

**IMPLICATION OF WITH HOLDING TAX DEDUCTIONS ON WORKING
CAPITAL MANAGEMENT TOWARDS CONTRACTOR'S
PROFITABILITY IN GOVERNMENT FUNDED PROJECT IN
TANZANIA:
A CASE OF JANDU PLUMBERS LIMITED**

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Master of Accounting and Finance

Institute of Accountancy Arusha

November, 2023

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**A Dissertation Submitted in Partial Fulfillment of the Requirements for the
Degree of Masters of Accounting and Finance of the
Institute of Accountancy Arusha
November, 2023**

DECLARATION

I **Fuad Abdallah**, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any university for similar or any other degree awards.

Signature.....

Date.....

CERTIFICATION

I, the undersigned certify that I have read and hereby recommend for acceptance by Institute of Accountancy the dissertation entitled "***Implication of withholding tax deductions on working capital management towards contractors' profitability in government funded project in Tanzania***" in fulfillment of the requirement for the degree of Masters of Accountancy and Finance offered by the Institute of Accountancy Arusha.

.....

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Date

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ABSTRACT

The study assessed the implication of withholding tax deductions on working capital management towards contractor's profitability in government funded project in Tanzania. The study was guided with three specific objectives that generated research questions that were used towards facilitating knowledge generation process. The objectives include examining the practices of withholding taxes deduction and its implication towards working capital in government funded projects in Tanzania; to determine effect of withholding taxes on working capital towards profitability of government funded projects in Tanzania; and to identify the challenges of withholding taxes on profitability of government funded projects in Tanzania. Exploratory design was used in facilitating knowledge generation process through testing of the subjective reality using research questions guided the study. The study was conducted in Jandu Plumbers Limited as the case of the inquiry with primary data being used to assure information gathering from the employees sample size. The facts for the study were generated from the sample of 53 participants using questionnaires and interviews. The collected results through questionnaires were computed in SPSS software version 23 which fostered the gathering of descriptive statistics to present the results. Facts that were collected using interviews were analyzed using content analyses which were narratively presented with themes to support the results. Findings revealed that with the practices withholding taxes deductions are higher in government funded projects than others. Also, with effects the taxes have had negative effects with implication on profitability defects and performance concerns in the projects as the outcomes or results. Furthermore, withholding taxes deductions has been the source of challenges in the working capital on the conduct of government funded projects with implication on profitability and performance. The implication of the results is that withholding taxes deductions constitute defects on the working capital with regard to the government funded projects which has implication on the performance of the projects as well as contractor profitability.

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CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Withholding tax is the amount of tax retained by one person when making payments to another person in respect of goods supplied or services rendered by the payee (McLure, 2018). A person receiving or entitled to receive a payment from which income tax is required to be withheld is a with holdee while a person required to withhold income tax from a payment made to a with holdee is referred to as the withholding agent (Zidar, 2018). This is important revenue that is being collected from the income generated through professional services such as consultancies, part time duties and others.

Also, it may be generated through several charges that cannot be accessed direct by the revenue authority such as rent charges and others that may be paid direct to the other actor liable for such charges (Beardsley, 2019). In that case, with holdee is required to pay the held revenue to the government since it is the tax that is liable statutory to be paid to the government like any other legally recognized and accepted taxes (McLure, 2018). This is considered as an important revenue since it constitutes massive and significant collections to the government once it is well complied by the taxpayers.

Withholding tax is also deducted in the working capital that is used in the execution of project activities including government funded projects with varying charges depending with the tax

framework of the particular country (Besley&Perssons, 2019). This has had implication regarding the profitability generation in the execution of the projects because deductions as they take place may sometimes be uncertain with regard to whether the activity may guarantee profit generation or otherwise (Ibid). This is the case because projects constitute varying outcomes in the implementation process that may amount to loss or gains respectively.

In that note, Stab-Bau-Merkblatt (2006) explains that, any legal entity governed by public law and any corporation for which construction work is performed in Germany is subject to these provisions. The constructions activities that are subject to withholding tax in Germany are those that further the construction, restoration, maintenance, modification or destruction of structures. Construction carried out by developers is subject to withholding tax only if the purchaser of the structure can be considered to be the one who commissioned it and oversaw its construction. The service recipient must withhold 15% of the consideration to be paid. "Consideration" is the price for the construction work plus turnover tax.

Afghanistan Revenue Department (2012), the Article 72 of the Income Tax Law 2009, legal and natural persons who provide supplies, materials, services and construction under contract are subject to tax withholding from the gross amount payable to the contractor. Further, Article 72 of the Income Tax Law 2009 mentioned the responsible parties to withhold are government agencies, municipalities, state entities, private sector businesses and organizations, and other persons are required to withhold from any legal or natural persons who provide supplies, materials, services and construction under contract. The withholding tax rate depends If the

Contractor has a business license, the withholding rate is 2% of the gross payment to the Contractor. Contractors with business licenses will take credit for the withholding as an advance payment on their annual income tax returns for the tax period in which they were paid. If the Contractor does not have a business license, the withholding rate is 7% of the gross payment to the Contractor. Contractors without business licenses will treat the withholding as a final tax. Practice note (2016), issued to provide direction and guidance to officers of the Ghana Revenue Authority, Tax Practitioners, Consultants, Taxpayers and the general public on the acceptable treatment of Withholding Taxes, in order to achieve consistency in the administration of the Act. The payment subject to withholding tax under this Act is for service rendered by the recipient of the payment through a business of that person or a business of any other person. The service fee should be for provision of professional, technical or consultancy services or other similar services of an independent business character other than remuneration for employment.

The provisions of the Act require a resident person who pays an amount for works or the supply of goods and services to another resident or non-resident person, with a source in Ghana, to withhold tax from the payment at the rate specified under Paragraph 8 of the First Schedule to the Act and pay same to the Commissioner-General. A resident person other than an individual, shall withhold tax on the gross amount of a payment at the rate provided for in the first schedule when the person makes a payment to another resident person for the supply or use of Goods, the provision of any Works, or the supply of services in respect of a contract between the payee and the resident person, where the contract exceeds 2,000 currency points.

In Tanzania, the law requires a resident person who makes payment to another resident or non-

resident to withhold a tax in respect of services by 5 percent and 2 percent on goods supplied to any corporation whose budget is wholly or substantially financed by the Government budget subvention, (Practice note no.01/2019). As per the income tax law in Tanzania, the tax deducted at source can either be final withholding tax or non-final withholding tax, for the case of Construction company, the tax deducted at source is referred as non-final withholding tax and the contractor is allowed to offset against the provisional tax to be paid in each quarter of the year (Brautigamet *al*, 2018).

The tax withheld from each payment made to the contractor will reduce the burden of the tax that the contractor supposed to pay as a provisional tax on or before end of each quarter of the year of income (Odd-Helge, 2019). However, if at the end of the year of income the construction company report loss. Then the withholding tax deducted recognizes as tax credit and refunded once applied to the commissioner of domestic revenue. Since that is the case, the pattern of deducting the withholding tax has implication on the working capital pertaining to the government projects prior to profitability (Zidar, 2018).

This is the case because the deductions are automatic since they are statutory requirements but the implementation of the projects is uncertain regarding whether profit may be generated in the end of the year or otherwise (Brautigamet *al*, 2018). The tax deductions seem to have concerns pertaining to the profitability because there are no considerations on the activities that once the project encounters loss which is the way forward to assist in the process instead of subjecting the project implementing team to suffer loss consistently for the government to get

its share (Ibid). With the persistence of the situation, it is necessary to undertake the study with the aim of addressing the concern in Tanzanian environment respectively.

1.3 Statement of the Problem

Withholding tax is mandatory since it is statutory requirement including the funds allocated for the government projects commencement with 5% for services and 2% for the goods supplied respectively (Odd-Helge, 2019). In that note, the deductions are automatic as the funds are paid to the implementing team or partners without taking into consideration that the activity based with the conditions that may assure profit generation or loss. The focus has been for the government to get its share of revenues alone without taking into consideration on the well-being of the implementing partners in the projects (Brautigamet *al*, 2018).

This in turn lead to the withholding tax deductions consisting of the implication regarding the profitability of the projects which is essential to inquire further in the area with the aim of addressing the concern in Tanzanian environment. In that case, several studies have been conducted on withholding tax practices in Tanzania including Gwakisa (2021) assessed factors affecting withholding tax collections among professional practitioners in Tanzania. Also, Mushi (2020) assessed factors affecting compliance towards withholding tax collections in Tanzania.

However, both studies further recommended several areas to be envisaged for future inquiries that among them are the withholding tax effect towards profitability in government funded projects in Tanzania based on the statutory requirements. In that note, this signifies that little studies have been envisaged in the area which is the gap essential to be addressed and filled.

Hence, the study is conducted to assess the effect of withholding tax deductions on profitability of government funded projects in Tanzania.

1.3 Research Objectives

1.3.1 General objective

The main objective of the study was to examine the implication of withholding tax deduction on profitability of funded government projects in Tanzania.

1.3.2 Specific Objectives

- i. To examine the practices of withholding taxes deduction and its implication towards working capital in government funded projects in Tanzania
- ii. To determine effect of withholding taxes on working capital towards profitability of government funded projects in Tanzania
- iii. To identify the challenges of withholding taxes on profitability of government funded projects in Tanzania.

1.4 Research Questions

- i. What are practices of withholding taxes deduction and its implication towards working capital in government funded projects in Tanzania?
- ii. What is the effect of withholding taxes on working capital towards profitability of government funded projects in Tanzania?
- iii. What are challenges of withholding taxes on profitability of government funded projects in Tanzania?

1.5 Scope of the study

This study focused on withholding tax effect prior to the profitability of government funded projects in Tanzania. The study intended to generate knowledge based on the issue identified under study serving as the gap respectively. Therefore, knowledge generation focused on the identified issue in line with Tanzanian environment.

1.6 Limitation and Delimitation of the study

The study is likely to be constrained with two main issues with the first being the gathering of respondents to foster information gathering process since the study required skilled practitioners as key informants that may be occupied and require scheduled appointments which are formal to get access on them. Also, the study is set towards very limited time prior to accomplishment which served as the constraint since the researcher is an employee that constitutes obligations to attend to the employer.

Despite that, the shortcomings were addressed in the manner that the researcher got access and hold of the respondents that the required number was accessed at all cost to assure reliable data for the study were gathered. Also, the researcher issued total compliance regarding the schedule set to conduct the study to assure completion of the program.

1.7 Significance of the Study

The study regarding the effect of withholding tax deductions on working capital management towards profitability of government funded projects in Tanzania since may foster insight on potential problems in liquidity of the construction companies. The results may serve essential in

facilitating fostering policy making regarding the withholding tax deductions and the profitability in government funded projects respectively. Furthermore, the study may foster the accomplishment of the program since it is the requirement that must be attained.

1.8 Organization of the study

The first chapter of this research dissertation discussed the background of the study, the statement of the problems, the objectives of the research, the research questions and the significance of the study, among other things. The second chapter covers a review of related literature. Chapter three covers mainly the methodology of the study and gives details of how research was conducted. Chapter four entails data presentation, analysis and discussions, while chapter five provides the summary, conclusions, recommendations of the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the conceptual definitions of key terms used in the study, followed by the theoretical literature review and empirical review of the study by citing and making review of previous similar studies. Furthermore, research gap section is described in the chapter to assure the dissemination of the puzzle under study.

2.2 Definition of Concepts

2.2.1 Withholding Tax Deduction

Withholding tax deduction is a tax that is required to be withheld by the person making payment of certain amount to another person in respect of goods supplied or services rendered (McLure, 2018). It is a tax deducted at source because the person making payment has an obligation to withhold. Further, the law requires a resident person who makes payment to another resident or non-resident to withhold a tax in respect of services by 5 percent and 2 percent on goods supplied to any corporation whose budget is wholly or substantially financed by the Government budget subvention, (Practice note no.01/2019).

As per the income tax law in Tanzania, the tax deducted at source can either be final withholding tax or non-final withholding tax, for the case of Construction company, the tax deducted at source is referred as non-final withholding tax and the contractor will be allowed to offset against

the provisional tax to be paid in each quarter of the year. The tax withheld from each payment made to the contractor will reduce the burden of the tax that the contractor supposed to pay as a provisional tax on or before end of each quarter of the year of income. However, if at the end of the year of income the construction company report loss. Then the withholding tax deducted will be recognized as tax credit and refunded once applied to the commissioner of domestic revenue.

2.2.2 Working Capital Management

Working capital management refers to the management of short-term financial requirements of an organization (Burg, 2018). This includes maintaining the optimal balance of working capital components such as receivables, inventories and payables and using the cash efficiently for day-to-day operation. This entails funds that are used to assure the implementation of the activities with the aim of attaining certain specified goals and objectives.

2.2.3 Government Funded Projects

This refers to the activities that are funded by the government with the aim of assuring the attainment of the goals and objectives that are intended to be achieved (Banks, 2017). The projects may be in various areas such as education, constructions, health care services and others provided that they are for serving the public. The projects are government funded since the resources to execute the projects originate from the government that may either be the central government, local government or both.

2.3 Theoretical Literature Review

2.3.1 Ability to Pay Model

This is a model on taxation and payment pattern of the taxes by taxpayers since rests on the assumption that government revenues and expenditures are treated separately (Raczkowski *et al.*, 2023). This is the case because taxes depend on the taxpayers' ability to pay the taxes whereas the payment behavior is influenced with the pattern of expenditures of the taxes. The model suggests that the way taxes are utilized tend to be influence taxpayers desire and ability to pay respectively (Samuelson, 2012). Also, the model describes that taxpayers in paying depends with the social, economic and political conditions that enables their ability to pay the taxes.

The model is essential because it describes the pattern of tax payment by taxpayers that it depends on their ability to pay which are influenced by various social, political and economic concerns that foster decision and influence on the practice (Friedman, 1999). The theory is further connected to the study on the ground that withholding tax pertaining to the profitability in government funding projects the key issue of concern is the ability to [pay approach that with the concerns regarding the variations that may occur in the project's implementation with implication on profitability that constitute necessity with regard to the ability to pay practice. Therefore, the study is conducted to address the concern.

2.3.2 Theory of Value

This is an economic theory emphasizing on the value of exchange regarding goods and services

that are traded between actors respectively (Hunt, 2015). The value of exchange is an important in the process of determining the value of the goods and services which determines the gains in terms of profit (Zimmerman, 2014). This is the case because the theory suggests that as the value of exchange on goods and services is based on fair price automatically may have influence on profitability with vice versa being the case.

The theory is relevant for the study because withholding tax deductions in the government funded projects has the implication on the profitability attainment because the deductions entail the value of exchange which constitute implication towards the working capital that has effect on the profitability. The conduct of the study intends to address the situation that fosters the situation to be addressed in Tanzania.

2.3.3 Pecking Order Theory

This is an economic theory emphasized on the capital structure generation of the company (Myers, 1984). The theory suggests that capital structure is generated using three main ways which are internal equity, debt financing or leverage and external equity. With internal equity entails capital structure generation through own sources by the company (Joseph *et al*, 2016) Once it depletes leads to the other pattern of financing the entity which is through leverage whereas the company obtain loan from the lending entities such as banks and others.

Once the debt financing depletes the company may resort to other form of financing which is external equity (Tirole, 2018). This entails the way of acquiring capital by the entity through selling of shares from the public which is mostly facilitated through listing in the stock market.

The external equity is less preferred by companies since it has implication on the ownership of the company that shareholders become owners that are supposed to be paid through dividends respectively which is something that most entities less prefer the mode of financing (Ibid).

The theory is connected with the study on the ground that withholding tax deductions in working capital management in government funded projects tend to deplete the capital. This affects the capital structure pattern pertaining to the working capital which has the implication regarding profitability.

2.4 Overview of Working Capital

Efficient working capital management is an integral component of the overall corporate strategy to create shareholders wealth. The way in which working capital is managed can have a significant impact on both liquidity and profitability of a company. Research by Taggart (1977) first signaled the importance of tradeoffs between dual goals of working capital management, that is liquidity and profitability. In other words, decisions that tend to maximize profitability tend to maximize adequate liquidity. Conversely, focusing entirely on liquidity tend to reduce the potential profitability of the company (Hendrickson, 1992).

Working capital management is concerned with making sure that firm has exactly the right amount of cash and lines of credit available to the business at all times (Deloof,2003). Cash is the lifeline of a company. If this lifeline deteriorates, so does a companies' ability to finance operations, reinvest and meet capital requirement and capital needs. Understanding a company's cash flow health is essential for making investment decisions. An individual

company's investment in working capital has been related to the type of industry in which it operates and the essential working capital policy each individual company adopt (Nyakundi, 2003). The investment concerns how much of the firm limited resources should be reinvested in working capital. It further observes that finance decisions relate to how the investment in working capital is to be allocated.

The concept of working capital was first evolved by (Marx, 1867). Marx used the term variable capital meaning expenditure for payrolls advanced to workers before they completed the goods they worked on. He differentiated this with 'constant capital', which he regulated as nothing but 'dead labor', that is, expenditure for raw materials and other instruments of production produced by labor. This 'variable capital' was the wage fund which remains blocked in terms of financial management, at work in process along with other operating expenses until it is released through sale of finished goods. Although Marx did not mention that workers also gave credit to the firm by accepting periodical payment of wages which funds a portion of working capital in process. The concept of working capital, as we understand today, was embedded in his concept of 'variable capital'. With the evolution of the concept came controversy about the definition of working capital, which different people use the term 'working capital' differently. Working capital is usually defined as the current assets minus current liabilities. The major part of current assets are inventories, accounts receivables and cash in hand and at bank while that of current liabilities are accounts payable and bank overdrafts. Weston and Brigham (1977) define 'working capital' as the capital invested in different items of current assets needed for the

business, that is, inventory, debtors, cash and other current assets such as loans and advances to third parties. These current assets are essential for smooth business operations and proper utilization of fixed assets. Net Working capital (NWC), technically, is the difference between current assets and current liabilities, while Gross Working Capital (GWC) refers to the sum of all current assets. Khan and Jain (2007) also argued that there are two concepts of working capital: gross and net. 10 The term gross capital also refers to as working capital means the total current assets of business. The term net working capital can be defined in two ways (i) net working capital is the difference between current assets and current liabilities; (ii) the portion of current assets which is financed with long term funds.

2.4.1 Nature and Importance of Working Capital

The working capital meets the short-term financial requirements of business enterprises. It is a trading capital, not retained in the business in a particular form for longer than a year (Dahlquist *et al*, 2022). The money invested in it changes form and substance during the normal course of business operations. The need for maintaining an adequate working capital can hardly be requested. Just as a circulation of blood is very necessary in the human body to maintain life, the flow of funds is extremely necessary to maintain business in a healthy situation (Tirole, 2018). If this becomes weak, the business can hardly prosper and survive. Working capital starvation is generally credited as a major cause of a business failure in many developing countries. The success of a firm depends ultimately, on its ability to operate cash receipts in excess of disbursements.

2.4.2 Working Capital Components

2.4.2.1. Accounts Receivable

When a company sells goods or services on credit, it records this as accounts receivable in the ledger and the balance sheet. Companies get cash within a given period that it provides to a customer, which is known as the credit period (Stern, 2019). Companies manage their receivables intimating the credit period to the buyer so that the buyer will know when to pay. Companies usually carry out a credit analysis to gauge who are paying on time and who are not. By receiving cash early, it could improve the company's life-blood that is the working capital. Collecting cash too early and not providing generous credit terms may hamper business sales in the long run as customers might turn to competitors to get the required goods (Ross *et al*, 2021). For the case of construction companies in Tanzania, the interim payment certificate is due after 56 days from the approval date. Another option to improve working capital and to get cash early is to sell and handover the trade receivables to a factoring company. The factoring company discounts the trade receivables to make a profit and return rest of the money to the company. There might be a slight risk when obtaining the factoring facility as such companies might treat the credit customers harshly when they don't pay on time.

2.4.2.2. Inventory Management

Inventory or stocks are a crucial make-up of current assets. Manufacturing firms usually contain in their inventory: raw materials, works in progress or finished goods, whereas consultancy companies have no inventory (Tirole, 2018). In most cases, it is a balancing to keep inventory for sales and having less inventory to improve working capital. When there is less inventory the

company may not meet the construction schedule immediately. In this case, construction companies may lose time and delayed on completion of projects as it is difficult to wait for material to arrive and keep the man power idle. On the other hand, holding too much stock may cost the company by tying up working capital (Zidar, 2018). The best way is to maintain low inventory levels as much as possible. The concept invented by Japan known as just in time is the best stock policy. The just in time keeps suppliers ready to supply goods or stocks when the need arises for organizations to satisfy their demand.

2.4.2.3. Cash Management and Short-term Securities

Cash in the current asset section can have multiple uses. It can be used to buy stock, pay salaries and purchase and purchase fixed assets etc. It is safe for organizations to hold big amount of cash for companies' cash needs as they do not have to raise an overdraft, call on stakeholders to put in additional capital or raise debt (Welch, 2017). Large amount of cash which is not used for buying stocks, to fund the expansion of business or to pay dividends gives the company a lost opportunity to earn a return. This cash can be invested in a saving account, fixed deposit or government bonds. A company should prepare a forecast cash-flow and see whether they are not in need of cash, otherwise, after investing cash in securities it may be called on to buy stock or pay creditors (Stern, 2019). This leads to costs for a company in investing cash in securities, such as administrative time taken to inform the bank and get the money to the company and in some cases, there might be a penalty. Some large organizations, at the end of the day when they have cash balance; they invest it in an overnight money market

deposit account which pays an interest rate.

2.4.2.4. Accounts Payables Management

Account payable is the liability that comes from credit sales and is posted as a sum receivable by the seller and account payable from the buyer. Most companies, especially retail and manufacturing buy goods on credit and record it as a liability that has to be paid (Tirole, 2018). A company can extend its credit policy based on the relationship between the suppliers. However, it should be noted that it is a form of short-term debt, effective management of which is important and a company should make sure suppliers are receiving the payment on time to make them satisfied. Arnold (2008) said that buying goods on credit and then selling them on credit to customers is a cheaper form of finance than an organization taking a bank overdraft to finance credit sales. Goods purchased on credit are usually will be paid at a future date this credit period is given by the seller. Businesses obtaining trade credit is regular norm, which has benefits such as a debtor does not have to be financed by short term debt. If the creditor period is long the cash could be used to buy inventory for sales. Companies need to manage their forecasted cash-flow and pay the creditors when the amounts fall. Paying on the creditors on time will enable a company to obtain 15 more credit from suppliers and other too, will be given on credit as the company's image and hence will prevent any legal action taken by creditors. A method to identify when the payable is due is to analyze past instances where how much time was taken to pay creditors. Another method would be to take trade payable outstanding as at now divide it by credit sales and multiply in by the number of days. That will provide an indicator

roughly how long it takes to pay the creditors.

2.5 Empirical Review

Various studies have analyzed the relationship of working capital management and firm profitability in various countries. The results are quite mixed, but a majority of studies concluded a negative relationship between working capital management and firm profitability. The studies reviewed have used various variables to analyze the relationship with different methodology such as linear regression and panel data regression. This section presents the chronology of major studies related to this study in order to assess and identify the research gap.

2.5.1 Practices

Yadav and Kumar (2014) studied the relationship between working capital management determinants on profitability. Profitability is a dependent variable whereas determinants of working capital are independent variables such as average collection period, inventory turnover 20 in days, average payment days, cash conversion cycle, and net trading cycle were used to assess working capital management and return on total assets. The study was considered sample of the size of ten large scale steel manufacturing companies in India over a ten-year period from 2003 to 2013. The analysis was done by using OLS regression, shows whether there is a significant relationship between these variables. From the study, though it is evident that working capital management does not have a significant impact on profitability.

Mulualem (2010) studied impact of working capital management on firm's profitability on a sample of 13 manufacturing companies for the period of five years (2005-2009). The study was

21 employed satisfied sampling designs based of nature and turnover of companies. The finding of descriptive statistics shows that on average cash conversion cycle takes 129 days and with minimum and maximum days of -25 and 343 respectively. It also took an average 97 days to sell inventory. Firms wait an average 104 days to pay their purchases and receive payment against sales on an average of 58 days. The result showed that there is statistical significance negative relationship between profitability and working capital management. Moreover, the study found out that there is strongly significant positive relationship between size and firm profitability and there is no statistically significance negative relationship between debt and firms' profitability.

Oldipupo and Okafor (2013) examined the implication of firm's working capital management practice on its profitability and dividend payout ratio. The study focused on the extent of the effects of working capital management on the profitability and dividend payout ratio. Financial data were obtained from 12 manufacturing companies quoted on the Nigeria Stock Exchange over a period of 5 years (2002-2006). Using both the Pearson's product moment correlation techniques and ordinary least square (OLS) regression techniques, they observed that shorter net trade cycle and debt ratio promote high corporate profitability. While the level of leverage has negative significant impact on corporate profitability, the impacts of working capital management on corporate profitability appeared to be statistically significant at 5% confidence level. On the other hand, they observed that dividend payout ratio was influenced positively by profitability and net trade cycle, but negatively by growth rate in earnings.

Pansian, Chrispina, Tago and Mkiibi (2014) analyzed the effect of working capital management on gross operating profit. Researchers used a sample of three manufacturing companies listed on Dar es Salaam stock exchange while data were collected from the financial statements for the period of ten years from the year 2002 to 2013. Pearson's correlation and regression analyses were used to analyze the relationship between variables. The researchers found negative relationship between cash conversation cycle and gross operating profit while there was a significant negative relationship between average collection period and gross operating profit. Pansiana et al. (2014) also found negative relationship between liquidity and profitability while there was a highly significant positive relationship between average payment period and gross operating profit.

2.5.2 Effect

Lawal, Abiola, and Oyewole (2015) studied by taking six selected companies in Nigeria covering the period between 2006 and 2013 was used for the study. Purposive sampling techniques was adopted and data collection was analyzed using panel date least square method of working capital (Account receivable period, Account payable period and Inventory holding period) and profitability (Return on investment) it concluded that working capital management has significant impact on profitability and of manufacturing companies.

Ephrem (2011) examined the impact of working capital management on profitability of the selected small and medium enterprises which are found in Addis Ababa. He took sample of 30 small micro enterprises were selected from the two sub-cities of Addis Ababa namely Nifas-Silk-Lafto and Kirkos and analysis was done for five years (2005-2009). He also used Pearson's

correlation regression analysis and pooled ordinary least squares for data analysis. The result indicated that cash conversion cycle and average collection period has negative impact on net operating profitability of a firm. Finally, he concluded that a good working capital management practice can boost the profitability of small businesses.

Wubshet (2014) examined the impact of working capital management on firm's performance by using sample of 11 metal manufacturing private limited companies in Addis Ababa, Ethiopia for the period of 2008 to 2012. The performance was measured in terms of profitability by return on total assets, and return on investment capital as dependent financial performance (profitability) variables. The results indicate the longer accounts receivable and inventory holding periods are 22 associated with lower profitability. The results also showed that there exists significant negative relationship between cash conversion cycle and profitability measures of the sampled firms. No significant relationship between cash conversion cycle, accounts receivable period, inventory conversion period and accounts payable period with return on investment capital has been observed. On the other hand, findings showed that a highly significant negative relationship between accounts receivable period, inventory conversion period and accounts payable period with return on asset. The results conclude that cash conversion cycle has significant negative relationship with return on asset.

2.5.3 Challenges

Tewodros (2010) studied the effect of management of working capital policies on firm's profitability by taking samples of 11 manufacturing private limited companies in Tigray region of Ethiopia for the period 2005-2009. The finding of descriptive statistics shows that on average

cash conversion cycle takes 313 days and with minimum and maximum days of -315 and 2264 respectively. It also took an average 314 days to sell inventory. Firms wait an average 120 days to pay their purchases and receive payment against sales on an average of 118 days. The result shows that longer accounts receivable and inventory holding periods are associated with lower profitability. There is also negative relationship between accounts payable period and profitability measures. However, except for operating profit margin this relationship is not statistically significant. The results also show that there exists significant negative relationship between cash conversion cycle and profitability measures of the sampled firms. No significant relationship between current assets to total assets ratio and profitability measures has been observed. On the other hand, findings show that a highly significant positive relationship between current liabilities to total assets ratio and profitability. Finally, negative relationships between liquidity and profitability measures have also been observed.

Tiring (2013) examined impact of working capital management on profitability of micro and small enterprises in Ethiopia for the case of Bahir Dar City Administration. The study had taken a sample 67 micro and small enterprises. Data for this study was collected from the financial statement of the enterprises listed in Bahir Dar City micro and small enterprises agency for the year 2011. The study applied Pearson's correlation and OLS regression with a cross-sectional analysis. The result showed that there is a strong positive relationship between numbers of days of accounts payable and enterprises profitability. However, number of days accounts receivable, number of days of inventory and cash conversion cycle have a significant negative impact on

profitability.

Almazari (2013) researched the relationship between the working capital management (WCM) and the firm's profitability for the Saudi cement manufacturing companies. The sample included 8 Saudi cement manufacturing companies listed in the Saudi Stock exchange for the period of 5 years (2008-2012). Pearson Bivariate correlation and regression analysis were used. The study results showed that Saudi cement manufacturing industries' current ratio was the most important liquidity measure which affected profitability. Therefore, the cement firms must set a trade-off between these objectives so that neither the liquidity nor profitability suffers. It was also found out that as the size of a firm increases, profitability increases. Besides, when the debt financing increased, profitability declined. Linear regression tests confirmed a high degree of association between the working capital management and profitability.

Akoto, Awnyo-Vitor and Angmor (2013) analyzed the relationship between working capital management practices and profitability of listed manufacturing firms in Ghana. The study used data collection from annual reports of all the 13 listed manufacturing firms in Ghana covering the period (2005-2009). Using panel data methodology and regression analysis, study found out a significant negative relationship between profitability and accounts receivable days. However, the firm's cash conversion cycle, current asset ratio, size and current asset turnover significantly positively influence profitability. The study suggested that managers can create value for their shareholders by creating incentives to reduce their accounts receivable to 30 days. It further recommended that enactment of local laws that protect indigenous firms and restrict the

activities of importers and eminent to promote increased demand for locally manufactured goods both in the short and long runs in Ghana.

2.6 Research Gap

It has been noted through the reviews that withholding tax is the taxable tax in various activities including the government funded projects which is the practice in Tanzania. However, the tax deductions since it is automatic with 5% on services and 2% on goods with less consideration regarding the outcome pertaining to profitability on the implementation of the projects especially when the implementing team incurs loss. Since the situation persist in this manner, it is certain that little studies have been envisaged in the area which is the gap that needs to be filled. Therefore, the study is conducted to assess the effect of withholding tax deductions on working capital management towards profitability of government funded projects in Tanzania.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduced the methods of data collection and analysis. The chapter described various methods and techniques essential in the process of knowledge generation with the aim of assuring the description of the way the study was conducted respectively.

3.2 Research Design

Research design refers to the modality used by the study to assure information gathering process (Creswell, 2012). The designs are several depending with the study requirements. However, the study used exploratory study design whereas knowledge was explored in the field to generate new knowledge to foster the information gathering process to fill the study gap. Since that is the case, the design was used since knowledge was subjectively generated using research questions guided the study and not through study hypotheses.

3.3 Area of the Study

The study was conducted in Jandu Plumbers Limited, Unga Limited Arusha because it is among the leading companies in the conduct of large government funded projects in Tanzania which is liable for withholding tax deductions on the projects. The selection of the company is attributed by the fact that it assures the generation of relevant primary data in the process of generating data for the study. Furthermore, the selected area is one of the company engaged in the

execution of various public and non-public projects essential towards facilitating information gathering process in the manner that correspond the reality on the issue under inquiry.

3.4 Research Approach

A research method is the plan of circumstances for the gathering and analysis of data in a way that goals to combine the significance of the study purpose with economy in process (Cooper and Schindler 2018). This study adopted qualitative research approach in the collection of relevant information concerning the objective of the study. The use of the qualitative approach was attributed by the fact that the study focused on the why and how on the phenomenon under study which is the core focus of the qualitative approach other than the what, when or where which is connected with quantitative approach (Ibid).

3.5 Sample Size and Sampling Technique

The study consisted of the employees as the respondents from the selected case study since they are useful members to generate sufficient primary data. They consisted of 53 respondents with 50 being selected from the ordinary category and three (3) from the management category of the employees. The selection of the groups was because they were useful members in the generation of relevant primary data. The sample size was generated using two ways which were random sampling and purposive sampling techniques. Random sampling was used to the employees in the ordinary category because they were many and selected by chance. Purposive sampling technique was used to the management category of employees since they were key informants and useful for in-depths information generation.

3.6 Data Collection Methods

The study assured collection of the data through questionnaires and interviews since the focus of the study through information to fill the gap was on primary data. Therefore, the methods were stated as follows.

3.6.1 Interview

This is the data collection method involving the direct correspondence through verbal communication between the researcher and the respondent on one to one correspondence on the researched subject (Polak & Green, 2015). The method is useful in assuring the generation of in-depth information which is thoroughly analyzed. Therefore, the method was used to the management employees in the respective selected company serving as key respondents for the generation of exhaustive information.

3.6.2 Questionnaire

This is the data collection tool which consists of questions listed which are printed on paper seeking response on one to one correspondence on the researched issue (Gillham, 2008). The questionnaire is the method which is useful in assuring the collection of information from the large sample size in short period of time. Therefore, the method was used to the ordinary employees since they were several and the information was generated in short period of time.

3.7 Data Analysis

The collected data were grouped in qualitative and quantitative variables. Information which was collected using questionnaires was computed in SPSS version 23.0 to generate descriptive

statistics to present data as findings. Data collected from interviews were analyzed using content analysis which was presented using themes to support the findings. The study was qualitative supported by descriptive statistics as quantitative variables.

3.8 Validity and Reliability

Since the study was conducted using exploratory design, face validity was conducted first with the research tools being developed by the researcher and approved by the supervisor. After that, construct validity was performed with information being collected using triangulation method from multiple respondents. With interviews were collected until the saturation point was realized. The collected information was analyzed and presented with the report being written, but before submission was taken to the respondents for verification and clarity that once approved was submitted.

3.9 Ethical Consideration

The study was conducted ethically in the manner that the study issued compliance to the ethical standards and requirements that was original work and not plagiarized or copied document. Because this is academic research, the collection process consisted of the submission of the request for data collection provided by Institute of Accountancy Arusha to researcher addressed to Jandu Plumbers Limited and the permission from Jandu Plumbers limited was granted vide letter JPL/0132/2023. Further, the collection process was facilitated by the consent of the respondents that confidentiality of the respondents was adhered respectively since all facts that directly revealed the identity of the respondents were not open for public knowledge and use

respectively. The data collected from the study will strictly be kept for education and research purpose only.

CHAPTER FOUR

FINDINGS AND DISCUSSION

4.1 Introduction

The chapter described the study results as information collected from the field through the respondents selected for the study. The chapter also described the analysis of the results and the relevant discussions in line with the research questions guided the study with the description being as follows.

4.2 Respondents Profile

The section describes the overview pattern of the respondents based on the demographic distribution with the results shown in the manner that is as follows.

4.2.1 Age of the Participants

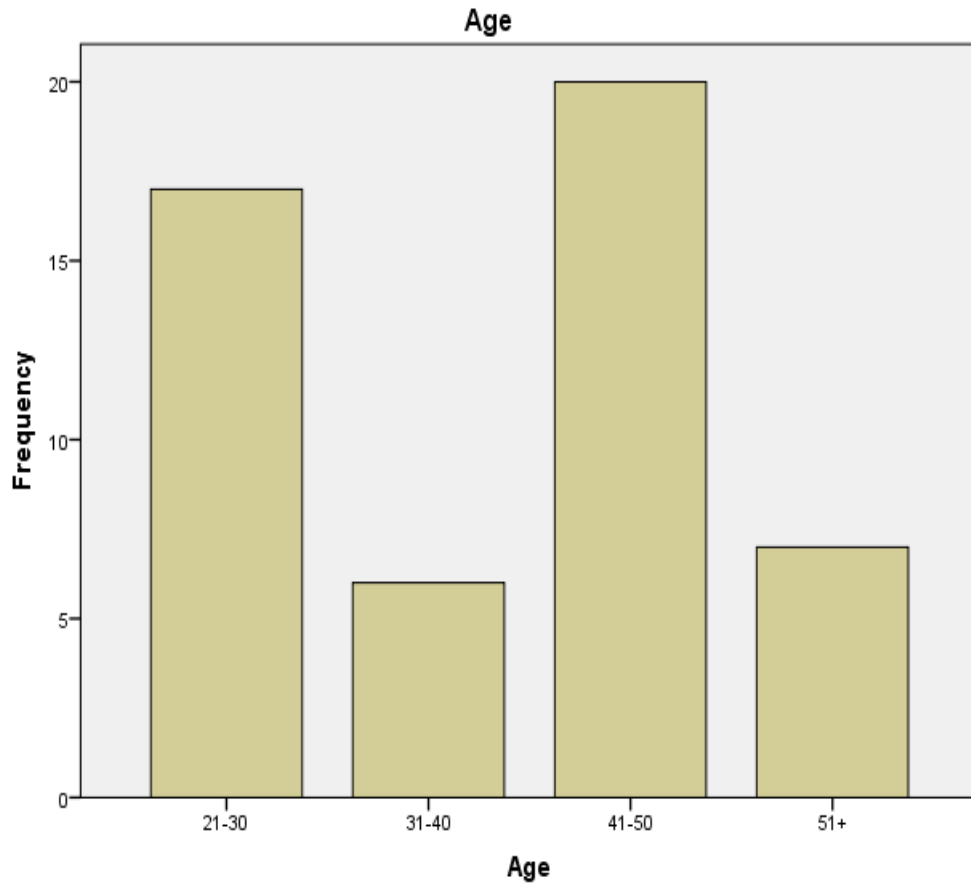
The study obtained findings regarding age distribution of the study participants as respondents that table and figure 4.1 provide the description of the results.

Table 4.1 Age

		Frequency	Percent
Valid	21-30	17	34.0
	31-40	6	12.0
	41-50	20	40.0
	51+	7	14.0
	Total	50	100.0

Source: Field Data (2023)

Figure 4.1 Age



Source: Field Data (2023)

The study results indicated that findings on the age of the participants that 34% were aged between 21-30 years, while 12% of the participants were aged 31-40 years, 40% of the participants were aged 41-50 years and 14% of the participants were aged 51 years and higher.

The implication of the results is that participant as practitioners in construction sector and projects constitute individuals with different age groups as being the young, mid-aged and the aged respectively. This is further supported with the views by Burg (2018) suggesting that

participants in the construction sector and activities are professionals with different age groups in all categories to ensure efficiency, experience and continuity.

4.2.2 Gender of the Participants

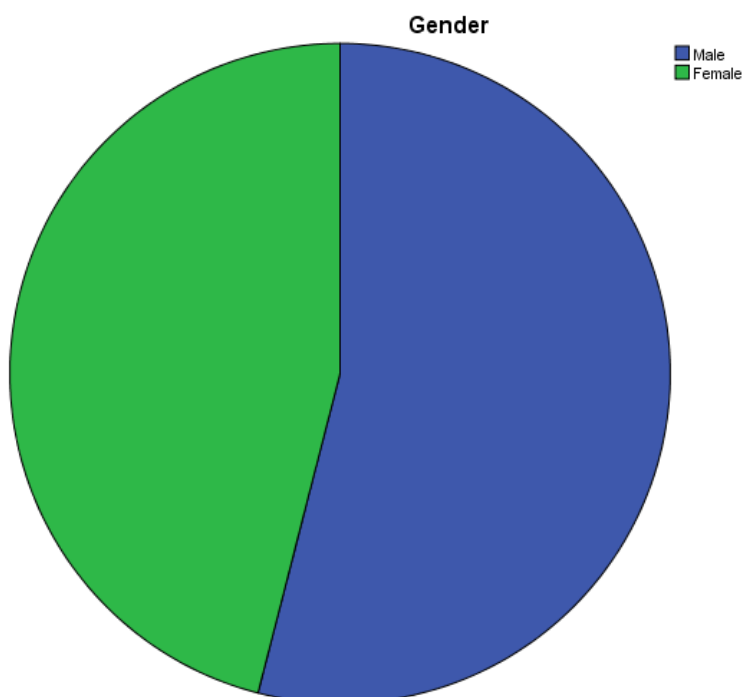
The study also obtained results on the distribution of the gender among participants to the study with the results shown in table and figure 4.2 below.

Table 4.2 Gender

		Frequency	Percent
Valid	Male	27	54.0
	Female	23	46.0
	Total	50	100.0

Source: Field Data (2023)

Figure 4.2 Gender



Source: Field Data (2023)

The study results clearly show the results on distribution of the participants based on gender that 54% were male while 46% were female. This implies that practitioners in the construction projects and sector in Tanzania are both men and women though the number of female participants has increased to a great scale. This is also in line with the views by Banks (2017) that construction sector constitutes practitioners both men and women though for years in jurisdictions all over the globe men were and still are the leading practitioners in number but the number of active women in the sector has increased as well in various jurisdictions all over the globe.

4.2.3 Education Level of the Participants

The study further collected results on the education level of the participants to the study that table and figure 4.3 illustrates the findings.

Table 4.3 Education

		Frequency	Percent
Valid	Diploma	12	24.0
	Bachelor degree	22	44.0
	Master's degree	16	32.0
	Total	50	100.0

Source: Field Data (2023)

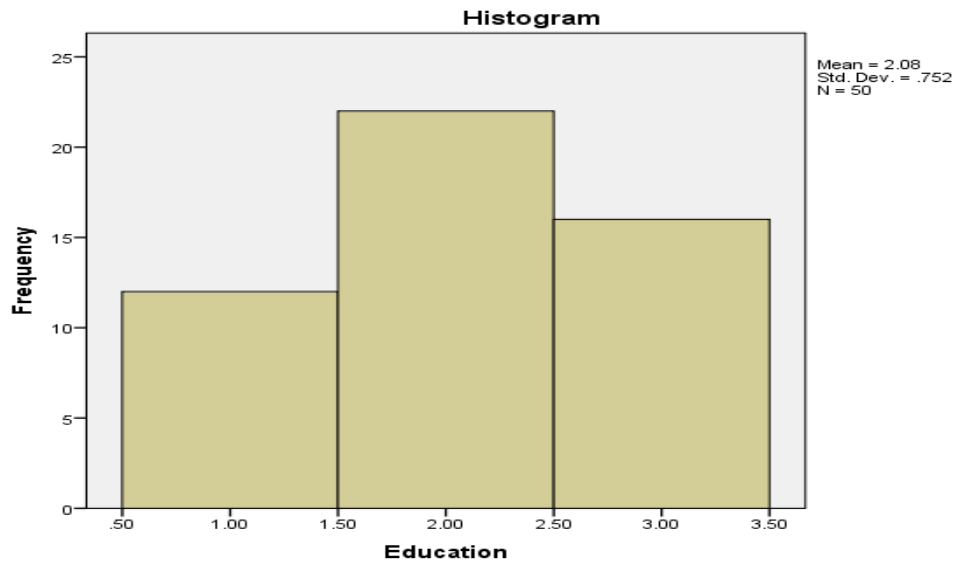


Figure 4.3 Education

Source: Field Data (2023)

The study results pertaining to the education distribution of the participants revealed that 24% possess diploma education, while 44% of the participants were first degree holders; with 32% of the participants being Master's Degree holders. This implies that practitioners in the construction industry in Tanzania are professionals that they constitute adequate formal education that assures their suitability in the construction practices. The view is well connected with Lawal (2015) suggesting that practitioners in the construction sector are professionals with different levels of education based on the specialized tasks in the projects to assure well-being and performance respectively.

4.3 Practices of Withholding Taxes Deduction and its Implication towards Working Capital in Government Funded Projects in Tanzania

The study results revealed practices pertaining to withholding taxes deductions and its implication towards working capital in government funded projects through the respective key informants selected for the study. Therefore, it was revealed that the practice towards withholding tax charges or deductions in government funded projects constitute 5% deductions on services and 2% on goods since it is the requirement on the law and it is executed that way without any form of compromise. This is the requirement that needs to be complied by all Government agencies when making payment for goods and services received from the contractor. The statement is acknowledged by the informant T views that;

“Withholding tax is mandatory that in the execution of public funded projects the deductions are such that 5% is deducted on services and 2% on goods as the requirement that needs to be fulfilled. This is the practice that is executed without question and compromise since it is supposed to be complied”.

Also, the practice pertaining to withholding taxes deductions in Tanzania in the contractors' working capital in the public or government funded projects constitute higher deductions than others. This is the case because with the private organizations projects the deductions are only 5% for the services alone and for donor funded projects the deductions are none or zero. This signifies that the higher deductions are in the public or government funded projects. The statement is shared with one of the informants that;

“Higher withholding taxes charges are on the government funded projects in Tanzania with implication to the contractor working capital. The situation is that 7% deductions in total which is 5% on Services and 2% on Goods is on government projects but with the private funded projects only 5% for the services and none deductions on the donor funded projects which payment are done direct to contractor from donor bank account”.

Despite that, withholding tax deductions is automatic and executed as routine based with no other considerations to the Contractor. This is the case because government funds in the project implementation always delay in the way they are released or administered to the implementing team or partner(s) that they are required to access funds from other sources with most being lending entities and pay them back with interest. Withholding tax charges still are mandatory and certain with no such considerations. The claim is acknowledged by informant K views that;

“The execution of withholding taxes deductions in the public funded projects is set as an automated practice with no exception to the conditions and situations that the implementing teams as contractors and others encounter. This has been and still is the practice in place to this day which is a setback”.

The implication of the results is that withholding taxes deductions in Tanzania on government funded projects constitute high degree and level of disadvantage to the contractor on executing the projects. This is the case since the charges are higher than private projects or donor funded projects. The assertion is complemented with the views by Brautigamet *al* (2018) stating that withholding taxes in the government funded projects are higher in terms of charges and or

deductions than other actors in the implementation process.

This is the reality since the deductions are on goods and services in the government funded projects; while with the private funded projects the deductions are only charged towards the services and not goods. With the donor funded ones the withholding taxes deductions are not executed at all. Also, Odd-Helge (2019) on the other hand suggests that withholding taxes deductions are mandatory in Tanzania but they are executed differently based on the type of the projects and the responsible actors on the projects.

This is the reality since the deductions are in the manner that 5% is deducted on the services and 2% is deducted on the goods. This differs from the private funded projects in Tanzania that only 5% on services is deducted and with the donor funded projects by various actors in the category of donors withholding taxes are not deducted at all. This makes the donor funded projects being more profitable than the government funded projects.

4.4 Effect of Withholding Taxes on Working Capital towards Profitability of Government Funded Projects in Tanzania

The study indicates results on the effect of withholding taxes on working capital towards profitability in government funded projects in Tanzania through the sample sizes selected for the study specifically the key informants. In that note, the study revealed that the taxes deplete the working capital since the funding as allocated on the public funded projects is targeted towards the projects prior to its accomplishment in the manner that is well connected with the performance expectations including value for money. Therefore, the tax automatically depletes

the working capital since it is too high as well as it deducted in every payment made to contractor which Tanzania Revenue Authority treat it as advance tax paid by the contractor. However, due to the construction activities are " S " Curve, it means that the contractor will not make same profit every year during the tenure of the project and some of the year he will report a loss which is not taxable. With that view, the advance tax paid by the contractor in form of withholding tax will be a burden and had been this deduction the funds would have been injected back to the project and speed up the execution process. The assertion is supported by informant F views that;

"Withholding taxes deductions indeed have been depleting the contractor working capital in government funded projects because in the proposal submission and write ups in the bidding process for consideration towards contract awarding the taxes were considered on profit making years during the tenure of the project. As they are charged and deducted automatically depletes the contractor working capital which constitute implication regarding the outcome of the projects in terms of completion time".

Despite that, the other effect is the profit generation as the outcome that the withholding taxes deductions usually infringes the profit that is expected to be gathered from the project because they are automatic with several constraints in place. This is the case since the funds in most account are not administered on time leading to the gathering of resources from other sources by the implementing teams. In most cases the sources are from lenders such as banks and others whereas the loans as they are granted are paid with high interests. This subjects

contractor towards low profit margin than expected to be obtained during tendering. The claim is acknowledged by an informant Q stating that;

“Withholding tax deductions affect the profit generation in the implementing teams since modality of funding subjects the teams to gather resources elsewhere with most being lending entities that requires the issuance of returns with interests. This subjects the contractor to high interest that affects the project profitability”.

Regardless of that, withholding taxes deductions constitute effects with regard to the quality of the projects in the implementation process. This is attributed by the fact that with the depletion of the working capital automatically affects the quality of the project because the resources need to be utilized to execute the project cannot be replaced in any way. This affect the quality which has been the common outcome in most government funded projects in the buildings, constructions, infrastructures and others that quality has been a problem and far from being attained due to limited resources that has been caused by the existing and persisting practices including withholding taxes deductions. The statement is further connected with informant X that;

“The projects are likely to be accomplished under low or limited quality which in fact is the common outcome in most government funded projects in Tanzania. This is attributed by the existing and persisting practices that are system oriented including withholding taxes deductions because it reduces the size of the working capital”.

Furthermore, the withholding taxes deductions in the working capital foster persisting time

variations in the government funded projects because with the depletion of the working capital automatically resources to accomplish the project have been reduced. This fosters the delay in the accomplishment since may later requires re-negotiations which may be considered or otherwise but the time of the project to be accomplished expires without justifiable reasons and justifications. The statement is well connected with the informant V views that;

“The tax deductions prior to withholding have been the source of time variations in most public funded projects in Tanzania because the taxes reduce the working capital that affects the time to accomplish the projects. This is determined by other means to re-negotiate to be added with more money which distorts the project time line”.

The implication of the results is that withholding tax deductions in the working capital constitute negative effects regarding the profitability of the projects; and the pattern of the practices towards performance. This is acknowledged with the views by Mifta (2016) suggesting that working capital is very important in the project undertaking that any practice and legal requirement by the government in the course of assuring successful project implementation should not deplete the working capital.

Once working capital in the project is depleted the entire gain on the project as being profit or returns; as well as the quality of the project are all affected. Also, Ross *et al* (2021) suggest that working capital is the key foundation and primary remedy in the project activity that the success or failure lies there. However, as the systems in place in the jurisdictions tend to cause defect in the project working capital affects the well-being of the project in terms of performance and

the gains the implementing team may expect to benefit.

4.5 Challenges of Withholding Taxes on Profitability of Government Funded Projects in Tanzania

The study indicated challenges as shortcomings of withholding taxes on profitability of government funded projects in Tanzania using the sample sizes selected for the study. The ordinary category of the respondents to begin with revealed challenges including limited or none profit generation in the project conduct. This is the case because the taxes tend to deplete the capital that the profit becomes automatically depleted. In the situation where the funds delay and the implementing entity secured a loan from the bank to execute the project then it occurs double taxation in the process. This assures the incurring of loss in the process and practice of the project conduct.

Despite that, the other challenge is that it becomes difficult to avoid time variations and cost overruns as common outcome is most government funded projects which are signs of project failure. This is the case because projects are activities set to be accomplished over certain period of time and with agreed resources to accomplish the project. Once the two components exceed contrary to the agreement the project possess symptoms of underperformance unless they are justifiable on rational account. In that case, with the deductions through withholding taxes in government funded projects the worse outcome is the depletion of the working capital that has implication on time and cost.

Additionally, it is difficult to attain quality because the taxes as are deducted tend to affect the

working capital by reducing it which distorts the budget set for the project to be executed and accomplished. With the defects in the budget in terms of its resources being taken away quality is difficult to be realized because the catalyst for the conduct of the project has been affected which is directly reflected on the project results.

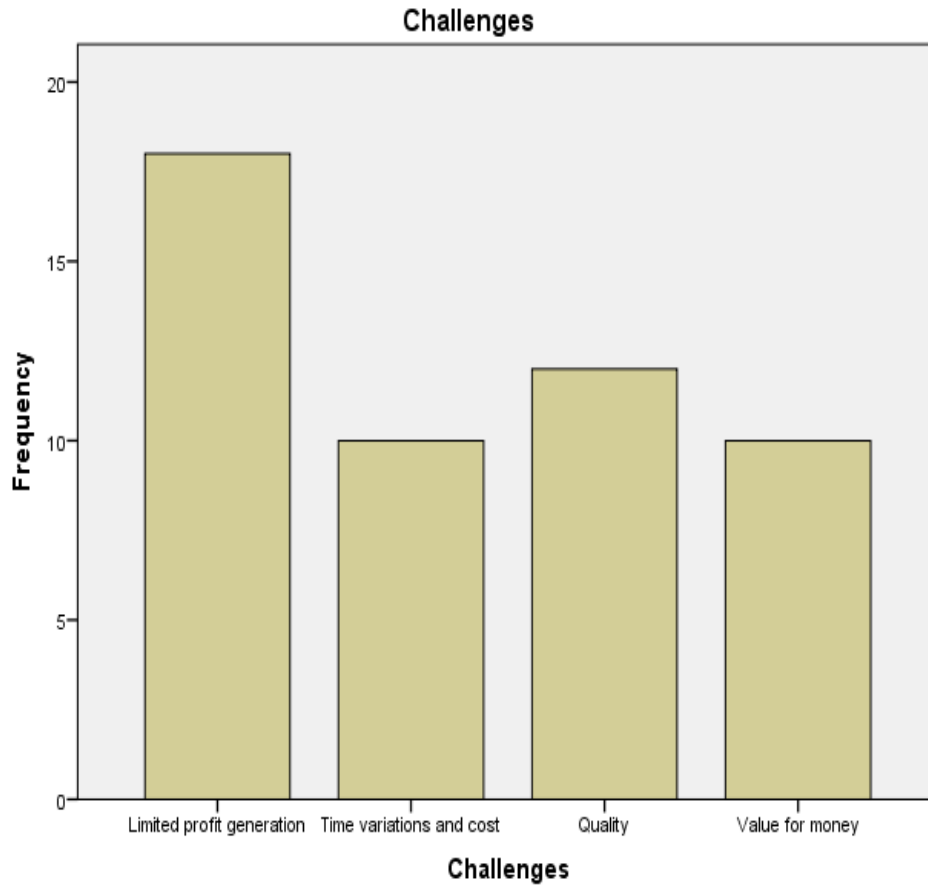
Furthermore, it is difficult to attain value for money as being efficiency and effectiveness in the project conducts because the taxes foster depletion of the working capital that affect the profitability. This sometimes fosters the response towards attaining profit within the existing conditions by the implementing teams. This automatically leads to the defects in the realization of the value for money that the projects may accomplish with less or limited efficiency and effectiveness. In that case, results are described in table and figure 4.4 below.

Table 4.4 Challenges

		Frequency	Percent
Valid	Limited profit generation	18	36.0
	Time variations and cost	10	20.0
	Quality	12	24.0
	Value for money	10	20.0
	Total	50	100.0

Source: Field Data (2023)

Figure 4.4 Challenges



Source: Field Data (2023)

The results indicate challenges on the withholding taxes deductions on profitability of the government funded projects. The implication of the results is that the withholding taxes deductions in the government funded projects constitute shortcomings that need to be further articulated to be addressed to harmonize the situation regarding the profitability of the projects to the implementing teams. The statement is in line with the views by Arunkumar and Ramanan (2013) suggesting that taxes are necessary and essential in the activities of different kinds including project activities.

However, the most important issue to be noted is that the taxes should not deplete the working capital to affect the profitability of the implementing team since jeopardize the project implementation process with defects on the outcomes. Also, Deloof (2009) on the other hand suggest that working capital is the primary concern in the projects undertaking that all regulations and laws including tax framework should not deplete it. Once it encounters depleting outcomes may be disastrous.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter describes the summary of the study complemented with the conclusion and recommendations in connection with the study results. The chapter also describes avenues for other studies being envisaged that the chapter consist the description which is as follows.

5.2 Summary of Findings

The study assessed the implication of withholding tax deductions on working capital management towards contractor's profitability in government funded project in Tanzania. The study was guided with three specific objectives that generated research questions that were used towards facilitating knowledge generation process. The objectives include examining the practices of withholding taxes deduction and its implication towards working capital in government funded projects in Tanzania; to determine effect of withholding taxes on working capital towards profitability of government funded projects in Tanzania; and to identify the challenges of withholding taxes on profitability of government funded projects in Tanzania. Exploratory design was used in facilitating knowledge generation process through testing of the subjective reality using research questions guided the study. The study was conducted in Jandu Plumbers as the case of the inquiry with primary data being used to assure information gathering from the employee's sample size. The facts for the study were generated from the sample of 53

participants using questionnaires and interviews. The collected results through questionnaires were computed in SPSS software version 23 which fostered the gathering of descriptive statistics to present the results. Facts that were collected using interviews were analyzed using content analysis which was narratively presented with themes to support the results. Findings revealed that with the practices withholding taxes deductions are higher in government funded projects than others. Also, with effects the taxes have had negative effects with implication on profitability defects and performance concerns in the projects as the outcomes or results. Furthermore, withholding taxes deductions has been the source of challenges in the working capital on the conduct of government funded projects with implication on profitability and performance. The implication of the results is that withholding taxes deductions constitute defects on the working capital with regard to the government funded projects which has implication on the performance of the projects.

5.3 Conclusions

Withholding taxes deductions in the government funded projects has had effects on the working capital since the taxes the way they are executed through deductions has failed to consider key remedies and situations that they tend to affect the profitability of the project implementing team and depletes the working capital which has negative implication regarding the performance of the projects. With the persistence of the situation public funded projects may continue encountering defects in the course of their implementation that is necessary for measures being executed to foster changes in the conduct and practice of the withholding taxes deductions in

the government funded projects.

5.4 Policy Implications

5.4.1 Public and private entities

The study is valuable to public and private entities inside of Tanzania who are conducting government projects. Through this study, managers of public and private construction companies will be able to know the implication of withholding tax deduction on working capital management towards contractor's profitability in government funded projects in Tanzania. This in turn maximizes their profit and allows them to implement government projects efficiently, effectively and economically.

5.4.2 Policy Makers

The study is significant to policymakers in government and its institutions who would want to know implication of withholding tax deduction on working capital management towards contractor's profitability in government funded projects in Tanzania. With this, the government would provide guidelines and friendly environment with regards to policies and regulations guiding withholding tax deductions on government funded projects in Tanzania.

5.4.3 New Developments in Knowledge

These study findings have added to the body of knowledge concerning the implication of withholding tax deduction on working capital management towards contractor's profitability in government funded projects in Tanzania. It has been established that the withholding tax deduction on government funded projects has had an impact on working capital management

towards contractor's profitability in Government funded projects in Tanzania.

5.4 Recommendations

The study recommend that the withholding taxes should be deducted under conditions that once there are no delays in the funding of the projects and should base on the project's execution schedule. This may assure fairness because as the delay occurs in release of interim payment certificates funds, the contractors tend to gather resources from the lending institutions which they pay back with interests keeping in mind the interest is tax allowable expenses which eventually reduce the profit of the contractor and eventually tax payable for the particular year of income. As the result, the contractor cash flow will be affected as the tax payable will be less compared to tax withheld in terms of withholding tax for the particular year of income in which had been the deduction the contractor would have injected the funds back to the project and avoiding injecting working capital funds from the financial institutions which would eventually restore the contractor profit as there would be no need of loan and payment of interest.

The study also recommend that the withholding taxes should be executed in the manner that it's fair to all projects implementation in Tanzania and the variations in the deductions between the government and private funded projects is none justified which is important to be in line with the private sector entities to assure profitability to the contractors. This may be useful in halting the discrepancies in the implementation processes.

5.5 Areas for Further Studies

The study was conducted using exploratory design through qualitative dominance in the process

of knowledge generation. However, another study may be conducted through the use of explanatory design by means of producing data that can be clearly communicated through statistics and numbers for testing the causal relationships between variables in facilitating discovery of facts and evidence that support the theories.

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APPENDICES

APPENDIX 01: RESEARCH BUDGET

1. Source of fund

The proposed study is estimated to cost a total of two Million Tanzania shillings. These costs will be covered by the researcher.

2. Budget estimated

Table 3: Budget estimated

S/NO	Items	Costs (in Tshs)
1	Transport	400,000
2	Meal	300,000
3	Stationary	200,000
4	Internet	300,000
5	Data processing	300,000
6	Final report writing, printing and binding	500,000
Total		2,000,000

Source; Researcher (2023)

APPENDIX 02: SCHEDULE OF ACTIVITIES

Research schedule is a plan for carrying out a process or procedure, giving lists of intended events and times. The thesis schedule table is described below:

Table 2: Schedule of activities

Activities	2023					
	Mar	Jul	Aug	Sept	Oct	Nov
Formulating and refining Research Problem	■					
Reviewing Literatures	■	■				
Draft of Research Proposal Writing to Supervisor		■	■			
Research Proposal Defence			■			
To Submit Proposal and Data collection letter processing			■			
Data collection.				■		
Data Processing/Management					■	
Data analysis					■	
Draft Report Writing to Supervisor					■	
Final Report Defense						■
Final Report Corrections						■
Binding and Final Submission						■

Source; Researcher (2023)

APPENDIX 03: INTERVIEW GUIDE

This is a guide on the study titled ***“Implication of Withholding Tax Deductions on Working Capital Management towards Contractor’s Profitability in Government Funded Project in Tanzania”***.

1. What are practices of withholding taxes deduction and its implication towards working capital in government funded projects in Tanzania?
2. What is the effect of withholding taxes on working capital towards Contractor’s profitability on government funded projects in Tanzania?
3. What are challenges of withholding taxes deductions on Contractor’s profitability on government funded projects in Tanzania?
4. What can be done to overcome the shortcomings?

APPENDIX 04: QUESTIONNAIRE

This is a questionnaire on the study titled *“Implication of Withholding Tax Deductions on Working Capital Management towards Contractor’s Profitability in Government Funded Project in Tanzania”*.

Part I: General Information

1. Gender?

a. Male ()

b. Female

2. Age?

a. 21-30

b. 31-40 ()

c. 41-50

d. 51+

3. Education Level

a. Bachelor Degree

b. Masters and Above

c. Diploma

d. Certificate ()

e. Secondary Education

f. Primary Education

g. Other (specify)

Part II: Study Questions

4. What is the modality of withholding tax deductions in Tanzania?

.....
.....
.....

5. How are withholding taxes being deducted in the Government projects working capital?

.....
.....
.....

6. Does the deduction constitute effects on the profitability of Contractor?

Yes No

Give reasons for your answer

.....
.....
.....

7. Does the practice condoned by the government? Give reasons for your answer

.....

.....
.....

8. What are the challenges of the withholding tax deductions in profitability of the Contractor?

.....
.....
.....

9. What are the practices embraced by the organizations towards compliance on the deductions in Tanzania?

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.....
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THANK YOU FOR YOUR PARTICIPATION