).

In a broader sense different studies try to investigate attitudes towards paying taxes which can be seen as a proxy for *tax morale*: the intrinsic motivation to comply and pay taxes and thus voluntarily contribute to the public good (Torgler & Schneider, 1999). If Individual attitudes, which according to this research mean morale, toward compliance are a function of social and cultural norms, then enhancing these norms may be a desirable policy option.

According to Cummings *et al* (2004), Taxpayers' morale evolves from perceptions that the government is trust worthy, that the tax enforcement mechanisms are fair and that the fiscal exchange is beneficial. Ultimately in all the cultural settings investigated by previous researchers compliance does increase with enforcement efforts but this has been found to be a less effective mechanism than taxpayers' morale (Cummings *et al.*, 2004). Literature further indicates other factors that independently influence tax compliance such as personal ethics based on religion or cultural norms (steenbergen, McGraw & Scholz, 1992), levels of enforcement and perceived fairness. However, this research scope did not cover these other factors.

The fact that the rate continued growing even after independence as Tanganyika continued with that colonial tax system but under the administration of local authorities. TRA was established in 1995 to assess, collect and account for all central government revenues in accordance with laws and policies enacted by parliament. The institution was conferred with enormous tax administration powers and became operational as an autonomous government agency for enhancement of tax gains on compliance

in Tanzania. It was intended to educate and emancipate people refrain from the negative feelings about tax.

4.6.2 Relationship between Social Norms and Taxpayers' Morale

Social norms were found to be significantly correlated to taxpayers' morale. There was also a significant relationship between constructs of social norms: flexibility, reciprocity, contractual solidarity, role integrity, long-term orientation and taxpayers' morale in terms of trust and satisfaction. These findings support earlier work that was done by Cummings *et al.* (2004), who carried out a survey and found out that social norms are reflected in higher levels of trust in the state, leading to higher tax morale. And still the more citizens trust the government, the higher the intrinsic motivation to pay taxes, which in itself is taxpayers' morale.

Maliyamkono *et al.* (2000) also proved that TRA has however faced set-backs on compliance and similarly has since resorted to enactment of laws which sometimes bear unfriendly elements on assessing and collection of tax. It included unfriendly detecting methods of tax defaults resulting into mercilessly punishing non-compliant.

Taxpayers' compliance level should be the reflection of the national revenue collection habit translated into one's discipline and morale to pay tax by abiding to the guidelines and rules formulated by the state. The researcher roamed behind the fact that the level of tax compliance in Tanzania is low. If so, does it have any connection with taxpayers' administrative treatment by officials? TRA should appear as a good and trusted agent of the government in the administration of tax.

The essence of tax officials as performers of Tanzania Revenue Authority (TRA) on behalf of the government can be explained within the framework of agency theory. That agency is a contractual relationship which exists between one party called the principal and another called the agent. The principal (in this

case the government) delegates some authority to the agent (TRA) who accepts responsibility to perform some services and/or take certain actions on behalf of the principle. It is presumed that in doing so, the agent will always act in the best interests of the principal.

Johnsen and Meckling (1976) have argued that both the agent and the principal are utility maximizers; there will always be a tendency for divergence of interests. The need would then arise for the principal to establish appropriate incentive for the agent and also monitor his activities in order to limit any such divergence of interests to avoid harmful repercussion. Therefore, the relationship between the government through the Ministry of Finance and planning (the principal) and Tanzania Revenue Authority (the agent) is sufficiently fitting the above description.

This is particularly so under situation in which there is separation between the government as service provider of its people and TRA as the administrative of government financing. TRA in modern theory of the firm is conceptualized as a coalition of individuals with diverse objectives of the entity (Cyert and March 1963). In that context taxpayers also need a sort of motivation from the government so are the agents. Taxpayers are oriented by given social norms to deliver the required willingness to pay tax.

4.6.3 Relationship between Taxpayers' Morale and Tax Compliance

There was a significant positive relationship between taxpayers' morale and tax compliance according to the findings of the study. These findings support the earlier work posted by Edlund & Åberg (2002) who stated that taxpayers' morale is seen as an important and integral attitude that is related to tax non-compliance. This implies that trust and satisfaction as constructs of taxpayers' morale positively influence tax compliance. This argument is similar to the previous studies by Edlund & Åberg (2002), Peters (2000), Smith (1992), Smith & Stalans (1991), Torgler (2004 & 2005) and Alm & Torgler (2006) that, if taxpayers are satisfied and trust the government, the legal system, the justice

system, and/or the public officials, they are more willing to be honest in the payment of their taxes.

There is a positive relationship between taxpayer education and voluntary tax compliance (Kassipillai, 2003). Taxpayer education will provide the necessary tax knowledge to comply with the tax matter and change the perceptions and attitudes towards tax-compliance by creating more positive attitudes (Machogu & Amayi, 2013). Statistical findings confirmed the prevalence of the significant positive relationship between the level of taxpayer education and the level of the voluntary tax compliance. However there is need to conduct similar study currently, because the above study was conducted more than 5 years ago, using environment different from Tanzania's, and the sample selected for the study was university students, who were not really in business operations. Lin and Carrol (2000), conducted a study to determine how enhanced tax morale and tax attitudes, affects the compliance behavior among the taxpayers in New Zealand. Analyzing the compliance behavior of the taxpayers after acquiring the tax morale did not have significant relationship with tax compliance behavior (Machogu & Amayi, 2013).

Rasshid and Noor (2004), conducted a study to evaluate the influence of tax morale on the tax compliance behavior among the taxpayers in Malaysia. The objective of the study was to investigate the effect of the presence of tax morale and norm, on the level of tax compliance behavior. Analyzing the data collected using questionnaires, to compare the compliance behavior of taxpayers with significant level of tax morale with those without tax knowledge. Statistical findings, confirmed that those with tax morale, had higher level of compliance than those without. The results indicated a significant relationship between the level of tax morale and the level of tax compliance. Nevertheless there is need to carry out similar study presently, because the environment, in which the study was carried out is different, and the study only compared the behavior of those taxpayers with significant level of tax knowledge to those without tax knowledge. The study to be conducted need to establish and

incorporate the relationship between the level tax payers morale and tax compliance.

Furthermore, Normala (2007), conducted a study to examine the influence of tax morale, as a proactive approach to enhance the voluntary tax compliance, among the taxpayers. There as a move from the official assessment of taxes, to self assessment system, in 2004. Under the self assessment system, tax payer has to his tax liability, pay taxes to revenue authority, later on the revenue authority conducts audit to establish the accuracy of the declarations in returns and payment. This system requires high voluntary tax compliance. Using questionnaires administered to the taxpayers and the tax officials, the respondents confirm the increase in the tax morale increase the level of voluntary tax compliance.

The statistical findings, confirm that there is a significant relationship between the level of tax payer morale and voluntary tax compliance. Christina, Deborah and Gray (2003), Conducted a similar study to determine the economic and behavioral factors affecting tax compliance among taxpayers in the United States of America. The objective of the study was to determine the economic and behavioral factors, affecting the tax compliance among tax payers, in the Arkansas City tax penalty amnesty system. Arkansas City had announced an amnesty system, whereby the non-compliant traders were waived of the penalties and fines provided that they were ready to pay their tax liability supposed to be paid and they did not pay.

Using questionnaires administered to the participants of this amnesty program, the respondents identified factors that made them not to pay their taxes due, within the statutory period and not declaring the correct taxable income, as complexity of the tax laws, ability to pay, ignorance of the tax laws, and the perceptions of high tax rates and unfairness of the tax system. A significant portion of non compliance was unintentional, caused by the complexity of tax laws and ignorance, as most of the tax payers did not understand their tax

liabilities or their tax obligations which has affected their morale. The results confirmed that there was a significant positive relationship between taxpayers' morale on the tax matters, and the voluntary tax compliance. These findings are in agreement with the findings of this study.

4.7 Reflections

The results from all the analysis done point towards tax compliance can be enhanced by use of social norms. These lead to the researcher to have various thinking. For example why is that citizen in developed world like USA and UK pay tax voluntarily. Very few chances are found that tax payers underestimate tax payable. The answers of this question were confirmed by Fjeldstad, (2000) who argued that in the developed world tax management agencies have adopted social norms and that is why people, tax payers are accustomed to paying tax voluntarily. This statement cements the need for a model in Tanzania incorporating social norms into tax administration and practices to improve tax compliance.

CHAPTER FIVE

DISCUSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Based on the study findings, there is an urgent need to integrate social norms in tax collection practices in Tanzania. The findings from the study provide insights which can be foundations for incorporating social norms in tax collection.

5.2 Summary

The specific objectives of the study were; to examine the relationship between social norms and taxpayers' morale, to examine the relationship between taxpayers' morale and tax compliance and to examine the relationship between social norms and tax compliance in Tanzania. Factor analysis was done to examine whether the constructs used were good measurements for the variables. All the constructs from all the variables were confirmed to a good measure of the variables.

The study found that the relationship between social norms and taxpayers' morale as tested using Pearson Correlation, the results was 0.782 which meant the relationship between social norms and taxpayers' morale was strong, and any change that would be made in the social norms would strongly change taxpayers' morale. Also the relationship between taxpayers' morale and tax compliance was 0.767 which meant the relationship between taxpayers' morale and tax compliance was strong, and any change that would be made in increasing taxpayers' morale would strongly change tax compliance hence voluntary tax compliance.

The findings showed that the relationship between social norms and tax compliance as tested using the Pearson Correlation result was 0.855 which meant the relationship between social norms and tax compliance was strong, and any change that would be made in social norms would strongly change tax compliance

Further regression analysis results showed a significant linear relationship between social norms, taxpayers' morale and tax compliance ($F = 40.465$, $\text{sig} = 0.000$). It is a linear relationship because $\text{sig} < 0.05$. Social norms and taxpayers' morale explain 25.2% of tax compliance. Social norms ($\text{Beta} = 0.370$) explains/ influences more of tax compliance than taxpayers' morale ($\text{Beta} = 0.187$). This implies that a 100% change in social norms led to 37% change in tax compliance and 100% change in taxpayers' morale led to 18.7% change in tax compliance.

There was a significant relationship between the variables in the conceptual framework. Social norms significantly influences tax compliance, taxpayers' morale also has a significant positive relationship with tax compliance. This is similar to Sandmo (2005) who stated that people refrain from tax not only from their estimates of the expected penalty, but for reasons that have to do with social and morale considerations.

5.3 Conclusion

The study concludes that if social norms are adopted in the Tanzania tax administration and practices would enhance behavioural changes by tax payers, make tax payers happy and change mind set of tax payers positively towards tax payment and declaration of tax returns. Also it was concluded that social norms will assist in Tax Compliance as shown in figure 5.1, since the relationship between social norms and taxpayers' morale as tested using Pearson Correlation was 0.782 which meant the relationship between social norms and taxpayers' morale was strong, and any change that would be made in the social norms would strongly change taxpayers' morale. Also the relationship between taxpayers' morale and tax compliance was 0.767 which meant the relationship between taxpayers' morale and tax compliance was strong, and any change that would be made in increasing taxpayers' morale would strongly change tax compliance hence voluntary tax compliance. The relationship between social norms and tax compliance as tested using the

Pearson Correlation result was 0.855 which meant the relationship between social norms and tax compliance was strong, and any change that would be made in social norms would strongly change tax compliance. These show that if TRA as the government department mandated to collect taxes increases application of social norms then more and more tax payers pay their tax voluntarily hence more tax compliance.

5.4 Implication of the Study

The question becomes more significant when it is put in the context of the current rapid industrialization and austerity measures by the government of Tanzania, policy changes and sustainable development needs. These require a rapidly growing revenue to have strategies, methodology and tools for the management and assessment of tax administration and practices. This is important for meeting improved development objectives. This must involve continuity, integrated models and policy for enforcement of tax compliance. The author presents a model that can be used to highlight the trade-offs and promote sustainable tax compliance (Figure 5.1). The governments of Tanzania and other sub Saharan Africa Countries may wish to replicate this model in the same context.

5.5 Recommendations

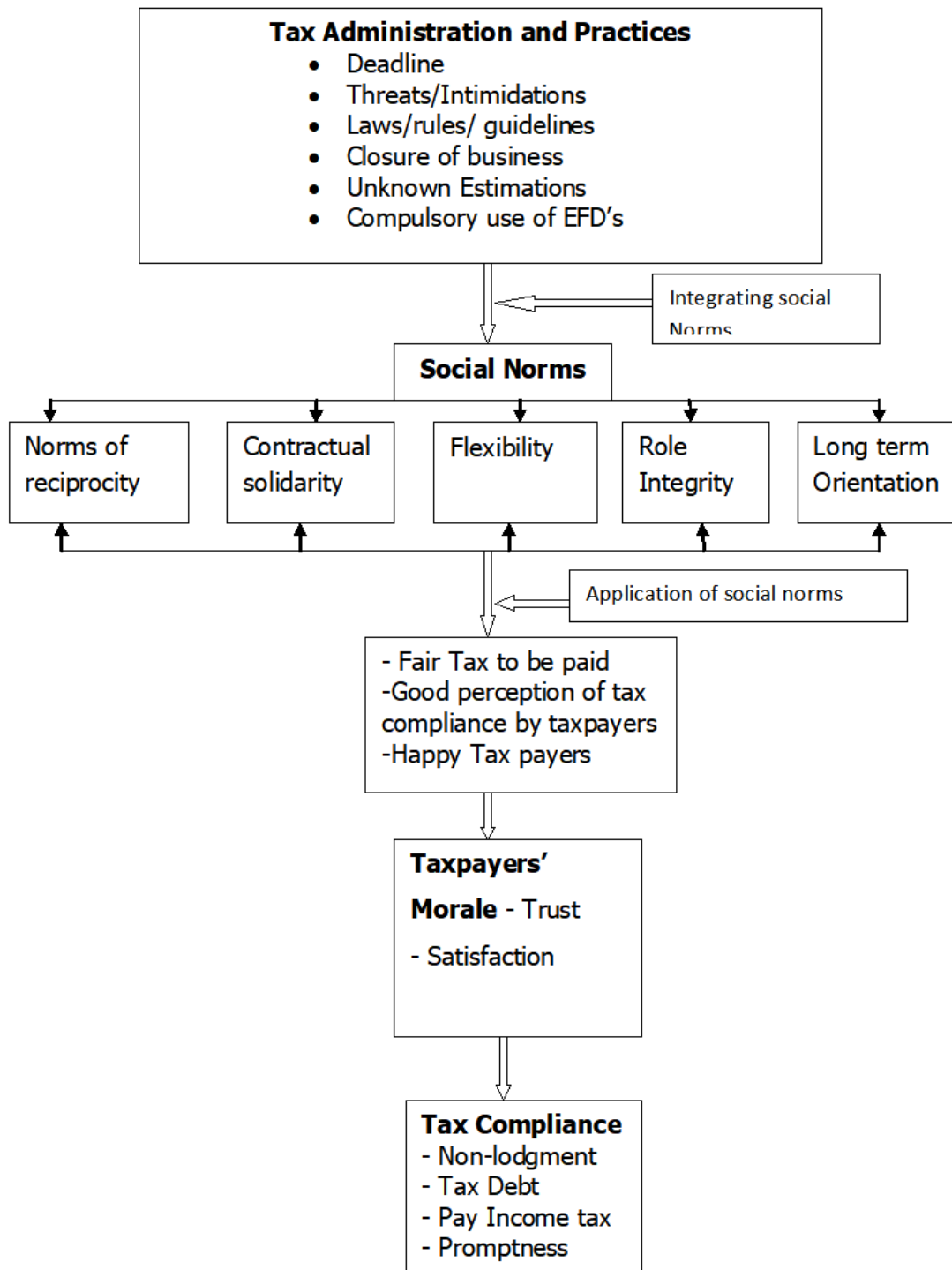
The study recommended the following recommendations;

- i. TRA nurture positive social norms, which will create an enabling platform for taxpayer satisfaction and trust.
- ii. The tax assessment procedures should be improved to enhance trust of the government.
- iii. The tax assessment procedures should be improved to enhance trust of the TRA officials. The more the taxpayers feel that the government and the tax officers are not trustworthy, the more they will be tempted to evade taxes.

- iv. To enhance tax compliance among taxpayers TRA should establish harmonious working relationship with all stakeholders, vigorous public relations to reverse the negative image of the institution.
- v. There should civic education carried out to increase awareness, educate the public and remind them that they are partners as opposed to mere threats of compulsory payment of tax.

Thus, to increase the tax collection in Tanzania the study recommended TRA to use the proposed model integrating social norms in tax collection. The study proposed tax compliance model as shown in Figure 5.1

Proposed Tax Compliance Model



Source: Researcher (2017)

Figure 5.1 Proposed Tax Compliance Model

5.6 Areas of Further Research

The study investigated Norms of reciprocity, Contractual solidarity, Flexibility, Role Integrity and Long term Orientation. Other study can be done to investigate other norms that this study did not investigate. Also other studies need to be conducted on if personal characteristics and behavior of tax payers has effects on parameters of social norms.

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APPENDIX I: QUESTIONNAIRE

Questionnaire for Tax Payers

Dear Participants, am a student of PhD (Business Administration) at Kampala International University in Tanzania. I am conducting a research on ***"Improving Tax Compliance with Emphasis on Integrating Social Norms in Tax Collection Practices in Tanzania"*** as to better understand the suitability of integrating social norms in tax collection. Kindly fill up this information and return. Any information obtained for this purpose will be kept strictly confidential and will only be used for academic purpose. Your cooperation will be highly appreciated in this regard.

Thank You!

PART A: DEMOGRAPHIC CHARACTERISTICS

(1) Gender: Male: () Female: ()

(2) Age group: 18-35 (), 36- 45: () 46-55 () 56 and above

(3)Level of education: postgraduate (), Degree () Diploma (), certificate ()
Other ()

(4) What is your experience in paying tax?

1-2 years ()

3-5 years ()

6-8 years ()

7-9 years ()

10 and above years ()

PART B: SOCIAL NORMS

Statements	SA (5)	A (4)	NS (3)	DA (2)	SD (1)
We have an ongoing relationship with TRA					
Maintaining an ongoing relationship with TRA is important to us					
In this relationship taxpayers and TRA both expect a lot from each other.					
Our relationship with TRA will last					
Our relationship with TRA can be described as a long-term venture.					
In this relationship with TRA we expect long term goals					
TRA and taxpayers do not expect court resolved conflicts					
TRA is committed to improvements that benefit our business					
TRA treats us well					
During negotiations TRA is always fair					
TRA helps us when we face problems					
Our relationship with TRA will be beneficial in the long run					
TRA values our business					
TRA values our business					
As taxpayers we always adjust to meet TRA needs and demands					
As taxpayers we are flexible with TRA issues					
Our relationship with TRA is beyond the duty to pay tax.					
TRA's tax decisions are easy to understand					
In case of mistakes we are patient with TRA					
We are always fair to TRA					
Our relationship with TRA is with a lot of benefit expectation					
We are committed to paying our taxes					

PART C: TAXPAYER'S MORALE

Statements	SA (5)	A (4)	NS (3)	DA (2)	SD (1)
TRA officials are always smart					
We are happy with TRA's friendliness					
We are pleased with TRA interest in us as taxpayers					
Our grievances are answered completely by TRA					
We are satisfied with TRA quality of services					
We are pleased with way TRA handles taxes					
TRA keeps the promise they make to us					
TRA is always honest with us					
TRA is trustworthy					
TRA is interested in our success					

PART D: TAX COMPLIANCE

Statements	SA (5)	A (4)	NS (3)	DA (2)	SD (1)
We do not have outstanding debt with TRA					
TRA has never penalized us as we pay taxes on time					
We pay taxes in time					
We pay actual tax assessed					
We pay TRA bills first before any other bills					
We disclose all income earned for tax purposes					
TRA has never threatened us about an outstanding bill to clear					

APPENDIX II: INTERVIEW GUIDE

FOR TRA OFFICIALS

1. How do you rate TRA officials' relationship with tax payers?
2. In your view do you think the relationship with Tax payers is long term and can help tax compliance?
3. Do you think social norms can improve tax payer's morale and enhance tax compliance? Explain
4. What is your opinion TRA officials' friendliness to tax payers towards tax compliance?
5. How are grievances handled by TRA? Are they answered to the comfort of all parties?
6. Do TRA officials threaten tax payers on outstanding bills? And how do you think this has towards tax compliance?