_____***Original Research***_____

ASSESSIMENT OF FACTORS HINDERING EFFECTIVE TAX COMPLIANCE BY SMALL BUSINESSES IN TANZANIA:A CASE OF SMALL BUSINESSES IN ARUSHA CITY CENTER

GLORY ELIAS
Department of Postgraduate Studies
Institute of Accountancy Arusha
elyglory@yahoo.com
&

GLORIA KIMBURU
Department of Postgraduate Studies
Institute of Accountancy Arusha
glokimaby@gmail.com

Abstract

The study sought to establish factors that hinders effective tax compliance among Small and Medium Enterprises (SMEs) in Arusha city. Tax is an important stream of revenue for government's development projects and therefore all efforts must be made by the governments to ensure that it accurately and efficiently collects revenues so as to facilitate its operations. Specifically, the study establishes the level of tax compliance among SMEs in Arusha. This study identified the variables to be Tax Education, Tax Knowledge, Size of SMEs, Tax Attitude, Tax information, Tax Enforcement and Tax Compliance. Descriptive survey was used in the study.Benefit,Ability to pay,the cost of service and the Allingham and Sandmo theories guided this study.The findings revealed that lack of tax information relating to tax compliance matters accounted to a great percent as a reason for non-compliance. Besides, the taxpayers strongly agreed that the taxation system in Tanzania needed improvement. By gaining an understanding of these underlying factors, TRA and as a result, the government will be able to make changes that will greatly improve taxpayers' tax compliance level, with the end result being increased government revenues, allowing the tax authority to give quality service to taxpayers and the government as a whole in providing more and improved utilities to the public.

Keywords: Tax Knowledge, Tax Education, Size of SMEs, Tax Information, Tax Attitude and Tax Compliance

1.0 INTRODUCTION

Small businesses are the best partners to achieve inclusive growth in the world and Africa in particular as they contribute significantly to income generation and joint creation. However, their compliance with tax poses a major obstacle for the government to implement its development plans. Tax Compliance can be defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due promptly (Mwangi, 2014).

While Tax evasion can be defined as the failure by a person or business to comply with the tax obligations. It is a serious challenge to tax authorities in both developed and developing countries. It diminishes the mobilization of resources that governments need to invest in critical areas of social and personal development including health, education and infrastructure development (Cummings, 2007).

In 2011, it cost governments worldwide about 5.1 % of their Gross domestic Product (GDP). As explained by (Rile, 2011) that, in Europe tax evasion constitutes about 8% of the GDP of economies in the region. In North and South America, tax evasion costs economies 2% and 10% of their GDP respectively. Even in the most advanced economies in the world, tax evasion undermines revenue collection substantially. Italy loses €183 billion, or $242 billion, to tax evasion a year, and its debt of €1.9 trillion represents just over 10 years of tax evasion. Countries like Italy and Greece have vowed to crack down on tax evasion and cash transactions for goods and services that fall below the authorities' radar. Germany and Britain signed an agreement with Switzerland about recovering some tax revenue from accounts held by their citizens in Swiss banks. South America has the world's largest shadow economy compared with its G.D.P. followed by Africa and Europe, where income hidden from the tax authorities amounts to about 20.5 percent of G.D.P. That compares with 10.8 percent in (North America Association, 1998). Of the three East African countries of Kenya, Uganda, and Tanzania, tax evasion as a function of GDP is high. Uganda loses the least amount in tax evasion: In 2011, it lost 856 million USD, followed by Tanzania at 1.9 billion USD, and Kenya loses slightly over 2 billion USD. In 2011, the informal economy constituted 33% of the GDP in Kenya and represented 7% of total

government expenditure. The tax burden in Kenya would thus be high, standing at about 20.9%. If the Kenya government is to increase its social expenditure, then it needs to reduce tax evasion in the informal economy.

Small and Medium Enterprises (SMEs) are very significant to the growth of any nation. It is not a wonder that developed countries enjoying a flourishing and growing economy attribute most of their achievement to a booming SMEs sector. In the developed economies, small businesses are recognized as the main engines for growth of economy and development and make significant contributions to Tax revenues and prosperity. Why do some SMEs comply with paying taxes while most of them do not? This is the broad question which this study seeks to answer. In more specific terms, this study aims at providing a review of the factors that influence tax payer compliance among SMEs and conceptualization of those factors into a meaningful whole. There is already a considerable literature on the subject of tax compliance; however, it appears that so far, no study has assessed the collective adequacy of the factors employed in the studies. This study is based on the factors influencing tax compliance that should be oriented towards the use of persuasion rather than coercion among SMEs.

A heavy reliance on use of semi-military operations to prevent tax evasion may result in short term revenue increases but may prove to be difficult to sustain in the longer run and thus have considerable implications for politics in a democracy. The SMEs attitudes in tax compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance differ from one country to another and also from one individual to another (Kirchler, 2008). They include: taxpayer's perception of the tax system and Revenue Authority (Ambrecht, 1998); peer attitude/ subjective norms; taxpayer's understanding of the tax system/ tax laws (Silvani, 1992; LeBaube, 1992),motivation such as rewards (Frey and Targler, 2006) and punishment such as penalties (Allingham and Sandmo, 1972); cost of compliance (Slemrod, 1992; Le Baube, 1992); enforcement efforts such as audit; probability of detection; difference across – culture; behavioral control (Furnham, 1983); ethics/ morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income (Murphy, 2004) and use of informants. Tax compliance has evolved into a major research topic in economic psychology.

The issue has been approached from various viewpoints shedding light on different aspects of taxpayers' behavior. Attitudes were measured, prevailing social norms and lay theories explored what people have in mind when fulfilling their annual tax declarations (Kirchler, 2008). The empirical results indicate that tax compliance leads to increases in income and audit rates and decreases in tax rates. Compliance is also greater when the individuals perceive some benefits from public goods funded by the tax payments while changes in fine rates appear to have little effect on tax compliance behavior (Rabiul,2020).It, therefore, appears that there is an additional tax policy instrument beyond the standard prescription of enforcement action that the government can enact to achieve the desired degree of compliance with the tax laws. In fact, with some of these standard instruments, administering greater penalties may largely be ineffective in increasing tax compliance.

The behaviour of tax compliance has been long explained by the policies oriented to punishment, like tax audit and penalty rate (Alm, McClelland, Schulze, 1992). However, the theoretical approach could not completely explain the behaviour of Tax compliance. There have been many studies to explain the behaviour of tax compliance among SMEs in a more realistic

situation. They have been focused on the determination of tax compliance, respectively on economic and non-economic factors. Non-economic factors, which had been neglected by economists, have been introduced to explain the tax compliance by using the economic framework (Smith and Stalans, 1991). They have tried to include many non-economic factors which are for example, the willingness to pay for public provision, public education, tax morale etc. (Hyun, 2005). Disclosure of income among tax payers is a very important aspect of tax collection among SMEs. To achieve higher levels of tax compliance, taxpayers must comply with regulations that require them to disclose their income and subject themselves to taxation. Voluntary disclosure of income for taxation purposes is also known as tax compliance (Mustafa, 2006). Alm (2011) defined tax compliance as the reporting of all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgments.

Statement of the Problem

Small and Medium Enterprises being profit generating establishments are also expected to pay their dues. The important question however is how much tax should they be levied. Small and medium enterprises are volatile establishments that need special treatment. Putting their nature into consideration, every little resource at their disposal can make a world of difference. For this reason, a number of Arusha's SMEs choose to remain in the informal sector because they feel the cost of compliance is too high. And a considerable number of those who pay only do so because they are coerced by the authorities. It is known that most of SMEs are faced with high compliance costs, this study therefore aimed at assessing factors hindering effective tax compliance among SMEs by focusing in Arusha.

2.0 LITERATURE REVIEW

Benefit,Ability to pay,the cost of service and the Allingham and Sandmo theories guided the study;

The Theory of Benefit

According to this theory, the states should levy taxes on individuals according to benefit conferred on them. This means that, the more benefits a person derives from the activities of the state, the more he should pay to the government.

Ability to Pay Theory

This is the dominant theory of taxation where by individuals are taxed in accordance with their ability to pay which is usually interpreted in terms of sacrifice. It justifies progressive taxation under three possible interpretations of sacrifice: the equal, equal-proportional, and least-sacrifice theories. Most economists are of the opinion that income should be the basis of measuring a man's ability to pay (Maliyamkono, 2009).

The Cost of Service Theory

Some economists were of the opinion that if the state charges actual cost of the service rendered to the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle no doubt can be applied to some extent in those cases where the services are rendered out of

prices and are a bit easy to determine, e.g., postal, railway services, supply of electricity (Devos, 2014).

The Allingham and Sandmo Theory

This theory was advanced by Allingham and Sandmo. According to Sandmo (1972). The theory holds that the government deters tax evasion through a sanction arrangement and audits. A tax payer will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing that what he or she does is unlikely to be detected or audited.

Tax payers would also evade tax when they perceive that the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Taxpayers who feel that tax rate is high and punitive will evade tax. There is a negative correlation between tax evasion, the probability of detection, the degree of punishment and high transactional costs associated with tax laws.

Income tax evasion was pioneered by Allingham and Sandmo (1972), where a rational and a moral taxpayer maximizes expected utility, which solely depends on income. When caught, the agent must pay penalties, imposed on the amount of evaded income. A key comparative static result is that when the tax rate goes up, competing income and substitution effects might lead to more or less tax compliance. The substitution effect encourages evasions since the marginal benefit of cheating goes up with the tax rate. On the contrary, the income effect tends to suppress evasion since a higher tax rate makes the taxpayer with decreasing absolute risk aversion feel worse-off, and thus decrease risk-taking.

Therefore, the net effect is ambiguous. However,Yitzhaki (2007) showed that when the penalty is imposed on the amount of evaded taxes, as it is under most current tax laws, the substitution effect vanishes. At the original optimum, the penalty paid on concealed income increases proportionally with the tax rate, and hence, there is no substitution effect. The remaining income effect is responsible for inducing the taxpayer to cheat less.

Therefore, the net effect is better compliance. Yitzhak's (2007) result is perhaps the single most important finding in the early tax evasion literature, having spurred a lot of remarkable extensions. The SMEs are prone to tax evasion as they face difficulties in complying with tax laws. They are expected to comply with strict deadlines, keep proper books of accounts. This kind of environment leads to tax evasion.

The Tax Morale Theory

The tax morale theory was first advanced by German scholars focused on Gunter Schmolders known as Cologne school of tax psychology. Tax morale can be termed as the individual factor that motivates a person to comply with his or her tax obligations.

As a determinant of tax behaviour, tax morals aim to explain how and why a tax payer morality influences his or her tax behaviour. Many studies have found out that tax evasion can be attributed to the tax morale.

Tax payers would be inclined to evade tax when the communities in which they live or operate disapprove of tax evasion. Tax payers are more likely to comply with tax obligation if their friends, relatives and acquaintances comply with these obligations. Also, tax payers will evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society

tolerates tax evasion, such a society would encourage tax evasion (Waweru, 2004). Religious beliefs are a variable in tax evasion as studies have shown that tax payers who have strong religious commitments or beliefs would likely be tax compliant even if they feel that the tax rate is high. Some instances, tax payers can morally feel justified in evading taxes if they feel that the quality and quantity of public services and goods are unsatisfactory. The opposite is also true. In economies where the provision of public goods and services is satisfactory, the evasion rates are low.

Tax payers will tend to comply with their tax obligation if they feel that their government is honest, democratic and participatory and also if the tax payers feel they play a meaningful role in governance (Cummings, 2007). Thus, tax payers" attitudes are important predictors of tax evasion. It was out of such realization that this study aimed to interpret the tax attitudes of SMEs and how it contributes to tax evasion.

Empirical iterature Review

Small taxpayers under the regular system of taxation are discriminated against, since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises" profit margin. It also increases the Government's tax revenue, since the simplified provisions for small and medium enterprises reduce the size of the informal economy and the number of non-complying registered taxpayers (Ocheni, 2015). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations.

An overly complex regulatory system and tax regime or one opaque in its administration and enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Ataword, 2012), and this results in a tax system that imposes high expenses on the society.

A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources (Farzbod, 2000). Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large business (Weichenrieder, 2007).

Tax evasion and tax avoidance both contribute in large extent to the problem of low tax collection in developing countries (Dandar,2007,). The problem of tax evasion and tax avoidance are inherent in all tax systems. In fact, tax evasion and tax avoidance are as old as taxes themselves, Example of tax evasion are making false returns and making a false statement that affects the tax liability. Hamis(2017) 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. Tax evasion is mainly practiced on direct tax, it involves tax payers" contravention of tax law in order to minimize or eliminate tax liabilities or altogether.

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. The tax payer may make false return of income by omitting or understanding 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 assessor when quantifying amount of tax to be paid.

In Tanzania, cases of tax evasion are common; this problem is inherent in all tax systems. 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 consultants and auditors or employees in Authority (RPOA, Special Paper 2009).

Any attempt to evade tax may be caused by high tax rates imposed to tax payers, administrative inefficiency of revenue department, low prospect of detection and punishment,multiplicity of tax, registration, wasteful government spending and lack of noticeable social services and other benefits to tax payer. A higher tax rate of tax evasion may result into serious government revenue short falls. Kibuta (2011) mentioned a narrow tax base as another challenge on revenue mobilization in Tanzania. Tanzania has only fifty (50) large taxpayers who contribute over 40% of all government revenues.

The second major contributor to government revenue is Pay– As –You Earn (PAYE) which is collected from a small percent of Tanzania's workforce employed in the public and private sector. Other revenue mobilization challenges elaborated by Kibuta (2011) include tax evasion, tax avoidance, lack of specialized skills in tax audit and lack of integrity among tax administrators. (Kibuta, 2011) recommended that efforts should be made to expand the tax base and modernize that collection through the use of modern technology such as using EFD machines and mobile tax payments.

(Mbilinyi,2013) conducted a study to examine the challenges of tax compliance in the Micro and small enterprises in Tanzania. The study found that the main challenge facing tax collection in the Micro and small enterprises in Tanzania was failure to identify who should pay taxes and in what amount since businesses operating in the Micro and small enterprises are not registered; they have no permanent addresses and often don't keeps records of their business transactions. To facilitate taxation of the Micro and small enterprises, Mbilinyi (2013) recommended that the government should improve tax administration including simplification of payment procedures. The study also suggested that the government should introduce incentives for tax payment like bonus for good tax payers and special recognition to those making full tax compliance. ADBG (2010) conducted a study on challenges and issues of domestic resource mobilization for poverty reduction in East Africa by focusing on Tanzania.

The study found that the main challenges of domestic revenue mobilization in Tanzania included; lenient tax incentives, a narrow tax base, the absence of systems and mechanisms to reach taxpayers and limited knowledge on potential taxpayers in the SMEs. To address the challenges of domestic revenue mobilization in Tanzania, ADBG (2010) recommended that the government of Tanzania, specifically TRA, should effectively exploit ICT to enhance tax collection efficiency, minimize corruption in tax collection and conduct comprehensive and in-depth sector studies on how to collect taxes from the informal sector.

Ndemanyisho (2014) conducted a study to investigate the current practices of records management at Tanzania Revenue Authority (TRA) and the challenges it faces in doing so. Data for the SMEs were gathered through participatory observation, questionnaire formal interviews and documentary review in Kinondoni District (Arusha Region) and Dodoma Region.
The study found that among the challenges faced by TRA in records management included; unqualified records officers, little linkage between information and technology department and records management unit, lack of records management tools such as policies, records retention and disposition schedules, vital and disaster management plan. Meena (2013) conducted a study to assess the challenges facing revenue collection at TRA Morogoro. The findings showed that 80% of the respondents reported the availability of taxpayer resistance and low tax morale on part of the citizenry which resulted into the reduction of revenue collection due to the availability of low level of tax knowledge by taxpaying community.
Furthermore, 82% of the respondents argued for the application and enhancement of block management system to categorize tax payers. The study concluded that improving the citizens" access to and right to information on taxes collected and how revenues were spent was vital and needed to be clearly given to the public in order to avoid the citizens" feeling that they receive little in return from revenue paid. The researcher urged for revenue collection capacity enhancement through facilitating taxpayers with education.

A study conducted by Kathuri (2006) on tax administration challenges in Kenya identified lack of accurate records on tax payers and revenue collections as the main tax administration challenge in Kenya. The study specifically mentioned a narrow taxpayer base as the main challenge facing tax administration in Kenya and that for tax collections to improve; the tax base must be enlarged.

(Kipilimba,2018) conducted a study on tax collection challenges in Uganda found that one of the challenges is using manual tax filing systems which has made it difficult for the government to detect tax evaders. Another tax administration challenge identified by the study is the issue of collusion by tax payers and tax administrators to avoid tax by minimizing the tax burden.
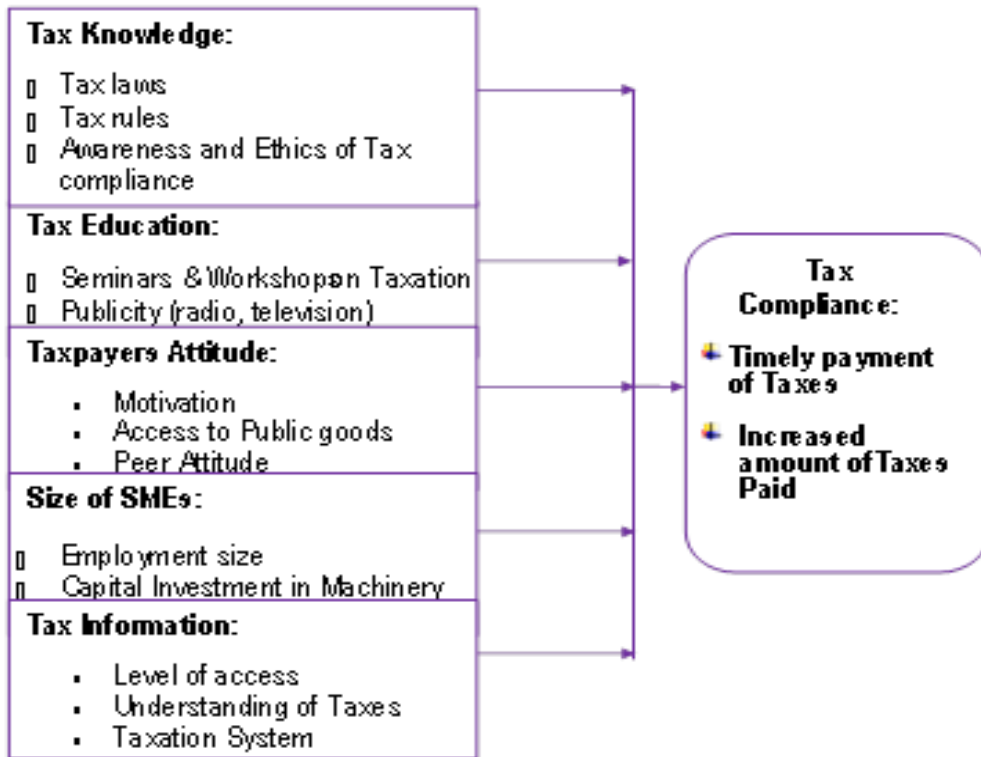
Research Gap
Based on the above empirical literature reviewed in this study, it is evident that many studies have been conducted both in Tanzania and abroad on the issue of taxation, tax compliance, tax education, tax knowledge, tax information, tax evasion and tax payer's attitude. However, few studies have been conducted on factors that influence tax compliance among SMEs specifically in Arusha region. Hence the knowledge gaps this study aimed to fulfil.

Conceptual Framework
This study assumes that the factors under discussion have a direct influence on tax compliance among SMEs in Arusha. The relationship between the independent variables and the dependent variables are illustrated in the conceptual framework presented below in figure.

Figure 1: Conceptual Framework

Tax Knowledge:
- Tax laws
- Tax rules
- Awareness and Ethics of Tax compliance

Tax Education:
- Seminars & Workshop on Taxation
- Publicity (radio, television)

Taxpayers Attitude:
- Motivation
- Access to Public goods
- Peer Attitude

Size of SMEs:
- Employment size
- Capital Investment in Machinery

Tax Information:
- Level of access
- Understanding of Taxes
- Taxation System

Tax Compliance:
- Timely payment of Taxes
- Increased amount of Taxes Paid

3.0 METHODOLOGY

This study used descriptive research design. Descriptive research includes collecting information, describing the phenomenon and then organizing, tabulating, depicting and describing information collection in the form of graphs and charts to assist the reader know how information is distributed. The research was conducted in Arusha region at Small bus stand areas in Arusha city council. For the purpose of the study, the selection of the Arusha region was due to high concentration of taxpayers falling under the SMEs category, and a wide variety of business activities like shops.

In this study, the targeted population were taxpayers among SMEs around the small bus stand area in the city of Arusha. Simple random sampling method was used in this research to guarantee fair representation and widespread results for the general population. Sample size of this study was determined through the following formula;

$$n = \frac{N}{1+N.e^2} = n = \frac{100}{1+100*0.05^2} = 80$$

Where n = number of samples, N = total population= 100; e = standard error of sampling (5%) is tolerated. By entering each value of the variable into the formula (1) above, obtained large sample size of 80 respondents.

Primary data was collected using self-administered questionnaire provided to chosen sample participants from the SMEs. Questionnaire was closed-ended and open-ended.

Data from the questionnaires will be quantitatively analysed using SPSS descriptive,inferential statistics and Microsoft excell. Because of its robust analytical capability and ease of data analysis, the SPSS package was chosen. Descriptive statistics was used to present frequencies and percentages to illustrate the results, Regression model adopted was;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \alpha$$

Where;

Y – Dependant variable (Tax compliance)

β_0 - Regression coefficient / constant/ Y-intercept

β_1, β_2, β_3, β_4, β_5 are the slope of the regression equation

X_1- Tax Knowledge
X_2 – Tax Education

X_3 –Tax payers Attitude

X_4 –Size of SMEs

X_5–Tax Information

α - Error term at 95% coefficient level.

4.0 RESULTS

Researcher distributed questionnaire to 80 SMEs stakeholders from which 60 filled in and returned the questionnaires making a response rate of 75%.

Accessibility of Tax Education

The study looked at whether the education about taxes was readily available to all taxpayers and how the availability of education could affect tax compliance and whether most of SMEs found in Arusha were able and willing to pay taxes as directed by Seminars, and workshops, Media (TV, Radio, and newspapers) or by   Public address that is 67% of SMEs, while 20 SMEs said that they had little education concerning Taxes which is 33% of SMEs, involved in the study.The study sought to find out whether the respondents found that the education relating to tax matters was readily available, achieved and enough.

The results indicated that out of 60 SMEs, 40 of them said that they had got Tax Education either through Publications,

Taxpayer's Identification

The researcher inquired as to whether the respondents" businesses had TIN. This was to determine if the businesses were registered for tax purposes as the TIN is a mandatory requirement for all operating businesses.

Table 1: Taxpayer Identification Number (TIN)

Item	Respondents with TIN	Frequency	Percentage (%)
1	Yes	60	100%
2	No	0	0%
TOTAL		**60**	**100%**

Source:Field Data Collection

As shown in Table above it shows that 100% of the SMEs had a Taxpayers identification number (TIN). This was quite commendable as it shows that all the SMEs that participated in the data collection were duly registered for tax purposes.

Availability of Tax Information

The concept of tax information was developed through the literature review in chapter two of this study and was conceptualized to mean the level of information at the disposal of the taxpayers to enable them to comply voluntarily without being coerced prompting by the
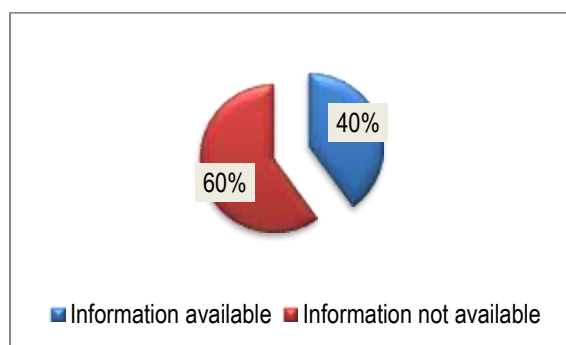
TRA officials. The survey sought to find out whether the respondents had got information relating to tax matters readily available and how to go about it.

Availability of Tax information

The study looked at whether information about taxes was readily available to the taxpayers and how this availability of information affected tax compliance and whether the organisation was able to calculate it taxes correctly based on the information that had been disseminated.

The study findings indicate that out of the 60 SMEs, only 40 of the respondents felt that information relating to tax information was available by 40%, while 60% representing 60 SMEs found that information was not voluntarily available.

Figure 1:Availability of Tax Information

Source: Field Data Collection, 2021

Factors Influencing Tax compliance among SMEs in Arusha

Accessibility of Tax Education

The study looked at whether the education about taxes was readily available to all taxpayers and how the availability of education could affect tax compliance and whether most of SMEs found in Arusha were able and willing to pay taxes as directed by TRA. The survey sought to find out whether the respondents found that the education relating to tax matters was readily available, achieved and enough. The findings on this particular regent are shown as per the results in Figure below.

How tax Information Affects SMEs tax Compliance
The respondents were requested to indicate whether the lack of or availability thereof of tax information affected tax compliance. The findings are presented in below.
The results as shown in the table above revealed that 25% of the respondents agreed that lack of tax information affected their level of tax compliance to a very great extent, while 42% of the respondents said that their level of tax compliance was affected to a great extent by lack of tax information. This was followed by 16% who felt it was only to a small to some extent, 12% to a less extent and 5% not at all. It is therefore clear that majority of SMEs in Arusha agreed that lack of tax information affects tax compliance to a great extent..

Tax Compliance Cost
In most developing countries including Tanzania, hiring tax professionals is an added cost to the SME"s (Group, 2010) and therefore SMEs owners resort to do their own tax returns, though they may not be well versed in taxation and the concept of filing returns. The cost of book keeping and record keeping is also a major cost to most SMEs. It is in this regard that this research sought to find out how compliance costs incurred by SMEs affected the amount of taxes paid to TRA by these SMEs.

How much SME spend as Cost of Compliance
The researcher found it of importance to find out on average how much SME were spending monthly in compliance cost. This is a key indicator to find out whether the cost was too high hence affecting their compliance levels. SMEs represented only a 5% of all respondents who had a monthly cost of below TShs 250,000, followed by 8% who revealed they had monthly cost of over TShs 2,200,001 while 42% indicated that their monthly cost was between TShs 250, 001 to TShs 1,100,000. The study further revealed that 27 SMEs representing 45% had a monthly cost between TShs 1,100,001 to TShs 2,200,000.

How does Cost of Compliance Affect tax Compliance?
The respondents were requested to indicate whether the total cost incurred in being compliant affected their tax compliance as SME. The findings are presented in the table below
Table 2: Extent to which compliance cost affects Tax compliance

Item	Extent	Frequency	Percentage (%)
1	Not at all	5	8%
2	Less Extents	10	17%

3	Some Extent	20	33%
4	Great Extent	15	25%
5	Very Great Extent	10	17%
TOTAL		**60**	**100%**

Source: Field Data Collection, 2021

The results as shown in the table above, 33% of the respondents (20 SMEs) of the study agreed that the costs they incurred in being compliant affected their compliance levels to some extent. To 25% of the respondents (15 SMEs), this was to Great extent, followed by 17% who felt equally to Less Extent and Very great extent lastly 8% represents respondents to the extent of Not at all. This can therefore be understood that for the majority of SMEs, the costs they incurred in tax compliance affected their compliance levels to some extent.

Tax attitude towards Taxpayers in SMEs

The concept of attitude was reviewed through the literature review and interpreted to mean the measure of confidence a taxpayer has in a tax system. When a taxpayer feels there is unfairness in a tax system, the voluntary tax compliance becomes replaced with intentional tax evasion. The study therefore sought to examine how attitude about tax was affecting the income tax compliance of SMEs in Arusha.

The aspects looked at in this study include the extent of access by SMEs to public utilities financed by taxes, the value SMEs attached to the responsibility of paying taxes to the government, and the main reasons for the various attitudinal positions taken by the SMEs in Arusha.

Access to Public Utilities and Services

The study showed the results in respect to the extent to which there was access to public utilities financed by taxes.

The results of the study revealed 33% of the respondents felt that they had access to public utilities financed by the funds collected from taxes to less extent while 18% of the respondents felt that they had access to public utilities to a some extent, and 10% of the respondents felt that they had to a great extent and 7% Very great extent lastly 5% of the SMEs felt that not at all they had access to the public utilities financed by fund generated from taxes. The expectation of the

study was that when the extent of access to public utilities by SMEs was high then the level of voluntary income tax compliance would be boosted greatly. This result is in line with (Hamisi,2017).

1. **Discussions**

Strategies that can improve Tax Compliance among SMEs

Tanzania revenue authority (TRA) decentralized the management of tax affairs through restructuring its administration to a block management system. The purpose of this structure of management is to influence voluntary compliance to tax payers through dissemination of taxpayers" education along with physical visitation.

Figure2:Tax compliance among SMEs
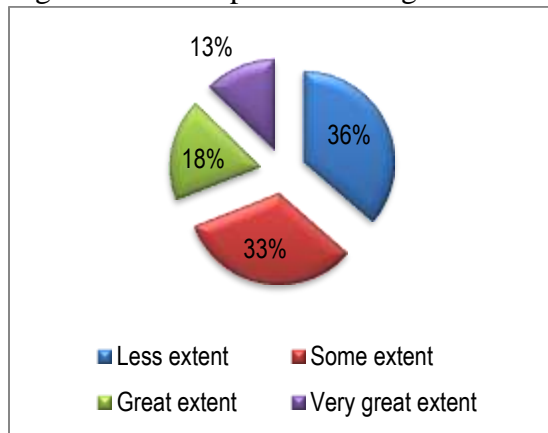
Source: Field Data Collection, 2021

The Influence of Tax Officers' visits to Taxpayers' Voluntary Compliance

Under this system, tax regions have been divided into blocks and sub-blocks depending on their geographical areas. Customers are registered and categorized according to blocks and sub-blocks. Services given to clients include TIN registration, physical visiting, and filing of tax returns, auditing, and trainings. The activities are conducted according to blocks and sub-blocks in which the customer belongs, the block management system aims to simplify the task of reaching customers so as to collect necessary business information for tax purposes. This result is in line with Masato, 2009.

In managing blocks, revenue officers are assigned the duty of visiting customers located in their respective blocks at least once in three months. In their visiting, they collect SMEs business information, identify non-filers, identify unregistered SMEs, educate members of SMEs concerning paying Tax voluntary and the importance of Taxes to the Government and make sure that business tax information is up-to-date (Tanzania Revenue Authority, 2013). Tanzania Revenue Authority Taxpayer Register

The TRA has three departments, which are directly involved in assessing and collecting tax revenue through the administration of various tax laws. Domestic Revenue Department (DRD): it collects income taxes, VAT, and other taxes from small and medium taxpayers. It accounts for 30% of domestic revenue. Customs and Excise Department (C&E): it collects customs, excise

duties, VAT and other taxes. Large Taxpayers Department (LTO): it collects income taxes, VAT, and other
taxes.Total tax register for the TRA which consists of 34,079 of total SMEs taxpayers in Tanzania out of which 4,787 are SMEs on the presumptive tax regime.

5.0 CONCLUSION AND RECOMMENDATION

The Findings from this study have revealed that all the identified factors have a direct influence on tax compliance among SMEs. The tax compliance factors examined in this study included Tax knowledge, Tax education, Size of SMEs, Tax attitude towards tax compliance, Tax information, Tax compliance cost, Tax enforcement and Tax rates. The study confirmed the reasons behind TRAs both use of voluntary tax compliance strategy alongside the deterrent measure's strategy. Most of the respondents felt that the tax rates now in expression should be reviewed, thus the government should revisit the current tax rates charged to SMEs.On the availability of tax information,information received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements.

With regard to this TRA should address the complexities of annual tax returns, periodic variations in the tax laws, and levels of penalties and fines. It should pass this information regularly to SMEs via various media like television, radio and other media, channels. This will greatly improve the SMEs level of compliance as the great complexity associated with tax matters will be demystified.

On tax compliance cost, the companies confirmed to have been engaging the services of tax agents and professional staff to handle accounting issues. This cost is normally a burden to the SMEs. Therefore, SMEs should be encouraged to improve their book keeping by offering incentives, such as application of a lower presumptive tax rate for small businesses meeting certain record keeping standards. The government should also engage the small holders in sensitization for as on how to reduce the cost associated with tax compliance.

With regard to the attitude of taxpayers toward payment of taxes to the government, the study revealed that most of the companies felt they had at least some access to the public utilities financed by taxes while at the same time they valued the payment of taxes to the government of Tanzania. Taxpayers" attitudes encourage tax compliance in Tanzania and what influence the taxpayers" attitudes, equally affect the taxpayers" compliance with the tax requirement i.e. taxpayers" attitudes encourage tax compliance in Tanzania.

.

REFERENCES

Alm, J. and Torgler, B., 2011. Do ethics matter? Tax compliance and morality. *Journal of Business Ethics*, *101*(4), pp.635-651.

Allingham, M.G. and Sandmo, A., 1972. Income tax evasion: A.

Ambrecht, A., 1998. Increasing taxpayers compliance: a discussion of the negligence penalty. *ways and Means Committee of US House of Representatives in May*.

Atawodi, O.W. and Ojeka, S., 2012. Relationship between tax policy, growth of SMEs and the Nigerian economy. *International Journal of Business and Management*, *7*(13).

Cummings, J.H. and Stephen, A.M., 2007. Carbohydrate terminology and classification. *European journal of clinical nutrition*, *61*(1), pp.S5-S18.

Dandar, E., Sambuu, U., Unurkhaan, E. and Purev, T., 2007, December. Comprehensive analysis on Mongolian tax information system. In *Proceedings of the 1st international conference on Theory and practice of electronic governance* (pp. 313-316).

Devos, D., Moreau, C., Devedjian, J.C., Kluza, J., Petrault, M., Laloux, C., Jonneaux, A., Ryckewaert, G., Garçon, G., Rouaix, N. and Duhamel, A., 2014. Targeting chelatable iron as a therapeutic modality in Parkinson's disease. *Antioxidants & redox signaling*, *21*(2), pp.195-210.

Farzbod, J., 2000. Investigation of the effective factors in the tax efficiency. *Unpublished master's thesis, Governmental Management Training Center, Tehran*.

Furnham, A. and Alibhai, N., 1983. Cross-cultural differences in the perception of female body shapes. *Psychological medicine*, *13*(4), pp.829-837.

Hamisi, S., 2017. *Factors influencing tax compliance among SMEs in Dar-es-salaam* (Doctoral dissertation, University of Dodoma).

Hyun, J. K. - Tax Compliances in Korea and Japan (2005), Why are they different? Policy Research Institute, Ministry of Finance, Japan, February 2005, pp. 1-15.

Kathuri, B., 2006. Traders Oppose Electronic Tax Registers Deadline: Financial Standard June 20 th. The Standard Group, Kenya.

Kibuta, O. (2011), Tax Compliance in Tanzania: An Analysis of Law and Policy Affecting Voluntary Taxpayer Compliance. Thesis Submitted for the Degree of Doctor of Philosophy in the Department of Commercial Law, Faculty of Law, University of Cape Town.

Kipilimba, T.F., 2018. Impact of tax administration towards government revenue in tanzania-case of Dar-Es Salaam region. Social

. *Psychological medicine*, *13*(4), pp.829-837.

Hamisi, S., 2017. *Factors influencing tax compliance among SMEs in Dar-es-salaam* (Doctoral dissertation, University of Dodoma).

Hyun, J. K. - Tax Compliances in Korea and Japan (2005), Why are they different? Policy Research Institute, Ministry of Finance, Japan, February 2005, pp. 1-15.

Kathuri, B., 2006. Traders Oppose Electronic Tax Registers Deadline: Financial Standard June 20 th. The Standard Group, Kenya.

Kibuta, O. (2011), Tax Compliance in Tanzania: An Analysis of Law and Policy Affecting Voluntary Taxpayer Compliance. Thesis Submitted for the Degree of Doctor of Philosophy in the Department of Commercial Law, Faculty of Law, University of Cape Town.

Kipilimba, T.F., 2018. Impact of tax administration towards government revenue in tanzania-case of Dar-Es Salaam region. Social sciences, 7(1), pp.13-21.

Kirchler, E., Hoelzl, E. and Wahl, I. (2008), Enforced versus voluntary tax compliance: The „„slippery slope"" framework, Journal of Economic Psychology, Issue 29 (2008), pp. 210–225.

LeBaube, R.A. and Vehorn, C.L., 1992. 9 Assisting Taxpayers in Meeting Their Obligations Under the Law. In *Improving Tax Administration in Developing Countries*. International Monetary Fund.

Maliyamkono, T (2009), Why Pay Taxes. Mkuki Na Nyota Publishers, Da es Salaam.

Mbilinyi, T., 2013. *Assessment of revenue collections at government agencies in tanzania the case of tanzania electric supply company limited (TANESCO)* (Doctoral dissertation, Mzumbe University).

Meena, D.K., Das, P., Kumar, S., Mandal, S.C., Prusty, A.K., Singh, S.K., Akhtar, M.S., Behera, B.K., Kumar, K., Pal, A.K. and Mukherjee, S.C., 2013. Beta-glucan: an ideal immunostimulant in aquaculture (a review). *Fish physiology and biochemistry*, *39*(3), pp.431-457.

Murphy, R., 2004. The social irresponsibility of corporate tax avoidance: Taking CSR to the bottom line. *Development*, *47*(3), pp.37-44.

Mustapha, A.R., 2006. Ethnic structure, inequality and governance of the public sector in Nigeria.

Mwangi, L.W., Makau, M.S. and Kosimbei, G., 2014. Relationship between capital structure and performance of non-financial companies listed in the Nairobi Securities Exchange, Kenya. *Global Journal of Contemporary Research in Accounting, Auditing and Business Ethics*, *1*(2), pp.72-90.

Ndemanyisho, A.J., 2014. Reflecting on revenue collection in Tanzania: What went wrong with records management. *International Journal of Education and research*, *2*(8), pp.483-502.

Rabiul, S. and Mustafa, D., 2020.   Empirical investigation of tax compliance determinants in Katsina State, Nigeria. *Journal DOI*, *6*(10).

Rile, G., 2011, April. Research on ventilation system of ecological sanitation toilets. In *2011 International Conference on Electric Technology and Civil Engineering (ICETCE)* (pp. 3457-3460). IEEE.

Silvani, C.A., 1992. 8 Improving Tax Compliance. In *Improving Tax Administration in Developing Countries*. International Monetary Fund.

Slemrod, J., 1992. Taxation and inequality: a time-exposure perspective. *Tax policy and the economy*, *6*, pp.105-127.

Smith, K.W. and Stalans, L.J., 1991. Encouraging tax compliance with positive incentives: A conceptual framework and research directions. *Law & Policy*, *13*(1), pp.35-53.

Ocheni, S.I. and Gemade, T.I., 2015. Effects of multiple taxation on the performance of small and medium scale business enterprises in Benue State. *International Journal of Academic Research in Business and Social Sciences*, *5*(3), p.345.

Sandmo, A., 1972. Optimality rules for the provision of collective factors of production. *Journal of Public Economics*, *1*(1), pp.149-157.

Siehl, E (2010), Addressing Reasons for Tax Evasion and Avoidance in Developing Countries. German Federal Ministry for Economic Cooperation and Development (BMZ), Köln.

Silvani, C.A., 1992. 8 Improving Tax Compliance. In *Improving Tax Administration in Developing Countries*. International Monetary Fund.

Tanzania Revenue Authority (2013). *The Tanzanian Revenue Authority Official Site*. Retrieved November 20, 2013, from http://www.tra.go.tz/.

Tritschler, F., Eulalio, A., Truffault, V., Hartmann, M.D., Helms, S., Schmidt, S., Coles, M., Izaurralde, E. and Weichenrieder, O., 2007. A divergent Sm fold in EDC3 proteins mediates DCP1 binding and P-body targeting. *Molecular and cellular biology*, *27*(24), pp.8600-8611.