

Influencing Tax Compliance in SMEs through the Use of ICTs

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Abstract. This paper presents a discussion on the use of e-transparent tools in addressing challenges of tax compliance in Small and Medium Enterprises (SMEs) of Tanzania. The discussion begins by providing the background of the study and the problem under investigation. This background is followed by the outline of objectives, significance of the study and the methods used. The later sections identify factors influencing voluntary compliance and how the use of ICTs positively improves voluntary compliance by taxpayers. The last section provides the conclusion of the study.

Keywords: E-transparency; ICT; Tax Compliance; SMEs

1. Background of the Study

Revenue collection is an important determinant of the economy of any country (Malima, 2013). The adequacy of government revenues allows the government to support its operations ranging from administrative activities, infrastructure constructions and service provision. The study by Ebeke (2010) commented on the importance of developing countries to adequately manage its sources of revenue to enhance the speed of developments. This is because sufficient revenue decreases the degree of dependence of the government to donors for its developments (Komanya, 2013). It also offers the government with the ability to make different developmental decisions.

In order to improve revenue collections, the government ought to develop an environment that raises the awareness and willingness of taxpayers toward returning taxes voluntarily (Malima, 2013). Therefore it is the business of the government to formulate a sound legislation which favours revenue collection activities. While the international community emphasis is on enabling developing countries to enhance their degree of economic independence, the Tanzanian government managed to increase domestic revenue collection by 17.4% 2011/2012 (Ministry of Finance of Tanzania, 2013). These results were influenced by different improvements in taxation system such as increasing the number of staff, defining administrative blocks and the use of Information and Communication Technologies (ICTs); however, the increase is still below

neighbouring countries. In improving the domestic revenue collection process, the Tanzanian revenue authority uses the following technological tools: Electronic Fiscal Devices (EFDs), income Taxation (ITAX) system and Custom Application Online System (CULAS).

Basically, domestic revenue is one of the key branches of taxation system in Tanzania and countries within SADC and EAC economic blocks. While statistics show improvements in the area of tax collection, a large group of eligible taxpayers is yet to be reached (Ministry of Finance of Tanzania, 2013). The literature suggests the unprofessional methods of keeping records by entrepreneurs, low tax knowledge, bureaucratic procedures and corruption to inhibit the revenue collection process in developing countries (Kitillya, 2011; The Policy Forum of Tanzania, 2010).

In order to reach many clients and act more effectively, the Tanzanian revenue authority re-defined its administration system to include small administrative blocks. Although the aim of re-defining the administrative structure was to maximize efficiency in identifying and managing new customers, this goal is yet to be met (Bugeni, 2012; Interview). Improving domestic revenue collections can easily be enhanced through voluntary compliance of clients. However, it is unfortunate that the majority of clients do not voluntarily returning tax to the revenue authority (Malima, 2013).

2. Statement of the Problem

The development of any nation depends on the ability of the government to operate based on its own sources of revenue. It is for this reason that developing countries require proper management of sources of income for enhanced development. In any nation, tax collection contributes significantly to the Gross Domestic Product (Ministry of Finance of Tanzania, 2013). Consequently, the Tanzanian government invests its effort in making sure that revenue collection activities are well administered. To ensure effectiveness in tax administration the Tanzanian government performs the following activities: Improve the skills of employees through trainings, re-define the administrative structure in small geographic areas, and transforms traditional methods of service provision to the use of electronic systems (Tanzania Revenue Authority, 2013). It is evident that there is a good progress in term of revenue collected by the Tanzania Revenue Authority (Kitillya, 2011; Ministry of Finance of Tanzania, 2013). Nevertheless, different reports still suggest the presence of many TRA clients who do not submit their tax return to the authority (Malima, 2013).

The study by Jensen & Wöhlbier (2012) suggests voluntary compliance of clients to tax return as the key success factor for the revenue authority to meet its statutory obligations. The following things are proposed to provide an incentive in promoting voluntary compliance in revenue collection: these include tax compliance education, enhancing transparent assessment and balancing the roles of an employee in the taxation process (Khalfan, 2010). It is the intention of this study to show the influence of the use of e-transparent services to voluntary compliance by taxpayers.

3. Main Objective

To show how e-transparent services address the challenge of low voluntary tax compliance by SMEs in Tanzania.

4. Significance of the Study

The study is significant in the area of revenue collection because of the following reasons:

- i. It determines the influence of employees' integrity, tax laws awareness and administrative protocol to taxpayers voluntary compliance.
- ii. It describes the catalytic behaviour of e-transparent services in addressing challenges brought by low employees' integrity, low awareness of tax laws and administrative protocol of the revenue authority in enhancing taxpayers' voluntary compliance.

5. Methodology

The study obtained its data through mixed research methods. First, it identified Kinondoni tax-region as the case for its study. Particularly, data were collected from clients and employees of Manzese tax centre of the Kinondoni tax-region. Also, the study used a survey questionnaire as the instrument for data collection. A total of 100 SMEs' and 10 employees were surveyed. The following characteristics of the sample were observed:-

- Gender - 61% of the members of the sample were male and 39% were female.
- Education - 23% had the college education and 77% were below college education.
- Business Experience - 40% had business experience above 3 years and 60% were below 3 years.

Other sources of data include the use of available literature that address challenges of voluntary compliance by the taxpayers. The analysis used the Spearman's rho correlation model.

6. Voluntary Tax Compliance in SMEs

It is the intention of the Tanzanian government to ensure that all taxpayers submit the information about their business voluntarily annually for evaluation. This enables the revenue authority to assess the business to establish tax liabilities. The study carried out an analysis to know the per cent of SMEs registered with the revenue authority in the sample. About 42% of respondents are registered with the revenue authority. Few SMEs has registered their business with the Tanzanian taxation authority.

Additional analysis shows that about 76% of respondents who are registered with TRA files their tax returns consistently. Overall, only 32% of all respondents files tax returns consistently. A significant per cent of taxpayers are defaulters even among clients registered with the revenue authority. Similarly,

the majority of potential taxpayers is not registered with the revenue authority, and this increases the per cent of the none tax filers . Generally, 68% of all clients of the revenue authority do not file their tax returns as required by the law.

In the interview the study observed the following factors to affect the rate of tax returns by SMEs; such factors include taxpayers' levels of education, business experience, tax laws awareness and the integrity of employees. However, the level of education of respondents showed a none significant influence to the trend of filing tax returns by clients; the remaining factors are discussed in the below sections.

6.1. The Awareness of the Tax Laws

This section determines whether the level of the awareness of potential taxpayers on tax laws influences voluntary tax returns. The descriptive analysis of data suggests about 32% of respondents to be aware of the legislation which require them to file tax returns in every year. The information shows that the majority of respondents have low awareness of the legislative requirement of filing tax returns in every year. In responding to the need of raising the level of awareness of taxpayers on the requirements of different tax laws the revenue authority devised the taxpayers education department which implements different strategies for raising the level of taxpayer education; nevertheless its impact is still low.

In this study, we first determined the categorical relationships between tax law knowledge and voluntary compliance. The results obtained through the Pearson chi-square model (Table 1 below) shows the p- value as 0.00 ($p < 0.05$). This observation indicates a significant relationship between the level of voluntary submission of tax returns by SMEs and the level of awareness of tax laws.

Table 1. Tax Laws Awareness * Voluntary Submission Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	43.773 ^a	8	.000
Likelihood Ratio	52.277	8	.000
N of Valid Cases	100		

The results of the Pearson chi-square model are further interpreted by additional descriptive information. The information shows about 68% of potential taxpayers who are knowledgeable and 6% of those who are not knowledgeable with tax laws to voluntarily file their tax returns to the revenue authority. The information agrees with the model analysis in table 1 where the majority of clients who have a good knowledge of tax laws do also voluntarily comply with tax laws.

Additionally, the study observed a significant correlation between the level of tax knowledge and voluntary compliance of clients with tax laws. The

Spearman's rho correlation coefficient is 0.623, where the p-value is 0.000. Based on this information the increase in tax laws awareness influences the increase of the extent to which taxpayers voluntarily files their tax returns by about 62%. These observations correspond with comments by Lewis (1982). He commented that low tax knowledge correlates with negative attitudes toward taxation. Moreover, the study by Eriksen and Fallan (1996) commented that knowledge about tax law is important for preferences and attitudes towards taxation. The attitude and preferences analysed in this study is whether the taxpayer should comply or not comply. In a recent study by Palil (2010) it was observed that tax knowledge positively correlates with tax compliance.

6.2. *The Influence of Business Experience to Tax Compliance*

The experience of tax clients who owns SMEs in business is among factors thought to influence the attitude of taxpayers in complying with tax laws. Business owners who have conducted business operations for a long time are thought to have a better understanding of the business environment than those with little experience. These environments include country laws and regulations associated with business operations.

In the analysis the study observed that 60% of respondents have business experience below 3 years. Because of this reason, it is likely that the majority of taxpayers have inadequate knowledge in tax affairs. This is ascertained by the acknowledgement by taxpayers that the majority were never visited by revenue officials from taxpayer education.

A further analysis showed that, 45% of taxpayers with business experience above three years, and 23% of those with business experience below three years files tax returns consistently. An extended analysis using the Pearson chi-square model suggests the observed difference in percent to be significant. The results in table 2 shows the p-value is 0.004 ($p < 0.05$). The majority of experienced owners of SMEs are aware of tax laws and procedures; this is possibly due to reasons such as received trainings, seminars and visitation by revenue officers.

Table 2. Experience * Voluntary Submission Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	19.197 ^a	6	.004
Likelihood Ratio	20.479	6	.002
N of Valid Cases	100		

In responding to the question of whether voluntary submission of tax returns by owners of SMEs depended on business experience, the results of the Spearman's rho correlation analysis reported a significant correlation. The correlation coefficient is 0.370 and the p-value is 0.000. The information suggests the increase in tax compliance by 37% when there is an increase in the experience of business owners. These results compare with a case drawn from Kenya where the study observed that the number of years of business experience influences the taxpayers' level of compliance to tax laws (Marti, Wanjohi, Magutu, & Mokoro, 2010). Those with extended business experience have more knowledge of tax

issues because they understand the benefits of voluntary compliance and are used with the routines of filing tax returns.

6.3. *The Influence of the Integrity of Employees of the Revenue Authority to Clients' voluntary compliance*

The integrity of employees is essential in making sure that the organisation meets its objectives. Employees with good integrity ensures that they provide services in corruption free environments. In the analysis of the study, only 39% of taxpayers admitted that the level of their compliance has never been affected by the integrity of employees of the revenue authority. The information suggests the majority of clients of the revenue authority to be uncomfortable with the integrity of employees. The study acknowledges the presence of respondents who admitted that they were requested to bribe tax officers to receive tax relief. Similarly, new employees admitted that the experienced employees operated in secretive environments.

Table 3 presents data about an extended analysis that determines whether the taxpayer's intention for voluntary submission of tax returns varies depending on the level of the integrity of employees of the revenue authority. The results show the p-value = 0.029. The information reports a significant relationship between employee integrity and the desire of clients to voluntarily return tax.

Table 3. Employees Integrity*Voluntary Submission of Tax, Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	17.091 ^a	8	.029
Likelihood Ratio	20.387	8	.009
Linear-by-Linear Association	6.013	1	.014
N of Valid Cases	100		

Furthermore, the study tested the degree of linear influence of employee integrity to taxpayers' voluntary submission of tax returns using the Spearmans'rho correlation model. The results of the analysis report the correlation coefficient (r) as 0.234 where the p-value is 0.019. The information suggests a significant influence of voluntary submission of tax returns by the integrity of employees. The increase of employee integrity influence voluntary tax filing by 23%.

In the study by Nawaz (2010), the author closely associated low integrity to employees with corruption. The study indicated a significant negative effect of corruption (low integrity) to tax collection. The study supports the findings in the above paragraph that low integrity significantly influences tax collection. In addition to lowering of revenue collection, low integrity to employee causes long-term damage to the economy by detracting investment, increasing the size of the informal economy, distorting tax structures and corroding the tax morality of taxpayers. The underlying assumption of the relationship between the integrity of employees and the increase of the informal economy in not well

established by the study; however there is a need to establish these facts due to the presence of a large number of the unregistered SME owners reported by the study.

The Tanzanian government puts various mechanisms to control the integrity of employees in relation to tax collection. The first control is whistle blowing. Taxpayers are required to report environments subjecting them to corruption. This includes environment where tax officers fail to offer services as required by the law. Unfortunately, the clients are not comfortable with the degree to which the issue of integrity is addressed by the authority. Some of the measures taken to address the issue of the integrity of employees include the taxpayers' education and the use of online media in obtaining services.

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

In 2011, the Tanzanian revenue authority decentralized the management of tax affairs through restructuring its administration to a block management system. The purpose of this structure of management is to influence voluntary compliance to tax payers through dissemination of taxpayers' education along with physical visitation. Under this system, tax regions have been divided into blocks and sub-blocks depending on their geographical areas. Customers are registered and categorized according to blocks and sub-blocks. Services given to clients include TIN registration, physical visitation, filing of tax returns, auditing, and trainings. The activities are conducted according to blocks and sub-blocks in which the customer belongs.

The block management system aims to simplify the task of reaching customers so as to collect necessary business information for tax purposes. In managing blocks, revenue officers are assigned the duty of visiting customers located in their respective blocks at least once in three months. In their visitations they collect client's business information, identify non-filers, identify unregistered clients, and make sure that business tax information is up-to-date (Tanzania Revenue Authority, 2013).

This part of the study determined the relationship between the frequencies which employees of the revenue authority visit their clients and the compliance of taxpayers in filing tax returns. Traditionally, the revenue authority expects tax officers to visit clients at least once in every three months. This visitation aims to promote the arrangement by the revenue authority that requires taxpayers to pay their tax dues at least in four instalments in a year. The results of the descriptive analysis show about 16% of respondents to be regularly visited by TRA officers. The results suggest few clients to benefit from regular visitation by taxpayers according to the tradition by the revenue authority. It was further observed that about 44% of respondents were never visited by officers of the revenue authority in their administrative block. Therefore the study concludes that the potential of the block administration system is not adequately explored by employees of the Tanzanian revenue authority.

Additionally, the result shows that about 56% of taxpayers who were visited by tax officers regularly files tax as required. Similarly, 27% of those who were not regularly visited file tax as required. The study observed the difference of 29% between the two groups. The analysis agrees with the Pearson's chi square analysis where a significant relationship was observed. The results reported in table 4 suggest that $p = 0.000$. As indicated in the above, there is a significant association between how regularly taxpayers are visited by employees of the revenue authority and their compliance with filing of taxes as required.

Table 4. TRA Visitation * Voluntary Submission, Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	31.564 ^a	8	.000
Likelihood Ratio	35.592	8	.000
Linear-by-Linear Association	17.228	1	.000
N of Valid Cases	100		

Moreover, the analysis observed a significant correlation between the frequency of visitation by employees of the revenue authority and voluntary filing of tax returns by taxpayers. The Spearman's rho correlation value is 0.460 and the p-value is 0.000. The reported per cent of influence is 46. The increase of the frequency of visiting tax payers influences the increase of voluntary submission by taxpayers by 46%. While visiting taxpayers, tax officers raise the awareness of taxpayers on their legal obligations of paying tax. They also reveal the benefits associated with filing tax voluntarily together with available options for filing the tax.

6.5. *The Influence of Training to Voluntary Tax Compliance*

Training is useful in raising the awareness of clients of the revenue authority on different subjects including the importance of voluntary compliance in taxation. The Tanzanian revenue authority has a department for taxpayers' education with the responsibility to ensure the dissemination of tax education to clients. This department provides tax education in the form of leaflets, brochures, advertisements and it organizes numerous periodic trainings to TRA customers. The analysis of the study observed that about 68% of respondents were untrained. They have never received tax education from experts through any method. Therefore, it is possible that a large number of respondents may not comply with taxation rules because of low awareness.

Furthermore, it was observed that 23% of trained customers and 9% of the untrained customers voluntarily submit their returns regularly. This indicates that trainings offered by TRA to SMEs resulted in improvement in the voluntary compliance attitude of taxpayers. Similarly, other results were obtained through Pearson chi-square test whereby the p-value was 0.00 ($p < 0.05$). With this information the observed difference in the level of compliance between trained and untrained SMEs is significant.

Table 5. Training Status * Voluntary Submission Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	34.639 ^a	2	.000
Likelihood Ratio	35.069	2	.000
N of Valid Cases	100		

Moreover, the Spearman's rho correlation analysis showed a linear relationship between the training status of clients and voluntary submission of tax returns. The correlation coefficient value is 0.557 ($p = 0.000$). There are about 56% of influence to customer's voluntary compliance through enhancing their awareness through training. The observation corresponds comments by two studies which found the increase of compliance after campaigns for raising the awareness of clients (Komanya, 2013; Khalfan, 2010).

Further observations showed that some employees were reluctant to provide adequate knowledge to clients because they benefited out of their illiteracy. Clients reported that there were incidents where employees presented unrealistic tax evaluations and demanded some money from clients for tax relief. The use of electronic media for disseminating educative information address the challenge of employees' efficiency in training clients.

6.6. How Does the Use of ICT Address Challenges of Voluntary Taxation?

The discussion provided in previous sections of this paper showed several factors to affect the decision of clients to voluntarily comply with taxation systems of Tanzania. The success of the government in revenue collection depends on how adequately are the challenges addressed. In this section, the study shows how the use of e-transparent services in the management of tax activities address challenges associated with voluntary compliance of SMEs to the Tanzanian taxation system.

6.6.1 Low awareness of tax laws

The majority of tax clients in SMEs own mobile phones, and some are connected to computers. The revenue authority can improve the awareness of clients about tax laws by disseminating educative information through the use of mobile phones. The online system must allow clients to subscribe for educative messages; the information should be provided freely or at a low price. Currently, there are two main services to which the revenue authority supports users of ordinary mobile phones; they make online payments and make direct calls to the institution. More services are needed in the area of tax education.

6.6.2 Low Business Experience

Low business experience is reported to affect the ability of clients to make decisions pertaining voluntary compliance by SMEs. The use of e-transparent services can uplift the knowledge of individual taxpayers through allowing them to inquire and access the information that positively improves their understanding of the benefits of voluntarily submitting tax returns.

6.6.3 *Low integrity of employees of the revenue authority.*

Employees play a vital role in ensuring that the revenue authority collects its tax from clients at the right time. They also ensure that clients have the right knowledge of business taxation. Low integrity to employees is reported to significantly affect efforts by the revenue authority toward improving revenue collection. To a large extent, the use of ICTs in the Tanzanian revenue authority has addressed the challenge of corruptive behaviour by employees. In areas such as custom department, clients are able to conduct own assessments. However in domestic revenue (where SMEs are included) there is a low usage of ICTs. Clients depend on employees for assessment and this assessment depends on employees' rational ability and integrity. The use of ICTs for self-assessment addresses the challenge of the integrity of employees and promotes voluntary compliance.

6.6.4 *Low frequency of visitation by Tax officers*

SMEs represent the largest group of business operators in the country. It is unfortunate that the majority of SMEs' has never been visited by tax officers for business assessment. This is due to inadequate number of employees. The reason for such visitation is to provide education necessary for voluntary compliance plus other tax related administrative activities. The use of ICTs enable clients to access these services without being visited by employees. Employees will essentially provide these services while in their offices.

6.6.5 *Training Needs*

Training is essential because it provides clients with the skills necessary in raising their attitude of voluntarily complying with taxation systems. In the Tanzanian revenue authority, employees organize seminars to educate stakeholders about the benefits of voluntary tax compliance. However, many respondents admitted that they never received training from tax officers. This is partly due to inadequate members of staff. The mobile technologies can be useful in providing trainings to SMEs through the use of text messages. The use of mobile phones could be extended to include the provision of educative information to clients.

7. Conclusion

The study aimed to show how e-transparent services address the challenge of voluntary tax compliance by SMEs in the republic of Tanzania. The study observed the following factors to influence voluntary compliance: Awareness of tax laws, business experience, the integrity of employees, low frequency of visitation by tax officers and training needs. The revenue authority must use relevant ICT tools to positively promote these factors; as the result, the position of taxpayers to voluntarily file their tax returns will be enhanced.

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