Improving Tax Compliance in Tanzania

Taxpayers' Views

Sikika 2022
Improving Tax Compliance in Tanzania
Taxpayers' Views

A Study on the Drivers of Voluntary Tax Compliance at the Local Government Level

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On behalf of

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<th>Description</th>
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<tr>
<td>CAG</td>
<td>Controller and Auditor General</td>
</tr>
<tr>
<td>CC</td>
<td>City Council</td>
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<tr>
<td>DC</td>
<td>District Council</td>
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<td>EFD</td>
<td>Electronic Fiscal Device</td>
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<td>LGA</td>
<td>Local Government Authority</td>
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<tr>
<td>MC</td>
<td>Municipal Council</td>
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<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
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<tr>
<td>S/N</td>
<td>Serial Number</td>
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<tr>
<td>TC</td>
<td>Town Council</td>
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<tr>
<td>TFS</td>
<td>Tanzania Forest Services Agency</td>
</tr>
<tr>
<td>TIN</td>
<td>Taxpayer Identification Number</td>
</tr>
<tr>
<td>TRA</td>
<td>Tanzania Revenue Authority</td>
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<tr>
<td>TZS</td>
<td>Tanzanian Shilling</td>
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Acknowledgements

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To all of you, we say asanteni sana.

Irenei Kiria,
Executive Director of Sikika
Executive Summary

Over the past years, the Tanzanian Government has taken several fiscal and administrative measures to strengthen domestic revenue mobilisation. In that effort, Local Government Authorities (LGAs) are also required to meet own-source revenue collection targets. However, that process has been a long-lasting challenge due to capacity constraints on the administrative side and also due to taxpayers’ lack of compliance.

Compliance risks feature over the entire revenue administration process starting with the registration of taxpayers, their compliance with record-keeping obligations, and the timely payment of their tax liabilities. Treating the behaviour (the symptom) by applying rigorous sanctions on individual tax evaders may have a temporary impact, but it can also cause feelings of resentment towards the taxation system and provoke further non-compliance. Therefore, a sustainable revenue collection strategy needs to examine the underlying drivers of compliance behaviour and address the cause (not the symptom) of non-compliance. For those reasons, Sikika conducted a research study to identify the drivers of voluntary compliance that prevent or demotivate local taxpayers from complying with their obligations and to provide recommendations on how local government revenue authorities can devise effective treatment strategies that promote tax compliance and the achievement of revenue collection targets.

Methodology

The study was conducted in January and February 2022 and comprised LGAs from eight geographically balanced regions. As a first step, consultative meetings were held with each LGA revenue administration to identify sources with high uncollected revenue potential, to determine the by-laws that determine taxpayer obligations, and to select the taxpayer segment which should participate in focus group discussions. As a second step, 24 focus group discussions were held (3 in each of the 8 LGAs) with about 8-10 participants. The focus groups discussed open questions to explore a) participants’ perceived challenges during the administration of revenues, b) underlying drivers of compliance behaviour, and c) make recommendations on how the LGA revenue collection departments may strengthen voluntary compliance.

Compliance Risks

When they were asked about their experienced challenges during the taxpayer registration process, half of the 24 taxpayer focus groups mentioned time-consuming visits to various government authorities. A quarter of the groups recommended the LGA revenue administrations to establish one-stop service centres, one-third recommended revenue administrations to visit and register taxpayers at their business site, and 38% recommended the reduction of taxpayer registration costs.

Taxpayers have record-keeping obligations that allow the revenue administration to determine the tax liability. While the Income Tax regulations (2012) require that Electronic Fiscal Devices should produce printouts that last not less than five years, almost half of the taxpayer focus groups mentioned that the fiscal receipts printed out by Electronic Fiscal Devices are fainting out and become unreadable after some days.

Taxpayers also face compliance costs when making multiple visits to various, often distant local government offices to obtain a payment control number and then use a banking agent to make timely payments of their taxes either in cash or through electronic transfer. Nearly half of the taxpayer focus groups recommended the development of an online system for requesting payment control numbers.

Compliance Drivers

Taxpayers need confidence in the LGA revenue administration’s ability to catch and punish tax evaders; otherwise, they may feel disadvantaged when tax evaders enjoy the benefits but do not share the burden of paying taxes. A clear majority of the taxpayer focus groups supported the punishment of tax evaders, but they recommended that any punishment should be proportionate to the offence starting with friendly measures before the employment of force.
When they were asked about how they are treated by the LGA revenue administration, a minority said they experienced **respectful treatment** while the majority had negative experiences. To improve the treatment of taxpayers, 42% of the taxpayer focus groups recommended providing revenue collectors with customer care training.

**Tax laws need to be public information** to be complied with. However, the majority of the taxpayer focus groups shared the concern that laws and by-laws are not always and timely announced to the public. This means that many taxpayers are not aware of changes in tax-related rules until they interact with an official of the revenue administration. They recommended providing regular information on applicable tax rates and administrative procedures to increase voluntary tax compliance.

Taxpayers need not only be aware of the letter of law, but they also need to understand what it means or when it applies to build taxpayers’ trust and confidence in the tax system. Almost half of the taxpayer focus groups mentioned that there is no **taxpayer education** which would help them to understand when and how tax laws apply. A large majority recommended that LGA revenue administrations should organise consultative meetings to educate taxpayers and discuss tax policies and administrative issues, such as the application of laws and regulations.

All taxpayer focus groups thought that the **overall tax burden** paid to the LGA is a great challenge, especially for men and women without stable sources of income. For those reasons, most of them recommended that all revenue authorities need to collaborate and consider taxpayers’ income situation when they set the rates of various taxes, fees, and charges. About one-third of them also recommended the use of instalment payments.

Almost half of the taxpayer focus groups explained that they do not obtain adequate **value for money** for paying taxes, and they also expressed concerns that they do not know how taxes are spent since the LGA does not share its revenue and expenditure reports. Most taxpayer focus groups agreed that the LGA should primarily improve social services and public infrastructure, and one-third recommended improving the business environment so that taxpayers see the value of their taxes.

When they were asked how people that are important to them talk about tax evasion, half of the taxpayer focus groups replied that **people are broadly condoning tax evasion**; only one out of four taxpayer focus groups explained that tax evasion is not a socially accepted behaviour. The majority of the taxpayer focus groups recommended that LGAs should prioritise the improvement of social services and better explain how public revenues are used to change taxpayers’ attitudes towards tax evasion.

**Conclusions and Recommendations**
The question “what drivers voluntary tax compliance at the local government level?” needs multiple answers as LGA revenue administrations operate in different contexts with different economic activities and revenue sources. While some compliance drivers are in their direct sphere of influence, such as taxpayer education or good customer care, other compliance drivers need to be addressed through other authorities, such as improved service delivery or an integrated revenue policy that equitably distributes the overall tax burden. This means that the private sector, Local Government Authorities, regulatory agencies, and development partners need to work together to promote voluntary tax compliance and make the revenue mobilisation process more equitable, efficient, and sustainable.

The following recommendations may support that process.

**Make it easy to comply.**
- Establish one-stop service centres and online taxpayer registration systems that are free of charge.
- Improve the longevity of fiscal receipts from Electronic Fiscal Devices to improve record-keeping.
- Collect more revenues through mobile phone applications to promote timely payments.
Assist to comply.

- Promulgate new tax laws in time. Print and distribute them through the government gazette, local newspapers, the council’s website, and public notice boards, and make printed copies available for sale to the public at affordable prices. Establish taxpayer information centres where taxpayers can inform themselves about how the legal environment affects their business activities.
- Educate taxpayers to exercise their rights and obligations. Use various media, like posters, flyers, brochures, and newspapers, to promote taxpayers’ understanding of the law. Offer voluntary education programmes that cover compliance with administrative procedures and record-keeping requirements.
- Provide standardised tax instalment schedules without interest and penalty charges for compliant taxpayers.

Build community partnerships.

- Build and sustain dialogue between local revenue authorities and taxpayers, especially women, and their trusted intermediaries to design customised compliance treatment strategies that balance compliance outcomes and community support.

Strengthen the fiscal social contract between taxpayers and the Government as a public service provider.

- Measure and compare taxpayers’ overall tax burden with their overall income or profit and develop an integrated tax policy that considers taxpayers’ ability to pay.
- Publish and discuss fiscal revenue and expenditure reports with taxpayers to build their trust in the integrity of the public financial management system.

Exercise sanctions when appropriate.

- Taxpayers fail to comply with their tax obligations for different reasons: some want to comply but do not always succeed, some do not want to comply but will if they are monitored, and some have decided not to comply at all. Start with soft measures like reminders and give advice if there is a minor mistake, then make unannounced visits to check basic registration and record-keeping requirements, conduct comprehensive audits, and use strong measures like prosecution for cases of large sums, persistent evasion, or criminal activity.
- Make the ability to catch and punish tax evaders visible. Publish early warnings of non-compliant behaviour, outline compliance treatment strategies at annual press conferences, and encourage the media to report successful prosecutions.

Monitor and evaluate the effectiveness of compliance treatment strategies.

- Monitor the number of unregistered taxpayers by comparing the number of registered taxpayers with the estimated working population.
- When an online taxpayer registration system is available, track the number of online applications and compare them with the number of manual applications.
- Monitor the share of taxpayers with readable/unreadable fiscal receipts.
- When an online application system for payment control numbers is available, track the number of online payments and compare them with the number of cash payments.
Introduction

In a national effort to mobilise domestic resources, Local Government Authorities (LGAs) are required to raise own-source revenues from a largely informal economy where revenue collection is inefficient due to low tax compliance. Compliance risk management at the local government level is further complicated by the diversity of local revenue sources and taxpayer segments. In such an environment, compliance research projects can support the design of effective compliance treatment strategies.

For that purpose, Sikika decided to look into the drivers of tax compliance by collecting information from local taxpayers to help the local government in creating tailored treatment strategies and in that way promote voluntary tax compliance and revenue mobilisation. The research was conducted in January and February 2022 in 8 geographically balanced regions and involved 24 taxpayer focus groups who discussed their experienced challenges and also made recommendations for LGA revenue administrations to promote tax compliance and the efficient collection of revenues.

Compliance Risks

Revenue collection at the local government level is challenging due to numerous by-laws, shortages of staff and skills, and malfunctioning collection systems, but the process is also inefficient because of taxpayers’ lack of compliance. Compliance risks feature over the entire revenue administration process starting with the registration of taxpayers, their compliance with record-keeping obligations, and the timely payment of their tax liabilities. The informal sector has an estimated labour force of more than 20 million people. But in 2016/2017, only 1 million taxpayers were registered by the Tanzania Revenue Authority. Micro and small enterprises are often not registered because their owners are not aware of the regulations, or they think that their business is too small. Since 2018, the TRA registers small vendors, service providers, and hawkers (‘machinga’) with an annual turnover of less than TZS 4 million by issuing identification cards for TZS 20,000 per year. From June 2018 to June 2020, 1.59 million identification cards worth TZS 31.86 billion were distributed, but these revenues flow to the central government and not to LGAs which provide security and cleaning services to the informal economy.

Another obstacle to local revenue collection is the lack of adequate financial record-keeping and knowledge to compute the tax liability. The last national survey on micro, small and medium enterprises (MSME) 2012 found that many small businesses (78.4%) use a handwritten ledger. Most of them (76.1%) keep financial records by themselves with the help of family members, friends, and workers, and only 2.3% were checked or audited by an accredited accountant. Such practices can evoke disagreement between the taxpayers and collectors over the assessed tax liability. The Controller and Auditor General (CAG) noted in 2022 that 43 LGAs collected TZS 9 billion from the service levy without being supported by turnover particulars from the corporations to justify the adequacy of the collected amount.

High compliance costs are also the result of inconvenient tax payment processes. The introduction of Electronic Fiscal Devices had a positive effect on tax compliance, but poor Internet connectivity and low awareness of e-payment systems limit their application¹. Taxes are often collected at selling points and markets, while roadblocks and checkpoints are used to enforce compliance. This practice has been criticised by farmers and traders as it often involves delays and harassment.

Treating the behaviour (the symptom) by applying sanctions on individual tax evaders may have a temporary impact, but it can also cause feelings of resentment towards the taxation system and provoke further non-compliance. Therefore, a sustainable revenue collection strategy needs to examine the underlying drivers of compliance behaviour and select an appropriate strategy that addresses the cause (not the symptom) of non-compliance.

Compliance Drivers
To improve tax compliance and revenue collection, the revenue administrations need to understand the drivers of taxpayers’ behaviour to design responsive treatment strategies. In the past, many Tanzanians have been reluctant to pay taxes because they see them as burdensome, unfair, and lacking transparency. The nationally representative Afrobarometer survey (2021, p. 65f) found that 46% of the respondents said people “often” or “always” avoid paying taxes, and two-thirds (67%) of the respondents “agree” or “strongly agree” that the government should make sure small traders and other people working in the informal sector pay taxes on their business. Masanja (2019, p. 8) noted that permanent changes in tax laws and regulations create confusion among entrepreneurs. According to the Afrobarometer survey (2021), most respondents (65%) found it “difficult” or “very difficult” to find out what taxes and fees need to be paid. Masanja (2019) also noted that multiple taxes add up to a large overall tax burden that induces small and medium businesses to evade taxes. The Afrobarometer survey 2021 found that 32.5% of the respondents think the amount of taxes that ordinary people in Tanzania are required to pay is “somewhat too much” or “far too much”. Taxpayers were also concerned about how taxes are spent as 70% reported that it is difficult to find out how the government is using the collected revenues.

Study Problem
To realise the full potential of existing LGA revenue sources, compliance risks need to be identified at an appropriate level of detail. This requires an analysis of existing LGA by-laws to identify compliance risks such as failure to register, failure to keep records that justify the tax obligation, and failure to pay in time. To be treated effectively, these compliance risks need to be broken down into more specific behaviours which can be attributed to specific taxpayer segments.

The existing information on drivers of voluntary tax compliance is only available in the form of nationally representative surveys which do not explain why local taxpayers are not complying with the LGA by-laws that govern the own-source revenue collection processes. This research study tries to fill that information gap by working with LGAs to identify own-source revenues with high collection potential and providing them with constructive feedback from local taxpayers to better understand what drives their behaviour and to devise customer-oriented treatment strategies that promote voluntary compliance and sustainable own-source revenue collection.

Study Objectives
To support domestic revenue mobilisation at the local government level, the study has the following research objectives:

1. Identify local sources with high revenue potential due to compliance risks and the drivers of voluntary compliance that prevent or demotivate local taxpayers from complying with their obligations.
2. Provide recommendations to LGA revenue authorities to devise effective treatment strategies that promote voluntary compliance and the achievement of their own-source revenue collection targets.
Methodology

Sampling of LGA Revenue Administrations

Table 1: List of Sampled Local Government Authorities

<table>
<thead>
<tr>
<th>Local Government Authority</th>
<th>Own Source Collection Performance</th>
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<tbody>
<tr>
<td>Babati TC</td>
<td>82%</td>
</tr>
<tr>
<td>Kasulu DC</td>
<td>76%</td>
</tr>
<tr>
<td>Kilolo DC</td>
<td>102%</td>
</tr>
<tr>
<td>Mpwapwa DC</td>
<td>84%</td>
</tr>
<tr>
<td>Mtama DC</td>
<td>51%</td>
</tr>
<tr>
<td>Mwanza CC</td>
<td>119%</td>
</tr>
<tr>
<td>Singida DC</td>
<td>110%</td>
</tr>
<tr>
<td>Temeke MC</td>
<td>105%</td>
</tr>
</tbody>
</table>

The study was conducted in January and February 2022 and comprised Local Government Authorities from eight geographically balanced regions including Dodoma, Iringa, Dar Es Salaam, Lindi, Singida, Mwanza, Kigoma, and Manyara. Among these eight regions, three LGAs were selected from urban areas and five LGAs from rural areas to account for variation in economic development and the tax base. The urban LGAs include Mwanza City Council (CC), Temeke Municipal Council (MC), and Babati Town Council (TC) while the rural District Councils (DC) include Kasulu DC, Kilolo DC, Mpwapwa DC, Mtama DC, and Singida DC. Four of the sampled LGAs were found by the CAG (2022) among those with under-collection of own-source revenues (such as Mtama DC with only 51%) in comparison to the approved budget while the other half collected more than the approved budget (such as Mwanza CC with 119%). This means that the study includes a balanced sample of LGAs with weak and strong revenue performance.

Fieldwork

As a first step, the research team had a consultative meeting with each LGA revenue administration to explain the research purpose and induce ownership to ensure that the research results will eventually promote own-source revenue collection. The team used a semi-structured questionnaire to solicit information from the revenue administration officials to identify sources with high uncollected revenue potential, learn about related by-laws that determine taxpayer obligations, and select the taxpayer segment which should participate in the focus group discussions described below. During the meeting, the research team also inquired about how the revenue collection departments are implementing, monitoring and evaluating their compliance risk treatment strategies.

In a second step, 24 focus group discussions were held (3 in each of the 8 LGA) with about 8-10 participants of the taxpayer segment as determined by the LGAs’ selection criteria, while one focus group in each LGA consisted of only women to explore gender issues\(^2\). The participants were identified with the help of ward executive officers and community groups with knowledge of where members of the selected taxpayer segment

\(^2\) The total number of participants was 210.
can be found. The focus groups provided adequate space for the discussion of open questions to explore a) participants’ perceived challenges during the administration of own-source revenues with a high collection potential, b) underlying drivers of compliance behaviour, and c) suggested recommendations on how the LGA revenue collection departments may strengthen voluntary compliance. The focus groups did not discuss participants’ tax compliance as that may leave them vulnerable to possible repercussions. Informed consent forms assured them of respectful behaviour, privacy, and confidentiality. During the discussions, the research team observed if an issue was also supported by the group’s majority and how it ranked compliance issues and their drivers.

Analysis

After the focus group discussions, the research team assessed which views could be generalised by separating those where the group reached a majority agreement from those where the group’s discussion remained inconclusive. In the following step, qualitative content analysis was applied to the agreed views of individual focus groups to identify the common conceptual meaning or sense within the differently worded responses given by the focus groups (for instance the concept of ‘respectful treatment’ by the revenue collection department can be expressed as “the LGA extension officers provide good services and use polite language to the taxpayers” or “the revenue authority provides good customer care”). Then, the research team analysed how often the concepts were raised by the different focus groups to identify predominant issues.

The focus groups’ ranking of compliance risks (related to a specific revenue source) and compliance drivers (related to any revenue source) were also compared across focus groups to identify those areas which the LGA revenue administration should prioritise through the recommended treatment strategies. The responses given by the exclusively female focus groups were compared with the other mixes or male focus groups to find out whether gender issues are a cause of concern. Lastly, the drivers of compliance were compared to analyse which issues cut across all eight LGAs.
Findings

Taxpayer Segments
During interviews with the Local Government Authorities’ treasury departments, they were asked to identify the local source that has the highest uncollected revenue potential due to taxpayers’ low tax compliance. Two of the eight sampled LGAs, Babati TC and Kilolo DC, deemed the ‘hotel levy’ to be the source that will benefit the most from an improved understanding of drivers of compliance behaviour. Kasulu DC and Mtama DC both selected the ‘forest product levy’, while Mpwapwa DC opted for the ‘livestock market fee’. Mwanza CC, Singida DC, and Temeke MC reckoned that the research would be most valuable for the collection of the ‘service levy’, ‘agricultural product levy’, and the ‘business licences’, respectively.

Table 2: Revenue Sources with Uncollected Revenue Potential and Taxpayer Segmentation Criteria

<table>
<thead>
<tr>
<th>S/N</th>
<th>District</th>
<th>Revenue Source</th>
<th>Taxpayer Segmentation Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Babati TC</td>
<td>Hotel levy</td>
<td>Hotel charge per room (small, medium, high)</td>
</tr>
<tr>
<td>2</td>
<td>Kasulu DC</td>
<td>Forest product levy</td>
<td>Experienced business owners</td>
</tr>
<tr>
<td>3</td>
<td>Kilolo DC</td>
<td>Hotel levy</td>
<td>Populated areas</td>
</tr>
<tr>
<td>4</td>
<td>Mpwapwa DC</td>
<td>Livestock market fee</td>
<td>Experienced business owners</td>
</tr>
<tr>
<td>5</td>
<td>Mtama DC</td>
<td>Forest product levy</td>
<td>Small taxers in remote areas, gender</td>
</tr>
<tr>
<td>6</td>
<td>Mwanza CC</td>
<td>Service levy</td>
<td>Registered business owners, gender</td>
</tr>
<tr>
<td>7</td>
<td>Singida DC</td>
<td>Agricultural product levy</td>
<td>Business size, gender</td>
</tr>
<tr>
<td>8</td>
<td>Temeke MC</td>
<td>Business licence</td>
<td>Experienced taxpayers from outside the city, gender</td>
</tr>
</tbody>
</table>

The segmentation of taxpayers into sub-populations with similar characteristics and compliance behaviours facilitates the identification of compliance risks and the design of tailored compliance risk treatment strategies. The taxpayer segmentation criteria for the selection of focus group participants differed across districts: some LGAs were seeking information about taxpayers’ behaviour based on their business size indicating the ability to pay taxes, and other authorities preferred information from taxpayers based on the remoteness of their residential area indicating the costs of revenue collection; another segmentation criterion was taxpayers’ experience indicating their understanding of the revenue administration process.

The research team managed to organise all-female focus groups to explore gender issues in Mtama DC, Mwanza CC, Singida DC, and Temeke MC. However, the organisation of all-female focus groups turned out to be a challenge in the other four LGAs due to the low availability of female taxpayers in these areas. Therefore, the study included four all-female focus groups, four with only male participants, and twelve focus groups with a mix of both male and female participants.

Taxpayer Obligations
In a second step, the revenue collection departments explained which obligations taxpayers have to comply with in the three main risk areas of taxpayer registration, record-keeping, and timely payment. Better compliance behaviour in these risk areas may widen the tax base, support the administration of a just and fair tax system, and prevent delays or defaults on taxes causing revenue losses.
Taxpayer Registration
According to the Income Tax Act, 2008, every resident person who carries on a business has to apply for a tax identification number (TIN). The TIN can be registered online and free of charge at the Tanzania Revenue Authority (TRA). However, certain business activities require taxpayers to also visit and fill out an application form to register at the Local Government Authority (and, sometimes, other regulatory agencies) where the registration process is usually not free of charge.

Record-Keeping
Another important taxpayer obligation from the Income Tax (Electronic Fiscal Device) Regulation, 2012, is to demand and retain fiscal receipts. Failure to demand and retain fiscal receipts is an offence and carries a penalty of twice the amount of the tax evaded. At the local government level, taxpayers are often required to pay taxes, fees, or charges at various times and places – such as checkpoints – and keep fiscal receipts (and sometimes other documents like licences, permits, or accounting books) to prove compliance with their record-keeping obligations. Some businesses, such as hotels, are required to keep accounting records – such as hotel guest registration books – to determine their tax liability.

Timely Payment
Taxes have to be paid when they are due. The Income Tax Act, 2008, specifies that a person who fails to pay tax without a reasonable excuse commits an offence and can be fined or imprisoned. To avoid such punishment, taxpayers need to visit a particular government office where they obtain a payment control number and then use a banking agent to pay the due amount either in cash or through electronic transfer (such as mobile money).

Monitoring of Compliance Risks
All of the eight surveyed LGA revenue administrations stated that they use the ‘number of registered taxpayers’ as a compliance risk indicator, while one said it also considers the ‘number of unregistered taxpayers’. Two of the eight LGA revenue administrations measure record-keeping compliance risks by tracking the number of taxpayers who are able to submit receipts and other required documents to the LGA. Most (6 out of 8) LGA revenue administrations measure the compliance risk ‘timely payments’ by tracking the number of tax defaulters, while two of them monitor the collected revenues.

Table 3: Monitoring of Compliance Risks

<table>
<thead>
<tr>
<th>Compliance Risks</th>
<th>Taxpayer Obligations</th>
<th>Compliance Indicators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayer Registration</td>
<td>- Online registration at TRA (free of charge)</td>
<td>- Number of registered taxpayers</td>
</tr>
<tr>
<td></td>
<td>- Manual registration at LGA (not always free of charge)</td>
<td>- Number of unregistered taxpayers</td>
</tr>
<tr>
<td>Record-Keeping</td>
<td>- Demanding and retaining fiscal receipts</td>
<td>- Number of taxpayers with fiscal receipts and other required documents</td>
</tr>
<tr>
<td></td>
<td>- Keeping licences and permits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Maintain accounting records</td>
<td></td>
</tr>
<tr>
<td>Timely Payment</td>
<td>- Obtain a payment control number from the local government office</td>
<td>- Number of tax defaulters</td>
</tr>
<tr>
<td></td>
<td>- Use a banking agent to make payments in cash or through an electronic transfer</td>
<td>- Collected revenues</td>
</tr>
</tbody>
</table>
Compliance Risks

Taxpayer Registration
The LGA revenue administration system should keep financial and non-financial tax compliance costs at a minimum. When they were asked about experienced challenges during the ‘taxpayer registration process’, 50% of the 24 taxpayer focus groups mentioned burdensome administrative procedures with time-consuming visits to various government authorities.

“There are bureaucracies in the issuing of business licences. Taxpayers are being sent around in circles without being given explanations on the status of their applications. It sometimes takes two months.” (Mwanza CC)

“Tax registration offices are geographically located in different areas. For example, the TRA is located at one location and LGA offices are at a different location.” (Babati TC)

Three of the eight LGA revenue administrations acknowledged the importance of unbureaucratic administrative procedures to resolve issues without delay and to avoid long distances between the taxpayers and the revenue administration. However, none of the LGA revenue administrations shared the concerns raised by 42% of the 24 focus groups about direct financial compliance costs such as fees (for instance for processing a permit).3

“The annual registration fees for the Tanzania Forest Services Agency, Tanzania Revenue Authority, and village committees are very high and it is done every year.” (Mtama DC)

To cut down the compliance costs of the taxpayer registration process, 25% of the taxpayer focus groups recommended the LGA revenue administrations to establish one-stop service centres, 33% recommended the revenue administrations to visit and register taxpayers at their business site, and 38% recommended to reduce the registration costs.

Record-Keeping
Taxpayers have record-keeping obligations that allow the revenue administration to determine the tax liability. These record-keeping systems need to be integrated as far as possible with pre-existing business and accounting systems to minimise additional tax compliance costs. Moreover, records-storage systems must ensure that the documents are secure and readable for the legally required period. However, almost half of the taxpayer focus groups (46%) mentioned that the fiscal receipts printed out by Electronic Fiscal Devices (EFDs) are fainting out and become unreadable after some days.

“The main challenge is the fainting out of the EFD receipts and so they become unreadable after the lapse of a few days.” (Singida DC)

While one of the eight LGA revenue administrations mentioned that taxpayers need a sound understanding of business formalisation, none of them noted taxpayers’ challenges to comply with record-keeping obligations because of the fainting out of printed receipts from Electronic Fiscal Devices.4

To improve compliance with record-keeping obligations, 29% of the taxpayer focus groups recommended improving the quality of EFD fiscal receipts so that they remain readable for as long as legally required.

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3 The Blueprint for Business Environment Regulatory Reform recommended that regulatory agencies should not use licence fees and charges with the objective to collect revenue but to compensate for the costs incurred for providing services or administration. Blueprint, p. xiii.

4 The Income Tax (Electronic Fiscal Devices) Regulations, 2012, first schedule, part two, require that Electronic Fiscal Devices should produce print outs that last not less than five years.
Timely Payment
Taxpayers also face compliance costs when making multiple visits to various, often distant local government offices to obtain a payment control number and then use a banking agent to make ‘timely payments’ of their taxes either in cash or through electronic transfer.

“Business owners have to close their stall and visit the LGA revenue administration to collect a control number and make payments. However, this may take long whenever the network is slow.” (Mwanza CC)

Two of eight LGA revenue administrations indicated the advantage of electronic payment systems, such as mobile money or bank transfer, to make the ‘timely payment’ of taxes easier. But none of them noted that payment delays are caused by network challenges that inhibit the use of Electronic Fiscal Devices; this concern was raised by 33% of the taxpayer focus groups.

“The Electronic Fiscal Payment system sometimes goes down causing unnecessary payment delays as well as a waste of time and additional costs among taxpayers/business owners since the payment is done at LGA offices which are far from the business’s location.” (Mwanza CC)

To reduce the number of time-consuming physical visits at local government offices, 42% of the taxpayer focus groups also recommended the development of an online system for requesting payment control numbers.
Ranking of Compliance Risks
All taxpayer focus groups were asked to rank the three compliance risks to indicate which ones should be prioritised by the Local Government Authority. The highest average rank was attributed to the ‘timely payment’ (1.9) followed by ‘record-keeping’ (2.0) and ‘taxpayer registration’ (2.2). However, the variation of these averages is large (about 0.8) suggesting that the cross-cutting analysis may be inconclusive. A district-by-district analysis may reveal clearer priorities for the designing of compliance treatment strategies for individual LGAs.

Table 4: Ranking of Compliance Risks

<table>
<thead>
<tr>
<th>Compliance Risk</th>
<th>Average Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely Payment</td>
<td>1.9</td>
</tr>
<tr>
<td>Record-Keeping</td>
<td>2.0</td>
</tr>
<tr>
<td>Taxpayer Registration</td>
<td>2.2</td>
</tr>
</tbody>
</table>
Compliance Drivers

Treatment of Tax Evaders
Taxpayers need confidence in the LGA revenue administration’s ability to catch and punish tax evaders; otherwise, they may feel disadvantaged when tax evaders enjoy the benefits but do not share the burden of paying taxes.

Three out of eight revenue departments said that the rule of law and fear of sanctions prevent taxpayers from evading taxes. To enforce tax compliance, LGA revenue administrations said that they carry out inspections, sanction offenders by using penalties or fines, confiscating goods, closing their business, having them arrested, or initiating prosecution.

The large majority (83%) of the taxpayer focus groups were aware that the LGA revenue administration catches tax evaders by means such as inspections and roadblocks, and they are punished through fines, confiscations, or prosecution.

“Generally, tax evasion is very low since traders receive fee payment receipts with a description of the point of origin and destination of the cargo. However, some unfaithful traders use unacceptable receipts and – once caught – they are fined based on the volume of their cargo.”
(Singida DC)

However, 33% of taxpayer focus groups were concerned that the applied sanctions are sometimes disproportionate, and 33% of the groups mentioned corrupt practices.

“LGA revenue collection officers sometimes use unreasonable force during inspections especially when they are accompanied by mgambo [local rangers].”
(Singida DC)

“There’s corruption, especially during the estimation process of fees or charges. Taxpayers are undercharged without being provided with receipts. Thus, the LGA loses revenue.”
(Mpwapwa DC)

A clear majority of taxpayer focus groups (58%) supported the punishment of tax evaders. But they also recommended that any punishment should be proportionate to the offence starting with friendly measures before the employment of force.

1 You will pay taxes - no matter what.
2 If you stop with the threats, we will come out.
Treatment of Taxpayers
It is commonly accepted that taxpayers’ behaviour can be influenced by incentives, such as legal punishments, but emotions also play an important role. For instance, taxpayers are more likely to accept the revenue administration’s decisions if they are treated with respect. This requires revenue administration officers to ensure that any interaction is a positive experience. Proactive engagement, a helpful attitude, the ability to listen, and encouraging questions are all important to make taxpayers believe that their individual circumstances matter.

When they were asked about how they are treated by the LGA revenue administration, a minority (25%) of the taxpayer focus groups said they experienced respectful treatment while the majority (58%) had a negative experience; the remaining groups were divided over the subject.

“The LGA extension officers offer good services and use polite language to the taxpayers.”
(Kasulu DC)

“We experience poor customer care like the use of bad language, unnecessary force and power, and ignoring of taxpayers.” (Babati TC)

Three of the eight LGA revenue administrations pointed out the importance of having a good relationship between the revenue administration and the taxpayers, and one of them explained that they are issuing certificates to good taxpayers.

To improve the treatment of taxpayers, 42% of the taxpayer focus groups recommended providing revenue collectors with customer care training.

Tax Information and Tax Education

Awareness of By-Laws
LGAs’ own-source revenues are governed through the Local Government Finance Act and more than 2,000 by-laws that have been enacted by LGAs since 1984. These tax laws need to be public information to be complied with. The principle “ignorance of the law is no excuse” ensures that wilful blindness cannot become the basis of exculpation, and it also frees the government from the impossible responsibility to educate every citizen on every element of the law. However, citizens can only assume the duty of making themselves aware of the law if it has been properly promulgated. That means all statutory or administrative laws have to be formally announced after their final approval.

However, 71% of the taxpayer focus groups shared the concern that laws and by-laws are not always and timely announced to the public. This means that many taxpayers are not aware of changes in tax-related rules until they interact with an official of the revenue administration.

“There is no prior sharing of tax-related information on charcoal production or transportation to traders. All information is provided at the revenue collection office at the payment time. For instance, there is an increase in LGA charges on charcoal from 5% of TFS fees (12500/- a sack) to 20,000/-. This change was not communicated.” (KasuluDC)

Only one of eight LGA revenue administrations acknowledged the importance of publicly available council by-laws, but none of them mentioned particular efforts to disseminate them.

A large majority (83%) of the taxpayer focus groups recommended the LGA revenue administrations to provide regular information on applicable tax rates and administrative procedures to increase voluntary tax compliance among business owners and increase the council’s revenues.
Understanding the Application of By-Laws

Taxpayers need not only be aware of the letter of law, but they also need to understand what it means or when it applies to build taxpayers’ trust and confidence in the tax system\(^5\). Three out of eight LGA revenue administrations stated that taxpayer education promotes tax compliance, some said they provide taxpayers with reminder notes before tax payments are due, and others said they raise awareness through public announcements.

However, 42% of the taxpayer focus groups mentioned that there is no taxpayer education which would help them to understand when and how tax laws apply.

“They do not provide tax education to taxpayers at all.” (Babati TC)

Again, a large majority (75%) recommend that LGA revenue administrations should organise consultative meetings to educate taxpayers and discuss tax policies and administrative issues, such as the application of laws and regulations.

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\(^5\) Prime Minister’s Office (2018), Blueprint for regulatory reforms to improve the business environment. Dodoma: Ministry of Industry, Trade and Investment, p. 6.
Burden of Paying Taxes

Multiple taxes, fees, and charges add up to an overall tax burden that may exceed taxpayers’ ability to pay. Furthermore, many taxpayers depend on seasonal income and, therefore, may have difficulties paying their taxes at the time when they are due. For that reason, the overall tax burden and the tax payment schedule need to consider taxpayers’ financial performance.

All (100%) taxpayer focus groups think that the overall tax burden paid to the LGA is a great challenge, especially for men and women without stable sources of income.

“There is a huge tax burden for traders due to various kinds of fees and charges on forestry products including Income Tax to TRA, forestry harvest permit of 180,000/- to Tanzania Forest Services Agency (TFS), forestry products harvesting licence of 200,000/- to TFS, forestry products harvesting fees of 500,000/- charged by village authorities, business license of 105,000/- to LGA, service levy amounting to 2% of net income to the LGA, timber permits of 12500/- to TFS, LGA fees amounting to 5% of the timber permit charged by the TFS and 2% of the timber permit charged by the Tanzania Forest Fund, and transport permit of 15,000-30,000/- depending on the size of the carrying truck.” (Kasulu DC)

Two out of eight LGA revenue administrations acknowledged that the different taxes, fees, and charges which taxpayers have to pay should be affordable, and two administrations said they grant taxpayers a grace period or allow instalment payments.
To control the overall tax burden, 79% of the taxpayer focus groups recommended that all revenue authorities need to collaborate and consider taxpayers’ income situation when they set the rates of various taxes, fees, and charges. Moreover, 29% of the taxpayer focus groups recommended the use of instalment payments.

**Benefits of Paying Taxes**

The basic purpose of taxation is to provide the government with public revenues to ensure the delivery of quality public services and infrastructure. However, almost half of the taxpayer focus groups (46%) explained that they do not obtain adequate value for money for paying taxes, and 38% expressed concerns that they do not know how taxes are spent since the LGA does not share its revenue and expenditure reports.

“There is no good proportionality between the amounts of fees and charges imposed on taxpayers and the quality of services offered by the LGA, especially roads infrastructure which is not in good condition and so they inflate the transportation costs to the traders.” (Singida DC)

Half of the LGA revenue administrations said that the provision of public goods and services, such as water, roads, and hospitals motivates citizens to pay taxes, and most taxpayer focus groups (88%) agreed that the LGA should primarily improve social services and public infrastructure. Moreover, 33% of the taxpayer focus groups recommended improving the business environment so that taxpayers see the value of their taxes.
**Tax Culture**

Voluntary tax compliance requires that taxpayers be self-motivated to conform with (formal) tax laws and want to see them enforced. Such behaviour can be promoted through social learning – a process of observation and the adoption of (informal) social norms that are prevalent in the taxpayers’ social environment. To be effective, such social norms need to be clear, and taxpayers need to identify with the social group that practices these behavioural norms.

When they were asked how people that are important to them talk about tax evasion, 50% of the taxpayer focus groups replied that people are broadly condoning tax evasion; only 25% of the taxpayer focus groups explained that tax evasion is not a socially accepted behaviour.

> “It’s a normal thing and we do encourage each other not to pay because we don’t see the direct benefit of our taxes.” (Temekes MC)

> “The community has a positive perception of tax payments. No one supports tax evasion due to the social shame associated with having one’s business closed – apart from the penalties.” (Mpwapwa DC)

Three out of eight LGA revenue administrations mentioned the importance of building a culture of taxation by explaining to citizens why everyone should pay taxes, and two administrations said that they are applying this strategy to encourage tax compliance.

While it sounds plausible that taxpayer education and social learning may alter taxpayers’ attitudes toward tax evasion, 58% of the taxpayer focus groups recommended that LGAs should prioritise the improvement of social services and better explain how public revenues are used to change taxpayers’ attitudes towards tax evasion.

**Ranking of Compliance Drivers**

All taxpayer focus groups were asked to rank the discussed compliance drivers to indicate which one should be prioritised by the Local Government Authority. The highest average ranking was assigned to ‘tax information and tax education’ (2.3) to promote awareness and the application of tax-related by-laws followed by both the ‘burden of paying taxes’ and the ‘benefits of paying taxes’ (3.1). This could mean that taxpayers not only want to understand the tax system but also demand an improved balance between what they give and what they get in return. The fourth average rank was the ‘treatment of taxpayers’ (3.7) followed by a ‘tax culture’ that condones tax evasion (4.3). The final rank (4.5) was assigned to the ‘treatment of tax evaders’.

<table>
<thead>
<tr>
<th>Compliance Risk</th>
<th>Average Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Information and Tax Education</td>
<td>2.3</td>
</tr>
<tr>
<td>Burden of Paying Taxes</td>
<td>3.1</td>
</tr>
<tr>
<td>Benefits of Paying Taxes</td>
<td>3.1</td>
</tr>
<tr>
<td>Treatment of Taxpayers</td>
<td>3.7</td>
</tr>
<tr>
<td>Tax Culture</td>
<td>4.3</td>
</tr>
<tr>
<td>Treatment of Tax Evaders</td>
<td>4.5</td>
</tr>
</tbody>
</table>

6 The average standard deviation of the ranking was 1.6.
This could mean that taxpayers see little point in creating more pressure to pay taxes through state authorities or the community while they have basic questions about how and why they should comply with their tax obligations.

**Gender Analysis**
A comparison of responses from the all-female with the all-male focus groups indicates that taxpayers from both sexes share – by and large – the same concerns about the LGAs’ tax administration system. However, the gender analysis indicates that their recommendations differ at times. The all-male focus groups put more emphasis on measures to ensure the fair and equal treatment of taxpayers, while the all-female focus groups stressed that the treatment should become more respectful. The all-female focus groups also seemed more eager to receive tax information through various channels, while the all-male groups tended to suggest more interactive approaches such as public meetings and seminars to receive tax education. To improve the balance between the costs and benefits of taxation, the all-male groups’ recommendations focussed on the reduction of the overall tax burden, while the suggestions of the all-female groups’ pointed to the improved delivery of public services.

However, one has to keep in mind that this gender analysis is based on a small sample size of only four all-male and four all-female focus groups. For that reason, the presented findings cannot be considered conclusive. Further research is needed to better understand how male and female citizens are affected by the LGAs’ tax system.
Discussion

Compliance Risks
The analysis shows that taxpayers face various financial and non-financial costs that should be reduced to a minimum to promote tax compliance and sustainable revenue collection. While none of the LGA revenue administrations took note of high taxpayer registration costs, some (42%) of the taxpayer focus groups identified them as a challenge. The Blueprint for Regulatory Reforms to Improve the Business Environment (2018) was prepared to address the private sector’s request to improve coordination among numerous regulatory agencies. Like the taxpayer focus groups, the Blueprint raised concerns about high compliance costs, and it recommended that regulatory agencies should separate the revenue motive from the regulatory rationale and charge licence fees to cater for the cost of providing services or administration\(^7\). The Blueprint also supported the idea to establish one-stop service centres to enhance coordination and minimise the regulatory burden of the private sector.

None of the LGA revenue administrations noted taxpayers’ challenges to comply with record-keeping obligations because of the fainting out of printed fiscal receipts from Electronic Fiscal Devices. Almost half (46%) of the taxpayer focus groups identified this as a challenge. The Income Tax (Electronic Fiscal Devices) Regulations, 2012, requires that Electronic Fiscal Devices must produce printouts that last not less than five years\(^8\). Taxpayers seem to be unaware of who is to be held accountable for such technical failure.

Another non-financial compliance cost driver that was not mentioned by the LGA revenue administrations is the multiple, time-consuming visits that taxpayers have to make to various government offices to obtain a payment control number. Fortunately, the Good Financial Governance Programme\(^9\) is collaborating with the President’s Office – Regional Administration and Local Government to develop a mobile phone application that supports the contactless collection of LGAs’ own-source revenues, especially from the service levy, liquor licence, and business licence. The application is expected to become operational in the fiscal year 2022/2023.

Compliance Drivers
Besides the financial and non-financial costs, the taxpayer focus group also identified a series of psychological, social, and deterrence factors that influence compliance behaviour. Most LGA revenue administrations and the taxpayer focus groups agreed that tax education is an important driver of tax compliance. However, the focus groups were more concerned that they are not made aware of tax information about applicable tax rates and administrative procedures until they interact with an official of the revenue authority.

Another important finding is that the taxpayer focus groups seemed to perceive an imbalance between the costs and benefits of taxation. Virtually all groups were concerned about the overall tax burden and many complained about inadequate public goods and service delivery. The majority of the taxpayer focus groups suggested that improved public service delivery may alter the community’s sympathetic attitude towards tax evasion.

While many taxpayer focus groups were concerned about the poor customer care by some LGA administrations, some acknowledged that the treatment of taxpayers had improved. The analysis indicates that most LGA revenue administrations are focussing on enforcement strategies to promote tax compliance. While taxpayer focus groups are supporting this strategy to effectively deter tax evaders, one-third of them raised concerns about disproportionate punishment and recommended starting with soft measures and applying strong measures only against those who decided not to comply.

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\(^7\) Blueprint for Regulatory Reforms to Improve the Business Environment (2018), p. XIII.


\(^9\) The Good Financial Governance Programme (GFG) is funded by the European Union, the German Corporation for International Cooperation (GIZ), and the Swiss Agency for Development and Cooperation (SDC).
Monitoring and Evaluation of Compliance Risk Strategies
To assess the effectiveness of tailored compliance risk treatment strategies, LGA revenue administrations need to monitor suitable compliance risk indicators. The analysis suggests that most revenue collection departments focus on the number of registered taxpayers and defaulters. Only a few seem to be aware of the number of unregistered taxpayers which may raise equity concerns by those who carry the tax burden. None of the LGA revenue administrations seems to track the number of online applications for taxpayer registration to reduce compliance costs. Most taxpayer focus groups are aware of their obligation to keep fiscal receipts, but the receipts are fainting out quickly for technical reasons. Most LGA revenue administrations seem not to measure taxpayers’ compliance with record-keeping obligations. While administrations monitor the number of tax defaulters, none of them seems to track the number of payments that are made electronically to reduce compliance costs.
Conclusions and Recommendations

The question “what drivers voluntary tax compliance at the local government level?“ needs multiple answers as LGA revenue administrations operate in different contexts with different economic activities and revenue sources. Nevertheless, the study found some issues that cut across the surveyed local government authorities, such as high registration costs, fainting fiscal receipts, and cumbersome payment procedures.

The main finding is that few of the LGA revenue administrations seem to have a clear understanding of why taxpayers fail to comply. While some compliance drivers are in their direct sphere of influence, such as taxpayer education or good customer care, other compliance drivers need to be addressed through other authorities, such as improved service delivery or an integrated revenue policy that equitably distributes the overall tax burden. This means that the private sector, Local Government Authorities, regulatory agencies, and development partners need to work together to promote voluntary tax compliance and make the revenue mobilisation process more equitable, efficient, and sustainable.

The following recommendations may support that process.

Make it easy to comply.
- Establish one-stop service centres and online taxpayer registration systems that are free of charge.
- Improve the longevity of fiscal receipts from Electronic Fiscal Devices to improve record-keeping.
- Collect more revenues through mobile phone applications to promote timely payments.

Assist to comply.
- Promulgate new tax laws in time. Print and distribute them through the government gazette, local newspapers, the council’s website, and public notice boards, and make printed copies available for sale to the public at affordable prices. Establish taxpayer information centres where taxpayers can inform themselves about how the legal environment affects their business activities.
- Educate taxpayers to exercise their rights and obligations. Use various media, like posters, flyers, brochures, and newspapers, to promote taxpayers’ understanding of the law. Offer voluntary education programmes that cover compliance with administrative procedures and record-keeping requirements.
- Provide standardised tax instalment schedules without interest and penalty charges for compliant taxpayers.

Build community partnerships.
- Build and sustain dialogue between local revenue authorities and taxpayers, especially women, and their trusted intermediaries to design customised compliance treatment strategies that balance compliance outcomes and community support.
- Measure and compare taxpayers’ overall tax burden with their overall income or profit and develop an integrated tax policy that considers taxpayers’ ability to pay.
- Publish and discuss fiscal revenue and expenditure reports with taxpayers to build their trust in the integrity of the public financial management system.

Exercise sanctions when appropriate.
- Taxpayers fail to comply with their tax obligations for different reasons: some want to comply but do not always succeed, some do not want to comply but will if they are monitored, and some have decided not to comply at all. Start with soft measures like reminders and give advice if there is a minor mistake, then make unannounced visits to check basic registration and record-keeping requirements, conduct comprehensive audits, and use strong measures like prosecution for cases of large sums, persistent evasion, or criminal activity.
- Make the ability to catch and punish tax evaders visible. Publish early warnings of non-compliant behaviour, outline compliance treatment strategies at annual press conferences, and encourage the media to report successful prosecutions.
Monitor and evaluate the effectiveness of compliance treatment strategies.

- Monitor the number of unregistered taxpayers by comparing the number of registered taxpayers with the estimated working population.
- When an online taxpayer registration system is available, track the number of online applications and compare them with the number of manual applications.
- Monitor the share of taxpayers with readable/unreadable fiscal receipts.
- When an online application system for payment control numbers is available, track the number of online payments and compare them with the number of cash payments.
Recommendations at a Glance

- Establish taxpayer registration systems free of charge.
- Improve the longevity of fiscal receipts.
- Collect more revenues through mobile phone applications.
- Promulgate new tax laws in time.
- Educate taxpayers to exercise their rights and obligations.
- Provide standardised tax instalment schedules.
- Publish and discuss fiscal revenue and expenditure reports with taxpayers.
- Develop an integrated tax policy that considers taxpayers’ ability to pay.
- Build community partnerships.
- Exercise sanctions in a proportionate manner.
- Make your ability to catch and punish tax evaders visible.
- Monitor and evaluate the effectiveness of compliance treatment strategies.
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A Study on the Drivers of Voluntary Tax Compliance at the Local Government Level
Sikika works to enhance health and public finance systems through social accountability monitoring and advocacy at all government levels