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Tax Evasion among Small Enterprise Owners in Tanzania: A Case of Retail Shops in Moshi Municipality, Kilimanjaro Region

By Prosper J Kimaro & Amedeus H Tairo

Moshi Co-operative University

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Tax Evasion among Small Enterprise Owners in Tanzania: A Case of Retail Shops in Moshi Municipality, Kilimanjaro Region

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Abstract- Tax evasion and the presence of fraud in tax administration are phenomena which hit developing countries hardest, this can be witnessed from different developing countries, indicates that half or more of the taxes that should be collected cannot be traced by the government treasuries due to corruption and tax evasion. The general objective of the study was to assess factors responsible for tax evasion among small enterprise owners in Tanzania. Specifically, the study determined ways used by small enterprises owners in evading tax, examined the perception of retail shops owners on tax compliance and in the study area and examined factors influencing tax evasion among small enterprises owners in the study area.

The study used a cross-sectional research design to collect information from 380 respondents in Moshi Municipality using survey questionnaire and interviews, mainly the key informant interview. After data collection both descriptive and inferential analysis applied to deduce the results. Based on the title, objectives and the findings, the following can be concluded that false or altered documents are the main way used to evade tax followed by over/under valuation of assets, maintaining two sets of books and records, frequent or unusual use of cash and cashier's checks, cashing of received business checks, false billings and/or invoices, personal expenses paid with corporate funds and excessive loans to employees, friends and others as others way they use to evade tax. Further, most taxpayers are not able to correctly calculate tax due from them and may hence end up paying the incorrect amount. Also, most of the smallholder business, their level of compliance is greatly influenced by the tax amount due to TRA as well as majority of small business find the tax rates high and the costs, they incurred in tax compliance affects their compliance levels to a very great extent. It is recommended that the TRA/government must lower the tax rates, simplify tax return forms, intensify taxpayer education and continuously provide training to TRA technical staff. In so doing, it will not only smoothen the tax collection exercise, but it will increase the government revenue to be collected.

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I. INTRODUCTION

a) Background to the Study

Globally, the primary purpose of taxation is to raise revenue for the government expenditures. Most of the government's fiscal requirements should be raised by taxation (Mlay, 2015). The government spends part of the money on services such as defense, legal and order which private enterprises cannot provide (Machogu, 2013). It also pays for services such as social security benefits and education. Small business owners play an important role in the tax system (Nkwe, 2013). Small enterprise owners are less tax compliant in comparison to large businesses and are considered as the 'hard to tax group' from the informal sector (Akinboade, 2015).

Most of the developed countries have a broad base of both direct and indirect taxes whereby the tax liability is covered by firms and households. More than 30% of developing countries are characterized by social-political and different administrative difficulties in operating their public financial system (OECD and DAC, 2016). Tax evasion and the presence of fraud in tax administration are phenomena which hit developing countries hardest, this can be witnessed from different developing countries, indicates that half or more of the taxes that should be collected cannot be traced by the government treasuries due to corruption and tax evasion (Abiola and Asiweh, 2012).

Global Financial Integrity (GFI) calculates that, developing countries loose between \$859 billion to \$1.06 trillion a year through illicit financial flows. Small business owners are responsible for collecting as well as remitting taxes (Gupta, 2013). In Africa, this situation is worse in most countries; the illiteracy rate is higher compared to European countries and United States of America (USA) (Mustapha, 2015). Likewise, Southern Asia is home to almost one-half of the global illiterate population (49%). Moreover, 27% of all illiterate adults live in sub-Saharan Africa, 10% in Eastern and South-Eastern Asia, 9% in Northern Africa and Western Asia, and about 4% in Latin America and the Caribbean whereas, less than 2% of the global illiterate population lives in the remaining regions combined (Central Asia, Europe and Northern America, and Oceania), the lowest literacy rates are observed in sub-Saharan Africa and in

Author α: Faculty of Co-operative and Community Development, Moshi Co-operative University, Moshi. e-mail: pjkimaro@gmail.com

Author σ: Faculty of Business and Information Sciences, Moshi Co-operative University, Moshi-Tanzania. e-mail: tairoamedeus@gmail.com

Southern Asia, Adult literacy rates are below 50% (UNESCO, 2017). Thus, in West African countries there are no emotion, due to different reasons as taxpayers claimed that filing of tax return is time-consuming exercise and affected by factors such poor quality of service provided by tax authorities and the illiteracy of the businessperson (Mahangila, 2017).

In East African countries, the problem of tax non-compliance is as old as taxes themselves (Mwansele, 2014). It occurs due to failure of performing a timely filing or submission of all required tax by taxpayers as well as not accurately reporting the tax liability in accordance with tax laws (Masawa, 2017). When there is a non-payment or late payment on the tax due, these are understatement of income and overstatement of expenses to deal with the situation (UNESCO, 2017). Most of the countries including Rwanda managed the non-declaration of sales by increasing the monitoring of sales transactions through Electronic Fiscal Devices (EFDs machines). In Kenya, the case sounds the same, however, SMEs practice towards the use of EFD machines has not been so effective (Kamote and Ngowi, 2015).

In Tanzania, following the tax laws and regulations, it is not an easy task; because the procedures take time, even professionals who are familiar with the tax requirements find it challenging (Masawa, 2017). However, small and medium enterprises have been observed by Kamote and Ngowi (2015) that, the issue of tax evasion can be influenced by different factors including economic conditions, social interaction and individual factors such as tax rates, change of government policies and personal financial constraints. In average, average Tanzanian spend 180 hours to file his/her tax return, means there are many complexities in filing returns, taxpayers find it easier not to accomplish their taxable activities until helped by a professional or forced by tax authorities (Schnepper, 2012).

The decrease of voluntary tax compliance decreases tax revenues, and this has tremendous effects (Adesina and Uyioghosa, 2016). The government of Tanzania has committed itself to continue with its policy of zero domestic borrowing for budget financing over the Medium-Term Expenditure Framework (URT, 2013). Therefore, this means that, government must look to other sources of revenue. However, in Tanzania, SMEs have been observed to have highest degree of not reporting their sales to the tax authority (Kamote and Ngowi, 2015), especially when transaction is conducted by cash for the sake of escaping tax as noted by Masawa, (2017). Therefore, little is known on tax evasion, thus this study aimed at examining tax evasion among small enterprise owners using retail shops in Moshi Municipality in Kilimanjaro Region, as a case study.

b) Statement of the Problem

Tax non-compliance and tax evasion exists in every country including Tanzania. It has been reported that domestic tax bases in East African countries are undermined by widespread tax avoidance and evasion (Adesina and Uyioghosa, 2016). In Tanzania, tax evasion is not a new phenomenon as it has been in existence for a long time. At the same time, increasing of domestic revenues is the priority of sub-Saharan African countries (Drummond *et al.*, 2012). Different efforts have been taken by the government of Tanzania by creating fiscal space and provide necessary public services to mobilize the government revenues. Furthermore, the government has formed Tanzania Revenue Authority (TRA) as government agency charged with the assessment of collection and accounting the taxes as an effort to increase revenues (Abiola and Asiweh, 2012). Moreover, there has been various attempts by the government to introduce Electronic Fiscal Device (EFD) machines to the business community, which reported achievement in revenue collection of an average of 1.3 trillion monthly (Masawa, 2017).

Despite the efforts done, still there are some reports of resistance over the use of EFD machines particularly on of subsequently producing/production of the EFD receipts to customers (Alphayo, 2017). Likewise, Kamote and Ngowi (2015) have noted that tax evasion remained a long-time unsolved challenge in Tanzania. Moreover, Ojochogwu and Stephen (2012), Nyamweza *et al.*, (2014), Kamote and Ngowi (2015) and Alphayo (2017), reported the existence of non-compliance issues in Tanzania as small enterprise tend to evade to pay tax. This led to the loss of the huge amount of government money which justifies the need for this study to assess tax evasion to small enterprise owners in Tanzania. This study, therefore aimed at assessing tax evasion among the retail shops owners in Tanzania by picking Moshi Municipality, Kilimanjaro Region as a case study.

The general objective of the study was to assess factors responsible for tax evasion among small enterprise owners in Tanzania. Specifically, the study determined ways used by small enterprises owners in evading tax, examined the perception of retail shops owners on tax compliance and in the study area and examined factors influencing tax evasion among small enterprises owners in the study area. To capture the above specific objectives, the following research questions were answered: What are the ways used by small enterprises owners in evading tax in the study area? What are the perceptions of retail shops owners on tax compliance in the study area? And what factors influencing tax evasion among small enterprises owners in the study area?

Regarding the significant of the study, the findings from this study are deemed important in shaping the entire tax collection process and eliminating any factor inhibiting the government from smooth and fully tax collection. In so doing, this will enable the government to collect more revenues hence contributing significantly to the nation's socio-economic development. Findings are also expected to create awareness among the small business owners on the importance of timely paying tax and at the same time paying the required amount for the nation's development. Further, the findings from this study will be useful to policy makers, policy amendment and policy implementation on issues related with tax payment and tax evasion. This means, the study can provide the government with the knowledge it needs to create an effective and efficient tax policy framework to increase government tax collection.

The academicians and the researchers can use these findings when dealing with the same or related research activity. So, in the other way around, the findings from this study shall act as source of knowledge on matters pertaining with taxation. This study is in line with variety TRA regulations and orders such as the Tanzania Revenue Authorities by Act of Parliament No. 11 of 1995 as well as the TRA act Cap 399 and various Tax reforms of 2004 and 2017; hence becoming useful in day-to-day TRA business operation. Finally, it is a very nice study not only to TRA authority but also to the taxpayers as it stipulates clearly the responsibilities of both the community members and the government for smooth tax collection exercise.

II. LITERATURE REVIEW

a) *Theoretical Review*

This study was guided by the Theory of Individual Choice by Allingham and Sandmo (1972) as reported by Magiya (2014). The theory states that if a person receives a particular sum of the revenue, be there is an obligation for the purpose to choose what portion of the revenue to be termed as a value going to the tax authorities as tax. This method provides the practical outcome that compliance mainly does depend on enforcement. Nevertheless, it is vitally important to realize that an individual pays taxes for no other reason but for fear of being punished upon detected as being non-compliant. From the foregoing, the implication per the guidelines of this theory is that rational persons would simply file no taxable income. In this context, a rational individual refers to a utility of maximizing evasion of tax. Considering both the advantages of successfully deceiving the tax system and the dangers of being punished once detected of the cheating and for this reason the individual will honor the tax compliance requirements for fear of being penalized (Magiya, 2014).

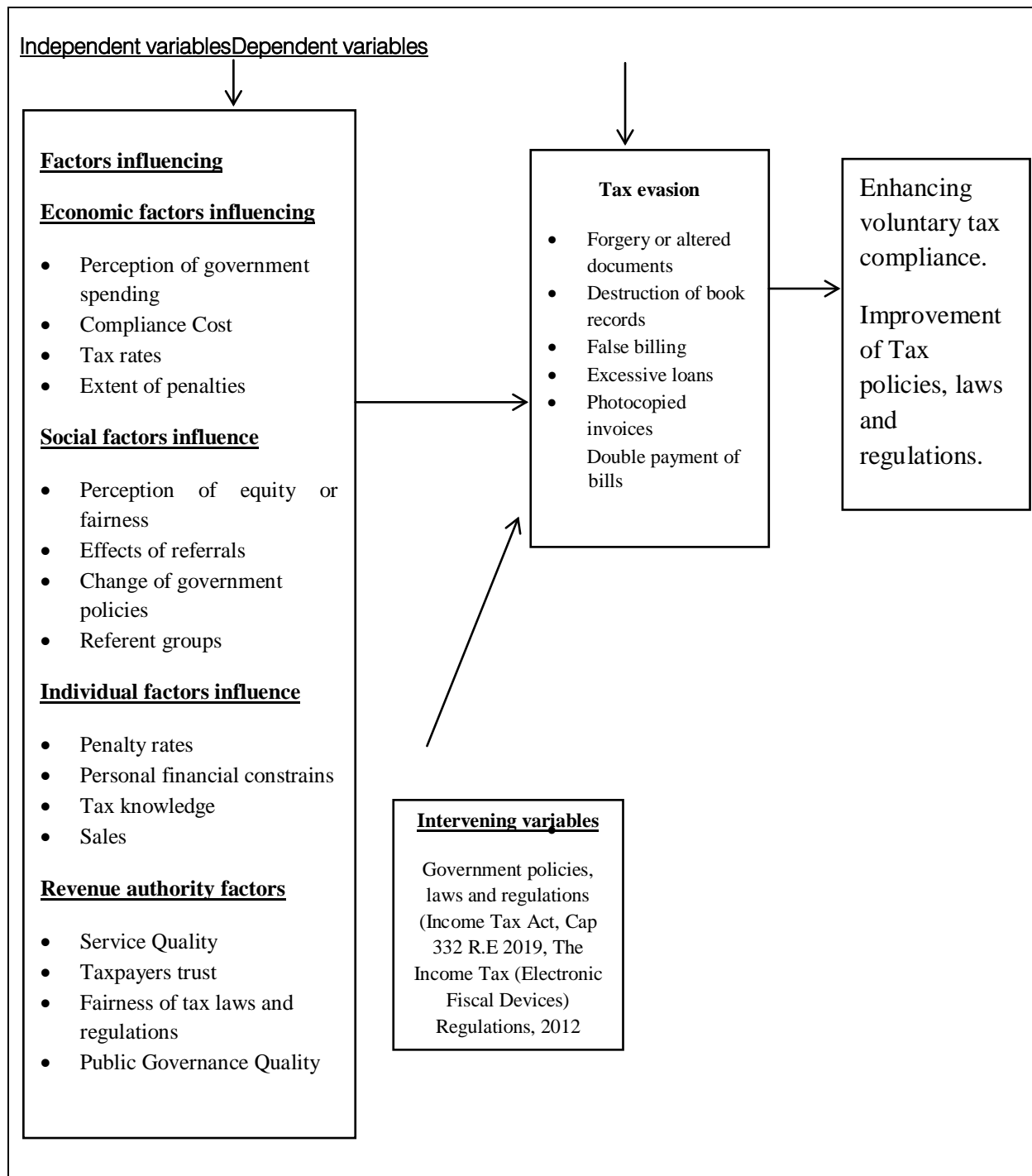
The Individual Choice theory has the following assumptions as stipulated hereunder: The theory assumes that individuals use their self-interests to make choices that will provide them with the greatest benefit. In this regard, people weigh their options and make choices which they think serve them best. It further assumes that human is purposive and goal oriented and they have sets of hierarchically ordered preferences or utilities which derive them in making choices.

Despite the usefulness of the Individual choice theory, it has the following weaknesses i.e. The Individual choice theory focuses on an individual action. While one could say that individual action drives large social structures, some rational choice theories critics argued that the theory is too limited in its explanation. Further, like all speculations about the nature of human behavior, people are not always rational and therefore during the irrational time they may make irrational choice.

This theory is chosen since it shows relationship of different factors that may results into tax evasion as suggested that taxpayers would also evade tax when he or she perceives the cost of compliance is high, moreover tax systems and procedures that are cumbersome tend to encourage tax evasion, furthermore taxpayers who feel that tax rate is high and punitive will evade tax. But generally, the Individual Choice theory appears appealing among other theories in discussing about the factors influencing tax evasion among small business owners in Tanzania.

b) *Conceptual Framework*

The conceptual framework presents the relationship between the various variables in the study. This study assumes that the factors under discussion have a direct influence on tax evasion among small enterprise owners in Tanzania. The independent variables are economic, social and individual factors. Economic factors include government spending, compliance cost, tax rates and extent of penalties. Social factors are perception of equity or fairness, effects of referrals, change of government policies and referent groups. Individual factors are penalty rates, personal financial constraints, tax knowledge and sales. The dependent variable for the study is tax evasion by small enterprise owners while government policies and regulations are the intervening variables for this study.



Source: Researcher's Own Construction, (2024)

Figure 1: The Conceptual Framework

III. RESEARCH METHODOLOY

The study used cross-section research design. This design was used because it allowed comparison of different variables at the same time hence making the exercise more flexible and economical. This study adopted a cross-sectional research design to collect the required information. It further gave room to collect information at one point in time which saved time and other resources required to accomplish the work as

recommended by Creswell, (2007). In this respect, the researcher moved from one business to another collecting information regarding the factors influencing tax evasion among the small business owners.

The study was conducted in Moshi Municipality, Kilimanjaro Region. Moshi is a municipality and the capital of the Kilimanjaro Region in the north eastern Tanzania. As of 2022, the municipality has an estimated population of 201,150 and a population density of 3,409

persons per km² (Moshi Municipal Council, 2024). The study was carried out within selected retail shops in Moshi Municipality. The Municipal was selected for study because it was reported in the annual Taxpayers' Appreciation Week (2022) that despite of increasing Tax collection amount in Moshi still this region experiences higher incidence of tax evasion among small and medium enterprises owners when conducting their business activities (TRA-Kilimanjaro Tax Region Report, 2024).

The target population of this study was 7500, currently known number of retail shops in Moshi municipality based on 2020 statistics. Simple random sampling was used to get the respondents from different retail shops in the study area. The sample size for this study was 380 retail shop owners obtained using Yamane formula (1967).

$$n = \frac{N}{1 + Ne^2}$$

Where by:

n = estimated individual sample size,

N = total number of people within the study area,

e = level of precision, was 5% (0.05) used to obtain manageable respondents

The researcher gathered both quantitative and qualitative data from primary and secondary sources. Quantitative data included the age of respondents, income level, sex and marital status of respondents, while qualitative data included characteristics of tax evasion rate according to the type of businesses, causes of tax evasion in small enterprises, the ways used by businesspeople to evade tax, and challenges

Regression Equation

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + \beta_{14} X_{14} + \beta_{15} X_{15} + \beta_{16} X_{16} + e \dots \quad (i)$$

Whereby,

X = dependent variables in this case (Tax evasion); $\beta_1, \beta_2, \beta_3$ = Regression constants; e = Error term; X_1 = Government spending in TZS (Good or Bad); X_2 = Compliance Cost in TZS (High or low); X_3 = Tax rates in TZS (High or low); X_4 = Extent of penalties in TZS (High or low); X_5 = Perception of equity or fairness (Good or Bad); X_6 = Effects of referrals (Good or Bad); X_7 = Change of government policies; X_8 = Referent groups (Good or Bad); X_9 = Penalty rates in TZS (High or low); X_{10} = Income TZS (High or Low); X_{11} = Sales in TZS (High or low); X_{12} = Education (High or low); X_{13} = Service Quality (Good or Bad) and X_{14} = Taxpayers Trust (High or Low).

According Mugenda and Mugenda, (2009) the rule of thumb, for a construct to be valid, the value of alpha coefficient should be greater or equal to 0.7. Therefore, for that reason the instrument was pre-tested for internal consistency using Cronbach's alpha (α) coefficient. A Cronbach's alpha obtained that ranges

faced by Tanzania Revenue Authority on reducing tax evasion in Moshi Municipality, Tanzania.

This study employed different data collection methods including survey and interview as explained in the sub-subsequent section below: A survey questionnaire was administered to 380 small enterprise owners. The survey included both open-ended and closed-ended questions. Respondents were met at their business places and were asked for their consent to participate in the study. The method enabled the researcher to collect adequate information required to accomplish the study. The other method used for data collection was an interview basically key informant interview (KIs). The Key Informants were selected based on their personal experiences in business and on the factors influencing tax evasion by the small enterprise owners in Moshi Municipality. There were two (2) face to face interviews from TRA tax officers and three (3) face to face interviews from small business owners. A notebook and sounder recorder were used to record the information provided by the key informants.

In data analysis, both qualitative and quantitative techniques were used in this study and the collected data were through questionnaire and interviews were coded and analyzed using Statistical Package for Social Science (SPSS) computer software. In determined ways used by small enterprises owners in evading tax, a descriptive statistic with frequencies and percentages was employed while in determined the perception of retail shops owners on tax compliance principal component analysis was used. Regarding the factors influencing tax evasion among small enterprise owners in the study area, multiple linear regression analysis was applied.

0.701 was accepted, indicating acceptable reliability for the questionnaire. To ensure validity of the data the researcher compared the research tools with the set objectives and ensured that they all address the research objectives.

Table 1: Reliability Test

Variable	Response	α =Alpha	Comment
Economic factors	10	0.701	Reliable
Social factors	10	0.722	Reliable
Individual factors	10	0.819	Reliable
Perception	10	0.708	Reliable

IV. FINDINGS AND DISCUSSION

a) *Ways used by Small Enterprises' Owners in Evading Tax*

To understand tax evasion among small enterprises owners it was very important to understand ways used by small enterprises owners to evade tax in the study area, (Table 2).

Table 2: Kind of Tax Evasion Mostly used by Retail Shops Owners (n=380)

Tax evasion practiced	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strongly Disagree
Maintaining two sets of books and records	27.4	34.7	30	7.9	0
False or altered documents	27.9	48.4	16.8	3.7	3.2
Over/under valuation of assets	28.9	38.9	21.6	8.4	2.1
False billings and/or invoices	25.3	30.5	23.7	15.8	4.7
Excessive loans to employees, friends and others	19.5	35.3	22.6	19.5	3.2
Frequent or unusual use of cash and cashier's checks	26.8	36.8	4.7	31.1	0.5
Cashing of received business checks	26.3	35.3	10.5	16.8	11.1
Photocopied invoices and bills, instead of originals	23.2	31.1	16.3	25.8	3.7
Personal expenses paid with corporate funds	16.3	26.8	24.7	29.5	2.6
Double payment of bills	17.4	25.3	18.9	32.6	5.8
More than one endorsement of checks cashed	16.3	26.8	19.5	34.2	3.2

The findings in Table 3 indicate that 76.3% of the respondents were using false or altered documents to be one of the ways they use to evade tax, 16.8% were not sure and 6.7% of the respondents disagreed. Further, the findings indicate that 67.8% of the respondents agreed that over/under valuation of assets is one of the ways they use to evade tax, 21.6% were not sure and 10.5% of the respondents disagreed on the same.

In addition, the findings revealed that 62.1% of the respondents agreed that keeping two sets of books and records is one method they normally use to avoid paying taxes, 30% were unsure and 7.9% disagreed with the assertion. It also shows, that 62.1% of the respondents agreed that using cash and cashier's checks frequently or unusually was one method they used to evade taxes, 4.7% were unsure, and 31.6% disagreed. Results showed that 10.5% of respondents were unsure and 27.9% disagreed, while 61.6% of respondents agreed that cashing received business checks is one of the methods of tax evasion.

Furthermore, the findings show that 20.5% of respondents disagreed, 23.7% were unsure, and 55.8% of respondents agreed that using false billings and/or invoices is one of methods of tax evasion. The findings also indicate that 54.8% of respondents agreed that excessive loans to employees, friends and others were other methods used to evade taxes, while 22.6% were unsure and 22.7% disagreed. About 54.3% of respondents agreed that one way they use to evade tax is by using copies of invoices and bills rather than the

originals. In this regard, 16.3% were unsure and 29.5% disagreed on the same assertion.

Additionally, the findings show that 32.1% of the respondents disagreed, 24.7% were unsure and 43.1% of respondents agreed that paying personal expenses out of corporate funds is one of the methods of tax evasion. Findings further, indicate that 43.1% of respondents agreed that using multiple endorsements on checks cashed is one of the methods used to evade taxes, 19.5% were unsure, and 57.4% disagreed. In addition, 38.4% of respondents disagreed, 18.9% were unsure and 42.7% of respondents agreed that paying bills in full twice is one of the methods of tax evasion.

This study findings are in line with the findings of Aanu, & Ojochogwu, (2012) who also reported that most of the business owners tend to avoid tax through different ways. The most observed by tax collection authority was through having two sets of books and records that they tend to record different business records at the same time and manipulating records that they tend to share with the tax authority especially before tax assessment. This has forced tax authority to come with new system to determine the actual amount of tax a business should pay through the invention of Point-of-sale system including the use of electronic fiscal devices as well. Even though the introduced system has not been completely efficient, but it has increased tax collection significantly in different places which have adopted the system.

These results concur with those of Abdullai (2012), who found that most of the small business

owners in East Africa attempt to evade taxes by using fictitious and altered business documents. They also believe that they can outwit tax investigators even though most of them fail. The most popular method used is the creation of false billings and invoices to avoid paying taxes and recovering money owed.

This finding is in line with that of Abertbach and Christensen (2017) who found that most business owners use their friends, family and employees as a means of evading paying required tax by pretending to give them loans. When they don't repay the money on time, it negatively affects their business and therefore use that as an excuse to mislead tax assessments in their enterprises.

These results are consistent with those of Abiola (2012), who investigated the various strategies used by small and medium-sized businesses to evade taxes in

Nigeria. Abiola (2012) identified three main strategies used by small and medium-sized businesses to evade taxes including among others keeping two sets of books and records, making false billing claims, falsifying documents and using photocopies of invoices and bills in place of the originals. Another study by Abiola and Asiweh (2012) confirmed this and stated that most of the business owners in Nigeria evade paying taxes by keeping two sets of books and records, billing customers incorrectly, altering documents and using copies of invoices and bills in place of the originals.

b) *Perceptions on Tax Compliance by Retail Shop Owners*

To understand the perception on tax compliance by retail shop owners in the study area the following depicted (Table 4).

Table 4: Perceptions on tax compliance by retail shop owners

Statement	PCA	
	Mean	Std. Deviation
Do you think there is need of improving tax system	2.344	1.02
Do you think tax compliance cost affects tax compliance	2.352	1.2
Do you think access to public utilities and services affects tax compliance	3.013	1.4
Do you think tax information influence tax compliance	2.389	1.01
Presence of different kind of tax encourages tax evasion	2.339	1.09
Do you think tax amount influences the compliance	2.412	1.3
Do you think tax collector authorities are not collecting tax fairly?	2.423	1.15
Average total	17.2	8.17
Total	2.4	1.2

According to Table 4 findings, respondents thought on whether there is a need of improving tax systems. Findings indicated that higher number of the respondents agreed with a mean of 2.344 with SD of 1.02 implying higher number of taxpayers believe that there was a need for improving tax collection authorities.

Regarding with whether tax compliance cost affects tax compliance, findings indicated that higher number of the respondents agreed that tax compliance cost affects tax compliance with a mean of 2.352 and SD of 1.2. Respondents were further asked on whether they think access to public utilities and services affects tax compliance and study findings indicated that higher number of the respondents was disagreed with the statement with a mean of 3.013 and SD of 1.4. This finding indicates that retail shop owners are not concerned with the presence of public devices when it comes to tax compliance.

About whether tax information influence the compliance findings indicated that higher numbers of the respondents were agreed with the statement with a mean of 2.389 and a SD of 1.01. This shows that tax information affects tax compliance among retail shops owners. Concerning with the presence of different types of tax encourages tax evasion. The findings indicate that the higher number of the respondents agreed that the presence of different kind of taxes influences tax evasion among retail shop owners with a mean of 2.339 and a SD of 1.09. This finding shows that higher number of retail shops owners is evading tax due to the notion that they pay much due to different types of the taxes.

Regarding whether tax amount influences the compliance, the findings in Table 8 further indicate that a mean of 2.412 and SD of 1.3 which shows that higher number of retail shop owners perceive tax amount can influence tax compliance. About whether tax collector

authorities are not collecting tax fairly, the findings indicate that higher number of retail shop owners perceive tax authorities to be unfair with a mean of 2.423 and a SD of 1.15. This shows that higher number of the respondents do not trust tax authorities when it comes to tax collection. The average mean of the responses was 2. This is an indicator that most of the respondents agreed to the statements on ways used by small enterprise owners in evading tax in the study area of which produced a SD of 1 implies varied responses.

Table 5: Influence of Economic Factors on Tax Evasion among Small Enterprise Owners

Economic Factors	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strong Agree
Do you think Perception of government spending among small business owners is what Influencing Tax Evasion?	47.4	48.4	4.2	0	0
Does Compliance Cost in any way influencing Tax Evasion influences among small business?	27.9	52.6	11.1	3.2	5.3
Does Tax rate influences Tax Evasion Tax among small business owners?	31.1	45.3	18.4	3.7	1.6
Does Extent of penalties Influencing Tax Evasion?	27.9	37.9	24.2	10	0

The findings in Table 5 indicates that 95.8% of the respondents agreed that Perception of government spending among small business owners is one among the factors influencing tax evasion. About 4.2 % of the respondents were not sure and non, disagreed on the same. Moreover, the findings indicate that 80.5% of the respondents agreed that compliance cost influencing tax evasion influences among small business, 11.1% were not sure and 8.3% disagreed with the same statement.

Findings further indicate that 76.4% of the respondents agreed that tax rate influences tax evasion tax among small business owners, 18.4% were not sure with the same statement. However, the findings indicate that 65.8% of the respondents agreed that the extent of penalties influence tax evasion though, 24.2% of the respondents were not sure, on the same statement. The average mean of the responses was 2 which indicates that most of the respondents agreed on the statements that economic factors influence tax evasion in the study area. The results had a SD of 1 implying varied response. These findings are matching with the findings of Abor & Quartey (2010) who also reported that most of small and medium enterprises tend to evade paying tax due to the negative perception that the tax collected by the authorities are not used effectively by the government and therefore, they ignore its relevance in their lives and aimed to evade paying tax in every opportunity they will have in their businesses. This is what forces most of the tax collection authorities to use force to make them paying tax which also creates hatred

c) *Different Factors Influencing Tax Evasion*

i. *Economic Factors Influencing Tax Evasion among Small Enterprise Owners*

Tax evasion among small business owners is influenced by several factors including economic factors, social factors, TRA service quality and individual factors. Table 5 presents the findings on how economic factors influence tax evasion among small business owners.

among them results to unfair tax assessment as well as dying of many businesses as well.

These findings also correspond with the findings of Adams, (2010) who also investigated economic factors influencing tax evasion. He reported that tax economic situation of taxpayers is what influencing tax evasion among business owners to the point that tax collection authorities impose penalties that increases difficulties among taxpayers. This creates hate and efforts of evading tax in future as well and recommended that if taxpayers could focus on maintaining fair penalties based on their economic status will encourage taxpayers to pay tax willingly as well as to avoid evading tax in their businesses.

ii. *The Influence of Social Factors on Tax Evasion among Small Enterprise Owners*

It was very important to understand social factors influencing tax evasion in the study area, (Table 6).

Table 6: Social Factors Influencing Tax Evasion among Small Enterprise Owners

Social Factors	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strong Disagree
Do you think perception of equity or fairness influencing tax evasion	27.9	27.9	32.1	10.5	1.5
Does the effects of referrals is what Influencing Tax Evasion	16.8	21.6	30	25.8	5.8
Do you think Change of government policies is what Influencing Tax Evasion	25.8	44.2	20.5	9.5	
Does Referent groups influence Tax Evasion	38.4	46.3	9.5	2.6	4.2

The findings in Table 6 indicate that 84.7% of the respondents agreed that Referent groups influencing Tax Evasion, 9.5% were not sure, and 6.8% disagreed with the statement. Findings indicate that 70% of the respondents were agreed that the Change of government policies is what Influencing Tax Evasion, 20.5% were not sure, as well as 9.5% were disagreed with the statement. Findings indicate that 55.8% of the respondents were agreed that they think perception of equity or fairness is what influencing tax evasion, 32.1% were not sure, as well as 12.1% were disagreed with the statement. Findings indicate that 38.4% of the respondents agreed that the effects of referrals are what Influencing Tax Evasion, 30% were not sure, and 31.6% disagreed with the statement.

These study findings are in line with the findings of Adeyemi (2012) who reported that most of taxpayer's

especially those who are at startup phase especially among small and medium enterprises they have negative perception of equity or fairness in tax, this influences them to engage in tax evasion. As most of the business owners were asked if they think tax they pay is used effective by the government and majority claimed to think that the government is not spending wise at all this could be due to the reported case of corruption as well as miss use of government fund among government leaders in their community as well which all together encourage tax evasion.

iii. Individual Factors Influencing Tax Evasion among Small Enterprise

Individual factors were found to be some of the pertinent factors influencing tax evasion among the small business owners in Tanzania, (Table 7).

Table 7: Individual Factors Influencing Tax Evasion among Small Enterprise Owners

Individual Factors	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strong Disagree
Do you think higher Penalty rates is what Influencing Tax Evasion	22.1	58.4	14.7	2.1	2.6
In any way do believe Personal financial constrains Influencing Tax Evasion among business owners	26.8	38.4	24.7	10	0
Is lack of Tax knowledge being what Influencing Tax Evasion among business owners	28.4	29.5	29.5	11.1	1.6
do you think business sales is what influencing tax evasion	22.6	24.7	29.5	19.5	3.7

Findings indicate that 80.5% of the respondents agreed that they think higher Penalty rates is what Influencing Tax Evasion, 14.7% were not sure, as well as 4.7% disagreed with the statement. Findings indicate that 65.2% of the respondents were agreed to believe Personal financial constrains Influencing Tax Evasion among business owners, 24.7% were not sure, as well as 10% were disagreed with the statement. Findings indicate that 57.9% of the respondents were agreed that lack of Tax knowledge is what Influencing Tax Evasion

among business owners, 29.5% were not sure, as well as 12.7% were disagreed with the statement. Findings indicate that 47.3% of the respondents agreed that business sales are what influencing tax evasion, 29.5% were not sure, and 23.2% disagreed with on the same.

These findings match the findings of World Bank, (2013) that most of small and medium enterprises engaged in the tax evasion due to their personal financial constrains such as heavy family responsibility and level of poverty of other family member's not just in

meeting their daily basic needs such as food and shelter but also difficult of paying other expenses such as school fees, electric bills and sanitation bills. That most of small and medium enterprises owners uses the same business to support their family and relatives financially which in turn encourages them to start evading tax when they found an opportunity to so.

iv. *TRA Service Quality Influencing Tax Evasion among Small Enterprise Owners*

TRA quality of service is another factor that influence tax evasion among small enterprises owners in Tanzania, (Table 8).

Table 8: TRA Service Quality Factors Influencing Tax Evasion among Small Enterprise Owners

Authority factors	Percentages				
	Strong Agree	Agree	Neutral	Strong Agree	Strong Agree
I believe tax system and laws are fair in our area	15.3	33.7	32.6	16.3	2.1
The tax burden I get is fair given the expenditure in social services are very high	25.8	48.9	18.9	6.3	0.0
The benefits I get from the government in exchange for my tax are reasonably low	40.5	53.7	3.2	1.6	1.1
The tax I pay to the government are reasonably high unnecessarily	27.9	51.6	11.6	3.7	5.3
Current laws and regulations require me to pay more than what I earn?	29.5	45.3	18.9	4.2	2.1
The benefits I get from the government in exchange for my tax are reasonably high	24.2	37.9	28.4	9.5	0.0
TRA are trustworthy, transparent and treats taxpayers in a respectful manner.	25.8	28.4	28.9	13.7	3.2
The appearance of the TRA physical facilities, equipment, personnel, and communication materials is good	18.4	30.0	23.7	23.2	4.7
TRA has highest ability to perform the promised service dependably and accurately.	23.7	45.8	20.5	10	0.0
TRA has highest willingness to help taxpayer and provide prompt service.	38.9	55.8	2.1	1.1	2.1
TRA employees have the required caring, individual attention to taxpayers	27.9	46.8	18.4	4.2	2.6

It is true that the TRA service quality factors influence tax evasion among small business owners. Findings indicate that 94.7% of the respondents agreed that TRA has highest willingness to help taxpayer and provide prompt service, 2.1% were not sure, as well as 3.2% were disagreed with the statement. Findings indicate that 94.2% of the respondents were agreed that the benefits they get from the government in exchange for my tax are reasonably low, 3.2% were not sure, as well as 2.7% were disagreed with the statement Findings indicate that 74.8% of the respondents were agreed that Current laws and regulation requires them to pay more than what they earn, 18.9% were not sure, as well as 6.3% were disagreed with the statement Findings indicate that 74.7% of the respondents were agreed that the tax burden they get is fair given the expenditure in social services are very high 18.9% were not sure, as well as 6.3% were disagreed with the statement

Findings indicate that 79.5% of the respondents were agreed that 11.6% were not sure, as well as the tax I pay to the government are reasonably high

unnecessarily 9% were disagreed with the statement Findings indicate that 74.1% of the respondents were disagreed that TRA employees have the required caring, individual attention to taxpayers, 18.4% were not sure, as well as 6.8% were agreed with the statement. Findings indicate that 69.5% of the respondents were agreed that TRA has highest ability to perform the promised service dependably and accurately, 20.5% were not sure, as well as 10% were disagreed with the statement The benefits they get from the government in exchange for my tax are reasonably high Findings indicate that 62.1% of the respondents were agreed that, 28.4% were not sure, as well as 9.5% were disagreed with the statement TRA are trustworthy, transparent and treats taxpayers in a respectful manner Findings indicate that 54.2% were disagreed with the statement, 28.9% were not sure, as well as 16.9% of the respondents were agreed that statement. Findings indicate that 49% of the respondents were agreed that they believe tax system and laws are fair in their business, 32.6% were not sure, as well as 18.4% were

disagreed with the statement. Findings indicate that 48.4% of the respondents agreed that the appearance of the TRA physical facilities, equipment, personnel, and communication materials is good, 23.7% were not sure, and 27.9% disagreed with the same statement. This is to say that TRA procedures and quality of its services determine substantially the type and magnitude of tax evasion among the small business owners in Tanzania at large.

V. CONCLUSION AND RECOMMENDATIONS

a) Conclusion

Based on the title, objectives and the findings the following can be concluded: On the ways used by small enterprises owners in evading tax it is concluded that false or altered documents are the main way used to evade tax followed by over/under valuation of assets, maintaining two sets of books and records, frequent or unusual use of cash and cashier's checks, cashing of received business checks, false billings and/or invoices, personal expenses paid with corporate funds and excessive loans to employees, friends and others as others way they use to evade tax.

Regarding the perception of retail shops owners on tax compliance it can be concluded that majority of taxpayers are not able to correctly calculate tax due from them and may hence end up paying the incorrect amount. Also, it is concluded that to the majority of the small business, their level of compliance is greatly influenced by the tax amount due to TRA as well as majority of small business find the tax rates high and the costs, they incurred in tax compliance affects their compliance levels to a very great extent. It is further concluded that majority of small businesses accessed the public utilities to some, great and very great extent and the remaining business owners claimed to be not satisfied at all which discouraged complying with tax and start evading tax since majority of small business in the study area strongly feel that there is need for an improvement of the tax systems in Tanzania.

On the other hand, social, economic, individual and TRA service quality factors influencing tax evasion among small enterprise in Tanzania can be concluded that perception of government spending among small business owners is what influencing tax evasion followed by compliance cost, tax rate, extent of penalties, tax payers perception of equity or fairness, the effects of referrals, change of government policies, referent groups, higher penalty rates, personal financial constraints, lack of tax knowledge, business sales, un fair tax system and laws, the benefits received from the government in exchange for my tax as well as services received from tax collection authorities are factors that influencing tax evasion among small enterprise owners in the study area.

b) Recommendations

To ameliorate tax evasion among the small business owners in Moshi Municipality and elsewhere in the country, the following is recommended:

- (i) Tax rates and penalty rates and tax rates should be lowered to enhance collections. Lower tax rates make it less attractive to evade taxes as opposed to high rates. High penalty rates will increase compliance but only marginally. These penalty rates should be kept at an optimum level not to discourage taxpayers.
- (ii) Tax Return forms should be simplified, and accompanying notes reconstructed into plain language that can be understood by all taxpayers. They should also be clear and brief but complete in detail to enable the taxpayers fill the return. In addition, where possible, simple computed examples should be incorporated in the notes. Returns should also be made readily accessible to both manual and computerized taxpayers.
- (iii) There is a need to intensify taxpayer education to reduce tax evasion and enhance compliance among the business owners/taxpayers. This will enlighten the taxpayers on the existing laws and any other tax liability. This will further provide a forum for taxpayers to air out their complaints and or compliments.
- (iv) The authority should strive to give taxpayers high quality services as stipulated in the corporate plan. Most of the services provided by the authority like refunds, remissions and dispute resolutions were noted to be poor and thus there is every reason to improve them.
- (v) There is need to continuously train technical staff to keep abreast with the tax laws and any other changes therein. In this way, the officers will impart proper and correct knowledge to taxpayers during the time of audits. Recruitment of new taxpayers by the authority should be intensified and enhanced. This will broaden the tax base and reduce pressure in complying among taxpayers.

c) Suggestions for Future Research

It is recommended that future research to be done to investigate what has contributed to the low tax education among small and medium enterprises in Tanzania as almost all of business owners claimed to have low awareness from tax authorities and further research can also be undertaken on factors affecting income tax compliance among small business in other regions of Tanzania. A study on the relationship between voluntary tax compliance strategy and the deterrence measures kind of strategy as well.

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