

Fairness of Tax Laws and Regulations Influence on Tax Compliance in Tanzania: Lessons from SMEs in Arusha Tanzania

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ABSTRACT: *The purpose of the study was to assess the influence of fairness of tax laws and regulations on tax compliance in Tanzania taking SMES in Arusha city as a case study. Mixed approach and survey design were employed to conduct this study, where systematic and purposive sampling techniques were used to select 100 respondents to take part in the study. It was revealed that there is positive and significant influence on tax compliance. An adjusted $R^2 = 59.6\%$ while $F(8, 87) = 28.86$ $P < 0.000$ were revealed, implied that fairness of tax laws and regulations had positive and significant influence on tax compliance in Tanzania. It was recommended that tax legal framework in Tanzania should be improved; to include making assessment basing on reality of business in Tanzania and eliminates complexity in tax payment processes.*

KEY WORDS: fairness of tax laws and regulations, tax compliance, tax evasion, tax avoidance

INTRODUCTION

The concept of tax compliance is as old as taxes themselves, and it will continue to be a source of concern for as long as taxes exist. Tax compliance entails executing all legal tax duties freely, willingly, and entirely (Kirchler, 2007). Tax compliance can be defined as performing all legal tax duties freely, willingly, and entirely (Marti, 2010). Looking at several definitions of tax compliance, it is clear that it indicates the extent to which a taxpayer complies or fails to comply with his country's tax requirements, such as declaring income, submitting a tax return, and paying the tax owed on time. According to (Kirchler, 2007; Gadi, 2015), noncompliance is the most comprehensive conceptualization. reporting compliance, procedural compliance, or regulatory compliance) is one type of compliance, while compliance with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax controlling noncompliance behaviour of taxpayers is another (James & Ally, 2004). According to Alm, (1991),

tax compliance is the act of disclosing and paying all taxable income in accordance with all applicable laws, regulations, and judicial orders. Filling out an Income Tax Form, accurately reporting all taxable income, and paying any required taxes by the deadline without waiting for follow-up actions from the authority are all examples of what is meant by "tax compliance" (Singh. 2003).

According to Roth et al. (1989), taxpayers are responsible for accurately reporting of their tax liability in compliance with the requirements of applicable laws, regulations, and court rulings, and doing so within the time frame provided. Those who knowingly or recklessly disobey tax laws will be held criminally liable. Taxpayers and revenue agents share the theoretical belief that tax compliance entails following local regulations. For tax administration to be effective, it must encourage 'voluntary' tax compliance (Silvani, 1992) and, by extension, bring down the tax gap (the difference between taxes paid and owed for all taxes and all taxpayers) and the "compliance gap." According to Cobham (2005), many countries have an issue with tax compliance, as assessed by the tax to GDP ratio, despite the fact that this percentage has been rising for many countries. For instance on the 117 million federal income tax returns filed in the United States in April 1995; eight point three percent (8.3%) underreported their tax obligations. Not only that, but 7 million people which is equivalent to five point six percent (5.6%) of the total did not file their income tax return (Hamm. 1995). Furthermore the contribution to GDP in high-income nations is approximately thirty five percent (35%); whereas in low-income countries such like those in Sub-Saharan Africa, it was less than fifteen percent (15%); which is the recommended rate. For nations with meager resources, this problem persists for the long time, on the other hand in countries like Bolivia, Columbia and Uruguay this has prompted calls for dramatic new tax policies, while in Jamaica and Spain notable achievements have been seen (Bird & De Jantscher, 1992).

In Tanzania the history of taxation has led to a state where many people and companies feel no shame in avoiding paying their right tax amounts (Maliyamkono et al, 2009). The country collects amount to around eighteen percent (18%) of the GDP which is still poor as compared to international standards which suggest collection of above thirty percent (30%) of GDP (MOF, 2012/2015). Complying with the tax laws and all regulations is not as simple as one can perceive. It sounds difficult even to people who are professionals or rather those who have studied taxation in secular education. This can be measured by time taken in processing tax issues say if one wants to fill VAT returns is essentially need too long a time. According to Schnepfer, 2012, American taxpayer consumed the average of 23 hours in filing his/her tax return. Infact, it is expected that time to be consumed in Tanzania, must definitely be longer than that of America. This implies presence of complexities in filing returns that is most of taxpayers need to hire professionals to assist them in filling the said returns. Indeed the condition is worse in Tanzania where illiteracy and poverty rate is exorbitantly higher compared to USA and European countries. The filing procedures of tax return is much time-consuming task and is mainly affected by some factors such as illiteracy of the business persons, poverty and unfair tax laws and regulations tax authorities (Mahangila, 2017). This discourages voluntary tax compliance by SMEs. Tax noncompliance decreases tax revenue and this has got incredible effects to the government and

society as whole. However, most African countries, including Tanzania, are affected by the problem of tax evasion and tax avoidance (IMF, 2011).

The concept of SMEs is relative and dynamic (Olorunshola, 2003), as there is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In Tanzanian context, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million (SME policy, 2002). In considering the growth of SMEs it means that SMEs must be capable to play their central role in both social and economic transformation. Their roles include fighting for poverty reduction mobilize domestic savings for investment, offering employment to people as well as paying their right share of taxes to the government hence increasing GDP of the country (Smatrakalev, 2006). Therefore, encouraging voluntary tax compliance to SMEs is very important for the economic growth. It is important for individuals and SMEs to comply with tax laws so as to enable the government to offer superior public services to its people.

Literature informs us that, for tax compliance to be guaranteed and improved there must be quality customer services from Tanzania Revenue Authority (TRA), by ensuring availability of reliable systems, equipment's, technologies, and employees who have required knowledge and skills. The issue of reliable systems, equipment's, technologies, and employees has cropped here because in order to achieve high level of tax compliance equipment and system must work better (Parasuraman, 1988). The study expected that SMEs are formations with high volume of sales that may generate high profits. It is anticipated SMEs to pay taxes and contributing a significant portion of the country's GDP. However, most African countries, including Tanzania, are affected by the problem of tax evasion and tax avoidance (IMF, 2011). It was further noted that some of the SMEs do not pay their right portion of taxes because they consider compliance costs to be too high for them given limited resources they have (Mahangila, 2017). This is a challenge to the government in offering superior services to its people and to financing some development projects, of which the direct benefits are to be fetched by SMEs themselves. This therefore, triggered the researchers to examine the influence of tax laws and regulations, on tax compliance in Tanzania, taking SMEs in Arusha city as a case study.

Statement of the Problem

Almost every country in the world considers taxes to play a crucial role in the economic development of the particular country, so non-compliance is a threat that must be controlled immediately. In many sub-Sahara Africa countries, tax authorities struggle to encourage taxpayer compliance (Kuug, 2016). In Tanzania, tax evasion has cost the government a lot of money due to government carelessness (Daily News 7th December, 2015). The efforts of the new regime to combat tax evasion have led to steady tax revenue collection (World Bank, 2016). Even though

most businesses don't pay their taxes, some do that in one way helped Tanzania's tax to GDP ratio increased from 13.5% in 2015/2016 to 14.8% in 2016/2017, but actual revenue is still behind forecasts (TRA Report, 2017). Nevertheless, it is not clear why some people pay taxes while others don't, which worries economists and tax officials. It is thought that fairness of tax laws and regulations may have influence on tax compliance by SMES. Hubbard and Akhand (2016) found that persuading and coercing tax payers' influences voluntary tax compliance. Lubua (2014) suggested using ICT to encourage voluntary tax compliance, besides regional tax administration, service quality, taxpayer behaviour, and level of satisfaction influence tax compliance, (Hidayati et al, 2014). According to Ongwamuhama, (2011), and Otieku, (2013), compliance costs and noncompliance may be the reasons. However little is known about SMES tax compliance as a function of tax laws and regulations. This article investigated the influence of tax laws and regulations, multiple taxation and high tax rates and the tax compliance cost and cost of non-compliance on tax compliance in Tanzania, by using data collected from SMES in Arusha city.

The purpose of this paper is to establish the existing relationship between the perceived factors that influence tax compliance in Tanzania and develop the best ways to promote high tax compliance level in our economy and hence to increase our tax revenues. Specifically the study intended to examine the influence of fairness of tax laws and regulations, on Tax compliance in Tanzania, taking SMES in Arusha city as a case study. Besides the study is relevant to Tanzania's taxation system and will improve tax compliance, and it will be of a help for policymakers and tax authorities. On the frontiers of knowledge, the findings should provide a useful source of information and inspiration for professionals working in SMEs development to identify ways to voluntarily comply with tax laws and regulations. The findings of the study insisted to the government, SMEs, and other stakeholders that voluntary compliance is better for the government and the society at larger.

LITERATURE CONSIDERATION

Comparative Treatment Theory

It has been a belief that people will always comply with the established laws if they are sure that the making of those laws was generally just ((Tyler, 1990; McKerchar and Evans, 2009). The comparative treatment model which is built on the equity theory agrees with this belief. Therefore the comparative treatment model stresses that people are in high chance of complying with tax laws when they view the entire tax system as fair and the opposite is true (Sour, 2004; OECD, 2010). The influence of the thought fairness of the state tax system on decision to comply is not only bound to how the taxpayers are treated but also commensurate to the burdens of other individuals' tax, as their observed compliance behavior (Sour 2004; Walsh, 2012). Rate of compliance increases when a tax payer thinks his or her tax burdens to be of equal magnitude comparing to that of others (Feld and Frey, 2006:15), the same evasion of tax increases when tax payers are aware that tax burdens are greater compared to that of others in same group (Spicer and Becker, 1980).

Scenarios could emerge when tax payers are subjected to a substantial amount of tax burden and if the corporations are charged lower taxes may influence individual taxpayers to believe that there is unfair tax burden thus accelerating the noncompliance rate (GIZ, 2010). When tax payers believe on the fairness of the tax system then they accept that even other individuals fulfill their obligation to pay tax and thus speed willingness to comply with tax laws (Sour, 2004). When tax evasion is a norm to a society then individual tax payers become less committed to pay taxes (Torgler and Schneider 2005). OECD (2010) provides the three levels of tax fairness(justice) which includes distributive fairness which commensurate to taxpayers' understandings or perceiving that the state acts as good custodian and a rational user of tax revenues, procedural fairness which relates to the perception that tax bodies adhere strictly to established procedures, and are fair in dealing with taxpayers; and retributive fairness, which relates to the perceptions that tax authorities are fair in the application of punishments(fines, penalties and imprisonment) when the tax rules or norms are violated. Distributive fairness is built on exchange equity between the state and individual taxpayers and can thus be connected with fiscal exchange theory, procedural and retributive fairness are more relevant to the issues of comparative treatment, and can be influenced by tax administrations (Walsh, 2012), by emphasizing fairness and transparency in handling of tax matters.

Empirical Review

Fairness of tax laws and regulations towards Taxpayers

Kotler& Keller (2009) defines service as any intangible act or performance that one party offers to another that does not result in the ownership of anything. Therefore, service can be defined as an intangible offer given by one party to another party in the exchange of money for enjoyment. Quality is the totality of features and characteristics of a product or services that have the ability to satisfy customer needs (Kotler and Keller, 2009). Service quality is defined as the differences between customer expectations and perceptions of services (Parasuraman, *et al.*, 1988). This study defines service quality as the capability of the service provider to meet or exceed customer expectations about the services offered to them.

Equity and Fairness are the principles of good tax system (Mohd 2010) in a study on tax knowledge and tax compliance determinants in Malaysia found that perception of equity of the tax system is insignificant to influence compliance behavior. Marti et al. (2010), in their study in Kenya on taxpayers' attitude and tax compliance behavior, found this factor to be very significant in influencing tax compliance. This calls for more investigation since there are few studies of non-economic factors that influence compliance. Another study by Cummings et al (2004) by using data from field and laboratory experiments from Botswana, South Africa and US concluded that differences in tax compliance and tax morale levels can be described by differences in the equity and fairness of perceived fiscal exchange, tax administration, and overall attitude towards governments in different countries. According to Kirchler (2007), the economic models of rational compliance decisions fail to clearly predict the effect of tax rate and marginal tax rate on compliance or hypothesize that higher tax rates lead to higher compliance, rather most empirical research show that higher tax rates lead to less compliance. A study by Atawadi and

Ojeka (2012) concluded that high tax rates and complex filling procedures are the most critical external determinants of non-compliance apart from multiple taxation and lack of proper enlighten. Moreover Alm and Torgler, (2006) in their study they found that deterrence components such as tax rates, audit rates, and penalty are not the only factors but rather suggested that tax morale might also explain the question of why people pay their taxes. Maseko, 2013 in a study of determinants of tax compliance in SMEs in Zimbabwe found that tax compliance costs are negatively correlated with tax compliance behavior; this is contrary to (Kuug, 2016) in a study in Ghana where it was found that compliance costs are positively correlated with tax compliance. According to the study by Ojeka ,2012 high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness This variable has not been researched on extensively and where it has been the case, has been regarded as a financial distress faced by the taxpayer (Mohd, 2010).

The research in South Korea by Park and Hyun (2003) established that tax audit rate fines and penalties had significant impact on compliance rates. Furthermore in his study, Mohd (2010) confirmed that tax audit rate was not significant to influence the compliance behavior and penalty is highly negatively correlated with the compliance in Malaysia. In their study on the taxpayers' attitudes and tax compliance behavior in Kenya, Marti et al. (2010) resolved that depending on the way it is applied, the tax audit rate and penalty can facilitate compliance and non- compliance.Elly (2015) conducted a study on attitude towards tax compliance in Tanzania using 158 SMES. Data were analysed through factor reduction and descriptive statistics. The finding from the study indicate varying tax payers attitude contingent to time and space. Moreover it was found that tax payers are facing different problems such as poor skills and knowledge on taxation issues, complex record and reporting procedures, multiple taxation and inappropriate behavior of tax officers. Wangi 2014 has done a study of factors influencing tax compliance in Kenya particularly focusing on SMES in Nairobi using a sample size of 150 SMEs. Descriptive survey was adopted for the study. Data were obtained through questionnaires and an interview. The collected data were analyzed using SPSS software. The study revealed that high tax rates as a factor influencing tax compliance hinder level of compliance by SMES in Kenya. Also lack of readily available information about tax issues and high cost of compliance contributed to a large extent as a reason for non-compliance. Mwansele 2014 carried a study on factors that affect tax compliance in local authorities in Tanzania using Sumbawanga district as a case study. The study included 51 respondents and descriptive research design was adopted. Data were obtained using self-administered questionnaire. The study found that, there are five major factors that affect tax compliance level. These are complexity of the bylaws, inappropriate enforcement, unsatisfactory return in form of service delivery such as education, health services and infrastructures, behavioral attitude and absence of trustworthiness in the local government.

The review of literature revealed that a number of studies have been done in various areas using different research methods but few studies have been done on tax compliance issues particularly for SMES. However little is known on the tax compliance among SME's as a function of, fairness of tax laws and regulation. Therefore this study sought to fill this deficiency in literature by

examining in detail the influence of tax laws and regulations on tax compliance particularly for SME's operating in Arusha city. The study assumed that tax compliance level can be influenced by fairness of the tax laws and regulations or tax legal framework to a great extent hence the study.

METHODOLOGY

The analysis in this study is based on primary and secondary data which were collected from SMES in Arusha city in Arusha region. The area of the study was chosen because it has respondents who are clients of TRA; at the same time the area has significant sources of data to be collected sufficiently to cover the study. The study is a descriptive one that according to Kothari (2004) includes surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is description of the state of affairs as it exists at present. The main characteristic of this method was that the researcher had no control over the variables; he could only report what has happened. The study explained the influence of various factors on tax compliance taking SMEs in Arusha city as a case study. The study employed mixed research design which consists of a combination of quantitative and qualitative analysis. The population of the study is about 2,500 SMEs which are registered as taxpayers in Arusha city. This study applied both systematic sampling and purposive sampling techniques to select about one hundred (100) respondents which in other words considered a sample size of the study, this is, as per Yamane(1967), whose claim says that a good sample size is that one with a 0.10 sampling error.

$$n = N / (1 + N (e)^2)$$

Where; n = sample size

N = population size

E = sampling error = 0.10 (Yamane, 1967).

$$n = \frac{2500}{(1 + 2500 (0.10)^2)}$$

$$n \approx 96 \text{ SMEs} \approx 100$$

Therefore the estimated sample size for this study involved 100 SMEs respondents.

Reliability was tested by use of ten questionnaires which were piloted with randomly selected SMEs employees who were not included in the final study sample to avoid response biasness. Their views were evaluated and incorporated to enhance content and construct validity of the questionnaire. The rule of the thumb suggests that 5% to 10% of the target sample should constitute the pilot test (Cooper and Schilder, 2011; Creswell, 2003; Gall and Borg, 2007). The pilot test sample was within the recommendation. The ten questionnaires were coded and input into Statistical Package for Social Sciences [SPSS] version 16 for running the Cronbach reliability test. The reliability of the questionnaire was tested using the Cronbach's alpha correlation coefficient with the aid of Statistical Package for Social Sciences (SPSS) software. The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.887. The closer Cronbach's alpha coefficient is to 1, the higher the internal consistency reliability (Sekaran, 2003). A coefficient of 0.7 is recommended for a newly developed questionnaire and therefore 0.884 was

adequate for this study. The study used correlation and regression analysis to analyse and give recommendations on the study in hand.

Research model setting

The study has set model specification to examine the relationship between various factors found in SMES and Tax compliance in Arusha city in Tanzania. On the basis of the empirical model specification below;

Research model

$$TC = \beta_0 + \beta_1 FTL + \varepsilon_i$$

Whereby; TC = Tax compliance; FTL= Fairness of the tax laws and regulations, ε_i is the error term

Thus, tax compliance is used to measure performance of tax revenue collection in Tanzania via SMES while FTL (fairness of tax laws and regulations), is independent variable considered for the study. β_1, \dots Indicates how a unit changes in independent variable affects the dependent variable and ε_i is the error term to capture other variables which were not included in the model.

FINDINGS AND ANALYSIS

The factors influencing Tax compliance on SMEs in Arusha City

The study analysed the factors influencing tax compliance on SMEs in Arusha city. The researcher verified from respondents by the use of likert scale statements in a set of questionnaire, where different variables relating to tax compliance were tested.

Demographic characteristics

The study collected most of the information from the respondents coming from the SMEs, and TRA officials. A total of one hundred respondents were interrogated ninety respondents were taken from SMEs, while ten were from TRA office. The information collected from one hundred (100) respondents and analysed. The results revealed that out of whom, fifty nine (59) were male equivalent to fifty nine percent (59%) and forty one (41) were female, equivalent to forty one percent (41%). This entails that males dominate in business and this might be due to the fact that men are more confident especially when it comes to explaining matters of their concern to other parties. It was further revealed that forty seven (47) respondents had primary to secondary levels education, this is equivalent to forty seven percent (47%) of the total respondents who took part in the study. Moreover results indicated that fifty three (53) respondents had college to University level of education, which is equivalent to fifty three percent (53%) of the total respondents This implies that SMEs owners have knowledge and skills especially entrepreneurial skills that may help to manage and overcome challenges in their business as well as understanding the importance of complying with the tax laws and regulations.

Moreover, it was revealed that majority of the respondents; about sixty three (63) equivalent to sixty three percent (63%) had an experience of more than 4 years in business activities, while thirty

seven (37) equivalent to thirty seven percent (37) of the respondents had experience of less than four years. This means majority of the respondents are conversant with business activities and have got adequate information about taxation issues in business. The study considered the income of the respondents, 9% have the income of less than 300,000 and 6% have the income between 301,000 to 500,000. Again 28% have the income of between 501,000 to 1,000,000 and 43% have the income level of more than 1,000,000. This implies that selected taxpayers had economic activities to participate that bring income hence tax compliance is a concern to them.

The influence of fairness of tax laws and regulations (tax system) on tax compliance by SMEs

Descriptive Statistics

The study investigated on the fairness of tax laws and regulations by making use of five likert scale model to collect views from one hundred (100) respondents from both SMEs and TRA. The study ought to find out how fairness of tax laws and regulations could influence tax compliance by SMEs in Arusha city. Generally the study revealed that the majority of tax payers that is 76% of the selected sample, perceived the tax system in Tanzania as unfair and those who perceived the tax system to be fair were minority and accounted to only 24%. Refer Fig.4.1.appended at the end of the paper. Therefore, Tax officials have to understand that taxpayers perceive the tax system that includes the tax laws and regulations in Tanzania as unfair. This has a negative impact on tax compliance behavior of SMES, due to the fact that if the taxpayers perceived their tax system as unfair they will not happily pay their tax dues hence low level of tax compliance.

The study further measured fairness of tax laws and regulations by making use of mean and standard deviation which gave the following results. The overall results of descriptive analysis on the fairness of tax laws and regulation have been presented in the table 4:1 appended at the end of the paper, where the mean score of 1.00-1.80 indicates that tax laws and regulations are very unfair the mean score of 1.81-2.60 indicates that tax laws and regulations are unfair, the mean score of 2.61-3.40 indicates Tax laws and regulations are moderately fair while mean score of 3.41-4.20 and 4.21-5.00 indicated that tax laws and regulation are fair and “very fair respectively. The overall results in table 4:1 indicated the overall mean of 2.50. According to the scale it can be deduced that tax laws and regulations in Tanzania are slightly unfair. Moreover, most of the variables mentioned were rated unfair and moderate with mean of less than 3.4. If the tax system is perceived unfair then there must be low level of tax compliance in the country. In addition the overall standard deviation of 0.11 confirms a slight variation in views of the respondents.

The Correlations of the study

The study did correlation analysis of study variables which revealed that there is negative (-0.59) correlation coefficient between tax laws and regulations and tax compliance in Tanzania, taking SMES in Arusha city as a case study. This implies that there are laws and regulations which are not fair to the tax payers thus why there is negative association. The more TRA stress on the laws and regulations the more taxpayers take the option of tax evasion. In fact there are more issues which cause tax evasion for instance if the compliance cost is too high, cost of filing returns, and

procedures to file returns if they are too tedious then some of taxpayers may decide to be noncompliance. Nonetheless there is significant relationship of 0.559 Refer table 4:2 below.

Table 4:2 Correlations of the study

			TC	TR
Spearman's rho	TC	Correlation Coefficient	1.000	-.059
		Sig. (2-tailed)	.	.559
		N	100	100
	TR	Correlation Coefficient	-.059	1.000
		Sig. (2-tailed)	.559	.
		N	100	100

Source Researcher, 2022

Multiple Regressions

The study used multiple regression technique to test this objective and the results revealed that fairness of tax laws and regulations affect tax compliance in Tanzania. This means fairness of tax laws and regulations in Tanzania would have a significant effect on tax compliance in Tanzania. Consider data retrieved from table 4.4 below in particular, it has been established that an adjusted R^2 for of tax laws and the overall model was about 59.6%: This implies that total variables of choice (fairness regulations, multiple taxation and high tax rates, and tax compliance cost versus cost of non-compliance), which are endogenous have involved in affecting tax compliance by 59.6% and the remaining part 40.4% accounts for the effects of exogenous variables that are beyond this study. The conclusion was based on the adjusted R^2 and not R^2 , which is consistent with Potters(2021), who holds that adjusted R^2 is a modified version of R squared that has been adjusted for the number of predictors in the model. Further more data from table 4.5 below which is relating to ANOVA analysis, where the model in holistic proved that all variables had significant effect on tax compliance in Tanzania. The results from table 4.5, proved to be significant to predict tax compliance as confirmed by having $F(8, 87) = 28.86$ $P < 0.000$ as pursuant to table 4.5; analysis of ANOVA. Since the probability (p) is less than 0.05(5%) it indicates the significance of variables. Similarly, standardised beta coefficients from table 4.6 were crucial in explaining the effect of each individual endogenous variable on the overall effect on tax compliance in Tanzania. From table 4.6, it can be said that a unit increase of fairness of tax laws and regulations would have brought an increase equivalent to 0.6462 increases on tax compliance in Tanzania. The study therefore concluded that fairness of tax laws and regulations has significant influence on tax compliance in Tanzania.

Qualitative analysis of fairness of the tax laws and regulations

From the findings majority of the study respondents have claimed the tax laws and regulations were unfair. Further explained that unfair tax system, is caused by the existence of high tax rates. Majority have confirmed that the tax rates are high as compared to other countries, for example corporate tax of 30% which is above the global average of 24%. Also the VAT rate of 18% is high as compared to the income level of SMEs and the business environment. On the other hand some have perceived the rates to be reasonable (fairly said) as compared to other countries, they suggested that the problem is only on the implementation because our tax system seeks to punish tax payers and not to encourage them to comply voluntarily. On the other hand, majority of the respondents have complained about the existence of multiple taxation (different types of taxes), such as corporate, VAT, service levy, the withholding tax. There are so many taxes and some are not called tax technically but they do not make a difference to a common business man the frustration are the same. There are different forms of taxes charged by many institutions which only frustrate the taxpayers. Furthermore the findings reveal that many taxpayers are not conversant with the tax laws and regulations. For example it is unfair to punish a taxpayer who does not know the existence of some legislation such as a legislation called VAT Act leave alone the punitive sections. It was suggested that TRA should give education to tax payers instead of seeking to collect revenue as a result of fines and penalties

Generally fairness of tax laws and regulations is essential in defining a good tax system. Marti et al. (2010), in their study in Kenya on taxpayers' attitude and tax compliance behavior, found this factor as a very significant in influencing compliance. The findings of this study have shown that tax payers are not happy with the tax system. In some instances people collude with businessmen to accept to be issued receipts with smaller amount than what actually paid for the items bought, this embrace great loss of revenue in form of tax. This may imply that TRA has not provided sufficient training to citizens on the importance of taxes and the taxpayers are not happy with the system. Furthermore, majority of respondents have complained on the existence of high tax rates, high costs of compliance, complex filling procedures as well as high costs charged for non-compliance that are fines and penalties. This discourages voluntary tax compliance behavior of SMEs taxpayers. Moreover this findings conquer with the study findings by Gberegbe, et al (2017) who established the existence of positive relationship between tax compliance of SMEs and fairness of tax laws and regulations

CONCLUSION

The entire time tax administration department is duty bound to harness on voluntary compliance in order to achieve high level of tax compliance and revenues collection. Tax non-compliance decreases government revenues and therefore affects the ability of government to work on national programs. However, paying tax is painful to SMEs as payment of taxes reduces their level of profits but on the other side the government depends on revenue collected in form of taxes and here comes the point where each part wish to maximize their interests. Still the government is in its position to make sure that SMEs do comply with payment of their tax dues.

The outcomes of this study have shown that the level of tax compliance in Tanzania is not satisfactory. The study further found that tax compliance in Tanzania is influenced by different factors that include, Fairness of the tax laws and regulations as well as good public governance, service quality of TRA. In addition, tax compliance of SMEs taxpayers is positively related to these factors. Moreover the findings of this study are consistent with the fiscal exchange theory, the theory of comparative advantage and the service quality model. This model and theories in general argue that, for the taxpayers to exhibit tax compliance specifically SMEs in this case there must be equity and fairness in assessment of the amount of taxes to pay and there should exist a fair treatment, there should also be wise utilization of public funds. In addition service agents in this case TRA should have competent personnel with knowledge and ability, reliable systems, facilities and equipment so as to achieve a desirable tax administration in Tanzania

Basing on the findings of this study, the researcher recommended the following; TRA should struggle to offer high quality services to the taxpayers. Services provided by the tax authority was rated poor therefore there are every reason of improving them. TRA should ensure that there presence systems that simplify payment of taxes easily and at the taxpayer's convenience. Moreover TRA officials should have enough knowledge, ability, willingness and have required caring (hospitality) in serving their customers. In addition TRA systems, facilities and equipment must work better. The tendency of there no internet is boring the taxpayers.

The government should consider reviewing of the tax laws and regulations from time to time. Generally it is believed that lowering the tax rates enhance tax compliance. Moreover high penalty rates may increase tax compliance but only marginally, therefore penalty rates should be kept at an optimum level that would not discourage taxpayers. In addition tax legal framework in Tanzania should be improved; this includes making assessment basing on reality of business in Tanzania and eliminates complexity in tax payment processes. Also it is recommended that the government should raise awareness to the public on the tax system, tax incentives, tax reliefs, record keeping and importance of complying with tax laws and regulations. These can be achieved through continuous tax trainings and seminars to taxpayers.

TRA should give the guidelines on the basis of bookkeeping so that SMEs can prepare financial statements by themselves to determine their taxable income. This will help SMEs, pay realistic taxes on the profit they generated hence resolving the problem of assessing tax liability arbitrarily which finally results to either underpayment which is a loss to the government or overpayment of tax which is a loss to the tax payer. Since the study have shown a strong positive relationship between quality socials services and the tax compliance habit of the taxpayers the government should continue to invest in superior social services such as health services, education services, and infrastructure. Services should base on scientific and needs of society. In addition taxpayers in this case SMEs are encouraged to develop the culture of paying their tax obligations willingly and without force by reporting correct income to the tax authority and at a right time. This is important for the growth of the country's economy.

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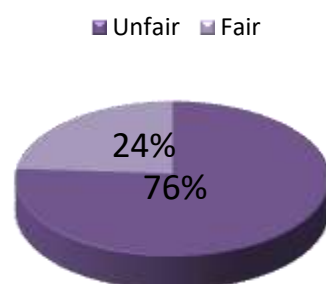
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APPENDIX**Table 4:1. Descriptive Statistics of fairness of tax laws and regulations**

The response mode had five Likert scale points ranging from 1= Very unfair disagree to 5= Very fair.

	N	Mean	Std. Deviation
I feel that the tax system and laws are fair hence I pay my right share of tax	100	2.76	.911
The tax amount I pay to the government is fair since the expenditures incurred on services are higher	100	2.43	.935
Laws and regulations require me to pay more than what I earn	100	2.69	1.116
Tax rates are not very high unnecessarily	100	2.65	1.086
Filing procedures are not complicated	100	2.62	.982
Costs of compliance are not high	100	2.00	.816
I pay my taxes willingly is not because of fines and penalties	100	2.38	.862
Overall		2.50	0.11106271

Source: Field data (2022)

Fig 4:1.Fairness of the tax laws and regulations**Regression analysis****Table 4.4: Model Summary of Multiple regression**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.789 ^a	.637	.596	.589	2.122

a. Predictors: (Constant), influence of fairness of tax laws and regulations, multiple taxation and tax rates , and Tax compliance cost versus cost of non-compliance

b. Dependent Variable: Tax Compliance

Source: Field Data 2022

Table 4.5: ANOVAa

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	27.073	8	9.024	28.860	.000 ^b
	Residual	17.511	87	.313		
	Total	44.583	95			

a. Dependent Variable: Tax Compliance

b. Predictors: (Constant): Influence of fairness of tax laws and regulations, multiple taxation and tax rates ,and Tax compliance cost versus cost of non-compliance

Table 4.6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics		
		B	Std. Error	Beta			Zero-order	Tolerance	VIF
1	(Constant)	.144	.1851		.781	.002			
	Tax compliance cost versus cost of non-compliance	.037	.0832	.0421	.442	.001	.392	.771	1.297
	Multiple taxation and tax rates	.217	.0832	.2341	2.620	.001	.464	.881	1.135
	Fairness of Tax laws and regulations	.674	.104	.6462	6.458	.000	.747	.701	1.427

Source: Field data 2022