

Tax Compliance Is Influenced By Provision Of Quality Services And Good Governance By The Government: Lessons From Tanzania

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Abstract- The motive of this paper was to establish the existing relationship between the perceived factors that impact tax compliance in Tanzania using SMES at Babati town council Manyara, as a case study, and develop the best ways to promote high tax compliance level in our economy. The study used a mixed approach and survey design, where 100 respondents were chosen to take part using random and purposeful sampling methods. The study revealed, that the provision of quality services and good governance had positive and significant influence on tax compliance in Tanzania, with an adjusted R² =86.1%. The study recommended to Tanzania Revenue Authority to offer high quality services and good governance to the taxpayers, and 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.

Index Terms- Tax, Tax compliance, good governance, service quality

I. INTRODUCTION

The concept of tax compliance predates taxes themselves, and it will continue to be a major issue for as long as taxes are levied. Compliance with tax laws means voluntarily and totally paying any taxes that are owed (Kirchler, 2007). There has been a lot of talk about the issues that can affect tax compliance. There are two main strategies for dealing with the issue of compliance that have been identified in the academic literature. The first is based on the study of economic rationality and was created by economists. The second examines behaviour in a broader context, drawing on ideas and studies from fields like psychology and sociology. Compliance with tax laws is a major area of study for economic psychologists (Webley Paul, 2004). There isn't a tone of literature on this topic, but he summarises some strong empirical findings that keep popping up in studies of both individuals and businesses. Sometimes economic and behavioural theories are seen as rivals. The challenge is figuring out how the two ways may be utilised to complement one another. Nevertheless, each methodology can be useful for understanding tax compliance

(James, Simon, Hassel dine, John, White, Peggy and Toumi, Marika, 2001). To finance their budgets, nations struggle to increase the effectiveness of tax revenue collection. Many revenue authorities around the world, particularly in developed countries, are paying close attention to the challenge that tax authorities are experiencing in providing correct ways for taxpayers to behave toward the tax system. What has been done to examine taxpayer behaviour toward the tax system in emerging nations, however, is in dispute (Lumumba et al., 2010).

Theoretically, tax compliance can be characterised by taking into account three different types of compliance, such as payment compliance, filing compliance, and reporting compliance, according to Brown and Mazur (2003). When examining definitions of tax compliance, the Organization for Economic Cooperation and Development encourages categorised compliance (OECD, 2001). These categories are administrative compliance and technical compliance. Administrative compliance refers to following administrative rules for lodging and paying, also known as reporting compliance, procedural compliance, or regulatory compliance. Technical compliance refers to following technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax controlling taxpayers' noncompliance behaviour (James & Ally, 2004).

Tax compliance was described by Alm (1991) as the act of reporting all income and paying all taxes in accordance with all applicable laws, rules, and court orders. Another meaning of tax compliance is the act of completing out the income tax form, accurately disclosing all taxable income, and paying all due taxes within the allotted time frame without needing to await follow-up actions from the authority (Singh. 2003). According to Roth et al. (1989), taxpayers must complete the Income Tax Form with all necessary information within the allotted time frame, and the form must accurately report the taxpayer's tax burden in compliance with the requirements of applicable laws, rules, and court rulings. People who purposefully or unintentionally violate tax laws are regarded to have broken the law. Theoretically, according to the perspectives of taxpayers and tax collectors, tax compliance entails abiding by the tax rules, which vary from one nation to another.

According to Cobham (2005), tax compliance is a problem for many countries as measured by tax to GDP ratio, even though it has been improving for many countries, the goal of tax administration is to foster voluntary tax compliance (Silvani, 1992), which will reduce the tax gap (difference between taxes paid and owed for all taxes and all taxpayers), also known as the "compliance gap," and other related issues. For instance, it accounts for one-third of GDP in wealthy nations, 17% of GDP in Latin America and the Caribbean, and less than 15% of GDP in low-income nations (in Sub-Saharan Africa) (the recommended rate). It continues to be a major obstacle for developing nations. Radical tax reforms have been encouraged as a result in nations like Bolivia, Colombia and Uruguay. Spain and Jamaica have had remarkable successes (Bird & De Jantscher, 1992). As stated by several academics, Jackson and Milliron (1986) identified 14 primary elements that have affected tax compliance. These elements include age, gender, education, income, occupation or status, peer or other taxpayer influence, ethics, legal sanction, complexity, relationship with the taxing authority (IRS), sources of income, perception of the fairness of the tax system, likelihood of being audited, and tax rate are some of the factors that may be taken into account. Researchers have identified a number of variables that affect tax compliance, including tax agents, demographics, income, and compliance costs (Mohani, 2003). Besides moral or ethical considerations (Singh, 2003; Kasipillai et al., 2003). Other researches (Sour, 2002; Keller, 1997; Trivedi, 1997; Hamm, 1995; Chang et al., 1987) have identified enforcement element elements (such as penalties, audits, and tax rates) as having a significant impact on tax compliance behaviour. The tax compliance behaviours of a taxpayer typically diverge from those predicted by economic models. Taxpayers are significantly influenced by one another. In addition, the frequency and quality of audits will affect a taxpayer's tax compliance behaviour (Trivedi, 1997). The problem of tax compliance is extremely severe in other nations. In April 1995, 8.3 percent of the 117 million Income Tax Returns filed in the United States contained inaccurate tax information. In addition, 7 million individuals, or 5.6%, did not file a tax return (Hamm, 1995). Taxation is an important problem for management and directors since it affects a substantial portion of a company's profit (Ojeka, S. A.) (2011). Consequently, numerous businesses will engage in tax planning to reduce their tax obligations (Jabbar, H. A. & Pope, J., 2009). The tax code offers a foundation for SMBs to engage in tax planning activities. For instance, managers will utilise government-provided incentives to lower their tax liability. A greater tax burden will diminish the return on investment for shareholders as the company's earnings decreases. Managers must undertake good tax planning in order to minimize the tax burden and increase the profit (O'Regan, N., Sims, M., & Ghobadian, A., 2005). Corporate governance can boost tax compliance by increasing the senior management's openness and accountability to the company and its stakeholders. A high level of transparency will make it impossible for managers to misappropriate funds. Consequently, a high level of tax compliance can be attained. The tax compliance model is based on past research on publicly traded companies (Samsuddin, M. A., Rohaya, M.N., Mastuki, N. A. & Ambali, A. R. 2011). The primary purpose of the present study is to examine if corporate governance influences tax compliance in small and medium-sized enterprises. Utilizing characteristics from

prior studies, such as director compensation, board size, firm size, capital intensity, leverage, and return on assets, the model is constructed. In addition, two dummy variables, dummy tax incentives and dummy years, were added in this model to account for changes in the tax systems pertaining to SMEs. In the current tax climate, directors are asked to assume responsibility for tax management (Jabbar, H. A., and Pope, J. (2009). Previously, directors only participated in tax matters if tax evasion was implicated. Nonetheless, they can no longer pass over all to tax agents alone. The board of directors must guarantee that the company complies with its tax duties and can adapt to ever-changing tax laws and policies. The tax paid by the SMBs is a reflection of their tax preparation techniques and actions. This study will measure tax compliance based on the amount of tax paid. This analysis utilises two corporate governance components: board size and director compensation.

The significance of this study is shown in its examination of the function of boards of directors in boosting tax compliance among SMBs. This study will provide a deeper knowledge of how corporate governance might improve tax compliance in SME. Noncompliance will increase as tax revenue increases. To finance development and infrastructure initiatives for the benefit of the citizenry, the government relies largely on tax income [23]. Therefore, noncompliance will have negative effects not only on the government's projects and activities, but also on the citizenry. Numerous factors lead to noncompliance. For instance, the complexity of tax rules has increased the likelihood of tax evasion (Jabbar, H. A. & Pope.J., 2009). In the perspective of the law, tax avoidance is permissible, but aggressive tax avoidance may be illegal or of uncertain legality and lead to noncompliance with tax laws (Ojeka, S. A. (2011), Cullis, J., Jones, P., Savoia, A. (2012). The tax issue should be managed with corporate governance (Ojeka, S. A., & Sartori, N., 2011). (2009).

Corporate governance urges companies to be open in order to avoid engaging in tax-aggressive behaviours that may result in noncompliance. In addition, corporate governance emphasises the role and obligations of the board in overseeing the activities of the senior management and ensuring proper corporate governance [25]. The value of corporate governance has been demonstrated, notably following the failure of major corporations such as Enron, WorldCom, and Ahold. Corporate governance must be practiced and become vital to the improvement of the business environment. In reality, boards must recognise the importance of their participation in a company's tax strategies and no longer delegate all tax matters to tax agents. Tax concerns must be handled with care because they might have lasting effects on a company's performance. Therefore, risks of noncompliance can be decreased if the company has solid corporate governance and the boards' awareness is raised. Domestic revenue mobilisation is critical for developing countries to meet the UN's Sustainable Development Goals (SDGs). Tax evasion, on the other hand, is a big issue in many countries. According to research, laws and regulations do not adequately address tax evasion, and there is a need for ways that target 'voluntary compliance.' Voluntary compliance is anticipated to be especially essential in nations with little enforcement capacity. The planned study's ultimate goal is to build knowledge and research capability to meet the societal challenge of increasing domestic revenue in mainland Tanzania and

Zanzibar. We concentrate on businesses, which have gotten little attention in research on voluntary compliance while accounting for the majority of tax revenue in most developing nations. We study two potentially crucial elements for voluntary compliance: I norms influencing willingness and ability to pay tax, and (ii) trust in tax administration. Personal and social norms for both official and 'informal' taxes (e.g., payments to community and kin) are investigated, as well as how these norms interact. The research combines qualitative interviews, taxpayer surveys, administrative tax data, and two field experiments to improve societal norms for compliance and trust in tax administration.

In many African nations, the states' reliance on residents for revenue poses a significant barrier to transparent and responsive government. Tanzania has an extremely limited tax base. taxation accounts for only 12% of the GDP. In March 2006, over 70% of domestic taxes were paid by 286 major taxpayers, primarily medium and large formal sector enterprises. 1 Foreign aid and the natural resource sector provide the majority of state revenues. From a citizen's perspective, a state that is nearly financially independent from regular citizen taxpayers is strong, but characterised by waste, incompetence, and corruption. 2 Thus, political processes can occur with minimal negotiating and policy concessions from minorities and their policy preferences. This "negative reciprocity" may also result in tax evasion and avoidance, as well as a hostile relationship between citizens and governments. If the impoverished majority possessed control over some key resources, they would have stronger counter-veiling ability vis-à-vis the state. Such counter-veiling authority would empower the citizens to negotiate more effectively with state representatives. The conclusion of such a political process would result in more citizen-friendly state policies. Changing the state's bargaining position vis-à-vis its population involves altering the nature of political processes and the consequent political balance. Since SMEs make up the majority of potential taxpayers in many nations, their compliance rates have a direct impact on the government's ability to collect taxes. For instance, small businesses in Tanzania are those with five to forty-nine employees or a capital investment of five to two hundred million Tanzanian Shillings. When addressing the growth of SMEs, it means that SMEs must be able to play their crucial role in both social and economic transformation. Medium firms employ between 50 and 99 people, or with a capital investment between Tshs 200 million and Tshs 800 (SME policy, 2002). Their responsibilities include working to reduce poverty, mobilising domestic savings for investment, providing jobs for citizens, and paying their fair share of taxes to the government, increasing the GDP of the nation (Smatrakalev, 2006). As a result, encouraging SMEs to voluntarily comply with tax laws is crucial for the country's economic development.

Due to Tanzania's long history of taxing, many individuals and businesses feel no remorse about underpaying their taxes (Maliyamkono et al, 2009). According to international standards, which recommend collecting more than 30% of GDP, the nation only collects an amount equivalent to about 18% of its GDP (Ministry of Finance 2012/2015). Even taxation experts find it difficult to comply with all laws and regulations, which is primarily because of the amount of time it takes to complete each step. For instance, according to Schnepper (2012), an American taxpayer spends an average of 23 hours filing their tax return.

Tanzanians must take more time to complete this than Americans do. Due to the complexity of completing returns, the majority of taxpayers must enlist the help of specialists. The problem is considerably worse in African nations, where there is a higher incidence of illiteracy than in the USA and Europe. As a result, tax return filing procedures are time-consuming tasks in Africa, notably Tanzania, and are significantly impacted by several factors such businessperson illiteracy and subpar service from tax authorities (Mahangila, 2017). This makes SMEs less likely to voluntarily file taxes. Tax evasion reduces tax revenue, which has profound implications on the government and the population at large. However, the issue of tax evasion and tax avoidance affects Tanzania, as well as the majority of African nations (IMF, 2011). In order for the government to provide its citizens with top-notch public services, it is crucial for SMEs to comply with tax regulations. However, if the government does not ensure the issue of effective public governance, this goal cannot be achieved (Masawa 2017). Observations in Tanzania show that a big portion of Tanzanians do not fully abide by tax laws by foregoing requesting receipts after the transaction (Mlay, 2015). This causes a significant loss of tax revenue. Additionally, by ensuring that the Tanzania Revenue Authority (TRA) has dependable systems, equipment, and technologies, as well as staff members who possess the necessary knowledge, tax compliance can be increased through high-quality customer service. The payment of various taxes will be made simpler as a result. According to the Service Quality (SERVQUAL) model, the service quality characteristics of assurance, tangibility, responsiveness, reliability, and empathy must all be met in order for tax compliance to be observed in the nation. Additionally, more effective equipment and systems are required to attain high levels of tax compliance (Parasuraman, 1988). Since SMEs are among the businesses with high sales volumes and high profits, it is expected that they will pay taxes and contribute significantly to the GDP of the nation. However, some people may not pay their fair share of taxes because they believe that the costs of compliance are too high given their meagre financial resources (Mahangila, 2017). This presents a challenge to the government in providing better services to its citizens and in supporting various development projects, from which SMEs themselves must derive direct advantages. As a result, SMEs must be encouraged to comply with tax laws. Therefore, utilising SMEs in Babati town council as a case study, this study examined tax compliance in Tanzania.

1.1 Statement of the Problem

Tanzania is one of the nations that lose tax revenues because of taxpayers who use both legal and illegal tactics to evade paying taxes (Avoidance and evasion). The public sector suffers from the lost tax revenue as a result of tax evasion, which reduces its ability to support its essential expenditures. Taxes play a crucial role in every economy's progress, so non-compliance is a worry that must be handled. In many sub-Saharan 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 7thDecember, 2015). The new regime's efforts 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). It is thought that provision of quality services and good governance by the government may have impact 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. Regional tax administration, service quality, taxpayer behaviour, and level of satisfaction influence tax compliance, (Hidayati et al, 2014). However little is known about SMEs tax compliance as a function of service quality, and good governance by TRA. This article investigated the impact of TRA's tax services and good governance on tax compliance in Tanzania, by using data collected from SMEs operating at Babati council in Manyara region.

The purpose of this paper is to establish the existing relationship between the perceived factors that impact tax compliance in Tanzania and develop the best ways to promote high tax compliance level in our economy. Specifically the study intended to; examine the impact of provision of quality services and good governance by TRA on Tax compliance. Moreover the study is relevant to the tax system in Tanzania, and will improve tax compliance for policymakers and tax authorities. It is expected that the findings would 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 tax compliance is the best practice for the government and the society at larger

II. THEORETICAL CONSIDERATION

The study is guided by the following theories, fiscal exchange theory, and including one Service Quality Model

2.1.1 Fiscal Exchange Theory

The fiscal exchange theory is a product of the economic deterrence and the social psychology models (McKerchar and Evans, 2009). This theory came upon the existence of a social, relational or psychological contract between the government and the taxpayers (Frey and Feld, 2002; Torgler, 2003; Fjeldstad, *et al.*, 2012). The Fiscal Exchange Theory stipulates that the state expenditures can be a triggering factor for tax compliance. This is because every citizen would always love to see the direct impact (goods and services provided by the government) of the tax he or she pays to the government. (Alm, McClelland and Schulze, 1992; Alm, 1999; Fjeldstad, *et al.*, 2012). On this foundation taxpayer are perceived to exchange their purchasing power in the market in return for government goods and services (Fjeldstad, *et al.* (2012:4).Therefore the willingness to comply with tax laws and regulations by the taxpayers is built on the foundation that there will be a satisfaction on the services provides by the government even if there is no noncompliance.(Torgler, 2003).When taxpayers are dissatisfied with the provision of services from the government then the probability of reducing or noncompliance can emerge (Spicer and Lundsttedt, 1976; Smith, 1992; Alm, 1999; Palil, 2010).However, this theory offers other suggestion that of negotiation between two parties that is the state and the taxpayers which is regarded as the foundation in relation growth on the mutual rights, accountability and obligations between the

government and society (Fjeldstad, *et al.*, 2012). The study by Alm (1999) revealed that facts exist from empirical, experiment and parallel researches, that tax compliance is affected by collective decision process. In most liberalized states tax payers are in position to bargain their tax agreement with the government (Torgler, 2003b).

2.1.2 Service Quality Model

The model was developed by Parasum et al in 1988. It was purposely formulated to help in evaluation of quality of services and organizations such as TRA. The model has got five service dimensions namely tangibles, reliability, assurance, responsiveness and empathy. Tangible dimension explain the ability of organization to manage its tangibles example physical facilities appearance, personnel, equipment and communication materials. Reliability refer to the ability of the service provide to perform the promised services accurately and dependably. Assurance refers to courtesy and knowledge of employees and their ability to convey confidence and trust. Empathy considers caring and giving attention to customers or it can be simply explained as ability of the organization to put itself in the customer's shoes. Responsiveness refers to be willing to help customer and provide services with accuracy and services on time. Therefore for the organization to achieve service quality particularly TRA as a service organization it must make sure that its materials , system, personnel and equipment work better with efficiency in order to encourage taxpayer to pay their tax liabilities voluntarily. Also TRA employees should posses, skills, knowledge, competence, integrity and willingness to help taxpayers at a right time with maximum cares, simply placing themselves in the shoes of their customers or the tax payers.

Empirical Review

The perception of tax service quality by taxpayers, and it's implication on tax compliance.

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 (Kottler 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. The objective of any tax administration is to offer better services to taxpayers. In the modern society, they should offer services to citizens and in the process become more and more specialized. (Karingi,Wanjala, Pamba and Nyakang'o, 2005). This argument was supported by stating separately that the manner in which taxpayers are treated in the course of the tax service provision has an impact on their compliance behavior (Feld and Frey, 2006). According to (Torgler, 2007) the willingness of taxpayers to cooperate with tax authority will increase, if the authority sees itself as service institution and provide quality service and treat taxpayers as partners .The delivery of quality service to taxpayers will strengthen their willingness to comply with tax laws voluntarily

and as a consequence contribute to the overall level of tax compliance (OECD, 2007). Tax offices are increasingly becoming aware of the necessity to accord taxpayers the status of customers as many tax authorities such as those of Australia, France, Sweden, UK and the US have reconstructed their approaches towards taxpayers by giving them more consideration to their tax service needs and treating them as clients.

Nurhayati, Elly and Diamonalisa (2015) conducted a study on the influence of tax officers service quality and knowledge of tax on individual tax payer compliance in Indonesia. 100 respondents were the sample for the study and the study employed explanatory research design and data were collected through questionnaires. Data were analyzed using multiple regressions. The tests results for the study indicates that knowledge of tax and the quality of tax officers service have significance influence on tax in Indonesia. The study concluded that service quality offered by the tax officers to individual tax payer is essential matter in providing satisfaction and it will encourage people to fulfill their tax obligations in time. Another study by Taya et al 2017 also established that, quality of service can significantly influence the consciousness of the tax payer. Mustapha et al (2014) in their study on tax service quality on the use of online tax system in Nigeria using the sample of 206 respondents concluded that tax service quality is an important determinant in adopting online tax system that offer relevancy to the tax administration system.

Moreover Awaluddin and Tambaruka (2017) have researched on the effect of service quality on compliance payment of motor vehicle tax in Kendari. Data were obtained through questionnaires and documentation. 98 respondents were used as a sample. Multiple linear regressions were used in data analysis. The study found that tax service quality affects significantly to the tax compliance habit of motorized vehicle tax payers. This means that the higher the quality of services offered in tax offices the higher the tax payer compliance in paying their tax obligations. On the other hand the study by Madgid (2015) using exploratory design with 48 respondents found that service quality in Tax service office has no effect on the obedience of tax reporting compliance level

The impact of quality Public Governance on Tax Compliance

World Bank (2006) defines public governance quality as the perception of the citizen on the ability of the governments to select, monitor and replace leaders with the capacity to manage resources effectively for the benefits of all citizens. Rotberg (2005) describes public governance quality as the citizens' satisfaction with the management, supply and delivery of political goods to the citizens of a country. This study defines public governance quality as the meeting or exceeding citizens' expectations of the process to select, monitor and replace leaders who are able to control and manage resources of the nation efficiently and effectively and place sound policies that help manage national resources.

Public governance quality influences tax compliance. Where there is public governance quality, the tax system ought to be good and where the tax system is good then there should be public governance quality. (Everest Phillip and Sandall, 2009). What happens in governments should matter to taxpayers because they provide finances inform of tax payment for its sustenance. Therefore, the compliance behavior of taxpayers may be affected

by governance affairs either positively or negatively. In analyzing the relation between the taxpayers and governments, it was concluded that tax compliance is influenced by vertical contacts (Levi, 1988). According to him, the contract between the taxpayers and government is a vertical contract, referred to as a quid pro quo of taxation. These contracts focus on whether the taxpayers access public goods in exchange for the taxes paid. According to the quid pro quo argument, complying with tax law provisions partly depend on whether the services provided by government are sufficient in exchange for taxes paid (Lassen, 2003). This argument is supported by (Levi, 1988) who argued that if the taxpayers perceive that the rate of exchange from tax to political goods is low, then the taxpayers will feel that the government has not complied with the contract and as a result voluntary tax compliance declines. The argument by (Levi, 1988) was supported by (Besanco, 2003) who stated that there is a social contract between the governments and taxpayers which embodies effective delivery of services. Alm, McCleard and Schulze (1992) made observations supporting (Lassen, 2003) who argued that taxpayers may feel the attractiveness of the quid pro quo contract diminished leading to lower tax compliance where the services provided by the government are not as expected or the exchange rate is low due to corruption. Another who supported Lassen's argument is (Torgler, 2003). He noted that when the government's integrity goes down, hence fail to honor their honesty, an individual's tax compliance may be low. He concluded that positive actions by governments may cause taxpayers to develop positive attitudes and commitment to tax system and payment resulting to improve compliance

In reviewing the relation between the quality of public governance and compliance further, (Everest Philips and Sandall, 2009) concluded that there is a connection between public governance quality and taxation and that quality governance delivers good tax systems which facilitate good governance. Where there is good governance, quality public goods should be provided to the public and where governments have failed to provide services such as public amenities and infrastructure in exchange for tax payment, citizens also become reluctant in tax payment. There is a significant positive association between the benefits derived from services provided by the government to its citizens and the willingness of taxpayers to pay taxes. (Alm, Martinez – Vazquez and Achneidler, 2003)

Kiow et (2016) al conducted a study on determinants of tax compliance behavior of individual taxpayers in Malaysia. The study found that tax compliance behavior of tax payers is affected by ethical perception of the individual and their ethical perception is influenced by transparency in public governance, the study further found that tax compliance increase if government use tax monies wisely or when people enjoy benefit for the taxes paid in terms of social amenities and public good. This is contrary with other scholars who argued that high degree of transparency can cause less trust as it will enable tax payer to audit the government for some small mistakes (Kiow et al 2016). Ali, et all (2013) conducted a study to investigate factors affecting tax compliant attitude in Africa. Four countries were involved in the study; the countries were Tanzania, Kenya, Uganda and South Africa. The aim of the study was to evaluate and compare differences in perceptions of people's attitude on tax compliance. The study used attitude and perception data from the new round 5 of afro

barometer surveys. The study found that differences and similarities exist among the factors influencing tax compliance in the four selected countries. Also the analysis found that that provision of quality service to the public is likely to promote tax compliance in all four countries. In the study the key discovery that is applicable to all the four selected countries is that tax compliant attitude is discouraged by the payment to non-state actors such as criminal gangs.

III. METHODOLOGY

The study has set model specification to examine the relationship between provision of quality services and good governance to SMES and Tax compliance in Babati town council in Tanzania. On the basis of the empirical model specification below;

Research study model

$$TC = \beta_0 + \beta_1 SQ + \beta_2 MT + \beta_3 PG + \epsilon_i$$

Whereby; TC = Tax compliance; SQ = Service Quality; MT= Multiple taxation

PG = Good Public Governance

Thus, tax compliance is used to measure performance of tax revenue collection in Tanzania via SMES while SQ (service quality,) MT (Multiple taxation) and PG (public governance) are independent variables considered for the study. β_1 , 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. The analysis done based on primary and secondary data collected from SMES operating in Babati town council in Manyara region. The area of the study was chosen simply because the area has significant sources of data to be collected sufficiently to cover the study requirements. 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 Babati town council as a case study. The study employed mixed research approach 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 at Babati town council. This study applied both systematic sampling and purposive sampling techniques to select a sample size of about one hundred (100) respondents were selected, as per Yamane(1967), claim which 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 = sampling error =0.10 (Yamane, 1967).

2500

$$n = \frac{2500}{(1 + 2500 (0.10)^2)}$$
$$n \approx 96 \text{ SMEs} \approx 100$$

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 bias. 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.

IV. FINDINGS AND DISCUSSION

The findings and analysis covered the factors influencing tax compliance, in Babati town council Manyara region in, Tanzania where owners of SMEs are clients of TRA or rather taxpayers, were put under scrutiny so as to collect relevant information for this particular study. However discussions of the findings centered on the following sub topics, and where need be supplementary information may be used to strengthen the study. (i) The impact of service quality to members of the community on tax compliance in Tanzania (ii) The influence of good governance on tax compliance in Tanzania, and (iii) The effect of multiple taxation on tax compliance

4.1 Demographic data

The study collected data from the respondents chosen from owners of SMEs in Babati town council, and from TRA officials. A total of one hundred respondents were interrogated ninety respondents were taken from SMEs, while ten were from TRA office. The analysis of the information was done and revealed that out of whom, forty one (41) were male, equivalent to forty one percent (41%) while fifty nine (59) were female equivalent to fifty nine percent (59%). This entails that females dominate in business and this might be due to the fact that women are supported by almost everybody and some women are serious in issues pertaining to business. 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 them 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) equivalents of 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.

4:2. The effects of services quality provided by TRA towards SMEs tax compliance

The study examined on the quality of services offered by TRA to the general public, and the findings were as follows, thirty five percent (35%) of the respondents said the quality of services is good while thirteen percent (13%) claimed that the services quality provision is moderate as opposed to be best, while, fifty two percent (52%) have claimed that the services is still poor. The researcher went further to investigate on the reasons which made majority of the respondents to consider services provided by TRA to be poor. It was found that most people complained about the *E-system* and lack of care from the TRA employees. In addition the respondents have explained the issue of network problem for TRA system as a critical challenge that discourages compliance process. Moreover the findings have revealed that costs of purchasing EFD machines were a burden to small taxpayers. Besides there is lack of trust between TRA officials and the taxpayers, it was claimed that usually TRA officials don't trust the taxpayers accounts and in most cases suspected the existence of frauds that involves under estimation of the taxable income even if the taxpayer has brought the correct estimations. Infact this demoralised the good intention of taxpayers who want to pay their tax obligations willingly. It was further noted that some of the employees of TRA used to involve themselves in corruption deals which affected the attitude of the taxpayers and ultimate tax compliance. Moreover, it was revealed that TRA officials consider themselves to be brighter or know everything such that, they never consider taxpayers situation and ideas. All in all, forty eight percent (48%) of the respondents were generally happy with current services as there were some signs of improvement in many public organizations and agencies as compared to some years back like 2000 to 2015. This may directly improve tax compliance among SMEs in Tanzania, if the situation is going to continue.

Descriptive statistics analysis

The response mode had five Likert scale points ranging from 1= strongly disagree to 5= strongly agree. The overall results of descriptive analysis on the quality of services provided by TRA have been presented in the table 4.1 where the mean score of 1.00-1.80 indicates that the quality of services of TRA is very poor, the mean score of 1.81-2.60 indicates that TRA has poor services, the mean score of 2.61-3.40 indicates "Service quality of TRA is moderate while mean score of 3.41-4.20 and 4.21-5.00 indicated service quality of TRA is good and "very good respectively. The overall results in table 4.1 indicated the overall mean of 2.57. According to the scale it can be deduced that the quality of services offered by TRA is not satisfactory. Moreover, most of the variables mentioned were rated poor and moderate with mean of less than 3.4. If taxpayers are not feeling satisfied with the services tax compliance is in jeopardy. In addition the overall standard deviation of 0.148 confirms a slight variation in views of the respondents.

Generally the findings of this study have revealed that TRA officials do not fully possess all the dimensions of the service

quality model. This in one way or another may discourage the good intention of the taxpayer to fulfill their tax obligations. The findings conquer with service quality model as established by Parasuman et al (1988) that the quality of services in organizations is important in inviting customers. The model suggests that for tax compliance to be observed in the country, service quality dimensions that are reliability, tangibility, responsiveness, empathy and must be assured. It was insisted that in order to achieve high level of tax compliance equipments and system must work better. Moreover the findings are consistent with that of Mustapha et al (2014) who concluded that tax service quality is an important determinant in adopting online tax system that offer relevancy to the tax administration system and tax compliance.

4:3 The impact of good public governance on tax compliance among SMEs

The study ought to find out the implication of good public governance on tax compliance by SMEs in Babati town council. The analysis is done in two dimensions namely; social services, and handling of Corruptions. The research sought to investigate whether tax payers are feeling satisfied with the social services such as health services, education services, infrastructures and other services that are offered by the government. The study revealed that majority of tax payer who are accounted up to 73% are not happy with the social services offered by the Government, on the other hand only 27% are feeling satisfied with social services offered by the Government .Provision of quality social services to the citizens promote compliance while the poor services offered by the Government will attract non – compliance. The study investigated the issue of corruption to find out whether it is properly handled in Tanzania. According to the findings, a number of the selected tax payers that is 47% were of the opinion that the issue of corruption is properly handled in Tanzania. The remaining respondents that are 53% have commented that the issue of corruption is not properly handled in Tanzania .In addition the significant number of study respondents had a an opinion that the issue of corruption is properly handled in Tanzania and comment that recently the government have tried hard to control this habit in most of its offices, this is the bright future towards elimination of corruption and hence high level of tax compliance. Diversification of public funds due to corruption discourages tax compliance behavior of tax payers.

Descriptive Statistics analysis

The response mode had five Likert scale points ranging from 1= strongly disagree to 5= strongly agree. The overall results of descriptive analysis on the quality of public governance have been presented in the table 4.2 where the mean score of 1.00-1.80 indicates that the public governance is very poor, the mean score of 1.81-2.60 indicates that the public governance is poor, the mean score of 2.61-3.40 indicates the public governance is moderate while mean score of 3.41-4.20 and 4.21-5.00 indicated that the public governance is good and very good respectively. The overall results in table 4 indicated the overall mean of 2.45. Basing on the above scale it can be correctly said the quality of public governance is still poor. Moreover, most of the variables mentioned were rated poor and moderate with mean of less than 3.4. Poor quality of public governance discourages tax

compliance. In addition the overall standard deviation of 0.124 confirms a slight variation in views of the respondents

4.4 Determination of tax compliance level

The study investigated on the payments of tax voluntarily by using a five point likert scale model and revealed that 17% agreed that they comply voluntarily while 17% were neutral about the statement and 67% of the respondents disagreed with the statement that they pay their share of tax voluntarily. From the findings, it is clear that majority of taxpayers do not pay their tax obligations voluntarily, that is they pay tax by force, this means without force tax compliance could be in jeopardy. This is a sign of low level of tax compliance. Moreover when considering the right time for submission of tax returns 72% of the respondents agreed that they submit their tax returns on time while 28% disagreed with the statements Therefore from the findings it can be deduced that many people file their tax returns on time .This is one of a good step towards achieving high level of tax compliance. With regards to the submission of correct income only 12% of the selected tax payers agreed that they always report the correct income to TRA. Moreover a significance number of the respondents that is 32% were neutral about the statement. They might be in the group of these who bring incorrect income to be taxed or otherwise .However the majority of the respondents corresponding to 56% have declared that they do not always report their correct earnings to TRA. This implies that a tax compliance level is still low among the SMEs. Generally it can be said that the level of compliance is not satisfactory as majority of tax payers don't pay their taxes willingly. Sad enough many of the taxpayers have claimed that they pay their taxes by force, and in most cases they don't report the correct income to the tax authority. This implies low level of tax compliance among SMEs. The findings are consistence with the findings by Masawa (2017) who confirmed that tax compliance level of SMEs in Tanzania is not satisfactory.

Correlation Analysis

Correlation between tax compliance and superior social services offered by the government

Table 4. 3: Correlation analysis

| | Tax compliance | Social services |
|-------------------------------------|----------------|-----------------|
| Tax compliance Pearson Correlation | 1 | .807** |
| Tax compliance Sig. (2-tailed) | | .000 |
| N | 100 | 100 |
| Social services Pearson Correlation | .807** | 1 |
| Social services Sig. (2-tailed) | .000 | |
| N | 100 | 100 |

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Field data (2022)

Findings in table 4:3 that present correlation between tax compliance and superior social services offered by the government reveals the correlation coefficient of 0.807 at significant at the 0.01 level. This implies that strong positive relationship between social services offered by the government and tax compliance level by SMEs. The findings have shown that tax compliance behavior of majority of the respondents is influenced by the quality of social services offered by the Government. Therefore it is clearly indicated that provision of superior social services can encourage tax payers to be more tax compliant. Generally the findings have shown that taxpayers' level of compliance is influenced by good public governance that involves provision of superior social services, absence of corruption as well as enacting good laws for the welfare of the citizens. The findings have revealed that, majority of taxpayers are not feeling satisfied with social services such as education services and health services. These findings concurred with the study by (Everest Philips and Sandall, 2009) who established that there is a positive relationship between public governance quality and tax compliance and that quality governance brings good tax systems that enable good governance and hence increase tax compliance

4:6 Regression Analysis

Table 4. 4: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .930 ^a | .865 | .861 | 24773 |

a. Predictors: (Constant), PG, SQ, MT

The findings in Table 4.4 indicate the existence of positive relationship between tax compliance and all three independent variables of the study given by correlation coefficient of 0.93. Moreover the table shows the coefficient of determination that is Adjusted R² = 0.861 The adjusted R² means that 86.1% of the variability in the dependent variable tax compliance is explained by service quality, Multiple taxation and good public governance. Furthermore 13.9% of the variability of the dependent variable tax compliance is explained by other factors that are not accounted for in the model of this study. It must be noted that the Adjusted R² value since it is above 50% it makes the model to be acceptable and enable independent variables to be explained.

Table 4.5: Coefficients

| Model | Unstandardized Coefficients | | Standardized Coefficients Beta | Sig. |
|-------|-----------------------------|------------|-----------------------------------|-------------|
| | B | Std. Error | | |
| 1 | (Constant) | -.102 | .080 | -1.277 .205 |
| | SQ | .160 | .039 | 4.096 .000 |
| | MT | .161 | .150 | 1.071 .040 |
| | PG | .763 | .106 | 7.180 .000 |

a. Dependent Variable: TC

Source: Field data (2022)

Table 4.5 Above depict the regression analyzing between tax Compliance which is dependent variable and factors that

influence tax compliance which is the independent variables that is TRA services quality, multiple taxation and the quality of public governances. The findings have revealed that all factors have significance influence on tax compliance since its significant value is less than 0.05 this means that the change in one unit that is either increase or decrease lead to the significance changes in tax compliance where all factors have positive relationship with tax compliances this means are the increases in one of the factor lead to increases in tax compliances. Hence a unit increases in TRA service quality lead to 0.160 increases in Tax compliance while a unit increases in multiple taxation lead to 0.161 increases in tax compliances also a unit increase in public governances lead to 0.763 increases in tax compliances. The findings of this study have revealed that TRA does not fully possess all the dimensions of the service quality model though there are some that are observed. The findings conquer with service quality model as established by Parasuman et al (1988) that the quality of services in organizations is important in inviting customers. For the sake of this study the quality of services offered by TRA would attract tax compliant behavior of SMEs.

In this study the matter of public governance was found to be a strong contributing factor that influences tax compliance level of the taxpayers. This was evidenced by the correlation coefficient of 0.763 between public governance factors and tax compliance. Studies by Everest-Phillip and Sandal, (2009), Besancon, (2003) also found that the quality of public governance was a strong factor that influences tax compliance among taxpayers. Particularly in this study the researcher found that taxpayers based their willingness to pay their tax obligations on the services delivered by the government. Provision of services as expected by taxpayers enhances compliance while deviations from expectations attract tax non-compliance.

Therefore, regression model for this study is expressed as follows.

$$TC = -0.102 + 0.160SQ + 0.161MT + 0.763PG$$

Where, TC = Tax compliance; SQ = Service Quality; MT= Multiple taxation and PG = Good Public Governance

Generally the findings have clearly indicated that tax compliance level is not satisfactory since SMEs do not fully comply with the tax laws and principles as they don't fulfill their tax responsibilities voluntarily and they don't report their correct income. Moreover the findings revealed that tax compliance particularly of SMEs in Babati town council is influenced by service quality of TRA, multiple taxation and good public governance. These findings concur with the study findings by Machogu (2011) who established that the quality of public governance, service quality, attitudes and ethnicity influence tax compliance in Kenya. Also the findings are consistent with the study by Masawa (2017) who concluded that, service quality; multiple taxation, taxpayer trust, and public governance quality are the factors that explain voluntary tax compliance in Tanzania

V. CONCLUSION

The study concluded that quality services and good public governance and multiple taxation had impact on tax compliance in Tanzania. It was further concluded that quality services, good public governance and multiple taxation had significant impact on tax compliance as explained by small and medium enterprises

operating at Babati town council. The research results indicated the existence of positive relationship between tax compliance and all the three independent variables of the study given correlation coefficient of 0.93, and the coefficient of determination that is adjusted $R^2 = 0.861$ which implies 86.1% of the variability in the independent variable is explained by service quality, good public governance and multiple taxation had significantly affected the tax compliance of selected small and medium enterprises operating at Babati town council Manyara region in Tanzania.

The study recommended that Tanzania Revenue Authority should struggle to offer high quality services and good governance to the taxpayers. In fact services provided by the Tanzania revenue Authority, were rated very poorly, therefore there is every reason of improving them. Besides the government, should raise awareness to the public on the tax system, tax incentives, tax reliefs, record keeping and importance of tax compliance. Furthermore since the study has shown a strong positive relationship between quality social 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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