

KAMPALA INTERNATIONAL UNIVERSITY

SCHOOL OF BUSINESS AND MANAGEMENT

KAMPALA – UGANDA

**THE PROBLEM OF INCOME TAX COLLECTION IN
RELATION TO TAX EVASION;**

**A CASE STUDY OF TANZANIA REVENUE
AUTHORITY.**

PRESENTED BY

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**A RESEARCH REPORT PRESENTED TO THE FACULTY OF BUSINESS
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BY

BUHEMBERE FAUSTINE

2009

DEDICATION

I dedicate this research paper to my beloved parents **Buhembere Kanire** and **Wase Matiku** there two most important people in my life next to God.


DECLARATION

I BUHEMBERE FAUSTINE declare to Kampala International University, that this research paper has been never submitted to any university or any higher learning institution. It is my own work for award of bachelor degree of business administration

Signature.....

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Date.....

APROVAL

This research report has been compiled under my supervision and is now ready for submission for the award of a bachelor's degree in business administration.

Signature.....*Nalela*.....

Date.....*14/05/09*.....

MR. NALELA KIZITO
(SUPERVISER)

Date ..*14/05/09*.....

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ACRONYMS

CAG:	Controller and auditor general
CED:	Custom and excise department
FY:	Financial year
GDP:	Growth domestic product
KIU:	Kampala international university
I/TAX:	Income tax
PAYE:	Pays as you earn
PG:	Payment general
TABIA:	Tanzania budget implementation authority
TRA:	Tanzania revenue authority
Tshs :	Tanzania shillings
VAT:	Value added tax
VIPs:	Very important person

ABSTRACT

This research paper is based on taxation and its aim is to examine the impact of tax evasion in the income of the country.

Researcher was focus directed to the income department so that to meet the prerequisite of the research, the case study carried at TRA-Kigoma (head office) the objective of the study has been to evaluate if the evasion of tax has brought negative impact to the country and to the management's of tax collection system. The researcher has provided suggestion and recommendations on useful measure in promoting more voluntary tax compliance.

The data collection method comprise open and closed questionnaires structure and unstructured interviews, observation and various documents containing policies and procedures were reviewed to obtain additional data ,judgment al sampling design was employed to obtain respondent for the study.

Data analysis to several question included the use of qualitatitive techniques The research is organized into five chapters, chapter one include the introductory part which covers the background, statement of problem, purpose, objectives, scope, significance, limitation of the study, chapter two has review of related literature, chapter three covers research methodology, chapter four included research design, sampling procedure, sample, instrument, procedure, data analysis,

Generally the finding have indicated that the abolition of tax evasion/evade promoted voluntary tax compliance and has resulted into increase of revenue collection also the internal capacity to initialized revenue available to satisfactory

TABLE OF CONTENTS

DEDICATION	i
DECLARATION	ii
APROVAL	iii
ACKNOWLEDGEMENTS	iv
ACRONYMS	v
ABSTRACT	vi
TABLE OF CONTENTS	vii
CHAPTER ONE	1
INTRODUCTION	1
1.0 Background	1
1.2 Statement of the problem	3
1.3 The purpose of the study	3
1.4 The objective of the study	4
1.5 Research Hypothesis	4
1.6 Research questions	5
1.7. Definition of key terms	5
1.8 Significance of the study	6
1.9 Conceptual frame work	7
CHAPTER TWO	9
REVIEW OF RELATED LITERATURE	9
2.0 Literature overview	9
2.1 Introduction	9
2.2 Tax evasion	10
2.3 Tax planning.....	11
CHAPTER THREE	13
METHODOLOGY.....	13
3.0 Introduction	13
3 .1 The design	13

CHAPTER ONE

INTRODUCTION

Taxation is a part of public finance and public finance is that dependent of economic theory in which we deal with the public expenditures and revenue. The important of public finance has increased in the recent year. These days the government is considered responsible to sustain the economic situation of a country. Similarly the government plays important role in the economic development process. Various measures are taken by the government to increase the rate of economic growth. In Tanzania the responsibility of collecting government taxes is subjected to Tanzania revenue authority on behalf of central government and this organ was established by act no 11 of 1995 and commenced operation in 1996 and by July 2006 it is making its 10th anniversary .the authority is a semi-autonomous agency of the government vested with the responsibility for administration of the central government taxes as well as several non-taxes. This chapter explains how the tax evasion affects the income tax collected by the Government. At glance this chapter discusses background of income tax, statement of the problem, purpose of the study, research hypothesis, research questions, significant of the study, conceptual frame work

1.0 Background

Income tax was first introduced in 1799 in England to pay for the wars France. It was introduced as a temporary measure to last for one year. It was renewed annually until 1815 when at the close of the Napoleonic wars abolished. Income tax was not re-introduced until 1842 when it comes to study until to date.

Income tax in Tanzania has one background from England (Britain).where during colonial era there was east Africa taxation authority for all there African countries.

It was until 1973, when the three states decided to have their own taxation system although had to copy the structure of one former authority.

Therefore, the income tax act 2004(ITA 2004) is the Act which controls and administer the taxation system in Tanzania. There is the commissioner of income tax who has other subordinates who help him in administration of tax in the whole country.

Nature of income tax is that it is an annual and must be re-introduced each year by the annual budget. in Tanzania, the year for which the tax is imposed is imposed is the year ending 31st dec .Also the fiscal year is of 1st July up to June 30.

A tax is a compulsory payment for which the government need offer on service or explanation. Basing on this definition ,many people think that government officials embezzles the tax collection as there not required to give explanations of how they spent the money. That is where the problem of tax evasion and tax avoidance starts.

Section 4 (1) income tax shall be charged and is payable for each year of income accordance with the procedure in part vii by every person.

- (a) who has total income for the year of income,
 - (b) who has a domestic permanent establishment that has repatriated income for the year of income
 - (c) who receives a final withholding payment during the year of income
- (2) The amount of income payable by the person for the year of income shall be equal to the sum of the income tax payable with respect to subsection (1) a, b, c,.
- (3) Subject to the provisions of subsection (4) and (5), the income tax payable by a person with respect to subsection (1) a, is calculated by
- (a) Appling the relevant rate of income tax determine under paragraph 1 or 3(1) of the first schedule, as the case requires, to the person total income for the year of income
 - (b) Subtracting from the resulting amount any tax that the person may claim for the year income under section 77
- (4) The income tax payable with respect to subsection (1) a, by a resident individual who is not required to file a return of income under section 92 (a) ii (and who does elect to file a return) shall be equal

1.2 Statement of the problem

The problem of income tax collection in Tanzania is the result of the tax payer's tendency to try to evade paying the tax by using loopholes in the income tax legislation or by using other illegal measure so as to reduce tax liability

The tax evasion has reduced the capacity of the government revenue and this make difficult for the government to provide good service to the peoples, therefore for the government to render good service to the people should find alternative measure to collect revenue, also to educate the taxpayer the importance of paying tax to the government

The problem of tax collection can be caused due to the lack of education to the taxpayer as well as to tax administrator; because of this there are many people who are conducting their business activities in Kigoma region but few of them who are keeping record and due to this most of them commit tax evasion/avoidance

Behind this reason is that many of the taxpayer are not aware of their tax liability and are always reluctant to pay tax imposed on their income, in such a way the tax collector face difficult when visiting taxpayer who are supposed to have filled their return but they have failed to do so as their means of leading their real income to be taxed.

1.3 The purpose of the study

The purpose of the study is to identify the problem of tax evasion and at the end of the study to give some of the suggestion so that to settle the situation by making proper follow up toward tax paying by the business, also to introduce good computerized system so as to work effectively by keeping proper record of tax payer and other information.

- The finding of this study will help the employee of TRA to see what the can do to increase the revenue
- The finding will help the management to see there is need of conducting various seminar to the tax payer concerned record keeping
- The report will help other researchers as the secondary data

- The report will also help the university since it will be available in the library incase other students was to use it

1.4 The objective of the study

1. To determine how the income department is dealing with the problem of tax evasion
2. To determine how the income tax department is curbing the problem of tax evasion
3. To study what income tax department does make sure that tax payers knows their tax Liability
4. To evaluate the qualifications and experience of the tax collectors
5. To evaluate the improvement of tax administration has reduced the problem of tax evasion
6. To improve control over tax evasion
7. Improve the tax collection
8. Strengthen the incentives for voluntary compliance
9. Broaden the tax base

1.5 Research Hypothesis

- People evade tax because there is lack of investigative capability e.g., professionalism in handling cases because of lack of
- Investigative skill
- Investigation guidelines and procedures
- Lack of equipment
- People are evading income tax because of high rate, this makes heavy tax burden to tax payer and lead to evasion
- In adequate knowledge of the tax laws and this contribute to tax evasion
- Corrupt practices
- Tax evaders enjoy and derive pleasure in evading taxes
- Tax officer can be corrupted
- Financial greed
- Most criminal activities are conducted for profits
- Profit from illegal source goes largely untaxed

1.6 Research questions

1. How the income tax department is dealing with problem of tax evasion and avoidance
2. How the income tax department is curbing the problem of tax evasion
3. What income tax department does to make sure that tax payers knows their Liability

1.7. Definition of key terms

Tax-is a compulsory contribution imposed on the individuals to meet the expenses which are incurred for a common cause

Taxation-this is the part of public finance and public finance is the department of economic theory in which we deal with the public expenditure and revenue.

Tax-Evasion –is non compliance with tax law and fails to pay the tax due

Tax Avoidance-is act of using the existing loopholes to evade from paying the tax, the legal

Assessor-is the tax official who qualified to administer taxation in a particular region or district

Corruption-is dishonesty, immoral behavior, open to bribery and commits mistake

Progressive Tax system-is the system where by the rate of tax increases as income increase

Gross Domestic Product – is the total income generated within the country during the period of one year

Tax Planning-is a legitimate attempt to arrange and structure business transaction in order to minimize or eliminate the tax payer burden through tax avoidance

Income –is the benefit, monetary or other ways which a person may enjoy periodically for example monthly or annually the most general word for money we receive from work investment .or from the activities we conduct

Income Tax-is the payment according to the level of income generated from a business, it a payment from business income to the state

Tax Base-is who or what to be taxed and generally refer to the source of income

Assessment: means processes of ascertaining the total statutory taxable income of the taxpayer and determining the taxpayer thereon.

Budget: is an official statement by the government of a country (TANZANIA) income from taxes and how it will be spent

Direct Taxes; means the tax under which the impact and incidence of the tax is on the same person e.g. income tax and death duty

Government: means a system of social control under the right to make laws and the right to use force to enforce them, is vested in particular group in a society

Indirect Taxes: means that tax under which the impact of the tax is on one person and the incidence is on the other person e.g. exercise duty and sale tax.

Penalties: means the liabilities to a person who is guilty of non compliance of tax

Laws

Tax Administration; here the tax department like TRA interprets the tax laws and detail on internal control mechanism to enforce tax laws.

Value Added Tax: means tax on the gross income of business less purchase from other firms

1.8 Significance of the study

1. To the department it will assist the employees of the organization to employ people with skill and knowledge in tax administration. The department should make effort to upgrade the employees working in a collective unit.

- To tax payers the department must ensure that the tax payer keep proper records as a basis of correct assessment

2. To future researchers they can use it as the bench mark or base for further in depth study of tax evasion problem

3. To media organizations this will provide information about tax decision on the issue concerned tax evasion and avoidance which should be used to educate people to better citizen and stop such tendencies

4. Monitor traders record keeping

5. To build investigative capability through.

- Training in investigation skill
- To put in place guidelines and procedures
- Obtain equipment to do the job
- To set priorities to investigate high risk product

6. To encourage departments and law enforcement organs of the government to cooperate together to solve the problem

Tax Investigation Department Performance for 1999/2000

	1999/2000	1998/99	% CHANGE
Cases handled	1,468	1,434	+2.4
Revenue identified	16721.2	7128.7	+134.6
Revenue recovered	8856.2	4064.7	+117.9
Recovery rate	53%	39%	

Source: Primary data.

Investigation Department Performance for July-Dec.2000

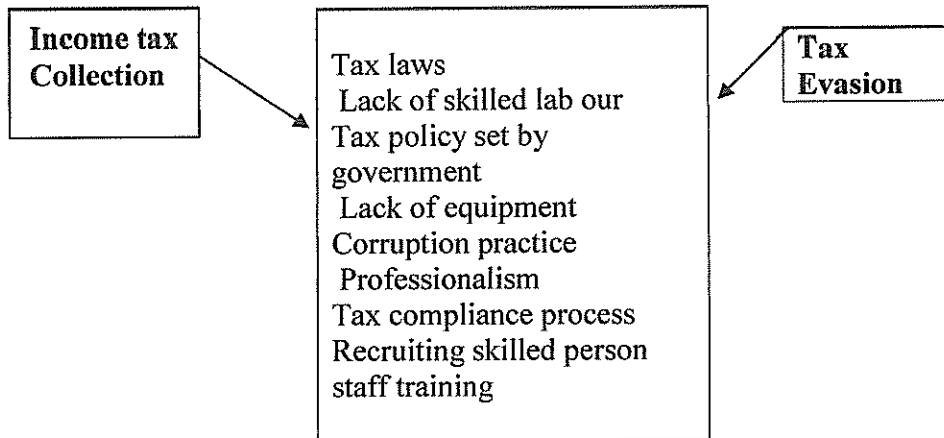
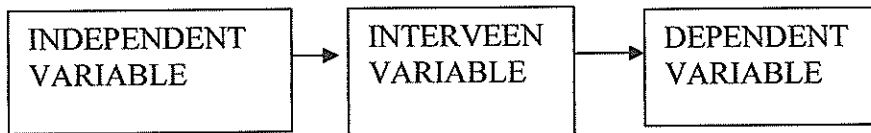
	JULY-DEC 2000	JULY- DEC 1999	%CHANGE
Cases handed	426	893	-52%
Revenue identified	5032.4	3923.8	+28%
Revenue recovered	2588.2	28832.1	-9%
Recovery rate	2588.2	72	

Source: Primary data.

1.9 Conceptual frame work

The conceptual frame this explain the variables used under the study, these variable include two sides the independent variable and dependent variable and intervening variable which influence the control of variable, due to independent variable and

dependent variable brought a topic to be researched on the problem of income tax collection in relation to tax evasion. Below is the simple diagram of conceptual frame work



CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Literature overview

A review of literature reveal what strategy, procedures, and measuring instrument have been found useful in investigating the problem in question, this information help the researcher to avoid mistake that have been made by the previous researcher and thus facilitate interpretation of the result of study, through this information a researcher may suggest approaches, procedure and to choose the best method to be used for the study. In this chapter discuss introduction, tax evasion, tax planning,

2.1 Introduction

Several text books, newspaper, journals, magazines and other periodicals on taxation threat the subject of tax avoidance and tax evasion but few deals with problem in detail.

Although many writers especially economist have tried their level best to explain about taxation and the importance of the people to pay income tax, the whole issue of tax avoidance and evasion prevailing in the society. Tax evasion and avoidance is high in developing countries where record keeping is very poor and hence law control.

What is income? A famous judge commented, income tax if I may be pardoned for saying so, is a tax on income. It is one tax, not a collection of taxes essentially distinct There is no difference in kind between duties of income tax assessed under any schedule of the charge, by the Lord MacNaghton in attorney General V.I.C.C (1908) PAGE 162

According to the judge, income tax is imposed on the income one earns regardless of how income was earned. This view can be supported by the statement in income Tax Act of 1973 on Tanzania legislation in Tanzania...The income tax department is authorized to charge the tax to any gain or profit sect 3 of income tax acting.

The sub-Saharan and south Sahara fiscal difficulties increasingly depends on its capability to devise and implement more flexible and broadly based revenue collection system .one means for achieving this end, according to the working paper on "NEW TECHNIQUES TO ENHANCE TAX REVENUE IN AFRICA"(SURVEY, A PUBLICATION OF IMF, MARCH 19,1996),is the increased adoption of "presumptible taxation" a collection of relatively simple and cost-effective techniques designed to tap the income of business and individuals that have so far escape taxation either by not reporting or under-reporting actual incomes.

Broadening the tax base and in turn increasing government revenue is necessary to reduce fiscal imbalances and achieve macroeconomic stability in many Africa countries.

The publication by IMF has been issued as means of assisting Africa countries in establishing the taxation system that will enable the countries to collect more income tax as means of improving their economic situation which are not favorable.

Tax collection in most Africa countries is a frustrating business. Part of the reason in that most of the these countries lack effecting taxing authorities and request personnel for the task"

(IMF publication 1996): page 4)

2.2 Tax evasion

Tax evasion is especially common where tax rates are high and where investigate auditing is rarely undertaken, or susceptible to corruption, or not sufficiently supported by strong penalties.

As the result, many firm and individual are able to avoid paying taxes altogether. In Tanzania, the income tax rate is very high to the extent that it led to low investment level in the past years where income tax was 50% of income generated by business enterprises Tax evasion is legal; moreover, the court has repeatedly acknowledged the right of every taxpayer to take advantage of whatever the law allows in the way of tax reduction. The

courts have at various times proclaimed that the practice of tax avoidance is neither illicit, immoral nor unpatriotic. however, it may have undesirable effects on the tax system by reducing the progressively of the tax rate, by injecting elements of unfairness, injustice and discrimination into our tax law, and by possibly encouraging some tax payers to reduce their liability by illegal means when they cannot avail themselves of legal means of so doing

2.3 Tax planning

Tax planning is a legitimate attempt to arrange business transactions in order to minimize or eliminate the taxpayer's burden through tax avoidance (Paul Joseph, years, 45)

In this sense business transaction are arranged in such a way to take advantages of certain provision in the tax legislation without the contra version of the law. tax planning, therefore is done by smart individual who are well informed of the loopholes existing in the legislation, and hence wants to use such chance top evade paying income tax .it is unfortunate that the accountants who could help the government to trace income tax evader are the some people who help the tax evaders in arranging transactions which can enjoy the loopholes in tax legislation (Paul Joseph: years, 47)

From the revenue point of view, officials must be able to assess with certainty the amount owed ,the due dates and they must also have the power to enforce payment so that illegal evasion of tax is kept to a minimum(Pritchard W.E, Taxation page 165)

The problem of tax evasion is related, for when a large part of income subject to taxation is received by petty traders who do not keep proper accounts, it is extremely costly to enforce the income tax provisions. Most of the less developed countries would profit by enforcing their tax law more vigorously, but even the rigorous enforcement cannot make the income tax the major source of revenue'' (Lewis A.W.the theory of economic growth: p 263)

One of the canons of taxation is that one should avoid taxes which are costly to collect because they have to be collected from a large number of persons, each of whom pays

only a small sum. it is one of the reason why one confined income taxation to persons with relatively large incomes. In developing countries, people with large incomes are very few compared to the population, hence high tax rates are imposed on few individuals and then they feel a heavy burden. These results in tax evasion (ditto: p.2ii)

We have explored the effect of an income in personal taxation on tax revenue in some detail because analysis also throws light on other possible of taxation. In so far as high rate of taxation date people from working as hard, or cause them to have the workforce completely the overall level of economic efficiency is likely to suffer (Professor Lindsey, economics p.312)

The statement above shows how the high tax rates not only becomes a heavy burden to income taxpayers, but also affects the whole economy, since working morale vanishes and hence low productivity which result in poverty in the country.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

Method section of this study show how the data was obtained, how the data was collected and presented at glance in this chapter discuss about population, sampling procedure, sample size, the scope of study, data interpretation, sapling instrument

3.1 The design

The researcher adopted a descriptive vase survey design. there was an a attempt to analyze the income tax collection and how tax collectors educate the tax payers in the whole issue of tax paying, its importance and how they benefit from paying income tax.

3.2 population of the study

The population of the study was concentrated in Kigoma region, as well as the business center which include different people in different sectors such as shopkeeper, food venders, tailors, saloons, Daladala's driver and bar owners

3.3. The sample size

The sample size included the tax collector (4), account clerk (2) and (2) senior assessor of the income tax department. Petty businessmen (10).so the sample size comes to 14 instead of the expected 30.there was use of questionnaires, interviews and documentary review method as well as observation

There was a selected sample from which targeted sample size could be obtained. Stratified random sampling as well as purposive sampling was mainly used. The quota sampling was used sampling was used to choose subjects on basis of characteristic though to be most tolerated to study.

3.4. The scope of the study

This research was confirmed to Kigoma region. Data were collected from income tax department offices and business people. The study started in December 2008 to June

2009, when it will be submitted and the work encompasses most of the issue concerning the impact of income tax collection in relation to tax evasion/avoidance

3.4. Data collection techniques

(i) Questionnaire

The questionnaires were directed to income tax officials and income tax payers. There were some questions directed to officials and this was just to allow these two groups to answer different questions collection concerned.

(ii) Interview

This was favorable way in conducting the survey both in office and to the businessmen at the business locations. The interview questions were designed together information directly. The income tax payer were interviewed on certain issue such as the high tax rate and how does it affect the total income .tax collectors on the other side were interviewed on such matter of faithfulness of tax payer when filling tax returns, declaring their income and tax there on

(iii) Documentary review

The study of related document like magazines, newspapers, books and some reports in different libraries and other offices were used. In the documentary review, previous case of tax evasion and tax avoidance in Tanzania were cited. Such news has offered the researcher a lot of current issues about the effort made by the government to curb the situation

(iv) Observation

The method applied to assess the income of tax payer was one of the means that had to tax avoidance, since a tax payers fill the returns according to the income he expects following the previous data. As the recording of data in Tanzania is a problem, the income computed basing on such data to inaccurate taxable income. Some tax –payer comes directly to the tax assessors to have negation about how much should be their tax-liability. This may lead to favoritism, but since many tax payers do not have the

knowledge of account keeping, it was unavoidable for them to go and explain their source of income and estimation is made

(v) Data interpretation and analysis.

Data was across tabulated and presented in table, calculator was used to compute percentage, average and total which were presented in tables, furthermore the descriptive analysis was used to make more interpretation of data

The collected data have then processed and analyses has been applied to mean categorizing, ordering, manipulating and summarizing of data to obtain answer at researcher question. The motive behind analysis was to reduce data to intelligible and interpretable form so as the relationship of researcher problem could be studied and tested accordingly

Processing of data basically implies editing, coding classification and tabulation of collected data so that they are response to analysis

- I) coding: refer to the process of assigning numerals of the symbols to answer so that response was put to a limited number of categories or classes
- II) editing: refer to the process of examining the collected raw data to defect errors and commissions and correcting them were possible
- III) classification; refers to the process of reducing data into homogeneous group so as to get a meaningful relationship
- IV) tabulation: refer to the arrangement of data in same kind of concise and logical order

3.7 Sampling techniques

There are two types of sampling procedures have been used in this study.

Probability sampling techniques.

Random sampling

In this context choosing transaction to be taken for tracing how they were dealt with from the sources document each transaction have been having an equal chance of being chosen as a sample

Non –probability techniques

.purpose sampling

In choosing which document (books) should be used the researcher consider the purpose of the study. Those books which met the purpose of the study and only those data which put for the purpose of the study conducted are the one that have been chosen

3.8 Limitations/problem encountered

The researcher faced three major limitations

1. Financial problem
2. Lack of specific period of doing the research
3. Communication problem hinder access to areas where the research findings to be obtained
4. The research contained a lot of information, which needs very wide and in depth data collection to accomplish it. It was a heavy task for one person to accomplish the study within the given limit of time of about three months only.
5. Some of the data of the organization concerned are very confidential; hence it was difficult to get them for the study.

CHAPTER FOUR

FINDINGS

The general purpose of the research was to study how the income tax department is dealing with the problem of tax evasion and what actions are taken by the tax department in Kigoma region. In this chapter discuss the hypothesis why people are evading tax, taxpayer return, tax payer altitude to collector, and the finding data for the study are presented in tabular form

Questionnaires are categorized into two main groups i.e. income tax officers and taxpayers.

4.1 Hypothesis one

People are evading income tax due to high rate, it was about how high rate are heavy burden to tax payers and lead to evasion.

8 out of 10 (80%) of tax payers interviewed who accepted that high rates is the course for tax evasion. also many correspondents gave their opinion that the ignorance of tax law was another problem which cause misunderstanding between taxpayers and tax collectors.

Collected data indicate that respondents agreed that the recent move of the government to reduce tax rate is encouraging and will reduce the burden on their income and hence increase the government income.

Out of the 10 respondents, 70% agreed that the department has succeeded in identifying the tax payers, so as to reduce the problem of tax evasion. Also 30% said that the successes were bad, this show that there are some tax proved failure to detect evasion and tax avoidance

Table 1. How ignorance of tax laws reduces paying morale.

Rating Categories	No	%(percentage)
Very Bad	2	16.67
Bad	4	33.33
Tair	6	50
Not at all	0	0
Total	12	100

Source: primary data

The data above shows that 50% of the respondents said that the ignorance affect they paying moral fairly while 33.33% said that the effect was bad .comp airing the overall response it seems that the ignorance of the tax law is the one of the causes of low paying morale. Hence one department has the duty to educate the taxpayer about tax laws and explanation where necessary.

Where people who supposed to pay income tax is identified to have been evaded from paying the same we use distraint actions and issue of agency notices to make sure that they pay the tax liability''

Table 2-Tax Payer Returns

Rating Categories	No	%(percentage)
Very often	5	50
Not very Often	4	40
Always Agree	1	10
Total	10	100

Source: primary data

The data shows that 50% said that there are often disagreements with what taxpayers present as their returns .this shows the element of hiding the incomes, which leads to evasion.

The response reported seems to be un turn according to the activity/business is concerned ,we can either call for documents to look the records or the assessors has the power to use the best judgment adjustment ,example the income tax payable is estimated basing on previous records or the records of the similar business

4.2 Hypotheses two

In adequate knowledge of the tax laws and how it contributes to tax avoidance or evasion

The tax officials were about inconveniences that face tax collections on their duty .the following are the responses

Table 3: A response was as follows.

Rating categories	No	%(percentage)
Transport	2	13.3
Stationeries	2	13.3
Legal document	5	33.3
Shortage of staff	4	26.6
Any other	2	13.3
Total	15	100

Source: primary data

The data shows that 5 out of 15 said that there was problem of tax law to the business because most of them they were not aware of the consequences of not paying tax; another respondent said that there was shortage of staff while 2 out of 15 say transport was problem

Furthermore, tax payers should know what they ought to do to help tax collectors so as to make the collection easier. Data revealed that all respondents said taxpayers the don't have enough knowledge about taxation laws and this lead to the problem on mobilizing

Table 4: Tax Payer Altitude to Collectors

Rating categories	No	%(Percentage)
Very good	0	0
Good	4	36.36
Fair	6	54.54
Bad	1	9.1
Very bad	0	0
Total	11	100

Source: primary data

The data shows that 6 out of 11, 54.54% responded that the altitude to tax collectors is fair, the questionnaire asked why in the respondents said that the tax payers were always feeling that tax collectors were forcing them to pay income tax which is not reasonable to their incomes, tax collectors on the other hand the argued that taxpayer the should understand that it is their obligation to pay the tax.

In relation to amount and opinion of the tax collected by the income tax officer by the 2005/2006,the income tax department officer respond that the data collected shows 100% respondents said that income tax collected for the year 2005/2006 was good i.e. it was collected as budgeted.

The following is the findings on the amount of **Income Tax Collected vs. Budgeted** for the year of income 2005/2006 and 2006/2007.since the tax year start. on the 1st of July and ends of the 30th June, the researcher decided to take the data for the two consecutive year so as to make comparison of two. This would help in seeing whether trend is improving or not

Table 5 Income tax collected 2005/2006

Narration	Amount tshs	Budgeted%
Budgeted collection	785960510210	100
Collected income	650810410360	82.8
Surplus		0
Deficit	135150099850	17.2
Total		100

Source: primary data

Income Tax Department Kigoma-Collection Section

The data shows that the collected income for the year of income 2005/2006 was 650810410360 out of the budgeted shs 785960510210 that is the 82.8% of budgeted collection, and enhance the overall collection was very good.

Table 6: Income Tax Collected for 2006/2007

Narration	Amount	Budgeted%
Budgeted collection	790915522213	100
Collected income	811721413791	103
Surplus	207698915578	3
Deficit		0
Total		

Source: Primary data

The preparation of income statement must be prepared by the authorized. Accountant or auditor, this brings complications as such people are few.

A part from the fact that they are few, it is very expensive to hire one to make accounts for you. Tax collectors are sometimes trouble some and reject the returns presented, this will lead to adjusted assessment or best judgment therefore taxes are estimated by tax assessors.

Further more tax officers was about to learnt more from the ministry of finance by welcoming, suggestions, opinions and other information which may help the government to make amendments in tax legislation. The following are the responds from the officials

Responses were:-

- the move will improve compliance with tax law
- the amendments will cease tax collection
- government may be informed on some loopholes which lead to tax evasion

Moreover in relation to the ignorance of tax policy advocated by the state laws, most of the taxpayers was about to appeal to the public by giving opinion, suggestion to the ministry of finance on how to make amendments on tax legislation so as to reduce burden

The response was:-

- The government should reduce the tax base example tax should imposed new sources which can give the state much income.
- The tax rate should be cut; down as now it is too high.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.0 SUMMARY

The purpose of this study was to concentrate on how the income department is dealing with the problem of tax evasion and what actions were taken by the department in Kigoma region.

The study centered mainly in identifying the reasons leading to tax evasion and actions to be taken by income tax department in order to certify the situation. Interviews were conducted to various employees working with the department to know the various means applied by the department to curb various means of evasion in the department.

The objectives guiding the study were:-

- To determine how the income tax department is dealing with the problem of tax evasion and tax avoidance.
- To determine how the income tax department is curbing the problem of tax evasion.
- To study what income tax department does to make sure that tax payers knows their tax liability

The first objective was to determine how the income tax department is dealing with the problem of tax evasion and avoidance. Findings related to this objective are found in table1-6 above.

According to the findings concerned with tax payer feelings of the responsibility of tax rate 80% agreed that high tax rate was one of the reasons for evasion. It was that some businessmen paid as much as 50% of their profit in tax, which discouraged investors who are forced to hide truth about their real income as means of escaping the burden.

The departments need to put more efforts in identifying all persons who are liable to pay tax since 45% admitted that collection was not successful, this shows that the difference is big

According to the findings obtained for taxpayer it show that most taxpayer has distinct means of evading tax and therefore the income tax department should introduce many ways of tackling such taxpayers

It was also observed that altering records and false income statements, it is due to failure to interpreter allowable deduction according of part III of income tax act 2004 in this case a taxpayer may prepare his final accounts and treat some expenses as non-taxable.

Apart from the information above, it was observed that there is poor relationship between the taxpayer and official, in which the taxpayers expressed ignorance of taxation law. so it is the responsibility of tax department to educate them on the same and as well as help them to interpreter the laws which at times are too complex a language and they would put it in a layman's term.

The shortage of professional staff and modern facilities like computer leads to poor record keeping as well as ineffective data processing. Manipulation of data is also easy when it is not computerized, hence having dubious employees act. Mudolwa E.B, in his article a tax reforms for the industrial recovery and economic growth said that.....talk of evasion, the bureaucracy does not realize that it is itself that encourages it

The second objective was: to determine how the income tax department is curbing the problem of tax evasion and tax avoidance

Finding relation to this objective shows that, there is inadequate knowledge concerned the tax payers toward tax legislation.80% expressed ignorance of the legislation and on the other hand it was observed that income tax department was doing little to inform tax

payers and this is because the legislation is in English and Latin language which is not popular to every body

The opinion given by tax officials about inadequate information about laws and income tax rates to tax payers was negative .while the letter complains of ignorance shade a light of confusion and distrust in their relation. So it goes without saying that the step to take is simply to avail information as it was their right to have it. It should be at the disposal of both the collectors and payers.

We have a new world of change. We have upon the receipt of the first tax commission report (E.B.MDOLWA)

It was observed that inadequacy of the legal documents concerning taxation laws was prevalent as the department. Not even in public regional libraries of Kigoma where the public are expected to get access to the materials

5.1 CONCLUSION

On the first objective of the study which was about the determination of low income tax evasion and tax avoidance and what actions were taken the researcher come out with the following conclusions

Income tax department is a department under the ministry of finance which was established under the income tax act 1973.

The department was to deal with administration of income tax .the income tax is charged on a variety of tax payers for example employees, including partner, individual's corporations and agencies. Income from gains on sale of capital investments like property and farms, estate duty

The main duty among other of the department is the identification of all taxpayers in respective areas. Every taxpayer is identified in the income tax department by a file reference and an account number. These identities depend on the type of the business the

taxpayer is trading in, his business centre and the place from which the largest portion of income is obtained. The researcher observed that the income tax department is trying its level best to adhere to its obligations

To ensure that each taxpayer who is liable to taxation is assessed and pays the correct tax, the income tax department conducts physical surveys, whenever possible of the taxpayers business premises as a cross check on the return filed with the department also facing the problem of infrastructure's lot of prospective taxpayers are uncovered during income tax department by a file reference and an account number. These identities depend on the type of business the tax payer is trading in his business centre and the place from which the largest portion of income is obtained. The researcher observed that the income tax department is trying its level best to adhere to its obligation

A record keeping is the major basis for correct assessment is proper records. Those records which must be kept by each taxpayer are the basis of financial statements compiled and sent to the department. Under the income tax act, every taxpayer who is liable to tax is supposed to inform the commissioner of income tax through a return showing the taxable income or profit for the year

Since the commissioner basis on the record filed by the tax payers, it is easy for the tax avoidance to happen as the main objective of the taxpayers is to minimize tax liability.

In order to minimize the problem prevailing the department has to employ people with knowledge and skill in tax administration so that they can increase collection, in this the researcher determine that there is lack of worker

On other side the employees working in tax collection unit many of them were diploma holders, the researcher observed that such employees had not enough qualifications to handle their duty, and hence many would like to have further studies. The department should make effort to upgrade the employees working in collective unit so as to acquire more knowledge to assist them in improving their performance. Hoping by the coming Tanzania revenue authority only should be given priority

On the second objectives of the study concerned with the extent to which the taxpayers knows tax liability (being informed by income tax department)

The researcher concluded that there is evidence that many taxpayers are ignorant of the tax law which controls the taxation machinery.

The tax –paying public has been divided into two groups, a) those who pay their tax because they are told to pay it know it and b) those that pay it because they know it is written down somewhere that they must pay it.

The first group comprises many people who must be educated so they know the importance of it and the aware of their tax liability and hence pay what they are supposed to pay. On the other hand, the second group is that of experts who know the tax laws as well enough to able to check it by looking it up. This is the group of people who are smart in tax avoidance as they know well the tax laws and loopholes existing there in.

How income is suppose to be taxed, once a person has taxable income, the question arises, how is it to be taxed? It is like that some part of a person's income will be tax free and the income that remains will be taxed at different rates (according to the type of income).

The researcher concluded that there is a need for the department to make clarifications on section 16 which states allowable deductions and the section 17 which enumerates the non-allowable deductions. This will help taxpayers know how to prepare well their income statements and exclude all non-allowable deductions in their operation expenses before arriving at taxable income

5.2 RECOMMENDATIONS

The following recommendations are based on the findings indicated in chapter IV, the discussion in chapter v and conclusions in chapter V

The main objective of any organization or department is survival and growth. For example, an organization must maximize its profit so that it can attain its main objective. The income tax department having been established by the government for the recurrent and developing expenditure. Such expenditure is communications, administration, defense, education, health and other development projects.

The researcher observed some weaknesses and inefficiencies which if the department corrected; it could operate efficiently and economically. Some of the weaknesses are indicated in the conclusion of this study.

It is these weaknesses which enabled the researcher to provide the following recommendations

2. Training opportunities should be given to personnel working in collection unit
3. The department must ensure that employees working in collection unit possess the required qualifications to enable them perform their duty effectively. Tax collectors are directly contacting the taxpayers; hence they must be well informed so that they can easily detect fraud made by taxpayers in their return or the income statements presented for assessment.
4. Creation of tax system that is simple and transparent or a tax administration that is more efficient as the recent creation of Tanzania revenue authority to administer all taxes in the country.
5. Increase the tax official's moral by paying them well. This will reduce the corruption among the officials

6. Educate the citizen on the tax-consciousness theory. the tax-consciousness theory holds that because every citizen benefits from the government, every citizen benefit should pay taxes and pay them in such a manner that he /she is aware that he is paying them. the idea is related to the concept of paying for benefits
7. Increasing penalties to those evaders, but this will be successful if the new tax ideas fit into existing revenue laws, treasury regulations, administrative rulings and court decision.
8. Review of selected causes of tax avoidance evasion. Tanzania has 35[is bag of taxes. this multiplicity of taxes is not easy to administer.
9. High tax rates should be cut down. Present rate of tax are still high comp aired to income of people. lower rate are desirable as means of discovering tax evasion expanding the tax base and boost revenue collection

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**OFFICE OF THE DEAN
SCHOOL OF BUSINESS AND MANAGEMENT**

Date: 27th March, 2009

Our Ref: KIU/SBM/RL/002-27/03/09-4

THE HUMAN RESOURCE MANAGER
TANZANIA REVENUE AUTHORITY ,
KIGOMA BRANCH.

Dear Sir/Madam,

RE: BUHEMBERE FAUSTINE REG.NO.BBA/12097/61/DF

The above mentioned is a bonafide student of Kampala International University pursuing a Bachelor of Business Administration programme in the School of Business and Management of the University.

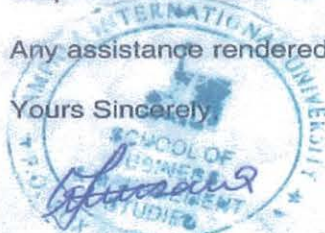
She is currently conducting field research and the title of the Research project is "THE IMPACT OF TAX COLLECTION IN RELATION TO TAX EVASION" A CASE STUDY OF TANZANIA REVENUE AUTHORITY. As part of studies (research work) he has to collect relevant information through questionnaires, interviews and other relevant reading materials.

The purpose of this letter is to please request you to avail her with the necessary information she may need.

All and any information shared with her will be used for academic purposes only and we promise to share our findings with your institution.

Any assistance rendered to her in this regard will be highly appreciated.

Yours Sincerely



PP
**DR. NŪWĀGĀBA ALFRED
DEAN SCHOOL OF BUSINESS AND MANAGEMENT**

"Exploring the Heights"

APPENDIX II

QUESTION TO BE FILLED BY THE INCOME TAX OFFICIAL

Dear respondents, this questionnaire is intending to collect information about the problem of income tax collection in Tanzania especially on tax evasion and avoidance, your kindly requested to fill this questionnaire and return to the sender after one day your cooperation is highly appreciated

Name of the company/cooperation /department

Rank.....job description.....

2. How long have you worked in this position?

3. What do you specifically do?

4. What are the regular inconveniences on your way to performing in your duty

- a) Transport.....
- b) Stationary.....
- c) Legal documents.....
- d) Any other, explain.....

5. Does the taxpayers know what they ought to do to help you on your duties?

- a) Yes.....
- b) No.....

If no why do you think so

6. Have you ever disagreed with what taxpayers present as their return?

Very often

Not very often

Always agree

What measure normally taken when there is disagree with the return presented by taxpayers

7. It has been common that many people who are supposed to pay income tax evade so which legal actions so you take against such people?

8. What are you common fraudulent skills applied by that tax evader?

Failing to keep records

Total refused to keep record

Altering records

False income statements

Any other means

explain.....

9. On of the function of income tax department a part from advising the government on tax matters, department function includes identifying all persons supposed to pay income tax, how far have you succeeded?.....

10. What are your opinions on the amount of tax collected into past years (2005/2006-2006/2007?)

11. What are your needs of leant from the ministry of finance towards welcoming; suggestions, opinions and other information in order to help the government in order to make amendment to tax legislation

12. What appeals are made to the public from opinions and suggestion given by ministry of finance on how to make amendment on tax legislation in order to reduce burden responses?

TO BE FILLED BY THE TAXPAYERS

Dear respondents, this questionnaire is intending to collect information of income tax collection in Tanzania especially on tax evasion and tax avoidance. You are kindly requested to fill it and return it after a day .you are cooperation will be highly appreciated.

- 1. Name of organization/professional/trade?
- 2. How long have you been in the business?
- 3. What specific activity do you deal with?
- 4. Do you think income rate are reasonable?

Yes....., No.....

If no how does it affect you income?

- a) Very bad b) bad c) fair

5. How far are you informed of the tax legislation?

6. a) the government has been reducing the income tax rate to reduce burden to taxpayers
What is your opinion on such move.....

b) Has the change registered any different in your return?

7. Have you ever disagreed with the assessment made on your income?

Yes () No ()

If yes what was the reason...

8. Do you see importance of paying income tax?

.....

9. What problems do face in the act of paying your taxes?

.....

10. Recently the government has appealed to citizen to give their advice, opinion and suggestions on how the tax legislation and administration can be handled for the benefit of taxpayers and itself, what changes would you like to be mad.

APPENDIX III

CURRICULUM VITAE

BUHEMBERE FAUSTINE

Permanent Address: P. O. Box 129, Mwanza, Tanzania.

Cell phone +255-713-243652/0782619738

Email: gimongekanire@yahoo.com/faustinebuhembere@yahoo.com

Personal Profile

A self-motivated, hardworking and committed to results person, with a good eye for detail and excellent communication skills, who enjoys meeting challenges and seeing them through. A problem-solver with the ability to adapt well to new situations and able to work independently under any environment, team oriented with interpersonal skills.

Career Objective

To work for a reputable and fast growing, international and local organizations in order to take maximum advantage of my educational background and to develop a high level of professional and public relations skills.

Personal Information

Surname	KANIRE
Other names	FAUSTINE BUHEMBERE
Date of Birth	10 th OCTOBER, 1983
Place of birth	MARA, Tanzania
Marital status	SINGLE
Nationality	Tanzanian

Education Background

Year	School /Institution/College	Award
2006-2009	The Kampala international university-Uganda	Bachelor of business Administration in Accounting option
2004 - 2006	Mbezi beach high school-Dar-es-salaam	Advanced Certificate of Secondary Education
2000 - 2003	Sengerema Secondary School	Certificate of Secondary Education

Hobbies

Reading books, Watching Television, Studying, Travelling, Interacting with various people, Making friends and Learning New things.

References

The following they have agreed to be my referees

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Declaration

I, BUHEMBERE FAUSTINE, the undersigned, do hereby verify that the given information above is complete and true to the best of my knowledge.

27th December, 2009

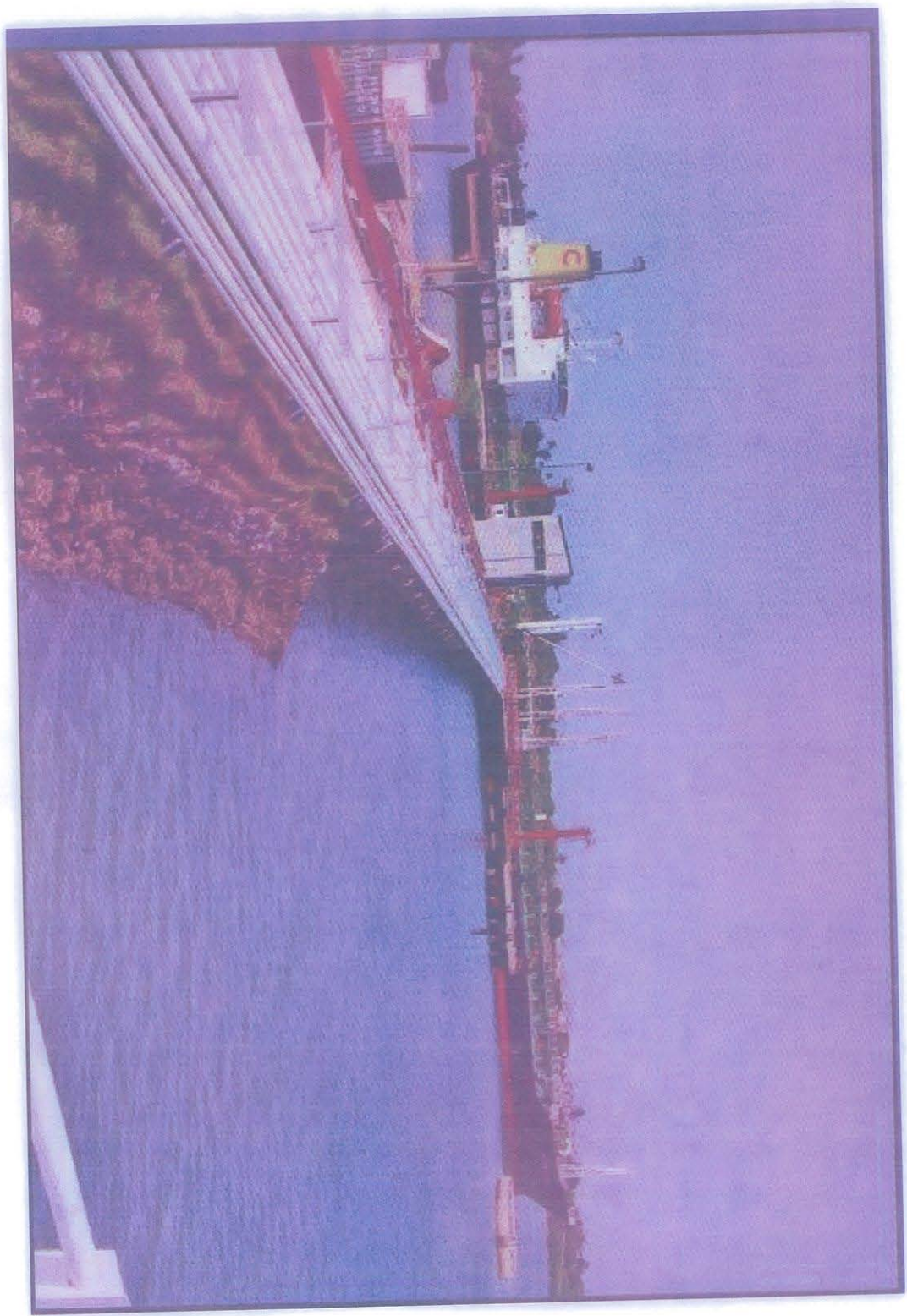
.....
Signature

.....
Date

APPENDIX IV

MAP OF TANZANIA





APPENDIX V

TIME FRAME FOR RESEARCH REPORT

ACTIVITIES	DURATION							
	Aug	Sept	Oct	Nov	Dec	Jan	Feb	march
proposal preparation								
data collection								
data editing and coding								
data analysis and presentation								
report writing and compilation								

APPENDIX VI
RESEARCHER'S BUDGET

THE RESEARCHER'S BUDGET IN TANZANIAN SHILLINGS		
ITEM	AMOUNT PER DAY	AMOUNT IN TOTAL
Transport	1000 @ For 60 days	60,000.00
Meals	2000 @ For 60 days	120,000.00
Stationary		30,000.00
Internet cafe		20,000.00
Miscellaneous		60,000.00
TOTAL		290,000.00