AN EVALUATION OF THEFACTORS AFFECTING VALUE ADDED TAX (VAT)
REVENUE COLLECTIONS IN TANZANIA.

A CASE STUDY OF TANZANIA REVENUE AUTHORITY (TRA) MWANZA.

BY

HELENA ROBERT

BEC/38937/123/DU

A RESEARCH DISSERTATION SUBMITTED TO THE COLLEGE OF ECONOMICS
AND MANAGEMENT IN PARTIAL FULFILMENT OF THE REQUIREMENTS

FOR THE A WARD OF BACHELOR'S DEGREEOF ARTS IN

ECONOMICS OF KAMPALA INTERNATIONAL

UNIVERSITY

JUNE, 2015

DECLARATION

Helena Robert, hereby declare that the work presented herein is my own work and has never been submitted to any other university or Higher Learning Institution.

Signature..

.... Helena   Robert ....

Date............ 12th June 2015 ....

APPROVAL

This research report is submitted for examination with my approval as a university supervisor

Sign

.... [signature] ....

KAWISO Martin Wilfred (PhD Cand)

SUPERVISOR

DATE

...Friday June 12, 2015...

DEDICATION

dedicate this work to my parents Mr. Robert M. Msompola and Mrs. Stella Mwiganikwa.

ACKNOWLEDGEMENT

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

he study focused on the evaluation of the factors affecting the Value Added Tax revenue ollection with the view of assessing the levels of taxpayers' knowledge, the level of tax evasion nd compliance since it was introduced. Moreover, the study investigated the effectiveness of the ıx administration in addressing the problem with particular reference to how effective is the ıxpayers registration system, effectiveness of VAT return filing and tax education services.

he study revealed that taxpayers are not registering voluntarily unless they believe that it is eneficial for them to register, many taxpayers eligible for VAT registration are still not included ı the tax net, policymakers concentrating on increasing tax collections targets on known and xisting taxpayers. All these are due to ineffective registration system and inadequate tax staff to ring more eligible taxpayers into tax net and broaden the tax net.

he study also showed that some taxpayers' declaration in VAT returns are not correct and VAT ılf-assessment is unreliable, tax evasion through non-issue of tax invoices or receipts are ommon and the general public is not aware of the need to demand tax invoices or receipts when urchasing goods. Tax education and audit have not enhanced the level of voluntary compliance.

he study recommends taxpayers education to enhance compliance to tax laws, tax education on :turn filing, effectiveness of the tax registration system, dissemination of awareness to the eneral public on the need to demand tax invoices or receipts when purchasing goods and the eed to conduct tax audits with a view to detecting incidences of tax evasion.

he study leaves the room for further study such as zero rated supplies, Exempt supplies special :liefs, Tax evasion by small business operators who are not eligible for VAT registration, Tax vasion of taxes and duties through under valuation of imported goods and tax evasion of taxes nd duties through under valuation of imported goods and Tax evasion of taxes and duties ırough smuggling across boarder stations.

LIST OF ABBRIVIATIONS / ACRONYMS

CED   Customs and Excise Department

CIF   Cost, Insurance, and Freight

CIT   Corporate Income Tax

DRD   Domestic Revenue Department

DSE   Dare es salaam Stock Exchange

EEC   European Economic Community

FAD   Fiscal Affairs Department

GDP   Gross Domestic Product

IMF   International Monetary Fund

LTD   Large Tax Department

PAYE   Pay As you Earn

TID   Tax Investigation Department

TRA   Tanzania Revenue Authority

URT   United Republic of Tanzania

VAT   Value Added Tax

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

This chapter elaborates the back ground of the study, problem statement, objectives, research questions, scope and significance of the study and the limitations.

.1 Background of the study

Taxation forms an important part of any fiscal of any government. Through taxation the government raises the revenue which is required for recurrent and development expenditure and or implementing various social and economic policies. Citizens of any country have a civic obligation to pay taxes to the government to enable it meet the cost of providing the socio-economic services to its people.

Taxes are divided into two main categories; direct and indirect taxes. Direct taxes, levied directly on people's income from employment, business, or ownership of property and investment. The impact and incidence of tax falls on the same person that is; incident cannot be shifted to another person for example corporation tax, pay as you earn (PAYE) and withholding taxes such as rental tax, dividend tax, royalties tax and technical services tax. Indirect taxes are based on consumption. For example import duty, excise duty, and value added tax (VAT). By definition the legal incident of the tax falls on trader who acts as a collection agent of the government while the effective incidence falls on the final consumer of goods or services that eventually pays the tax.

Tanzania introduced the VAT in 1998 after abolishing the sales tax. VAT an indirect tax, which is levied upon the supply of any taxable goods or services by any business that is registered for VAT, this continuous excise is to rationalize the tax system and its Furtherance of the business. VAT is also levied on the importation of goods and services. It is administered by the domestic revenue department in collaboration with large taxpayer department and customs and excise department. However, most of the work of collecting the tax falls on the VAT registered traders who collect tax and hand it over to the Tanzania Revenue Authority (TRA)

TRA was established by an Act of parliament of 1995 charter 399 of the laws, and started its operations on 1stJuly 1996. In carrying out its statutory functions, TRA is regulated by Law, and is committed to administering impartially the various taxes over which it has responsibility.

Since the establishment of TRA, The government has been reviewing the tax structure, which covers both direct and indirect taxes. The objective of this continuous exercise is to rationalize the tax system and it friendlier to both local and foreign investors.

The creation of the TRA in 1996 was one such noble attempt to address the inefficiencies inherit in the tax system and administration. Prior to the establishment of the TRA, revenue collection was taken as a routine activity than as a strategic tool for influencing development objectives. Since its formation (by an Act of Parliament), the TRA has asserted itself as a development partner to government rather than as a mere revenue collection agency.

The TRA Act CAP.399 (revised 2006) gives the Authority the mandate to perform the following functions:

Assess, collect and account for government revenue, Administer effectively and efficiently all the revenue laws of the central government, Advise the government on all matters related to fiscal policy, Promote voluntary tax compliance, Improve the quality of services to the taxpayers, Counteract fraud and other forms of tax evasion and Produce trade statistics and publications.

TRA started from a very low performance base in terms of efficiency and effectiveness. Since its establishment, it has been in a continuous reform, modernization and transformation. The Authority has systematically introduced and consolidated fundamental institutional change in its organizational structure, operational systems, processes and procedures as well as championed positive public perception orientation of the tax payers. These reforms have largely contributed to the phenomenal success of TRA. The impressive revenue collection achievements in recent years are a testimony to the authority's unique efforts at effective systems integration, modernization and management.

The Authority has successfully engineered a radical change in organizational culture where taxpayers are perceived and professionally treated as customers. TRA is now widely acclaimed as one of the good performers among the public service independent Executive Agencies in Tanzania.

2

1.2 Statement of the Problem

The value Added Tax (VAT) was introduced in July 1998 (Fiscal Year 1998/99) and replaced previous sales taxes and part of stamp duty and entertainment taxes. Most of the researchers have researched on effectiveness of revenue collections in public entities like local government. The government also noted that other indirect consumption and turnover taxes such as sales tax whose complex structure provides for an ample scope for evasion and sometimes corruption, have been a source of discontent ion by the trading community. Hence there was a need to streamline the tax system so as to encourage simple and conducive voluntarily compliance. However, not all the people under this prevailing tax system so as to encourage simple and conducive voluntary compliance. However, not all the people under this prevailing tax system who have income did pay income. This was true in relation to informal sector which was operating without contributing to the government spending. It was difficult to tax and was left untaxed. The introduction of VAT was considered to be a measure to force this sector to indirectly pay tax as traders in this sector will not be able to recover the tax paid on their purchases from registered traders. Increase in revenue, through VAT collection and management structure, is easy to realize and it is an efficient to administer. It is self-policing, which cuts down avoidance and evasion by imposing a legal requirement on registered traders to issue and keep taxes, sales and purchases receipts and other books of account for proper assessment of the tax. There are a number of administrative and compliance problems related to VAT in Tanzania; exemption and VAT special reliefs are narrowing the tax base, some of the VAT registered traders are not issuing tax invoices, some of the VAT registered traders are submitting payment returns without payments(Nil returns), non-accounting for VAT on branch sales. Furthermore, the tax evasion, involuntary tax compliance and the lack of tax knowledge to Tanzania's taxpayers are the other factors which narrowing the tax base and relatively low tax collection in Tanzania.

1.3 Objectives of the study

1.3.1 General Objectives

The objective was to evaluate the factors that affect VAT revenue collections in Mwanza City.

1.3.2 Specific Objective

i. To assess the levels of knowledge of tax payers in recording VAT accounts.
ii. To examine the level of tax evasion on the volume of VAT targets.
iii. To determine the level of tax compliance on the tax base.

.4 Research Questions

i. What is the level of knowledge that tax payers do have in recording VAT accounts?
ii. What is the level of tax evasion on the VAT collections?
iii. What is the level of tax compliance on the tax base?

.5 Significance of the study

This study was important as it provided policy and decision makers insights on how tangible tax collection can be achieved in Tanzania in order to attain intended objectives given the inherent obstacles facing tax revenue collection.

The study contributed to the knowledge already available taking into consideration the fact that VAT was a new tax system in Tanzania's environment and only a few researches had so far been conducted on it. Therefore, the study was used as a source of literature for further research.

.6 The limitation of the study

In undertaking this study the researcher faced the following limitations;

.6.1 Non response and willingness to cooperate

None response from the management and other employees of the organization was a serious obstacle to the researcher in carrying out the study. Some respondents were not willing to cooperate and unable to fill the questionnaires as appropriate and return them on time.

4

CHAPTER TWO

LITERATURE REVIEW

Tax administration in Tanzania had a three-tier structure, namely Central Government tax administration, tax administration in Zanzibar and local Government tax administration. The TRA administers the Central Government tax; Zanzibar Revenue Board administers domestic consumption taxes in Zanzibar, while the Local Authorities Administer (LAA) the various local imports. Central Government taxes are the major revenue earner for the Government, accounting for about 90% of domestic revenue.

2.1 Theoretical Review

The Indian tax structure was between central, state and local governments. The taxes levied by the central government are on income, customs duties, central excise and service tax. The state government levies VAT, sales tax where VAT is not applied, stamp duty, state excise, land revenue and tax on professions. Local bodies, levy tax on property, and for utilities like water supply, and drainage. Since April 1st 2005, many state governments in India have replaced the sales tax with VAT (www.tradechakra.com).

2.2 Review of Related Studies

Lymer and hancock (2002) define the term "tax" as a compulsory levy imposed by the government, on income, expenditure or capital assets, for which the taxpayer receives nothing specific in return. They argued that, the primary purpose of imposing a tax is to raise money for public spending.

Various countries and authors looked on this in direct tax and gave various definitions which generally ended with the same meaning.

The URT-VAT act 1997, defines VAT as a construction tax levied on a wide range of supplies of goods and services. It is a multistage tax on the value added to goods and services by producers and traders at each stage of production and /or distribution (URT-VAT act, 1997). VAT is therefore, expressed as the difference between the invoiced value of goods and services provided by the trader and the invoiced value to him on the goods and services which he has acquired.

Lindholm (1980) defined VAT as a tax on a gross receipt or gross income to selling firms on his purchases. He contains that the concept of VAT can be viewed as a tax on the values of a commodity paid by a seller who eventually passes such tax forward to the purchaser of his output through increased prices equal to the gross amount of the tax.

Due (1981), saw value added by business firms as the difference between the receipts from the sales of the firm's products and the sum of the amounts paid by the firm for goods and services purchased during the period form the business firms.

2.6 Evaluation of Taxpayers Registration System

Every person, sole proprietor, company, partnership or any kind of legal entity that engages in an activity that is taxable under VAT and is within the specified and agreed threshold is required to register for the tax. In Tanzania all traders engaging in taxable goods and services with turnover of Tshs. 40million and above per annum are required to register for VAT. But if there is no effective mechanism to identify those traders, it is mostly likely that, the most of those traders will not be included in the VAT net (tra,2007).

Bird(2004) observed that, a good registration process is a critical ingredient of a good VAT system. The reality of applicants for new registration must be verified. He also noted that, in a well designed and adequately administered VAT system the incentive to register for most traders are sufficiently great so that it should not be necessary to undertake any extensive outreach registration process. If VAT system is well-designed an administratively credible, registrants will come into the system voluntarily since it will be so clearly in their interests to do so.

According to the evaluation by DFID in 2001 some countries have concentrated exclusively on increased compliance by existing taxpayers at the expense of widening the tax net in order to meet IMF demands (DFID, 2001).

Traders may avoid registering for VAT by claiming that they fall below the statutory threshold level. In a study conducted in Nepal, Jyoti (2002) noted that, one easy method to evade VAT is to show one's transactions as falling below the threshold level. He contends that, the competitors are more capable than the tax administrators to make a correct estimate of the trading volume of each other. It would be better idea to mobilize the chambers of commerce to assess whether a

particular traders transaction volume is in fact below the VAT threshold (http://www.nepalnews.com.np).

2.7 Evaluation of Taxpayers VAT Return Filing

Taxpayers who are VAT registered required to file to monthly returns showing all taxable sales and taxable purchases with their corresponding output tax and input tax which is compared to determine whether the tax payer is liable to pay VAT or he has repayment. As VAT is a self-assessment tax, there is a doubt by tax administrators as to whether taxpayers' declarations are reliable. Waweru noted that the introduction of electronic Tax Register will collect up to Kshs.10billion annually which is VAT monies that Kenyans pay over shop counters which never reach the intended destination but instead ending up in the pockets of unscrupulous traders denying the government the resources necessary to facilitate service delivery improvement. This implies that, most traders in Kenya do not declare some of the sales in their monthly VAT return that is why KRA launched ETR programme to all traders engaging in business (http://www.kra.go.ke/speeches).

In a study conducted in Nepal in 2002, Jyoti noted that, it is easy for taxpayers to evade VAT because there are sufficient arrangements to check whether all the transactions are being invoiced and whether all the invoices record the correct and actual transaction value. He further noted that, there have been no effective steps taken to enforce the threshold; those who wish to evade the VAT can do so very easily. He observed that, if the taxpayer evades VAT or customs its effect will be more than reduced government revenue. It adversely affects the businesses of the other businessmen who honestly pay VAT or customs (http://www.nepalnews.com.np). The idea here is that there is a belief that traders do not issue the correct tax invoices when selling the goods to their customers with a view to evade VAT.

2.8 Evaluation of Tax Audits to Tax Payers

The complaints raised may stem from the fact that, as in most of sub-Saharan Africa, a tax paying culture is lacking. As argued by the former Director of the "Board of TRA" "The problem is the transaction of mindsets of people who are not used to paying taxes, because 00percent profit is considered normal profit".

7

Nevertheless, the perception by corporate business of the tax system as unfair is a major hindrance to the development of voluntary tax compliance and a level of trust between the tax authorities and the taxed. The frequent tax audits conducted by the Revenue Authorities save to illustrate the lack of voluntary compliance and low level of mutual trust (Obwona,2001). He noted that, in extreme cases the tax authorities may create incentives for business to deregister to avoid taxation and hence fail to widen the tax base and increased revenue yield.

In the study conducted in Uganda, Therkildsen (2002) observed that, donors and the Ugandan Ministry of finance by pushing for high revenue targets, have undermined the Uganda Revenue Authority's credibility in the eyes of the public who are taxpayers and the general public, as the targets on VAT and other taxes have been unrealistically high, reducing the degree of tax compliance and setting in motion incentives to evade tax by the traders.

Silvani(1992) noted that, tax audit is the core function of VAT administration as VAT is a self-assessed tax. To begin the data must exist in order to design sound audit design policies for those already in the tax net. In principle such audits should be done both randomly and on a more selective basis taking into account the risk profile of different types of taxpayers. Since VAT is applied in effect to the difference between sales and purchases or the gross margin, a critical factor is the reported mark-up coefficient, which is a ratio of supplies to inputs. He noted further that, taxpayers who report a low mark-up have a strong likelihood of turning out to be tax evaders and firms in particular lines of industry that report markedly lower mark-ups than their competitors would seem to bear close and automatic examination by tax auditors. Silvani (1992) further observed that, if the tax administration system is not effective and unable to detect under-declaration of taxes, the possibility of under-declaration of VAT is likely to flourish and undermine the VAT base. It is further worse if the tax laws enforced are weak in terms of fines and penalties. The heavy fines and penalties should be used as deterrent factors to reduce incidences of tax evasion.

Grandcolas(2004) noted that, VAT audits result in increased tax revenue in two ways, first directly through additional taxes assessed and secondly by discouraging under reporting of tax liabilities by all taxpayers. The second aspect or the deterrent effect of audits is believed to be at least as valuable as the additional taxes assessed directly. He further noted that, taxpayers will report their tax liabilities more accurately if they believe that the tax administration has the

capacity to detect any unreported VAT liabilities and that heavy penalties will be applied when they are detected. The main issue to note are to what extent the registered taxpayers believe that, any attempt to under-declare VAT when making self-assessment of their taxes is likely to be detected by tax administrators when auditing their VAT affairs.

The Central Government taxes comprise direct and indirect taxes. The direct taxes account for around 30% of total tax revenue, while the Indirect taxes account for 70% of total tax revenue. Direct taxes include the personal income taxes (PIT), corporate income tax (CIT), Withholding taxes on business, capital and investment income. The indirect taxes comprise on international trade transactions and on domestically produced goods and services, namely the value added tax, excise and import duties. The tax base and the rate structure of the Tanzania tax system has been rationalized and streamlined with a view to instituting a fair, simple, equitable, efficient and taxpayer/investor-friendly tax regime. A number of nuisance taxes have been abolished, the regulatory framework has been abolished, the regulatory framework has been harmonized, an incentive regime has been put in place and the rates have been gradually reduced. To attract investment the Government has abolished protectionist excises, replaced the distortionary sales tax with Value Added Tax and removed the two-tier Corporate Tax that provided for a reduced rate for residents and higher rate for non-residents for a single. The tax rates for selected tax resources in Tanzania are as shown on the following tables below:

Table 1: Tax rate in Tanzania

A. DIRECT TAXES		RATES	
	TAX SOURCE	RESIDENTS	NON-RESIDENTS
1	**Corporate tax** • Total income of domestic permanent establishment. • Repatriated income of branch	30% N/A	30% 30% 10%
2	**Withholding Tax on:** • Dividends to company controlling 25% shares or more. • Dividends from DSE listed company. • Interest • Royalties • Technical services (mining)	0% 5% 10% 15% 5%	10% 5% 10% 15% 15%
	B. INDIRECT TAXES		
3	Value Added Tax (VAT) **VAT Registration Threshold:** Taxable turnover exceeding Tshs.40.0 million per annum. **VAT Rates**		
	Supply of taxable goods and services in Mainland Tanzania 18%		
	Importation of taxable goods and services into Mainland Tanzania 18%		
	Export of goods and certain services from United Republic of Tanzania 0%		
	Supply of taxable goods and services to relieved persons 0%		

Source: TRA Documentation2004

2.10 Value Added Tax (VAT)

2.10.1 VAT Deferment.

Importers of capital goods for investment in the lead and priority sectors do not pay VAT up front. Deferment of VAT payment on capital goods allows investors to enjoy the relief of tax before actual production starts. The scheme is basically designed to relieve traders of cash flow problems particularly in the establishment or expansion of existing business. VAT deferment on any capital goods imported, purchased, or received is open to all VAT registered and non-registered traders. The calculated amount of VAT is deferred when the VAT is treated as an input tax against the output tax collected from the sale of the produced goods or services.

2.10.2 Zero Rated Exports and Exempt Supplies.

In order to encourage export of locally produced goods from Tanzania; all exports are zero-rated under the VAT law. Goods are regarded as exported out the country if they are made available at an address outside Tanzania evidenced by a documentary proof accepted by the Commissioner for VAT. Certain goods and services are exempted from VAT for social or administrative reasons. Such goods or services are like food crops and livestock supplies, health supplies and hospital equipment, education services, financial and insurance services.

2.11 Value of Supplies.

Section 8 of the VAT Act has been amended by reducing the current VAT rate of 20% to 18% with effect from 1st July 2009. Therefore in case of VAT inclusive prices the tax will be determined by multiplying the price indicated on the tax invoice with 18/118 ratio (VAT Act: R.E.2006).

Other than for zero-rated supplies, VAT is charged at the rate of 18% on the value of goods or services supplied. The value of a supply of goods or services is equal to the value of the consideration (payment) for the supply less so much of the consideration as represents VAT, i.e. value of supply equal value of consideration minus VAT (VAT General Guide:2007).

When the amount of VAT is added to the value of supply the result is a tax-inclusive price. This is called the "Consideration" for the supply. Output tax and input tax can be calculated by applying the VAT fraction $r/(r+100)$ to the consideration. Where r is VAT rate. It is important to remember that: Value for a supply equal to the amount paid exclusive of VAT (or

consideration less tax); and Consideration for a supply equal to the amount paid inclusive of VAT or value plus tax (VAT General Guide2007).

2.12 VAT Charges Chain

Each VAT registered person in the chain between the first supplier and the final purchaser/user is charged tax on taxable supplies made to him (input tax) and charges tax on taxable supplies made by him (output tax). He pays over to the Commissioner the excess of output tax over input tax, or recovers the excess of output tax from the Commissioner. The broad effect of the scheme is that businesses are not affected by VAT except in so far as they are required to administer it, and the burden of the tax falls on the last purchaser/final consumer.

According to Ebrill et al, in their publication on tax systems in 2001 and 2002, VAT has been regarded as one of the major part of the tax system in over 136 countries and contributing about one-fourth (¼) of the world's tax revenue. In Tanzania VAT contribution is about (30-35) % on average of the total tax revenue annually. There are several potential sources of efficiency gain associated with adoption of a VAT. In practice, the VAT often replaces either a turnover tax or a singie-sLag it

Turnover taxes, however, bear on intermediated transactions, and so induce production inefficiencies; sales tax often do so too and moreover, can particularly be vulnerable to evasion and avoidance and so tend ultimately to levy high rates on narrow bases.

In other case, VAT has been adopted as part of the package of trade liberalization, compensating for the revenue loss from the reduction of tariffs whilst preserving the gains in production efficiency from moving producer prices closer to world prices. In Tanzania adoption of VAT is often seen as a central element in a program of modernizing tax administration, promoting self-assessment methods and compliance.

The debate regarding the welfare gains associated with the switching from trade taxes to the VAT is still questionable, in the presence of a large informal sector. There is little evidence mere presence of VAT has made it easier to cope with the revenue effects of trade liberalization (The Revenews, 2009).

A frequently cited advantage of VAT is that, this tax is collected throughout the production chain, giving it a practical -advantage. That VAT is easily enforced as it allows TRA to compare

reported sales of each intermediate product with reported purchases of producers using that intermediate product as input in a vertical production chain.

Although VAT may be an easier tax to enforce than income tax, VAT is not panacea because enforcing it involves spending resources on collecting and processing information, prosecuting and penalizing agents found underpaying or evading the tax. It is hence expected that VAT collection efficiency will increase with resources spent on enforcement, and with the efficiency of monitoring, collecting and processing information.

VAT is also criticized as being a regressive tax, which unfairly burdens the lower income households. That since consumption as proportion of income decreases as income rises, VAT payment by low-income households will be a higher proportion of their income than payments by higher — income households.

On import, the VAT and import duties that are payable at the port of entry are sometimes evaded by declaring the imports as transit goods and then the goods are diverted into the local market.

Where no taxes are paid on the imported goods the sale prices offered in the local market are quite competitive as the importers would sell at prices lower than similar imported goods in the market where duty and VAT has been paid. They would also be much cheaper compared to locally manufactured goods. This creates uneven playing field for traders and crowding of the market with cheap imports hence reducing tax revenue.

Independent exporters present yet another challenge. These categories of traders purchase from the multinational companies and thereafter purport to have exported the goods. Since the supplies to the exporters are zero rated, the MNE will claim VAT rebates on the basis of exporters' documentation. In this case if the goods are not exported, but instead sold on the local market, then the Revenue Authority loses revenue in terms of false rebate claims.

Following recent integration of TRA functions, the Authority has four revenue departments which are involved directly in the administration of various tax laws. In addition to the four departments, there are seven support departments.

The four revenue departments are: -

Domestic Revenue Department   (DRD).

Customs and Excise Department   (CED).

Large Taxpayer Department   (LTD).

Tax Investigations Department   (TID).

The seven support departments are:

Human Resources and Administration,

Finance,

Taxpayer's Services and Education,

Information Systems,

Research, Policy and Planning,

Internal Audit, and

Legal Service.

Diversion of goods meant for export also occurs in enterprises that manufacture entirely for export. Examples of such manufacturer are Export Processing Zones or those who manufacture under Bond. If such goods are diverted to the local market they enjoy a competitive edge over goods manufactured by enterprises outside the Export Processing Zones or the Bond manufacture.

Raw materials imported by these enterprises are also zero rated compounding the problem even more where this raw materials are utilized outside the export processing zones.

2.13 Conceptual Framework

The conceptual framework is made to develop a simple framework of the study showing the link or relationship between impacts of tax evasion, tax knowledge, and tax compliance with the VAT collection (base) in Tanzania as an effort to broaden the tax base to increase tax yield while

a narrow tax base is likely to result into low tax yield depending on the degree of tax evasion, tax knowledge and tax compliance.

The tax base of a country is defined as the scope of the taxable income or transactions and persons chargeable to tax as envisaged in the given country's tax legislation. Tanzania's tax base is substantially narrow and porous due to rampant tax evasion. Large part of economy is dominated by informal sector with economic environment dominated by unrecorded cash transactions or poor record keeping. This practice allows concealment of the true amount of money changing hands. Sometimes the transacting parties may mutually agree to adopt paralleled documents and only those with substantially lower amounts are used for tax purposes (The Revenues, 2004).

Osoro (1995), defined tax evasion as failing to pay taxes, which are legally due. He attributes the existence of tax evasion to cheating, which is a habit-forming and the presence of underground economy categorized in the parallel market, large informal sector and black market, for which the participants seem to be the most difficult for the tax authority to bring in the tax net and therefore broaden the tax base to increase revenue yield.

Lacks of voluntary compliance, tax knowledge and tax evasion are endemic problems in the Tanzania's tax system and to a large extent, have resulted into a narrow tax base and low tax yield despite the reform to VAT system, which aimed at widening the tax base and hence increase the tax revenue yield.

Therefore, the study aims at assessing impacts of tax evasion and tax knowledge as the influencing variables affecting the Tanzania's system in an effort to broaden the tax base with particular reference to the VAT collections in Tanzania.

In this study the VAT collections (base) is the dependent variable. The VAT base is operationally defined as the total consumption expenditure in an economy, less that part of public consumption that is not subjected to VAT (The Revenues, 2004).

The VAT base is largely influenced by the scope and coverage, that is, the number of goods and services that are subjected to tax and the stages covered taking into account the income and expenditure pattern of the consumers and the degree of compliance of the registered taxpayers (The Revenues, 2004).

15

On the other hand, tax evasion is the independent variable and is operationally defined as the failure of the taxpayers to fulfill their tax obligations through paying the rightful taxes and following all the required procedures as stipulated under the tax law for which the taxpayers are registered (The Revenues, 2004).

Voluntary tax compliance is the taxpayer's own willingness and friendly attitude or culture in fulfillment of his legal and procedural tax obligations. The level of tax compliance measures the degree of tax evasion in the tax system. The lower the tax evasion the higher the compliance rate and vice versa. Therefore, tax evasion is synonymous with lack of voluntary tax compliance and sometimes the terms are used interchangeably.

Tax knowledge is the situation whereby people or business entities get awareness and or understanding the contribution of their monetary income to government spending. It is expected that, the lack of tax knowledge cause involuntary tax compliance and narrow VAT base and vice versa.

In this case the VAT base is greatly influenced by the degree of tax evasion, the level of tax knowledge and the level of tax compliance in the VAT system and any efforts to increase or widen the tax base and increased revenue yield should attempt to decrease the negative impacts of tax evasion, knowledge and compliance in the tax system. Those countries, which have greatly reduced the negative effects in their tax system, have a wide tax base with high tax revenue yield (Heady, 2001).

The measurement criteria that were used to measure or test the degree of tax evasion, lack of tax knowledge or lack of voluntary tax compliance in order to achieve the study objectives were the effectiveness of the taxpayers' registration system, effectiveness of taxpayers' return filing and effectiveness of tax audits conducted to taxpayers to enhance voluntary tax compliance.

The tax base depends greatly on the effectiveness of the registration system of taxpayers. Therefore, the VAT base is influenced by effectiveness of the registration system of the taxpayers who are acting as collecting agents for VAT. All traders engaging in taxable goods and services with turnover of Tshs.40 million per annum are required to register for VAT. But if there is no an effective mechanism to identify those traders, it is most likely that most of those traders will not be included in the VAT net (TRA, 2007).

16

The liability to pay VAT f\alls on traders who are registered for VAT by TRA. Those traders are legally registered as VAT collecting agents. They are required to account for the VAT they have collected to TRA on a monthly basis. If all the registered or a significant number of taxpayers submit their tax returns with the right amount of tax payable or tax credit within the due date it is assumed that the level of tax compliance and tax knowledge is high and the degree of tax evasion is low (TRA, 2007).

VAT return is mandatory for those traders xno are egaVry 2S VK collecting agents. They have to submit their VAT returns monthly with the right tax payable or tax credit within the due date. But the problem is that VAT is self- assessment where by the tax payers are required to declare all the taxable sales and purchases when submitting the VAT returns. In the economic environments dominated by large informal sector and cash economy, it is most likely that some of the sales are not supported by tax invoices or receipts or recorded anywhere. As some of the transactions are not recorded it is again most likely that the taxpayers do not reflect these unrecorded sales in their VAT returns. This means that, they have failed to fulfill their tax obligations as stipulated in VAT legislation prompting to say that they are engaging in tax evasion practices (TRA, 2007).

The effectiveness of taxpayers registration system and VAT return filing have been selected because they are measurements, which are compared to determine whether there is significant evidence to substantiate the existence or non-existence of tax evasion, high level of tax knowledge and tax compliance practices in the VAT system. VAT registered traders make self-declarations on their tax obligations, that is, there is self-assessment, and at this point, VAT administrators assume that there is voluntary tax compliance. Later on, to test taxpayers' voluntary tax compliance, VAT administrators conduct tax audits to substantiate the validity of the taxpayers' declarations, as there is no mutual trust between the tax authority and the taxpayers

(TRA, 2097)

The effectiveness of tax audits measurements were selected because the researcher believes that if the tax audits are not effective, it is most likely that the level of voluntary tax compliance would b low and the magnitude of the problem of tax evasion in the VAT system is also likely to

be high. It is the perception of the researcher that the tax evasion variable has negative impacts in the efforts of VAT administrators to broaden the tax base resulting in decreased tax yield.

Independent variables   **Dependent**
variable

Tax knowledge

Tax evasion	→	VAT Collections base

Tax compliance
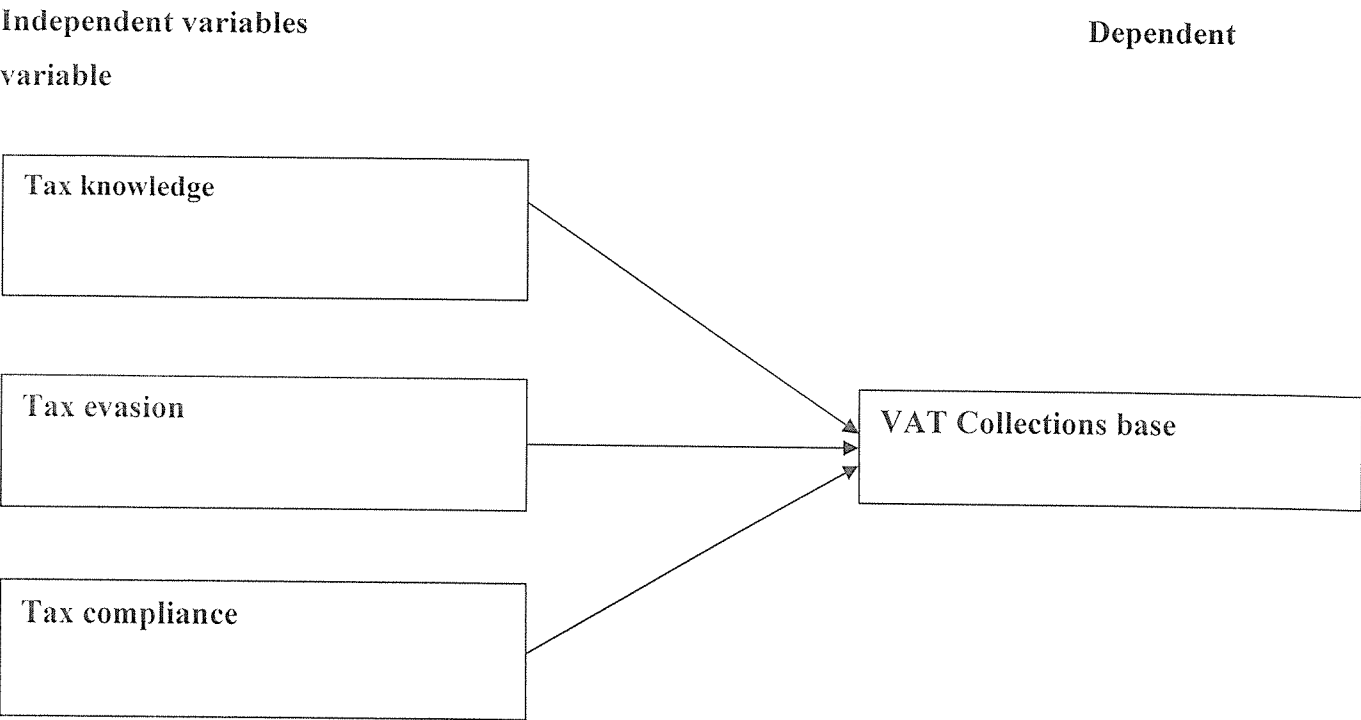
Figure 1: Showing the conceptual frame work

CHAPTER THREE

RESEARCH METHODOLOGY

This part indicates various methods, techniques or tools that used together data and the use of combination methods to obtain both secondary and primary data. This chapter also contains the Research design, Research techniques, Unit of inquiring and analysis, sampling procedure, sample size, methods of data collection, Source of data to be collected, and Data collection methods used in the research process.

3.1 Research Design

The type of study design for this study is case study, This involves the general idea on how data will be collected which includes problem formulation, site selection, means of data collection techniques such as observation, participatory, questionnaires, interviews and documentary reviews. Case study is the type of research design the researcher use in doing his research.

Proper harmonization of these stages, contributes to the researcher to archive the great output with optimum information and minimal expenditure of efforts, time including money. This sort of design is all about studying or collecting information within one particular social setting or an organization and hence concentrates on one unit only. In detail manner, the study will be conducted using exploratory research design.

3.2 Area of the Study

The research was conducted at Mwanza city. This has been selected due to its fastest expansion and growth which make it the one among the big five regions of revenue collections in Tanzania in spite of poor VAT collections.

3.3 Data Types

A crucial research technique was employed, a qualitative research technique used as the fact and phenomenon of the study expressed in terms of quality and kind, on the other hand quantitative technique was adopted, so as to come up with a correct and more convenient report. The researcher used numerical methods to arrive at desired goal.

3.3.1 Qualitative data

This is a technique which use non-numerical data or data that will not be quantified.

The researcher used this technique for non-standardize data base on meanings that need to be expressed through words.

3.3.2 Quantitative data

This technique uses numerical data or data that will be quantified. The researcher applied it to analyze and describe numerically, quantitative techniques assist the researcher to estimate answers of the questions of mathematical nature such as calculation of percentages and statistics.

3.4 Population Study

The TRA staff, taxpayers and other interested stakeholders was the unit of the study in Mwanza City.

3.5 Sample Size

The sample size comprised of fifty (50) respondents who were taken to represent the whole population involved in the study. The researcher divided the population into three strata, that is department leaders (four respondents), staff (eleven respondents), and taxpayers (twenty five respondents), tax stakeholders (Tax consultants) ten respondents. In this study the sample size was taken by taking into consideration the number of departments and categories of taxpayers for better comparison of data obtained from Mwanza streets and coming up with reasonable conclusion.

3.6 Sampling Procedure

Sampling procedure in this study includes three types of sampling technique has been conducted. These are as follows:

3.6.1 Purposive Sampling

This type is used in order to get the name of heads of department to be interviewed. Simple random used in order to get a list of workers to be drawn from which table of random was used to obtain the names to be involved. The age and level of education for the respondents were considered before distributing the questionnaires. This aimed at getting responses from respondents who are matured and have adequate knowledge and experience about VAT. The age

and level of education for the respondents sampled and who responded to the questionnaires are as in table 3.6.2 and table 3.6.3 below respectively.

Table 3.6.2: Ages of the Respondents

Respondents	VAT Tax payers		VAT Officers		Tax stakeholders	
Age	Number	Percent	Number	Percent	Number	percent
Between 18-40	13	52	11	73.3	7	70
Above 40	12	48	4	26.7	3	30
Total	25	100	15	100	10	100

Source: Researcher May,2015

Table 3.6.2 above shows the distribution of the respondents in terms of their age. 13 taxpayers (52%) were between 18 and 40 years old and 12 (48%) were above 40 years old while 11 VAT administrators (73.3%) were between 18 and 40 years old and 4 (26.7%) were above 40 years old and the tax stakeholders 7 (70%) were between 18 and 40 years old and 3 (3 0%) were above 40 years old.

Table 3.6.3: Level of Education of the respondents

RESPONDENTS	VAT Tax payers		VAT Administrators		Tax stakeholders	
Level	number	Percent	Numbers	Percent	number	Percent
None	0	0.0	0	0.0	0	0.0
Primary	17	68.0	0	0.0	0	0.0
Secondary	6	24.0	0	0.0	0	0.0
Professionals	0	0.0	4	26.7	5	50.0
Diploma	0	0.0	5	.333	4	40.0
Graduate	2	8.0	4	26.7	1	10.0
Post graduate	0	0.0	0	0.0	0	0.0
Masters and above	0	0.0	2	13.3	0	0.0
Total	25	100.0	15	100.0	10	100.0

Source: Researcher May, 2015

Table 3.6.3 above shows the distribution of the respondents in terms of their level of education. 17 (68%) of the taxpayers who responded had only primary education, 6 (24%) had only secondary education and 2 (8%) had graduate education while 4 (26.7%) of the VAT administrators had only professional qualifications, 5 (3 3.3%) had diploma education, 4 (26.7%) had graduate education, 2 (13.3%) had got masters and above. And for the tax stakeholders 5 (50%) had only professional qualifications, 4 (40%) had diploma education and 1 (10%) had got graduate education.

3.6.4 Cluster Sampling

The researcher divided the total population into the following groups; Accounting department, Operation department, Domestic revenue department and Investigation department. The researcher used cluster sampling because it was appropriate for case study design; it is less costly and can be obtained easily.

3.6.5 Simple Random Sampling

In simple random sampling researcher assured that each element has got equal chance of being included in data storage from which the probability sampling was applied in determining the sample.

3.7 Data Collection Techniques

3.7.1 Questionnaire

The structure questionnaires will be prepared for gathering relevant data and information from both taxpayers and employees of the organization. Both close questionnaires which consist of "Strongly Agree, Agree, Disagree" or "Strongly Disagree" questions and open questionnaires invite free response) will be used. The questions will beset in such a way that they will be short and clear so as to facilitate easy acquirement of data and information from the respondents.

3.7.2 Documentary Review

This method was applied in written material of the organization to collect secondary data necessary to answer research questions. These were including information obtained from manuals, journals, books, magazine and other organization's publications.

3.8 Source of Data

The researcher collected both primary and secondary data in order to achieve research objective to the sound level relate with the study.

3.8.1 Primary data:

Closed and open ended questionnaires were formulated and employed to get information from TRA staff, tax stakeholders (consultants) as well as selected number of taxpayers. This method were employed in order to give more freedom to respondents so that they can give their views and opinions regarding the subject under investigation.

3.8.2 Secondary data:

Secondary data were collected from official such as files, monthly reports, books and e-sources. Data obtained in this manner includes number of registered taxpayers, Targets levels of revenue collected for the period under consideration, levels of exemption and tax holiday incentives.

3.9 Data Presentation and Analysis

The researcher presented and analyzed the data at the end of the study. The researcher analyzed the findings by using descriptive statistics methods such as frequencies, percentages and mean, enabled the presentation to be more friendly to users.

DATA ANALYSIS, PRESENTATION AND DISCUSSION

This chapter presents findings, analyses and discussions. Descriptive method of data used. The data collected have been grouped in accordance with the research objectives and questions as stated in chapter one. The analysis uses primary and secondary data gathered from the field through documentation from different TRA. Literature, through questionnaires, and interviews to TRA staff taxpayers. The analysis is based on answering three research questions; firstly, what is the level of taxpayer's knowledge do have in recording VAT accounts; secondly, what are the effects of tax evasion on the VAT collections and thirdly; what are the impacts of tax compliance on the tax base

4.0. VAT Performance Targets and actual collections.

VAT performance can be measured by comparing the revenue targets set against the attained level (Actual revenue). Figure 1 provides a summary of VAT performance for to 2008/09.
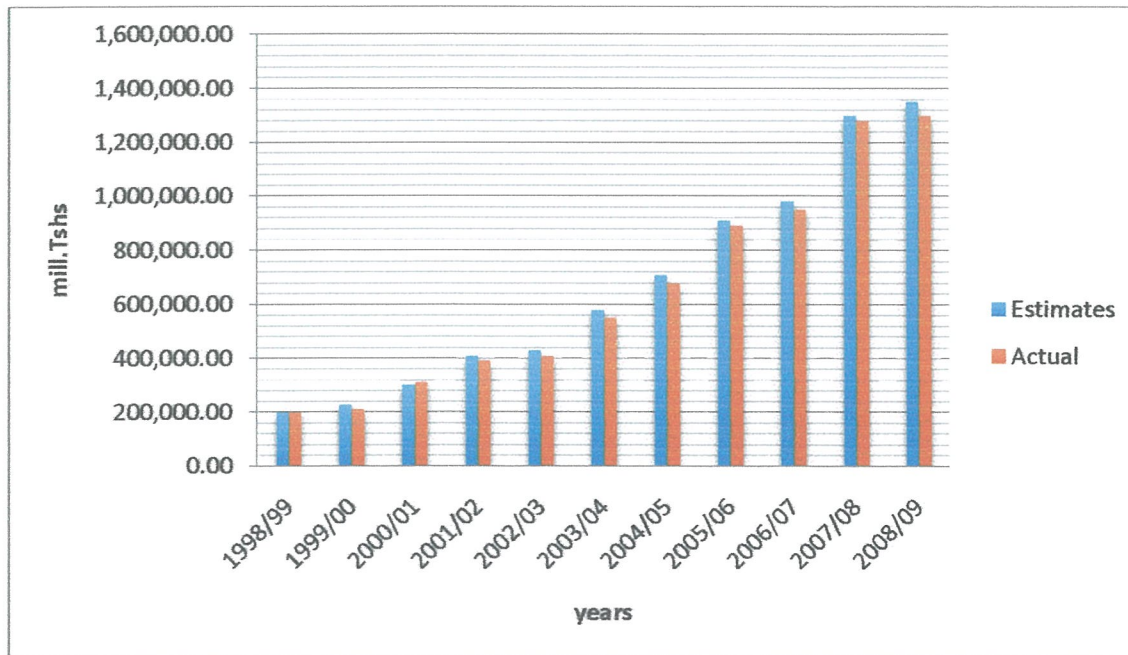
Figure 1: VAT performance (Estimates vs. Actual)

For the tax-stakeholders (consultants), 2 (20%) responded strongly disagreed that many traders face hardly declaring their true VAT liabilities because of complex VAT calculations 5 (5 0%) agreed, 3 (3 0%) responded disagree.

For the taxpayers, 11(44%) strongly agreed with the question, 8 (3 2%) agreed, 4 (16%) disagreed and 2 (8%) strongly disagreed with the question.

Table 4.1.2: Most of traders had received education about the importance of VAT registration and various tax laws.

Respondents	VAT Administration		Tax-stakeholders		Tax-payers	
Response	number	Percentage	Number	percentage	number	percentage
Strongly Agree	3	20.0	1	10.0	2	8.0
Agree	7	46.7	5	50.0	4	16.0
Disagree	4	26.7	3	30.0	13	52.0
Strongly disagree	1	6.6	1	10.0	6	24.0
Total	15	100.0		100.0	25	100.0

Source: Researcher May, 2015

The question aimed at getting the perceptions of the three groups of respondents towards the question that most of traders had received education about the importance of VAT registration and various tax laws. The respondents to this question gave opposing responses. 3 (20%) of VAT officers who responded, strongly agreed that businessmen had already received education towards VAT registration, 7 (46.7%) agreed 4 26.7%) disagreed and 1 (6.6%) strongly disagreed with the question.

For the tax stakeholders', 1 (10%) strongly disagreed about traders had received education of registration, 5 (50%) agreed, 3 (30%) disagreed and 1 (10%) strongly disagreed with the question.

On the taxpayers side, 2 (8%) strongly agreed most of business had got knowledge concerning VAT registration, 4 (16%) agreed, 13 (52%) disagreed and 6 (24%) strongly disagreed.

The perceptions of many respondents were most of business entities had received education about the importance of VAT registration, 4 (16%) agreed, 13 (52%) disagreed and 6 (24%) strongly disagreed.

The perceptions of VAT officers and tax consultant's respondents were that most of business entities had received education about the importance of VAT registration and ax laws. Many of the taxpayers opposed to have received education.

Table 4.1.3 Satisfied with tax education services provided by tax officers.

Respondents	Tax-stakeholders		Tax-payers	
Response	Number	percentage	number	percentage
Strongly Agree	0	0.0	2	8.0
Agree	2	20.0	3	12.0
Disagree	6	60.0	7	28.0
Strongly disagree	2	20.0	13	52.0
Total	10	100.0	25	100.0

Source: Researcher May 2015

The question aimed at getting the feelings of the respondents on whether both taxpayers and tax consultants were not satisfied with that provision of tax education from tax administrators. 2 (2)%) of tax consultants agreed in favor of the question, 6 (60%) disagreed and 2 (20%) strongly disagreed.

On the other hand, 2 (8%) of taxpayers strongly agreed that, they were satisfied with tax education services from tax officers, 3 (12%) agreed, 7 (28%) and 13 (52%) strongly disagreed.

From this analysis it is obvious that taxpayers and tax-stakeholders disagreed with the notion of tax education provision. This is the limit to broaden the tax base and cause the persistence of low VAT collections.

4.2 The level of tax evasion on VAT collection

The second objective of the Researcher was to determine the level of tax evasion on VAT collection

This aimed at obtaining some supplementary opinions from the respondents. The basic information was gathered from the respondents about the motives for businesses to engage in tax evasion practices.

Table 4.2.1: Most of traders face problems in recording VAT accounts

Respondents	VAT officers		Tax-stakeholders	
Response	number	Percentage	Number	percentage
Strongly Agree	5	33.3	4	40.0
Agree	8	53.3	6	60.0
Disagree	2	13.3	0	0.0
Strongly disagree	0	0.0	0	0.0
Total	15	100.0	10	100.0

Source: Researcher May, 2015

The question aimed at seeking the feelings of the respondents on whether most traders face problems in recording their VAT accounts. 5 (3 3.3%) of VAT officers strongly agreed that, traders face problems in recording VAT accounts, 8 (53.3%) responded agreed, and 2 (13.3%) disagreed that traders have problems during recording their VAT accounts.

On the other hand, tax stakeholders who responded, 4 (40%) strongly agreed and 6 (60%) agreed traders face problems in recording VAT accounts.

From the above analysis the majority of respondents had the perception that taxpayers face problems in recording their tax accounts which reducing the tax collections and narrowing the tax base.

Table 4.2.2: There are many traders eligible for registration not included in the tax

Respondents	VAT officers		Tax-stakeholders		Tax-payers	
Response	number	Percentage	Number	percentage	number	percentage
Strongly Agree	7	46.7	4	40.0	8	32.0
Agree	8	53.3	6	60.0	14	56.0
Disagree	0	0.o	0	0.0	3	12.0
Strongly disagree	0	0.0	0	0.0	0	0.0
Total	15	100.0	10	100.0	25	100.0

Source: Researcher May, 2015

The question wanted to seek the feelings of respondents on whether all the taxpayers eligible for VAT registration have been included in the tax net through registration. 7 (46.7%) of the tax administrators responded, strongly agreed that many taxpayers eligible for VAT are still out of the tax net and 8 (53.3%) agreed.

On the other side, 4 (40%) of the tax stakeholders responded strongly agreed that most of the taxpayers eligible for VAT registration not included in the tax net and 6 (60%) agreed.

Furthermore analysis indicated that, 8 (3 2%) of the taxpayers responded strongly agreed that many traders eligible for VAT registration not included in the tax net, 14 (56%) agreed and 3 (12%) disagreed. As most the respondents agreed that most of the taxpayers eligible for VAT registration are still not included in the tax net, this implies that tax evasion through non registration for VAT is still a problem in efforts to broaden the tax base and tax collection targets.

The same arguments share by a study conducted by Jyoti in Nepal in 2002. He founded that many traders avoid VAT registration by claiming that they fall below the statutory threshold level. From this analysis, there strong evidence to suggest that even in Tanzania taxpayers who have the statutory threshold of Tshs 40 million per annum have claimed to be below this level with a view to evade tax.

Table 4.2.3 : Under-declaring VAT can contribute to business profits maximization

Respondents	VAT Administrators		Tax-consultants	
Response	number	Percentage	Number	percentage
Strongly Agree	3	20.0	2	0.0
Agree	10	66.0	7	0.0
Disagree	2	13.0	1	20.0
Strongly disagree	0	0.0	0	80.0
Total	15	100.0	10	100.0

Source: Researcher May 2015

The question aimed at getting the feelings of the two groups of respondents on one of the reasons for taxpayers practicing tax evasion through under-declaring VAT being for winning business profitability. The majority of the respondents to this question supported it with different views. 3 (20%) of VAT administrators who responded strongly agreed that taxpayers practice tax evasion through under-declaring VAT for business profits maximization, 10 (66.7%) agreed and 2 (13.3%) disagreed.

On the other side, tax stakeholders who responded only 2 (20%) strongly agreed, 7 (70%) agreed and 1 (10%) responded disagreed about taxpayers practicing tax evasion through under-declaring VAT being for winning business profits.

From this analysis it is observed that the VAT collected by taxpayers as agents is being evaded and diverted to finance their businesses instead of remitting it to the TRA, moreover eroding the VAT base and cause collection targets unreachable.

This analysis is supported by Heady in his study of 2001. He noted that, businesses may evade VAT with the intentions to maximize their business profitability and make them competitive in the market. They are able to sell goods to customers below the market price charged by those already in the VAT net.

Table 4.2.4: The benefits of under-declaring VAT are higher than the costs imposed as fines and penalties

Respondents	Tax Administrators		Tax-stakeholders	
Response	number	Percentage	Number	percentage
Strongly Agree	6	40.0	4	40.0
Agree	9	60.0	5	50.0
Disagree	0	0.0	1	10.0
Strongly disagree	0	0.0	0	0.0
Total	15	100.0	10	100.0

Source: Researcher May, 2015

'The question aimed at seeking the feelings of the respondents on whether the benefits of under-declaring VAT are higher than the fines and penalties under the VAT Act. 1997. 6 (40%) of the tax administrators who responded, strongly agreed that benefits of under-declaring VAT are higher than the fines and penalties under the VAT Act and 9 (60%) agreed.

On the other hand, tax stakeholders who responded 4 (40%) strongly agreed that benefits of under-declaring VAT are higher than the fines and penalties under the Act, 5 (50%) agreed and 1 (10%) disagreed.

From the above analysis the majority of respondents had the perception that taxpayers can be better off for evading VAT than the fines and penalties under the VAT Act. This means that the penalties and fines imposed are weak to enforce VAT compliance. The above findings are supported by Silvani in his study conducted in 1992. He founded that tax evasion becomes worse if the tax laws in force are weak in terms of fines and penalties. The heavy fines and penalties should be used as deterrent factors to reduce incidences of tax evasion and increase tax base collections.

Table 4.2.5 : Always customers request tax invoices/receipts when purchasing goods

Respondents	VAT Administration		Tax-stakeholders		Tax-payers	
Response	number	Percentage	Number	percentage	number	percentage
Strongly Agree	0	0.0	0	0.0	6	24
Agree	0	0.0	0	0.0	19	76.0
Disagree	6	40.0	2	20.0	0	0.0
Strongly disagree	9	60.0	8	80.0	0	0.0
Total	15	100.0	10	100.0	25	100.0

Source: Researcher May, 2015

The question aimed at getting the feelings of the three groups of respondents towards the question that always customers request tax invoices or receipts when purchasing goods. 6 (40%) of tax officers responded disagreed customers request receipts when buying goods and 9 (60%) strongly disagreed.

For the tax-stakeholders, only 2 (20%) responded disagreed customers request tax invoices when purchasing goods and 8 (80%) strongly disagreed.

Furthermore, taxpayers only 6 (24%) strongly agreed that customers request receipts when after making purchases and 19 (76%) strongly agreed.

The analysis indicates that the customers or buyers are contributing to VAT evasion. It is obvious that, the taxpayers will not declare sales which are not supported with tax invoices or receipts in their VAT returns in turn, reducing the collection targets and tax base.

Table 4.2.6: Always taxpayers issue tax invoices or receipts when selling goods

respondents	VAT Administration		Tax-stakeholders		Tax-payers	
Response	number	Percentage	Number	percentage	number	percentage
Strongly Agree	0	0.0	0	0.0	6	24.0
Agree	0	0.0	0	0.0	19	76.0
Disagree	6	40.0	2	20.0	0	0.0
Strongly disagree	9	60.0	8	80.0	0	0.0
Total	15	100.0	10	100.0	25	100.0

Source: Researcher May, 2015

The question aimed at getting the feelings of the three groups of respondents towards the question that always taxpayers issue tax invoices or receipts when selling goods to customers. The respondents to this question gave opposing responses as 6 (40%) of the VAT administrators responded disagreed that taxpayers issue receipts when selling goods to their customers and 9 (60%) strongly disagreed.

On the other side, tax-stakeholders responded only 2 (20%) disagreed about taxpayers issue tax invoices when selling goods to their customers and 8 (80%) strongly disagreed.

Furthermore indicated that, 6 (24%) of the taxpayers strongly agreed about taxpayers issue receipts after making sales to their customers and 19 (76%) agreed.

In a study conducted in Nepal in 2002, Jyoti again gives a support to the perceptions of the majority of the tax administrators and tax-stakeholders. He noted that it is easy for taxpayers to evade VAT because there are insufficient arrangements to check whether all the transactions are being invoiced and whether all the invoices record the correct and actual transaction value.

The above analysis and the study conducted by Jyoti in Nepal in 2002 provide strong evidence that tax evasion through non-issue of tax invoices or receipts when selling goods to customers is one of the ways used by taxpayers to evade taxes and tax administration system is not effective to manage it and therefore continuing to erode the VAT base and cause the collection targets unreachable.

4.3 The level of Tax Compliance on the Tax base

The third objective of the Researcher was to determine the level of tax compliance on the tax base

The analysis below aimed at providing answers to the objective on the perception of the respondents towards tax compliance to broaden tax base and increase tax collections.

Table 4.3.1: The current taxpayer's education services provided by TRA officers enough to bring up tax compliance and raise VAT base and tax collections

respondents	VAT Administration		Tax-stakeholders		Tax-payers	
Response	number	Percentage	Number	percentage	number	percentage
Strongly Agree	0	0.0	0	0.0	0	0.0
Agree	0	0.0	0	0.0	3	12.0
Disagree	10	66.7	3	30.0	16	64.0
Strongly disagree	5	33.3	7	70.0	6	24.0
Total	15	100.0	10	100.0	25	100.0

Source: Researcher May, 2015

The question wanted to seek the perception of the three groups of respondents on whether the current taxpayer's education services provided by TRA administrators enough to bring up tax compliance and rise VAT base and tax collections. 10 (66.7%) of tax officers disagreed that current taxpayer's education services provided by tax officers enough to bring tax compliance and broaden tax base and tax collections and only 5 (33.3%) strongly disagreed.

On the other hand, 3 (3 0%) of the tax-stakeholders responded disagreed about current taxpayer's education services bring tax compliance among taxpayers and 7 (70%) strongly disagreed.

Further analysis indicates that, 3 (12%) of the taxpayers. agreed about the current taxpayer's education services brings tax compliance among taxpayers, 16 (64%) Disagreed and 6 (24%) responded strongly disagreed.

From this analysis shows that, the majority of the respondents had the opinion that, the current taxpayer's education services have no or little impacts on taxpayers voluntary compliance. This also is a major hindrance to increase tax collections and toward broaden tax base.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

This Study aimed at getting the perceptions making on the factors leading to persistent Low VAT revenue collections in relatively to the tax evasion, tax compliance and tax Level knowledge on both taxpayers and tax collectors with particular reference to how tax knowledge can erode or enhance the VAT volume. One of reasons to establish VAT in Tanzania was to widen the tax base. It was hoped that VAT will bring more tax payers into the VAT net and that VAT administration in terms of taxpayers return filling systems and tax audit will improve and therefore realize high tax revenue yields r to finance government expenditure.

From the research findings it has been observed that, incidences that cause poor VAT Collections caused by poor tax knowledge and evasion still exist, defeating the efforts of policy makers and tax administrators to widen the tax base.

With reference to taxes, this implies that factors expected to affect payment are the knowledge that all other people have to pay, that fair and reasonable enforcement mechanisms ensure that there is no way of avoiding payment, and that failure to pay will be punished with fines or eventually the cut — off of services.

Tax knowledge and tax evasion are the great challenges that TRA should address in its efforts to bring in more tax revenue in government coffers. It is a risk that the authority should proactively plan to abolish.

5.2 Recommendation

Basing on the research findings and analysis, the following recommendations can be put forward to improve the current situation in VAT collection and administration system with a view to reduce incidences which cause low VAT collections in the system to widen tax base:

Effectiveness of VAT trader's registration system. It is a high time that le educated on benefits of registering for VAT. Most of the taxpayers who responded to the questionnaires accept that they have never received any education about the importance of VAT registration, various tax laws and tax structure system.

Furthermore, TRA should strengthen business education programmes and sensitization with framework of taxpayers' education and customer services programmes. Education to the citizens on the importance of paying tax is crucial.

Educating and encouraging the business community to issue receipts and tax invoices and to keep proper records for their business. TRA should carry frequent audits and investigations, taking appropriate punitive measures against tax evaders so as to curb tax evasion using the provisions of law.

Many taxpayers do not know to record and fill VAT returns. These traders make errors when recording and filing returns and there is a problem for taxpayers in classifying goods as zero rated, standard rated and exempt goods thus evading tax without their knowledge, in this case there is a need for VAT administrators to enhance taxpayers' education on VAT return filing aspect. Proper tax education to tax payers may reduce incidences of tax evasion and tax knowledge as some doing under ignorance reason.

5.3 Areas of Further Study

The tax system in the country is very broad. There are still areas in the Tanzania tax system in which one can conduct research focusing on the exemption regime such as Tax evasion by small business operators who are not eligible for VAT registration,

Tax evasion of taxes and duties through under valuation of imported goods, Tax evasion of taxes and duties through smuggling across boarder stations, Zero rated supplies ,exempt supplies and Special relief establishing exactly the quantum of tax involved in each and advise the government accordingly.

REFERENCES

Bird, R. (1992) Tax Policy and Economic Development, John Hopkins University Press, Baltimore and London.

Department of International Development (DFID) (2001): Evaluation of Revenue Projects; Evaluation Summary Ev: 636 (February 2001).

Due, I. and F. Friedlander. (1981). "Government Finance, Economics of the Public Sector", Richard Irwin Inc. Boston.

Ebrill, Keen, Bodin and Summer. (2001). "The Modern VAT", IMF Washington D. C.

Grandcolas, C. (2004). Management of the VAT; Improving Performance the level of

Performance using Performance Indicators. Lessons for the Pacific Islands Countries (http://ww .ibtd.org).

Heady, C. (2001). Taxation Policy in Low-Income Countries; WIDER Discussion Paper WDP 200 1/81, Helsink, Finland.

Hossain, S. M. (1995). "The Equity of Value Added Tax in Bangladesh" IMF staff Paper vol.42 no.2. International Monetary Fund (1989) "Government Finance

Statistics Year Book", Washington DC.

Jyoti, R. (2002). VAT: Analysis and Suggestions (http://www.nepalnews.com.np).

Kitillya, H. (2006).Taxation and Investment Incentives in Tanzania: Tanzania Investment Forum 30/OctJ2006, Presentation by The Commissioner General Mr. H.

Kitillya: World Trade Centre.

Levin. (2004).Taxation in Tanzania-Revenue Performance and Incidence, Country Economic Report 2005:4, SIDA, Helsinki.

Lindholm, R. (1992). The Economic of VAT, DC Health Company, London, UK.

Lymer, A. and Hancock (2002). "Taxation Policy and Practice", TJ International.

Oakland, W. H. (1992). "The New Pal grave Dictionary of Money and Finance", vol.3, the Macmillan Press Ltd, London.

Obwona, M. and A. Muwonge. (2001). "The Efficiency and Effectiveness of the Revenue Administration in Uganda". Draft Report, Submitted to the Taxation, Aid and Democracy Research Programme.

QUESTIONNAIRE (For TRA official use only)

Dear Respondent,

Helena Robert, a third year student from Kampala International University pursuing Bachelor of Arts in Economics, is collecting data for his research through a questionnaire that will assist her in writing research report on **An Evaluation of the Factors affecting Value Added Tax (VAT) Revenue Collections in Tanzania.**

Kindly request your participation on answering the following questions. Information provided will be treated confidential.

I would like to thank you in advance for your assistance.

BIO-DATA

Please tick (   ) where appropriate:

Sex: 1.Male [ ]   2.Female [ ]

Age: 1. 23-40 [ ]   2. 41-60 [ ]

TRA staff [ ]   Department....................

Level of education: Tick one.

1. Secondary   [ ]

2. Professionals [ ]

3. Diploma   [ ]

4. Graduate   [ ]

5. Post Graduate [ ]

6. Masters and above [ ]

1.0 Tax Knowledge Perception

1.1 Because of complex VAT calculations many traders face hardly declaring true

VAT liabilities.

1. Strongly agree
2. Agree
3. Strongly disagree
4. Disagree

12. Most traders had received education about the importance of VAT registration and various tax laws.

1. Strongly agree
2. Agree
3. Strongly disagree
4. Disagree

2.0 Taxpayers tax evasion Perception

2.1 Most of traders face problems in recording VAT accounts.

1. Strongly agree
2. Agree
3. Strongly disagree
4. Disagree

2.2 There are many traders eligible for VAT registration not included in the tax net.

1. Strongly agree
2. Agree
3. Strongly disagree
4. Disagree

2.3 Under-declaring VAT can contribute to business profits maximization

1. Strongly agree
2. Agree
3. Strongly disagree
4. Disagree

2.4 The benefits of under-declaring VAT are higher than the costs imposed as fines and penalties

1. Strongly agree
2. Agree

3. Strongly disagree

4. Disagree

2.5 Always customers request tax invoices /receipts when purchasing goods

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.6 Always taxpayers issue tax invoices/receipts when selling goods

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

3.0 Tax Compliance Perception

3.1 The current taxpayer's education services provided by TRA officers enough to bring up tax compliance and rise VAT base and tax collections.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

3.2 Any other comments do you have on taxpayers' tax compliance

....

....

....

QUESTIONNAIRE (For Tax consultants use only)

Dear Respondent,

Helena Robert, a third year student from Kampala International University pursuing a Bachelors Degree of Arts in Economics, is collecting data for her research through a questionnaire that will assist her in writing research report on **An Evaluation of the Factors affecting Value Added Tax (VAT) Revenue Collections in Tanzania.**

Kindly request your participation on answering the following questions. Information provided will be treated confidential.

I would like to thank you in advance for your assistance.

General Information

Please tick ( ) where appropriate:

Sex: 1. Male [ ]   2. Female [ ]

Age: 1. 23-40 [ ]   2. 41-60 [ ]

TRA staff [ ]   Department................................

Level of education: Tick one.

1. Secondary   [ ]

2. Professionals [ ]

3. Diploma   [ ]

4. Graduate   [ ]

5. Post Graduate [ ]

6. Masters and above [ ]

1.0 Tax Knowledge Perception

1.1 Because of complex VAT calculations many traders face hardly declaring true VAT liabilities.

    1. Strongly agree

    2. Agree

    3. Strongly disagree

    4. Disagree

1.2 I satisfied with tax education services provided by tax officers?

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

1.3 Most traders had received education about the importance of VAT registration and various tax laws.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.0 Tax Evasion Perception

2.1 Most of traders face problems in recording VAT accounts.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.2 Always customers request tax invoices /receipts when purchasing goods

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.3 Under-declaring VAT can contribute to business profits maximization

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.4 There are many traders eligible for VAT registration not included in the tax net.

1. Strongly agree

2. Agree
3. Strongly disagree
4. Disagree

2.5 The benefits of under-declaring VAT are higher than the costs imposed as fines and penalties

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.6 Always taxpayers issue tax invoices/receipts when selling goods

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

3.0 Taxpayers Compliance Perception

3.1 The current taxpayer's education services provided by TRA officers enough to bring up tax compliance and rise VAT base and tax collections.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

3.2 Any other comments do you have on VAT registration.

....

....

....

QUESTIONNAIRE (For Taxpayers use only)

Dear Respondent, **Helena Robert**, a third year student from Kampala International University pursuing a Bachelors Degree of Arts in Economics, is collecting data for her research through a questionnaire that will assist her in writing research report on "**An Evaluation of the Factors affecting Value Added Tax (VAT) Revenue Collections in Tanzania**" Kindly request your participation on answering the following questions. Information provided will be treated confidential.

I would like to thank you in advance for your assistance.

General Information

Please tick ( ) where appropriate:

Sex: 1. Male [ ]   2. Female [ ]

Age: 1. 18-40 [ ] Above 40 [ ]

Small Taxpayer [ ]

Middle Taxpayer [ ]

Large Taxpayer [ ]

Level of education: Tick one.

1. None [ ]

2. Primary [ ]

3. Secondary [ ]

4. Professionals [ ]

5. Diploma [ ]

6. Graduate [ ]

7. Post Graduate [ ]

8. Masters and above [ ]

1.0 Tax Knowledge Perception

1.1 Because of complex VAT calculations many traders face hardly declaring true VAT liabilities.

    1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

1.2 I satisfied with tax education services provided by tax officers?

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

1.3 Most traders had received education about the importance of VAT registration and various tax laws.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.0 Tax Evasion Perception

2.1 There are many traders eligible for VAT registration not included in the tax net.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.2 My business issues tax invoices/receipts when selling goods.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

2.3 Always my customers request tax invoices/receipts when purchasing goods.

1. Strongly agree

2. Agree

3. Strongly disagree

4. Disagree

3.0 Tax Compliance Perception

3.1 The current taxpayer's education services provided by TRA officers enough to bring up tax compliance and raise VAT base and tax collections.

1. Strongly agree
2. Agree
3. Strongly disagree
4. Disagree

3.2 What recommendations/suggestions would you provide in order to improve VAT collections?

....

....

....