

The Influence of Taxpayer Education in Tax Collection Performance: A Case of Tanzania Revenue Authority, Dar Es Salaam Tax Regions

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Abstract: The study assessed the influence of Taxpayer education in Tax collection performance in Tanzania. The data used was collected from Tanzania Revenue Authority, Dar es Salaam Tax Regions. The Taxpayer education strategy was used as predicting variable while the Tax collection performance as dependent variable. Data was analysed by using SPSS Software and inferential analysis such as Correction and Regression Analysis to determine the relationship of the study variables, due to its wide range of variables the researcher only concentrate on the three groups of variables were investigated under the scope of this study. Study of correlation revealed a favorable relationship between taxpayer education approach and tax revenue, with a correlation coefficient of 1 and 0.885. Regression analysis was used in the study to determine the statistical significance of the association between taxpayer education and Tanzania's level of tax income. In conclusion, raising public understanding of tax laws, the contribution taxes make to national development, and particularly how and where the government spends the money it collects through taxes is best accomplished through taxpayer education. The ministry of education should offer taxpayer education and make an effort to integrate a course on public finance and taxation in the curricula of all departments, according to the study's recommendations.

Keywords: Taxpayer, Education, Tax Collection, Tanzania Revenue Authority

1. Introduction

A tax is a compulsory financial contribution made by an individual or entity towards the expenses of a government agency. It is usually paid in cash. There are basically two types of taxes. Each type is classified according to its legal and effective obligation to the final payer. These two types of taxes are direct and indirect, indirect taxes are the main source of government revenue, although there are other sources of income such as loans, grants, partnerships and public transactions. According to the Income Tax Act of Tanzania [1], taxation is a legally recognized method of raising money from eligible sources. Taxpayers are always looking for ways and strategies to minimize their impact and avoid paying if possible [2]. The main purpose of imposing certain taxes on citizens is to generate government revenues as public

expenditure [3-5]. However, as Laimer and Oates [6] suggest, there is a need to reduce inequality through income and wealth redistribution policies and prevent excessive increases in income inequality between rich and poor. Although taxation is of great importance in many countries, tax revenue collection has become a major issue worldwide. Many countries have taken great steps to increase tax revenue. This includes changes in the valuation system used in many countries for direct taxes from direct taxes to the self-assessment system (SAS) [7]. Many countries, including Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), Ireland (1988), New Zealand (1988), and the United Kingdom (1996) are transitioning to SAS. for -97) [8]. Regarding the principle of efficiency, the purpose of supporting changes in the Self-Assessment System (SAS) is to increase voluntary compliance, reduce the burden of tax authorities to assess tax

returns and increase the efficiency of tax collection (tax collection) to reduce Costs). Africa's tax capacity (tax collection capacity) is low at about 20 percent of GDP, and the ratio of tax revenue to GDP (17 percent) is lower than other regions, mainly due to inefficiencies in tax and revenue collection policies [16]. Addressing tax capacity constraints and collection inefficiencies could therefore increase Africa's tax revenues by up to 3 percent of GDP (the difference between current tax rates and tax capacity). Value Added Tax (VAT) collection efficiency is less than 50% in many African countries, with property and wealth taxes remaining untouched revenue sources (Yonka, Africa Economic Report 2019). In the context of Tanzania, K. G. According to Mshengila [9], TRA Kibaha region exceeded its VAT revenue in August and November 2010/2011 and August and November 2011/2012. This means that the target was achieved in only 4 months out of 24 months. According to the researchers, the average recovery rate over the past two years was 16.7 percent. It was found that the TRA failed to collect the required amount of VAT from the business owner. At that time, TRA had a poor use of ICT in tax collection and lacked a strategy to implement tax collection. To increase revenue, the Tanzania Revenue Authority has been embracing information and communication technology. As mentioned earlier, it has established the Information and Communication Technology Department (ICTD) with the mandate of integrating information technology into all tax operations. Currently, ICT systems support the revenue sector, the most important of which are: Integrated Tax Administration System (ITAX), Taxpayer Identification System (TIN), Computerized Motor Vehicle Registration System (CMVRS), Customs Administration System (TANCIS) and a System. From the Computer Drivers Licensing System (CDLS). Other supporting systems of the TRA sector include the Integrated Financial Management System (EPICOR). TRA has achieved significant results using technological innovations. For example, the iTAX system has helped improve taxation by speeding up administrative processes, timely monitoring of taxpayers and their fines and benefits, and increasing revenue and income [10]. In 1996 TRA collected 42.929 billion, which increased to 221.118 billion in 2007 [23]. From 2006/07 to 2017/18, tax revenue increased by an average of 17.6% per year. This means that tax revenues are increasing at a decreasing rate, this increase was considered to be more than 28.9% (from 1996 to 2007). 17.6% (2007 to 2017/18). Growth in 2009/10 was relatively low at 9.8% due to the global financial crisis in 2008. However, tax revenue quickly recovered, growing at an annual rate of 19.5% in 2010/11. It remained high until 2013/14, but fluctuated to 7.2% in 2017/18, below the magnitude seen during the global financial crisis. The long-term average tax-to-GDP ratio was 12.2% from 2006/07 to 2017/18 [10]. Tanzania has received assistance from the World Bank since 2006 to address two issues with its tax system. In addition to enhancing the nation's tax infrastructure, the tax modernization project also put in place a thorough training program to inform tax officials and taxpayers about the significance and obligations of the tax

system (World Bank Tanzania Tax Modernization Report). This project has adopted a thorough strategy to boost revenue. This includes technological advancements that enable nations to automate their processes for tax registration, documentation, and collection. The Tanzanian government has successfully implemented a number of structural reforms to enhance services, increase tax revenue collection, and increase the transparency of the tax payment system. Over three times as much tax money was generated at the end of the project in fiscal year 2011 (5,489,268 million) (World Bank Tanzania Tax Reform Report). The administration of taxes and the collection of income have become more effective, quick, and efficient thanks to the new electronic filing system. By lowering corporate tax rates and expanding the tax base and compliance, the project also helped with tax reform. The Internal Revenue Service underwent reforms that included educating employees on anti-corruption guidelines and strengthening the infrastructure for monitoring and evaluation. The program's outputs include the following: real income collection increased at an average yearly rate of 21% from 2007 until the project's completion in 2011. Around 5,489,268 million in total were collected in taxes by the project's conclusion in 2011, which is over a threefold increase from 2007. Following the project's completion, the Tanzania Revenue Authority has had significant success utilizing information and communication technology to integrate its operations. More than 4,000 VAT returns were filed electronically in 2011 compared to fewer than 500 in 2009. 376,666 taxpayers have signed up to use the recently implemented mobile tax payment for property tax. greater awareness of the tax education campaign among taxpayers, surpassing the intended 60% and reaching a level of awareness of 94%. (World Bank Tanzania Tax modernization report)). Despite the use of improvement strategies such as technological innovation, Tanzania's tax collection performance remains a challenge [5]. In addition, lack of education about the tax system among taxpayers can result in significant fines and additional [11]. Consequently, this study examines the impact of recent tax enforcement strategies on tax collection, considering taxpayer education strategies, innovation strategies, and tax collection strategies.

2. Literature Review

2.1. Theoretical Review

The study was being guided by the following theories of Ability-to-pay theory and optimal tax theory as explained below: the ability to pay stipulates that; It is a progressive kind of taxation principle which states that taxes be charged on the individual's ability [4]. It places an increased burden on individuals and corporations with higher levels of income. The theory states that individuals who earn more money can afford to pay more taxes. Therefore, the taxes increase as a percentage along with increase in income. The advantages of this theory is that it causes individuals with more resources to form a pool where they can finance services either directly or

indirectly. Using this theory has the capacity to increase government’s revenue but critics of this theory argue that the system of progressive taxation can reduce the incentive to earn more money and is not a fair system to the wealthy individuals. The Optimal tax theory according to Ramsey [12] the theory emphasizes on optimal level of taxes and reallocation of economic resources from the wealthy to the poor. It seeks to develop a tax system that minimizes excess burden given an increase in revenue [7]. The theory involves selecting the tax rates of the commodities that minimizes welfare given constraints such as revenue [8]. It seeks to maximize social welfare through taxing individuals without worsening the tax burden on the individuals [13]. It also emphasizes on incentives that produce efficiency and choices that improve the individual’s wellbeing. The theory is concerned about fair distribution of economic and social welfare. Optimal tax theory is important to this study since reforms such as use of ETRs which aimed at increasing efficiency of VAT collections and to ensure that the level of revenue collected from VAT is optimal.

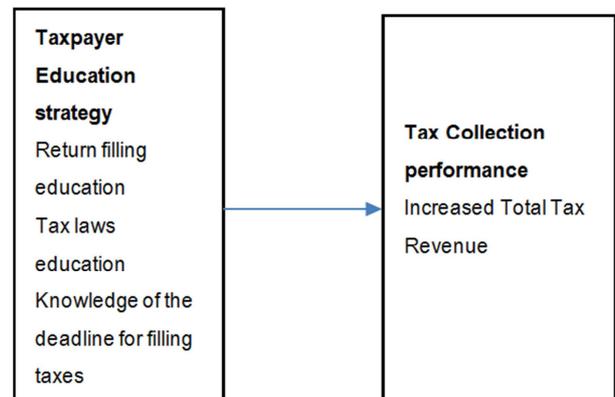
2.2. Empirical Literature Review

The study was being guided by the following empirical literatures: Nyambura [14] conducted a study by the Kenya Revenue Authority on the impact of taxpayer education on revenue collection in Kenya. The study found that the main challenge is Kenya's debt level of 5,276 billion shillings, equivalent to 52.7 percent of GDP. Therefore, governments should adopt automated systems to collect revenue more effectively. Advances in technology lead to improved tax revenues collected in the country. Revenue collection is a major problem in Kenya, as most of the government's revenue comes from taxes. Despite the fact that the Kenya Revenue Authority is the main collector of government revenue and has developed a system for more efficient revenue collection, the introduction of an automated system was anticipated to increase revenue collection. Revenue targets are set The objective of this project was to examine the impact of innovations and strategies on revenue collection in Kenya, along with training of taxpayers by the Kenya Revenue Authority. The study used secondary data from economic surveys published by the Kenya National Bureau of Statistics (KNBS), data collected and published by the Kenya Revenue Authority (KRA), National Treasury and the Central Bank of Kenya. (CBK). Income figures from 1999 to 2020 and GDP figures from 1964 to 2020 are used. Regression analysis was used to study the impact of technological innovations adopted by the Kenya Revenue Authority and taxpayer education campaigns. The unemployment rate variable was considered as a control variable in the model. For objective 1, we used regression analysis to examine the impact of technological innovation on revenue collection. Findings show that while the economy is changing to a faster and more reliable means of doing business, tax authorities are changing systems to maximize collections and curb deficits that have led to massive borrowing, indicating the need for it. The second objective

was to determine how taxpayer education affects revenue collection. A dummy variable was used to obtain the estimates. The study found that education is key in enhancing compliance in payment of taxes as these bridges the gap in terms of what is expected from individuals, businesses and government agencies. According to the study's findings, the Kenya Revenue Authority should work through established channels to inform businesspeople about the significance of using right accounting procedures and paying taxes [13]. The majority of small business owners will be able to pay taxes thanks to the ease of business registration, which will make the adoption of turnover tax simpler. Also, the study's findings showed a substantial (5% statistically significant) strong correlation between the independent and dependent variables (R=0.8087, p=0.49). The corrected R-squared of 0.56 shows how well the tax system is working. 56% of the shift in small business TOT adoption was attributed to TOT education policies and the tax environment. In their 2016 work, Angus Young et al. attempted to review the literature on Kenya's individual tax compliance. Although empirical study in this field is still in its early stages, it's possible that the problem's scope has been underestimated or at least overlooked. The success of media efforts on TV, the usage of tax information publications, company clients/prospects, and national newspapers will increase awareness, tax filing, and eventually tax payer morale.

From the above literature reviews, there are few empirical studies that scrutinize the impact of tax enforcement strategies on tax collection performance, particularly in Tanzania. Most studies show that tax collection reforms are effective if the government collects more taxes, these studies are from Muthama [13] and that of Nyambura [14] who conducted a study on the effects of modernization of revenue systems and the impact on collection of revenue. Therefore, this study is going to fill that gap by exploring how the tax enforcement strategies influence the tax collection performance in Tanzania by taking into account taxpayer education strategy, Technology innovation strategy and recovery strategy.

2.3. Conceptual Framework



Source: Researcher, (2022)

Figure 1. Conceptual Framework.

A conceptual framework is a written or visual product that "explains, either visually or in narrative form, the fundamental elements to be studied—the key components, concepts, or variables and the supposed relationships among them," according to Miles and Huberman [15]. The system of concepts, presumptions, expectations, beliefs, and theories that underpin and guide a research study, as well as the conceptual framework of a study, are crucial components of a research design.

Taxpayer education is an independent variable in this study, whereas tax collection success is a dependent variable. The conceptual framework above shows the dependent and independent variables as well as their measurement methods.

3. Methodology

This research was conducted in TRA offices located in Temeke, Kinondoni, Ilala and Kariakoo tax areas. In a research context, researchers meet with research respondents who are involved in some form of tax administration. The sample size representing the entire survey population is 200 respondents, which were collected by researchers from different TRA departments. In this study, both primary and secondary data were utilised. The Software Package for Social Scientists was used to process a summary form that contained the data and details gathered throughout the survey (SPSS). The research's findings were organized, and the information was shown as words, numbers, and percentages. Employ graphs, tables, pie charts, and histograms. To further investigate the weight of each variable relative to the dependent variable, multiple linear regression analysis was carried out. Performance in tax collection was regressed against educational strategy.

The equation was expressed as follows:

$$Y = \beta_0 + \beta_1X_1 + \varepsilon$$

Where:

Y = Tax collection performance.

β_0 = constant (coefficient of intercept).

X1 = Taxpayer education strategy.

β_1 = regression coefficient of variables education strategy, technology strategy and recovery strategy respectively.

ε = Error term.

Dependent variable is the Tax collection performance which was measured by total tax revenue while independent variables was education strategy.

4. Results

The performance of tax collection is positively correlated with tax knowledge level, which results in an improvement in tax collecting performance. There were 200 questionnaires released. 181 of the total questionnaires distributed were returned to the researchers by the respondents after being filled out. It tries to examine how different factors affect Tanzania's tax collection rates. The researchers limited the scope of their study to three groups of factors because there were so many variables to consider. These factors include recovery tactics, technological adoption techniques, and taxpayer education initiatives.

With correlation coefficients of 1 and 0.885, correlation analysis revealed a favorable association between taxpayer education techniques and tax collections. The matrix clearly shows that the correlation coefficients are between -1 and +1, which indicates that the independent factors are accurate predictors of the impact on the dependent variable.

Table 1. Regression Table.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.974 ^a	.948	.844	776.700	.948	9.104	2	1	.228

a. Predictors: Taxpayer education

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	Taxpayer Education	8954.550	4958.121		1.806	.322		

a. Dependent Variable: Tax revenue

Regression analysis was used in this study to find statistically significant correlations between tax revenue levels and taxpayer education in Tanzania. The modeling and analysis of multiple variables using regression techniques concentrates on the correlation between the dependent variable and one or more independent variables. The performance of tax revenue (the dependent variable) and education strategy (the independent variable) were

compared using a multiple linear regression analysis. The values of R², or the coefficient of determination, are shown in Table 1. The model summary table demonstrates that an increase in tax revenue of 94.8% was achieved through taxpayer education. According to the study, the importance of the education plan should be taken into account by Tanzania's revenue authority in order to increase tax revenue performance.

5. Conclusion

Questionnaires (200) were provided as part of the study, and (181) of those were returned to the researchers after being filled out by the respondents. It tries to examine how different factors affect Tanzania's tax collection rates. The researchers limited the scope of their study to three groups of factors because there were so many variables to consider. These factors include recovery tactics, technological adoption techniques, and tax payer education initiatives.

In summary, taxpayer education is essential to raising public understanding of tax laws, the contribution taxes make to national growth, and most importantly, the location and use of tax revenue. The tax system must be effective and efficient in order to accomplish this goal without harming taxpayers. Society should also refrain from grumbling. Poor tax systems and policies are the cause of many of our issues with the tax authorities. Before implementing a tax system, thorough research must be conducted to ensure that it will function as intended. To abide by tax regulations is the goal of the tax system.

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