

**TAX AVOIDANCE AND PERFORMANCE OF REVENUE COLLECTION
AGENCIES CASE STUDY: KILIMANJARO MUNICIPALITY
TANZANIA REVENUE AUTHORITY**

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DECLARATION

I, declare that the material in this book has been done entirely by my effort
and has not been presented elsewhere for any academic qualification.

SIGNED

.....

TEMESGEN HABTU KIDANE

DATE..13-7-2012..

APPROVAL

This research Dissertation has been done under my supervision as a University Supervisor and submitted to the School of Business and Management with my approval.

Signature.....*Mr. Ruteganda Micheal*.....

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Date:.....*14/06/12*.....

DEDICATION

This book is dedicated to almighty God, my parents, the late HABTU KIDANE GOLOM, MULU GEBREGIORGIS HAILU, my brothers and sisters for their love support and patience during my studies.

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I also owe a lot of appreciation to all those who assisted me in carrying out this research. I am grateful to my supervisor Mr. Ruteganda Michael who tirelessly went through my work and inspired me to dig deeper into the core of the matter. His kind criticism, patience and understanding, assisted me a great deal.

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ABSTRACT

The purpose of this study was to assess the process of tax collection in Tanzania Revenue Authority.

The specific objectives of the study were to make a survey of and analyze the process of tax collection and how the taxpayer experiences the different levels of taxation. In addition, to examine the relevance of the tax as a tool of steering Kilimanjaro, Tanzania forward.

The methods used for data collection were questionnaires and interview guides to the respondents who participated in this study.

In chapter four, the findings were presented and interpreted in relation to the study objectives and research questions. While linking to the existing literature, results included demographic characteristics, frequency and percentages. Based on the findings it was observed that the tax process in kilimanjalo is not properly followed as observed by the findings.

In chapter five, development of solutions to the problem, summary of the findings and conclusions were attempted. The findings suggested recommendations that management should establish the tax goals and directives that should always become guidelines for all the departments; management should ensure that the tax is followed up in monthly meetings where the management and the heads of departments should meet; and Good leadership styles should be emphasized in the management of the taxpayer in order to ensure that the tax is followed and adhered to.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation is the major source of Government Revenue to cover its recurrent and development expenditure. Taxation may briefly be defined as a compulsory levy or charge by the state on its citizens. It is usually payable in monetary form for which the Government is not bound by the law to offer equivalent direct compulsory services to render on an individual account or how it utilizes the revenue collected (Mponguliana, 2005).

Basically, tax is divided into two main parts: direct and indirect taxes. Direct taxes are all those taxes charged direct from the source. Examples include: employments income, business income or taxes from ownership of the property (Khan 200:39) Indirect taxes are those taxes based on consumption of goods and services. Examples include: import duty and value added tax (VAT).

Tanzania Revenue Authority (TRA) defines taxation as a compulsory levy or charge imposed by the state to its citizens and non-citizens that are usually payable in monetary terms towards the expenditure of a public authority. Taxes are the general compulsory contribution of wealth levied upon a person.

The essence of tax is that it is a compulsory levy under certain conditions and it is meant for general use by the state. In Tanzania the income tax Act 2004 came into effect in July 2004. This act restructured the income tax system in Tanzania to meet the modern

requirement and replace the previous income Tax Act of 1973. The tax is levied on income from employment, income from business and income from investments.

Taxable persons include entities and individuals. An entity can be a corporation or trust and a corporate is loosely defined to mean any incorporate body or person or association. (Income tax act 2004 sec 3). For partnerships the individuals within the partnership are taxed on their share of the income.

It is impossible for a person to escape from paying indirect tax because it is charged direct in the price of the commodity, therefore once you purchase you pay tax indirectly. (Khan 2000:30). In most cases tax was administered traditionally where by departments within the ministry of Finance were responsible to collect taxes on behalf of the Government and this traditional system was adopted by both developed and developing countries.

But nowadays tax administration is under semi-autonomous bodies known as revenue authorities, especially in Africa and Latin American countries. Under these revenue authorities, tax administration function has been taken out of the Ministry of Finance and granted to a semi-autonomous entity labeled in public finance literature as revenue authorities.

A list of the many developing countries currently has already established Revenue Authorities to administer tax collection. For example Uganda Revenue Authority was established on September 5, 1991 by the Uganda Revenue Authority statute no. 6 of 1991

as a central body for assessing collection and Account for Government Revenue. To administer and prepare laws and regulations for all the revenue to which those laws apply. The Uganda Revenue Authority (URA) is also responsible to advise the Government on matters relating to all revenue whether or not this revenue specified no. 6.

In Kenya, there is Kenya Revenue Authority (KRA) which is a tax collection agency formed 1st July, 1995 charged with the duty of assessing, collecting and to account for tax collected in Kenya on behalf of the Kenyan Government. For Tanzania the government under the president Benjamin William Mkapa, had Tanzania Revenue Authority, established.

During 1996/97, the Government fiscal policy was set to enhance revenue collection and improve expenditure management through expenditure control measures aiming at restraining the fiscal deficit. On the revenue side the measures that were implemented included strengthening tax administration through the establishment of Tanzania Revenue Authority (TRA).

The Tanzania Revenue Authority Act no. 11 of 1995 established the authority as a semi-autonomous agency of the government, under the general supervision of Minister of Finance. The major functions of the authority are to:-

- (i) Assess collect and account for central government revenue.
- (ii) Administer effectively and efficiently all the revenue laws of central government.
- (iii) To advise the government on all matters related to the fiscal policy.

- (iv) Promote voluntary tax compliance.
- (v) Improve the quality of services to the tax payer.
- (vi) Counteract fraud and other forms of tax evasion.

Tanzania Revenue Authority administer a number of taxes such as import duty as tax charged on imported goods, exercise duty on imports, this is levied on certain goods on importation. The traditionally excisable goods are goods whose consumption creates negative externalities to the society, like petroleum. In Tanzania apart from the traditional excisable goods, soft drinks and motor vehicles are excisable for revenue generation purpose. Value Added Tax (VAT) or local VAT is an indirect taxes on consumption levied on a wide range of supplies of goods and services.

1.2 Statement of the Problem

Tax avoidance is one of the major problems that tax administration faces the world over. This however is more pronounced in developing countries. The central government loses both individual and corporate income tax revenue into low tax shifting of profits and income into low tax countries. The revenue losses from this tax avoidance are difficult to estimate but some have suggested that the annual cost of offshore tax avoidance may be around \$ 100 billion per year.

International tax avoidance can arise from wealthy individual investors and from large multinational corporations. It can reflect both legal and illegal actions. (Jane G. Gravelle 2009). According to the transparent International corruption perception index 2006

building the capacity of low income countries to mobilize more tax revenue is now at the top agenda. One of the objectives of the reforming agenda is to impart efficiency of tax administration itself.

A number of African countries have implemented comprehensive reforms of their tax administration. Part of the exercise has been to establish autonomy which would be less vulnerable to political intervention and tax evasion practices. Although it seems that these independent authorities in some countries have not helped to reduce tax evasion and corruption (Fjeldstad and Rajbes, 2003)

According to the transparency international corruption perception index Tanzania is ranked as number 88 and Kenya as number 144 out of 158 ranking in 2005 (Transparency International, 2005). Taxation is widely perceived to be unfair. In this case no person is voluntary or willing to pay tax because taxpayers see few tangible benefits in return for the tax they pay, and thus become a major obstacle in enhancing government revenue in the country (Samboya and Therkildsen, 1992).

Tax avoidance is mainly practiced on direct tax, it involves tax payers (Business man) deliberate contravention of tax law in order to minimize or eliminate tax liabilities or all together. He or She pays no or little tax respectively by breaking the law in order to evade tax. Most business firms do not provide correct information about their financial position (ibid).

Business owners make false return of income by omitting or understating income and overstating expenses. Application of fraud, for example non issue of sales receipts, manipulation of stock sheets and valuation. These practices make false financial information which is used by tax assessors when quantifying amount of tax to be paid (Mponguliana 2005:397).

In Tanzania cases of tax avoidance and evasion are common; this problem is inherent in all tax systems. In fact tax evasion is as old as tax itself. This evil practice cannot be eliminated; it can only be minimized because it is planned and undertaken secretly by the tax payer and sometimes with cooperation of the tax consultant and auditors or employees in Authority (RPOA, Special paper 2009:29).

Any attempt to avoid and evade tax may be caused by high tax rates imposed to tax payers. Administrative inefficiency of revenue departments, low prospect of detection and punishment, multiplicity of tax registration, wasteful government spending and lack of noticeable social services and other benefits to the tax payer.

A higher rate of tax avoidance and evasion may result into serious government revenue shortfalls leading into non realization of government economic and social development programs. In this case the activities towards minimizing tax evasion should be well and carefully implemented to ensure maximum return of revenue and should maximize collection. If not so, the cost of those activities can contribute to wastage of revenue.

1.3 Objective of the Study

1.3.1 Main Objectives

The main objectives of this research were to analyze tax avoidance and performance of Kilimanjaro Municipality.

1.3.2 Specific Objectives

- (i) To identify the causes of tax avoidance and tax evasion in Kilimanjaro Municipal.
- (ii) To explore the attitude of people of Kilimanjaro Municipal towards paying tax.
- (iii) To examine the measures taken by Tanzania revenue authority to minimize the problem of tax evasion and tax avoidance.

1.4 Research Questions

- (i) What are causes of tax avoidance and evasion in Kilimanjaro Municipal?
- (ii) What is the attitude of people of Kilimanjaro towards paying tax?
- (iii) What are the measures taken by TRA Kilimanjaro to minimize tax evasion and tax avoidance?

1.5 Significance of the Study

The research aims to analyse the causes and effects of tax evasion and tax avoidance to monthly revenue collection in Kilimanjaro Municipality. This research enabled the researcher to acquire knowledge and skills on tax evasion and tax avoidance, hence may be able to qualify for Bachelor of Business Administration award of Kampala International University.

Also, the study identified factors that contribute to tax evasion and tax avoidance in Kilimanjaro Municipality in order to come out with the recommendations which may enable the authority dealing with revenue collection (TRA) to minimize tax avoidance and evasion through research.

Recommendation: The research findings will provide information to policy makers on fiscal policies (Public Finance) to improve, develop and promote voluntary tax compliance among taxpayers in Kilimanjaro Municipality.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

Literature review section is aimed at defining the important concepts and forms that are related to the research topic; it consists of both theoretical and empirical literature review. In theoretical review the researcher defines concepts and terms according to how different writers defined them, and Empirical literature review provides different findings from other researchers.

Taxation General Overview

Public finance is a part of economic policy which is concerned with the way governments obtain revenue and spend it so as to improve and promote economic and social welfare of its citizens. Governments collect taxes to finance its expenditure from internal and external sources, taxation is the main internal and external source of government revenue whereby it is compulsory payment of individuals and business organizations to the government. (Dewett, 2005:755)

Taxation has a wider meaning and generally refers not only to tax on income but also on other items such as sales (sales tax), value of import and export (custom duty, excise duty, import and export duty) (Paul, 1990:1). Taxation also is defined as the payment to support the cost of the government. It is the method of distributing the burden of the cost of the government. The benefit to which the tax payer is constitutionally entitled is that desired from his enjoyment of the privileges of leaving in an organized society. (Sally, 2007:4)

According to Tanzania Revenue Authority in its hand book of September 2007 they defined taxation as a compulsory levy or charge imposed by the state to her citizens and non-citizens that are usually payable in monetary terms towards the expenditure of a public authority.

Taxes are the general compulsory contribution of wealth levied upon a person, or corporation to defray the expenses incurred in providing common benefit upon the resident of the state (Dewelt, 2005:755. These definitions bring out the true nature of taxation. The individual can expect that the state should render him/her a specific service in return of the tax paid by him/her. This did not mean that the government undertakes to do nothing in return for taxes that are received from people.

The essence of tax is that; it is a compulsory levy under certain conditions and it is meant for general use by the state. In Tanzania the income tax Act 2004 come into effect in July 2004. This act restructured the income tax system in Tanzania to meet the modern requirement and replace the previous income tax act 1973. The tax is levied on income from employment, income from business and income from investments.

Taxable persons include entities and individuals. An entity can be a corporation or trust and a corporate is loosely defined to mean any corporate body, person or association. (Income tax act 2004 sec 3). For partnerships the individuals within the partnership are taxed on their share of the income, taxation is a worldwide income tax for residents (or for individuals.

2.2 Tax Administration

A country's tax administration is one of the few public sector organizations which touches the lives of a country's citizens and businesses on a daily basis and, arguably has the greatest impact on their livelihood. Tax administration employees are amongst the most frequently contacted government officials and often represent to the public what is right or wrong about their government (Alt, 1983).

Revenue collected from taxes along with customs collections represents the major funding source for governmental expenditures. An effective and efficient tax administration system is integral to any country's well being. The proper amount of tax must be collected in a timely manner and the enforcement powers of the tax administration must be applied judiciously and in an even handed fashion (Alt, 1983).

Tax administration must provide an even playing field for business by ensuring that all taxpayers meet their tax filing and paying requirements. This requires significant efforts to deal with the underground economy and to, therefore, increase the tax base. Failure to bring business activity from the shadow economy into the tax system puts compliant taxpayers at a competitive disadvantage, and ultimately leads to an erosion of the tax base (Fisher and Michael, 2005).

Tax administration in Tanzania is under Tanzania Revenue Authority (TRA) which was established by act no. 11 of 1995 and started operation in 1996. Tanzania Revenue Authority (TRA) is a simple Administration Agency. This agency was formed by the

Government after recognizing the importance of having an autonomous revenue authority despite using ministerial departments which are bureaucratic, in an effort to raise adequate revenue for social and economic development.

Tanzania Revenue Authority is under a commissioner general (CG) who is responsible for supervision and control of day to day activities of the authority, and the CG operates under the control and supervision of the board of directors. Prior to the establishment of Tanzania Revenue Authority (TRA) the task of collecting tax was under the ministerial departments in the ministry of finance.

The departments were customs and excise department, income tax department, sales tax and in-land revenue department. These departments are now under one roof of TRA. The process is now at advanced stage as a number of processors and systems have now been integrated. Under regions set up, a regional manager who is appointed by the TRA Top Management heads each region.

The region manager who is responsible for all TRA administrative function of the region is assisted by a number of senior staff who make the regional management team. TRA was established to improve tax administration and for this reason it was given specific roles and functions in order to achieve the objective of achieving revenue targets. (TRA, tax administration and structure in Tanzania 2007:1) the main functions of the authority are:-

- Assess, collect and account for all central government revenue.
- Administer effectively and efficiently all the revenue laws of central government.

- Advise the Government on all matters related to fiscal policy.
- Promote voluntary tax compliance.
- Improve the quality of services to the tax payers.
- Prevent fraud and other forms of tax evasion.
- Produce trade statistics and publication.

2.3 Tax Evasion and Tax Avoidance

Today countries all over the world face the growing problem of collection of taxes to fund public goods and services such as health, education, infrastructure which are vital for developing countries to fund the reduction of poverty. Tax evasion and tax avoidance both contribute to a large extent to the problem of low tax (Revenue) collection in developing countries.

Tax evasion means trying to reduce tax liability illegally for example failing to declare a source of revenue in your annual return of income (stain 1989). According to Mpongoliana 2000:397 tax evasion involves tax payer deliberately contravening tax laws in order to minimize or eliminate tax liability altogether by pay no or low tax respectively thereby breaking the law.

Tax evasion is illegal illegitimate means of reducing taxes. She said that tax evasion is a willful and deliberate attempt to defraud the government by understating a tax liability through illegal means (Sally 2007:498). Tax avoidance is the legal utilization of a tax

regime to one's an advantage, to reduce the amount of tax that is payable by means that are within the law.

The problem of tax evasion and tax avoidance is inherent in all tax systems. In fact tax evasion and tax avoidance is old as taxes themselves. Example of tax evasion are making false returns and making false statements which affect the tax liability.

Preparation of false books of accounts records, application of fraud, example, destruction or defecting of accounting records may cause the government to lose revenue. More over there are some negative effects of tax evasion and tax avoidance; these are loss of government revenue, leading to non-realization of budget plans and objectives for economic and social development, non realization of non revenue goals of taxation,

Income inequality also forces government to use alternative sources of revenue such as borrowing from donor countries in order to finance the deficit budget. TRA has tax investigation department which deals with the criminal offences related to tax evasion and tax avoidance. Among the duties of the department is to design and enforce implantation of the activities which would detect cases of tax evasion and tax avoidance. (TRA annual report 2006/07:21).

2.4 People Perception towards Paying Tax

There is a wide spread of unwillingness among the public to pay tax. Different arguments are used to explain the intensive non-compliance (Bukuru, 1991:91) argues that the

evasion of tax is primarily due to tax payer's inability to pay due to lack of clarity with respect to obligation and reasons for paying.

Other studies show that unwillingness to pay tax is the result of a combination of political protests and the degradation of public services perception of unfairness of the charges which do not take into consideration the ability to pay as well as corruption and other administrative failure by the council (Tripp, 1999:287).

The relationship between tax payer and government includes three elements; first is the element of coercion, this is the tax evasion model which assumes that the tax payer behavior is influenced by factors such as the tax rate, determining the benefit of evasion and the probability of detection and penalty for fraud or non compliance. This implies that if detection is likely and penalties are severe few people will evade tax (Allingham and Sandmo 1972).

Second element of fiscal exchange where by taxation and provision of public goods and services are interpreted as a contractual relationship between taxpayer and government. Individuals may pay taxes because they value the goods and services provided by the government, without material benefit, compliance becomes less assured. Although tax payers cannot assess the exact value of what they receive from the government in return of the tax they pay.

It can be argued that they have a general impression and attitude concerning their own and other terms of trade with the government (Richapan, 1987). Third is the impact of social influence on the tax payer's compliance behavior. It is reasonable to assume that human behavior is an interaction in the same way as other forms of behavior (Snavely, 1990). Compliance behavior and attitude towards the tax system may therefore be affected by the behavior of individual reference groups such as relatives, neighbors and friends.

Surveys made by other researchers on people attitude or behavior toward paying tax is that; compliance is more likely when probability of prosecution is perceived to be high; compliance is more likely the higher income a tax payer has. A tax payer is more likely to comply when he/she perceives his/her terms of trade with government as fair, lastly the fewer evaders a tax payer knows, the more likely he/she will comply.

According to Katera and Ngalengwa (2009) who conducted the study which aimed to shed light on factors impacting on tax compliance, by examining the perception of ordinary people on payment of tax, people views on taxation were much more positive in 2006 compared to three years earlier, this is partly due to improvement in service delivery. Corruption was perceived by citizens to be a major problem, with implication of their trust in government and government officials and thus their willingness to pay more.

Research shows that there is a growing demand from citizens for more information on revenue collected and how the revenues are spent.

Odd Helge and Semboja (2001:14) also conducted their study on factors determining tax compliance behavior in Tanzania. The study finds that tax compliance is positively related to factors such as ability to pay, the probability of being prosecuted and number of tax evaders known personally by the respondents, oppressive tax enforcement, harassment of the tax payer and discontent with public service delivery seems to increase tax evasion.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

The research methodology plays a vital role in investigating a phenomenon (Saunders et al, 2007). For this reason, and following the literature review in chapter two, this chapter focused on the research methodology adopted to conduct this study. There are three main parts in this chapter; research design, sampling considerations, data collection methods and data analysis.

3.1 Research Design

According to Kothari (2004), research design is a framework or blueprint for conducting the marketing research project. It details the procedures necessary for obtaining the required information. Research design is a master plan that specifies the methods and procedures for collecting and analyzing the needed information. There are many research designs.

This research study will use descriptive research design. The researcher decided to use a descriptive research design because descriptive research design is suitable for this study whose main emphasis is to formulate a problem for more precise investigation or developing a working hypothesis from an operational point of view. The major emphasis is on the discovery of ideas and insight.

3.2 Study population

The study was carried out in Kilimanjaro (Tanzania). Kilimanjaro has got 200 tax officers in its Head Quarter offices. Out of these, 133 tax officers were chosen to participate in the study. This gave the study a broad coverage and made it representative enough.

3.3 sample size and selection

One hundred thirty three respondents were selected using convenient sampling to participate in this study. The 133 respondents comprised of the C.E.O and the staff in the departmental branches who are familiar with the tax process. The respondents were drawn from the Departmental staff of the TRA as illustrated by the table 1 below;

Table: Categories of Sample

Taxpayer	77
CEO	24
HEADS OF DEPARTMENT	32
Total	133

3.3.2 Sample technique

Using a convenient sampling technique, a total of one hundred thirty three respondents were selected for this study.

3.3.3 Sample procedure

In carrying out research the researcher first got a release letter from the course administrators which he took to the organization under study. He was then given permission by the authority to access information from the organization which he visited.

3.4 Area of the study

The study was conducted in Kilimanjaro Municipal at the head offices of TRA.

3.5 Data collection methods

In order to meet the aims of the project it was necessary to use both primary and secondary methods of data collection:

Secondary Data

Secondary data is the data collected by others to be re-used by the researcher. It is also the data that has already been collected for purposes other than the problem at hand (Kothari, 2006). This data includes both quantitative and qualitative data and can be located quickly and cheaply. According to Kothari (2006), secondary data can be classified as either internal or external.

Internal data are those generated within the organization for which the research is being conducted and it may be available in a ready-to-use format or with considerable processing requirements to extract it. On the other hand, external data are those generated by sources outside the organization. For the purpose of this study, the researcher will use multiple-source secondary data, as the documentary source and the survey source were used.

Primary Data

According to Kothari (2006), if secondary data do not provide sufficient information to satisfy research objectives, primary data must then be collected. Therefore primary data is necessary when a researcher cannot find the data needed in secondary sources. Market researchers are interested in primary data on attitudes, opinions, interests, awareness, knowledge, intentions and behavior.

There are two categories of primary data: qualitative and quantitative data. Quantitative research is used to measure things while qualitative methods are mainly used to obtain an understanding of the subject. Besides, qualitative research involves examining and reflecting on the less tangible aspects of a research subject such as values, attitudes and perceptions (Kothari, 2006).

3.5 Data collection methods

The following data collection methods were used during the study;

3.5.1 Questionnaire

Questionnaires were used to collect data from the respondents. A questionnaire was designed based on the information required, who needs the information, method of communication to be used (mail, telephone or personal interview), logical sequence of questions, sensitive questions, simplicity, starting from simple question to more complex ones at the end.(Kothari, 2006).

3.5.2 Interview technique

The researcher held interviews with the respondents in order to get a direct feel from the employees themselves. According to (Kothari, 2006), an interview is a set of question administered through oral or verbal communication or is a face-to-face discussion between the researcher and interviewee respondents. This primary data collection method was used because it enabled the researcher to get first hand information.

3.5.3 Documentation

Documentation method was used because it will enable the researcher to get ready-made data and information by passing through various documents such as; books, magazine and

journals on the topic in question. This method was especially used because it helped to simplify the task of the researcher by providing statistical information recorded in terms of numbers and percentages.

3.6 Sampling of the Study

Kothari (2006) defines sample as a collection of some parts of the population on the basis of which judgment is made small enough to convenience of data collection and large enough to be a true representative of the population from which it had been selected. Sample size refers to a number of items to be selected from the universe to constitute a sample. The sample must be optimum.

According to Kothari (2006), sampling is defined as the selection of some parts of aggregate of the totality based on which a judgment or inference about the aggregate or totality is made. It is a process of selecting a group of people, events, behavior, or other elements with which to conduct a study. An important issue influencing the choice of a sampling technique is whether a sampling frame is available.

Sample of the study included 100 respondents who are tax payers in Kilimanjaro Municipal. The respondents of the study were purposefully selected from among the population. Purposive sampling technique was applicable to key informants with direct information concerning the subject matter, that is, tax avoidance and performance of Kilimanjaro Municipal.

3.7 Data Reliability and Validity

In order to ascertain reliability of the study, a pilot study was conducted. Questionnaires were distributed to respondents. This was done to identify questions that were ambiguous to respondents and any non-verbal behavior of the participants that may possibly show discomfort or embarrassment about the content or wording. This allowed the researcher to make corrections before questionnaires are distributed to a larger sample.

3.8 Data Presentation and Analysis

Data collected during the study were reduced into summary form. The summary will be processed by Excel. The research findings were organized and presented by using words, numbers and percentages with the aid of tables, charts and graphs. This was followed by discussion of findings.

CHAPTER FOUR
FINDINGS, ANALYSIS AND DISCUSSION

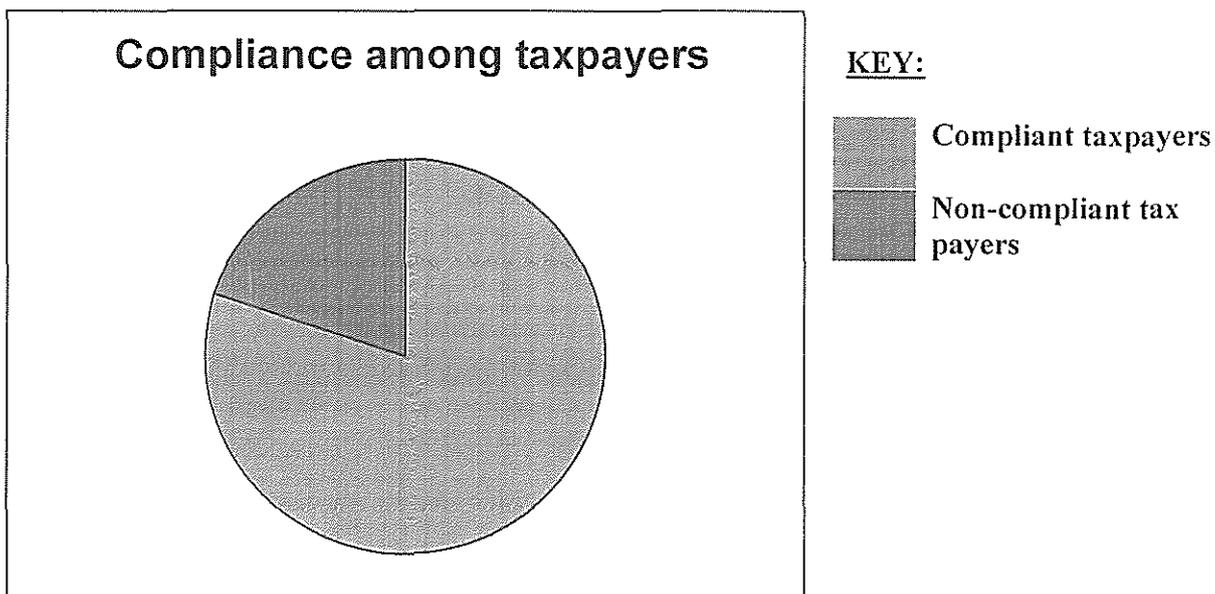
4.1 Tax Compliance In Kilimanjaro Municipal

The following information was collected to determine the level of tax compliance among tax payers in Kilimanjaro municipal. The objective was to establish how willing taxpayers are to pay taxes voluntarily. Findings were documented as shown in the table and figure below:

Tax compliance among tax payers in Kilimanjaro municipal

	Compliant taxpayers	Non-compliant tax payers
Number of respondents	75	25
Percentage	75%	25%

Tax compliance among tax payers



The results show that 75% of tax payers are compliant, i.e., they paid their taxes willingly. 25% of tax payers were found to be not tax compliant; that is, they tend to pay taxes only

after being followed-up, coerced or after being threatened with penalties. These findings suggest that Kilimanjaro municipal has a 75% rate of tax compliance among tax payers.

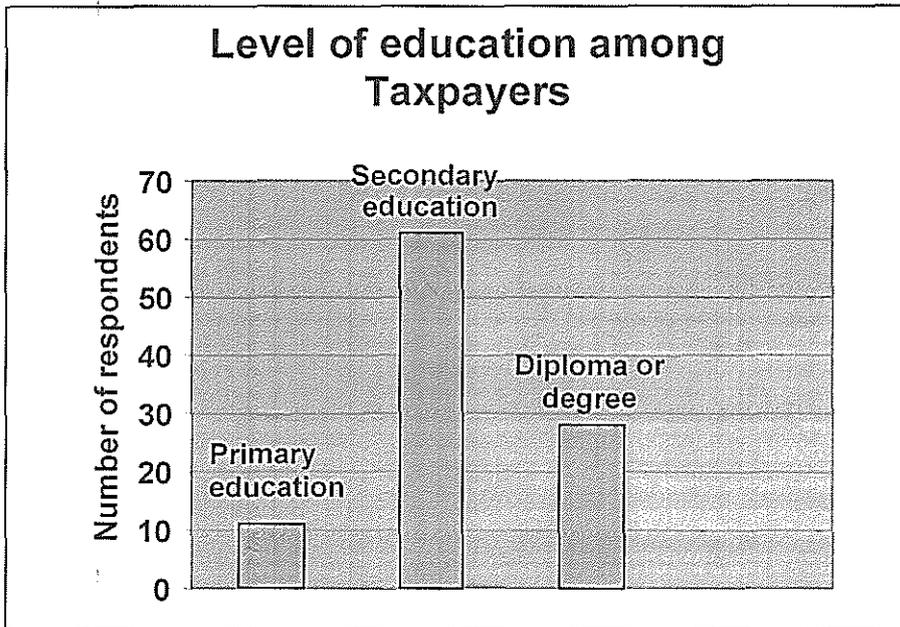
4.2 Level of Education of Education among Tax Payers

The following data was gathered by the researcher in order to determine the level of education among taxpayers. The objective of conducting this survey was to establish whether or not level of tax compliance among tax payers is determined by level of education. The findings are shown in the table below;

Level of education among tax payers

	Number of respondents	Percentage of respondents
Primary education	11	11%
Secondary education	61	61%
Diploma or degree	28	28%
Total	100	100%

Level of education among tax payers



The results show that 61% of respondents had only Secondary education, 28% had attained Diploma or degree, and 11% had attained only primary education. The findings show that lack of education is among causes of tax evasion.

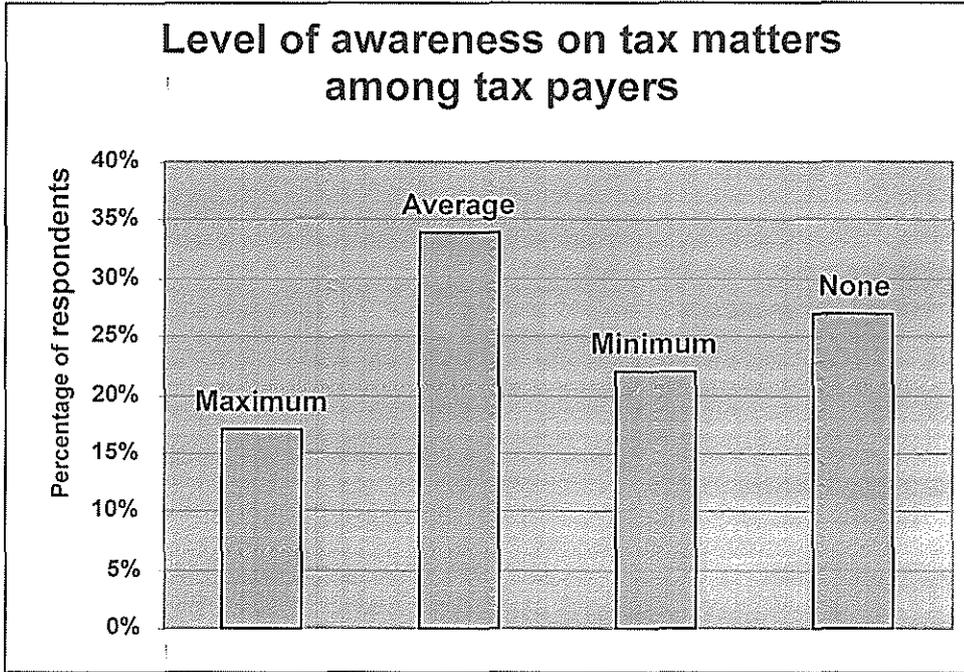
4.3 Awareness on Tax Matters among Tax Payers

To establish the level of awareness on tax matters among tax payers, the researcher asked respondents to rate their level of awareness on tax matters. The feedback from respondents was recorded as shown in the table and figure below:

Awareness on tax matters among tax payers

	Maximum	Average	Minimum	None
Number of respondents	17	34	22	27
Percentage	17%	34%	22%	27%

Awareness on tax matters among tax payers



The data shows that only 17% of respondents said their level of awareness on tax matters maximum. 34% of respondents said their level of awareness was average, 22% of respondents said their level of awareness was minimum and 27% of respondents said that they were not aware of tax matters altogether. These findings suggest that majority of tax payers are not aware of tax matters leading to tax evasion.

4.4 Level of Experience In Paying Taxes

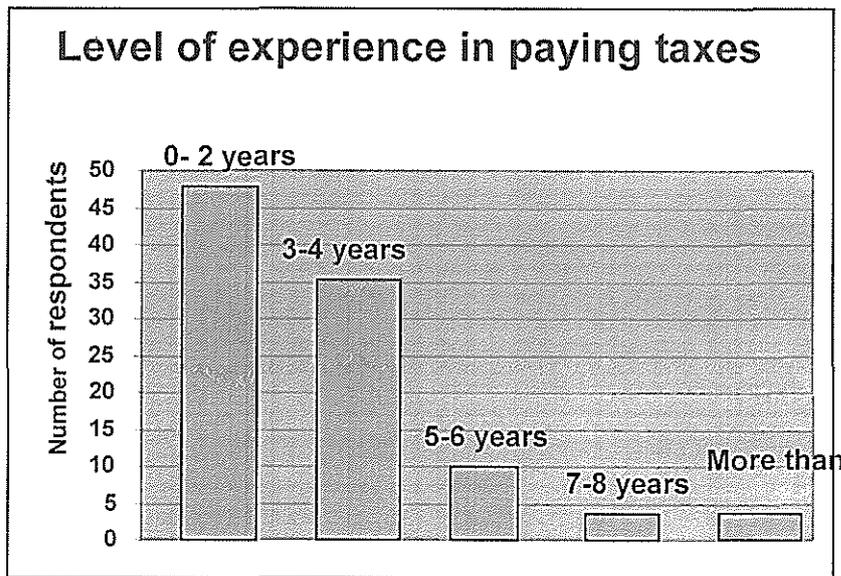
To analyze the level of experience in paying taxes among respondents, the researcher asked respondents to mention the number of years of experience they have in paying taxes.

The feedback from respondents was recorded as follows;

Level of experience in paying taxes

Experience	Number of respondents	Percentage of respondents
0-2 years	48	48%
3-4 years	35	35%
5-6 years	10	10%
7-8 years	4	4%
More than 8 years	3	3%
Total	100	100%

Level of experience in paying taxes



The results show that 48% of respondents have experience of less than 2 years in paying taxes, while 35% of respondents have experience of 3 up to 4 years, 10% have experience of 5-6 years, 4% have experience of 7-8 years and 3% have experience of 8 years.

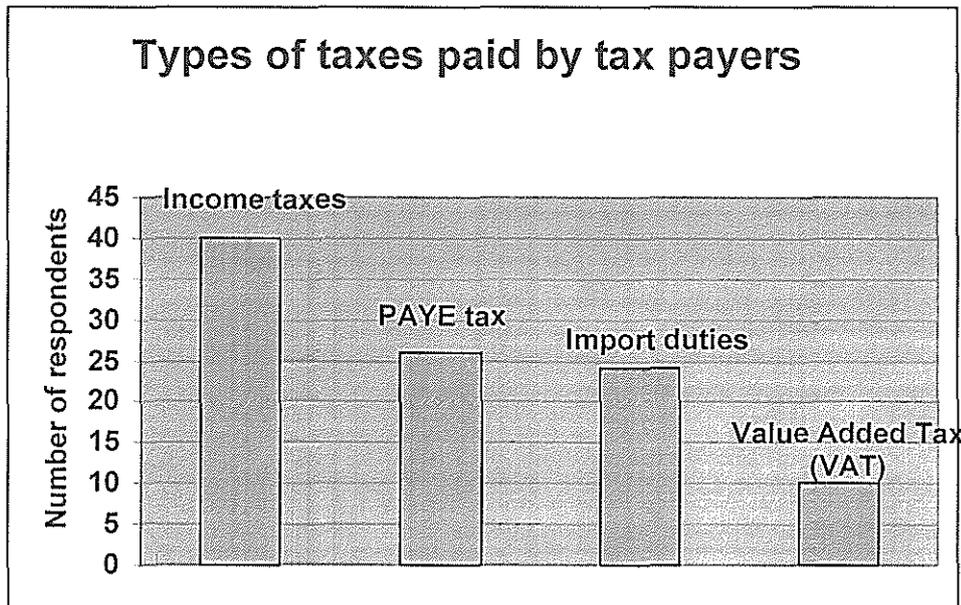
4.5 Types of Taxes Paid by Taxpayers

After finding out the level of experience in paying taxes among taxpayers, the researcher asked respondents to mention the types of taxes they pay. The objective of this survey was to establish what types of taxes are more popular among the various types of taxes. The feedback from respondents was recorded as shown below:

Types of taxes paid by tax payers

	Income tax	PAYE tax	Import duties	Value Added Tax (VAT)
No. of respondents	40	26	24	10
Percentage	40%	26%	24%	10%

Types of taxes paid by tax payers



The study revealed that the most popular types of taxes paid by tax payers in Kilimanjaro municipal are Income taxes (40%), PAYE tax (26%), import duties (24%) and Value Added Tax (VAT). These findings show that majority of tax payers in Temeke are small and medium sized tax payers who include employees in various private and government institutions as well as small business owners.

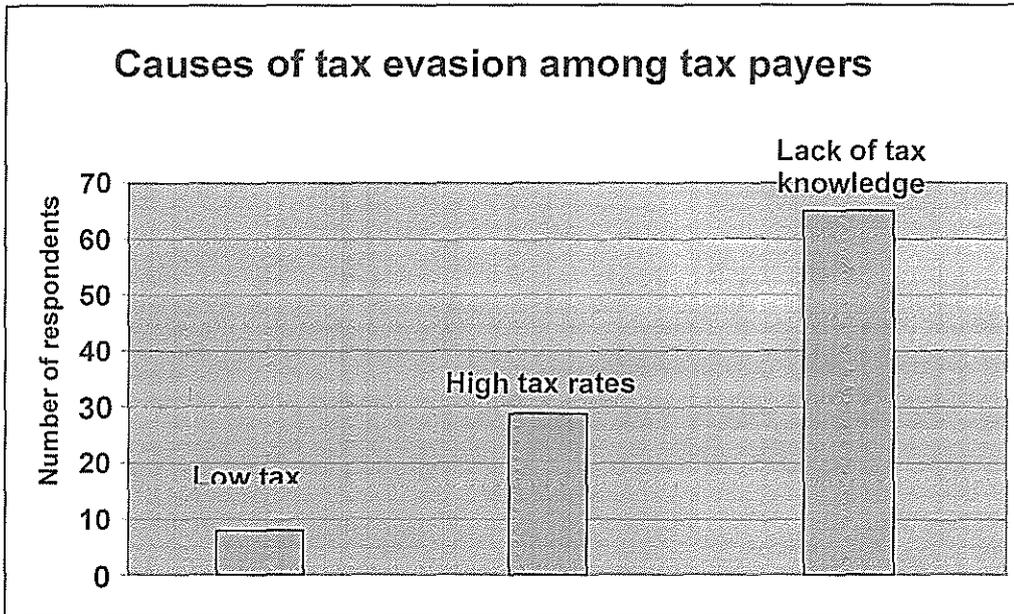
4.6 Causes of Tax Evasion among Tax Payers

The following data was gathered by analyzing the causes of tax evasion tax among taxpayers. The results are presented below:

Causes of tax evasion among tax payers

	Number of respondents	Percentage of respondents
Low tax awareness	8	8%
High tax rates	28	28%
Lack of tax knowledge	64	64%
Total	100	100%

Causes of tax evasion among tax payers



The study found out that 64% of respondents said that low tax compliance is caused by lack of tax knowledge, while 28% of respondents said that low tax compliance is caused by high tax rates and only 8% of respondents said that tax compliance is caused by low awareness on tax matters.

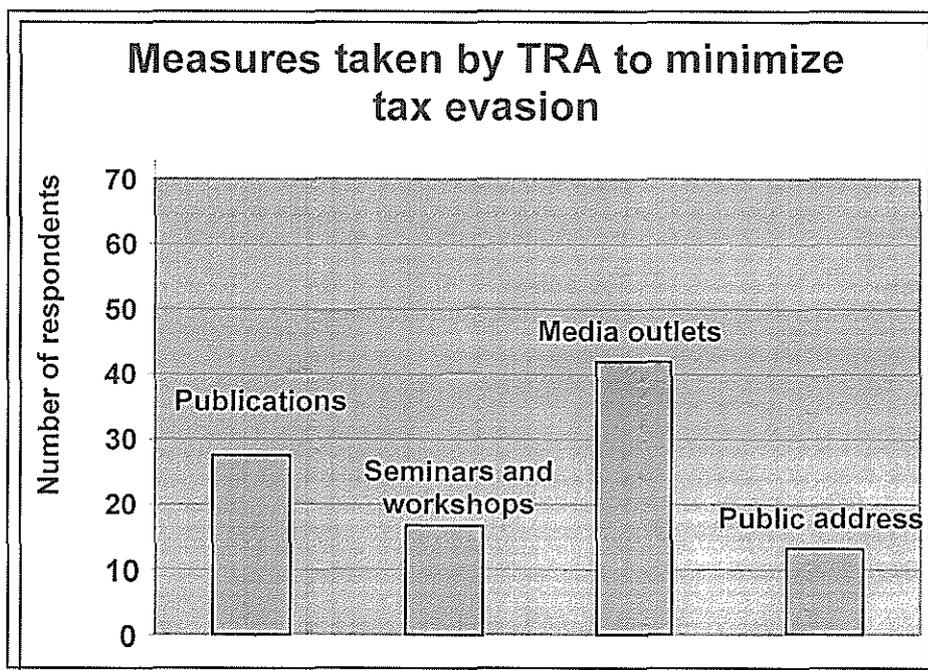
4.7 Measures Taken By TRA to Minimize Tax Evasion

During the study, the researcher found out that some of the measures taken by TRA to minimize tax evasion is offering tax education. The researcher set out to identify various mechanisms used by TRA to deliver tax education to taxpayers. The feedback from respondents was recorded as follows;

Measures taken by TRA to minimize tax evasion

	Number of respondents	Percentage
Publications	28	28%
Seminars and workshops	17	17%
Media (TV, Radio, newspapers)	42	42%
Public address	13	13%
Total	100	100

Measures taken by TRA to minimize tax evasion



According to the findings, TRA uses various mechanisms to deliver tax payers education but mostly through media outlets. These delivery mechanisms enable TRA to reach many people at once and impact tax knowledge on tax payers.

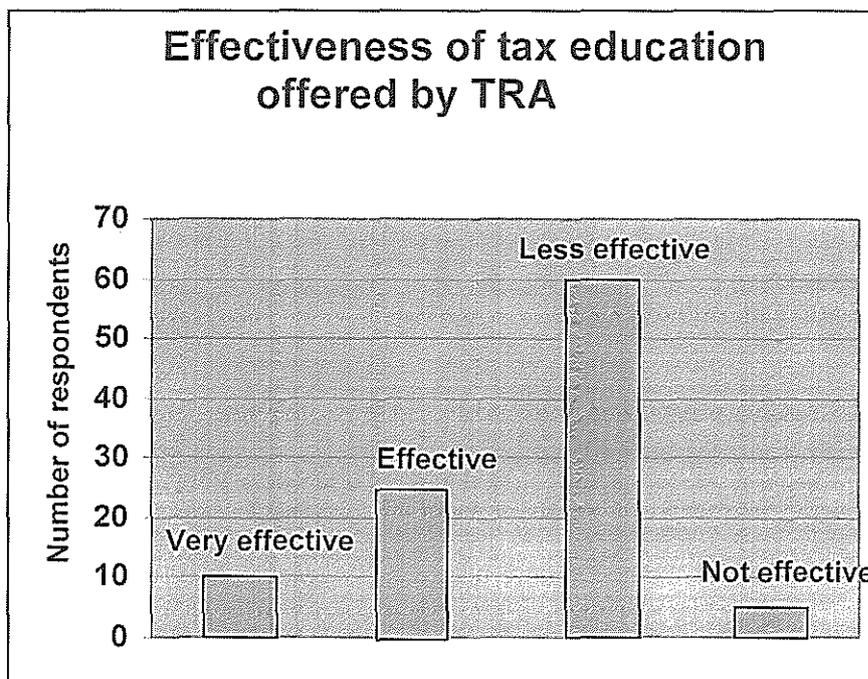
4.8 Effectiveness of Tax Education Offered By TRA

To assess effectiveness of tax education offered by TRA's Taxpayers Education Department, the researcher asked respondents to rate the effectiveness of the tax education offered, and findings of the survey were recorded as shown in the table and figure below:

Effectiveness of tax education offered by TRA

	Very effective	Effective	Less effective	Not effective
No. of respondents	10	25	60	5
Percentage	10%	25%	60%	5%

Effectiveness of tax education offered by TRA



As shown above, 65% of respondents said that tax education offered by TRA was either less effective or not effective. These findings suggest that either the mechanism used by TRA to deliver tax education is not effective, or tax educators used by TRA are not effective or the materials used by TRA to educate tax payers are not effective or tax payers just don't understand the tax knowledge offered to them.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

From the findings of the study, the researcher concludes that the main causes of tax evasion among tax payers in Kilimanjaro municipal is low level of awareness on tax matters. Tax payers with little or no tax knowledge are less likely to pay taxes and vice versa. There is thus, a direct relationship between tax compliance and tax knowledge among tax payers. Conclusively, tax knowledge has a huge impact on tax compliance.

5.2 Recommendations

From the findings of the study, the researcher recommends the following;

1. To TRA

The management of TRA should put more emphasis on tax education by allocating sufficient resources to its Tax Payers Education Department that will enable the department hire more tax education trainers and in doing so, offer tax education to a larger number of tax payers.

2. To taxpayers

Tax payers should recognize and pay attention to tax education offered by TRA because by doing so, they will become more aware of tax matters and that will enable them to understand the rationale behind paying taxes and make them feel proud of honoring their duty to pay taxes.

3. To future researchers

Future researchers should direct more efforts towards discovering the impact of tax knowledge on tax compliance by focusing on different groups of tax payers such as SMEs, large tax payers and other groups of tax payers. This will enable members of the general public to appreciate the significance of tax knowledge on enhancing tax compliance.

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APPENDIX I: QUESTIONNAIRE

I am a student at KIU pursuing a degree in Business Administration. I have prepared this questionnaire for the purpose of collecting data for my research study titled: “ Tax avoidance and performance of Kilimanjaro Municipal, Tanzania. Your participation in this study is highly appreciated.

QUESTIONS

1. Do you normally pay taxes voluntarily?
 - a) Yes
 - b) No
2. What is your level of education?
 - a) Primary education
 - b) Secondary education
 - c) Diploma or degree
3. What is your level of awareness on tax matters?
 - a) Maximum
 - b) Average
 - c) Minimum
 - d) None
4. What is your level of experience in paying taxes?
 - a) 0-2 years
 - b) 3-4 years
 - c) 5-6 years
 - d) 7-8 years
 - e) More than 8 years
5. What types of taxes do you pay?

6. What are the causes of tax evasion among taxpayers in Kilimanjaro municipal?

7. One of the measures taken by TRA to minimize tax evasion is offering tax education. In Which way does TRA offer tax education?

- a) Publications
- b) Seminars and workshops
- c) Media (TV, Radio and newspapers)
- d) Public address

8. How effective is TRA in offering tax education?

- a) Very effective
- b) Effective
- c) Less effective
- d) Not effective

9. In your opinion, what measures should be taken to improve provision of tax education and tax compliance among SMEs in Temeke district?

Thank you very much.

APPENDIX II ESTIMATED RESEARCH BUDGET

This is the estimate cost and expenses that the research expects to meet during the course of Research study.

Items	QTY	UNIT COST	AMOUNT
Stationery			
Ream of rule paper	2	12,000	24,000=
Pens	5	1,000	1,000=
Pencils	5	200	1,000=
Box files	1	4,500	4,500=
Note books	4	1,000	4,000=
Transport	Lump sum	Lump sum	90,000=
Preparing questionnaires interview guide			20,000=
Editing data, printing and binding		100,000	100,000=
Airtime		50,000	20,000=
Umbrella	1	5,000	5,000
Motivation and refreshment			60,000=
Miscellaneous		50,000	50,000=
TOTAL			389,500=

APPENDIX III TIME FRAME

ACTIVITIES	DURATION (months)					
	Jan 2012	Feb 2012	March 2012	April 2012	June 2012	June 2012
A Pilot study						
Study analysis						
proposal design						
proposal development						
Submission of proposal for approval						
Final report writing and submission						