

MOSHI CO-OPERATIVE UNIVERSITY

**FACTORS INFLUENCING TAX EVASION IN TANZANIA: AN INSIGHT
FROM SMALL RETAIL ENTERPRISES IN MOSHI MUNICIPALITY,
KILIMANJARO REGION**

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FROM SMALL RETAIL ENTERPRISES IN MOSHI MUNICIPALITY,
KILIMANJARO REGION**

By

AMEDEUS TAIRO

**A DISSERTATION SUBMITTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR AWARD OF MASTER OF BUSINESS
MANAGEMENT (MBM) OF MOSHI CO-OPERATIVE UNIVERSITY**

DECEMBER, 2023

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CERTIFICATION

The undersigned certifies that he has read and hereby recommends for acceptance by Moshi Co-operative University a Dissertation entitled "*Factors Influencing Tax Evasion in Tanzania: An Insight into Small Retail Enterprises in Moshi Municipality, Kilimanjaro Region*" in partial fulfilment of the requirements for the award of a degree of Master of Business Management of Moshi Co-operative University.

DR. MEDA THEODORY MRIMI

(Supervisor's Name)



(Supervisor's Signature)

11/12/2023
Date

DEDICATION

For my family, whose love and prayers towards me have never faded, their presence made my life meaningful and worth fighting for.

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I very humbly thank the almighty GOD, for granting me life, strength and the entire blessing.

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TABLE OF CONTENTS

DECLARATION AND COPYRIGHT	i
CERTIFICATION	Error! Bookmark not defined.
DEDICATION	iii
ACKNOWLEDGMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	viii
LIST OF FIGURE	ix
LIST OF APPENDICES	x
LIST OF ABBREVIATION AND ACRONYMS	xi
ABSTRACT	xii
CHAPTER ONE.....	1
1.0 INTRODUCTION.....	1
1.1 Background to the Study	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	5
1.3.1 General objective	5
1.3.2 Specific objectives	5
1.4 Research Questions	6
1.5 Significance of the Study	6
CHAPTER TWO.....	8
2.0 LITERATURE REVIEW.....	8
2.1 Definitions of the Key Terms.....	8
2.1.1 Tax.....	8
2.1.2 Tax evasion	8
2.1.3 Small enterprises	9
2.2 Theoretical Review	9
2.2.1 Theory of Individual Choice	9
2.2.2 Theory of Planned Behaviour	12
2.3 Empirical Literature Review	13
2.3.1 Strategies employed in tax evasion	13
2.3.2 Perception of small retail enterprise owners on tax compliance.....	14
2.3.3 Determinants for TAX evasion	16

2.4	Research Gap	18
2.5	Conceptual Framework	19
CHAPTER THREE		21
3.0	RESEARCH METHODOLOGY	21
3.1	Research Design	21
3.2	Geographical Coverage	21
3.3	Population, Sample and Sampling Strategies.....	21
3.3.1	Sampling population	21
3.3.2	Sample size.....	22
3.3.3	Sampling techniques	22
3.4	Types and Sources of Data.....	23
3.5	Data Collection Methods.....	23
3.5.1	Survey method	23
3.5.2	Interview method	23
3.6	Reliability and Validity of Data	24
3.7	Assessment of Collinearity and Multicollinearity among Independent Variables	24
3.8	Data Analysis	25
3.8.1	Strategies employed by small enterprises owners in evading tax	25
3.8.2	Perception of retail shops owners on tax compliance	26
3.8.3	Determinants of tax evasion.....	26
CHAPTER FOUR		28
4.0	FINDINGS AND DISCUSSION	28
4.1	Socio-demographic Characteristics of Retail Shop Owners	28
4.1.1	Age of the respondents	30
4.1.2	Number of children of the respondents	30
4.1.3	Sex of the respondents	31
4.1.4	Marital Status of the respondents	32
4.1.5	Education level of the respondents	33
4.1.6	Occupation of the respondents	33
4.1.7	Source of income of the respondents	34
4.2	Strategies Employed by Small Retail Enterprises Owners in Evading Tax..	35
4.3	Perceptions on Tax Compliance by Retail Shop Owners	38

4.3.1	Tax Identification number ownership and fairness on the tax	38
4.3.2	Small business owners perception on tax rates and compliance cost	39
4.3.3	Availability of tax information on calculation of taxes	40
4.3.4	Tax compliance cost on tax compliance and benefit of tax	41
4.3.5	Perceptions on tax compliance by retail shop owners	42
4.4	Determinants of Tax Evasion.....	44
4.4.1	Economic factors influencing tax evasion among small enterprise owners in the study area.....	44
4.4.2	Social factors influencing tax evasion among small enterprise owners in the study area.	46
4.4.3	Individual factors influencing tax evasion among small enterprise owners in the study area.....	48
4.4.4	TRA service quality influencing tax evasion among small enterprise owners in the study area.	50
4.4.5	Results from multiple regression analysis.....	54
4.5	Constraints Facing Small Enterprise Owners in Paying their Taxes	61
CHAPTER FIVE.....		65
5.0	SUMMARY, CONCLUSION AND RECOMMENDATIONS.....	65
5.1	Introduction	65
5.2	Summary of the Major Findings	65
5.3	Conclusion.....	66
5.4	Recommendations	67
5.5	Areas for Future Research.....	69
REFERENCES		70
APPENDICES		79

LIST OF TABLES

Table 1 : Reliability test	24
Table 2 : Collinearity and Multicollinearity test	24
Table 3 : Measurement and description of Variables.....	27
Table 4 : Social-demographic characteristics of the Respondents	29
Table 5 : Kind of Tax evasion mostly used by retail shops owners.....	35
Table 6 : TIN ownership and fairness of tax	39
Table 7 : Small business owners understanding on tax.....	39
Table 8 : Tax information and estimation	40
Table 9 : Tax compliance cost on tax compliance and benefit of tax	41
Table 10 : Perceptions on tax compliance by retail shop owners	44
Table 11 : Economic Factors Influencing Tax Evasion among Small Enterprise Owners	45
Table 12 : Social factors influencing tax evasion among small enterprise owners in the study area	47
Table 13 : Individual factors influencing tax evasion among small enterprise owners in the study area.	49
Table 14 : TRA service quality factors influencing tax evasion among small enterprise owners in the study area.....	52
Table 15 : Determinants of tax evasion.....	54
Table 16 : Constraints facing small enterprise owners in paying their taxes	62

LIST OF FIGURE

Figure 1 : The Conceptual Framework.....20

LIST OF APPENDICES

Appendix I : Questionnaire79
Appendix II : Interview Guide85
Appendix III: Research permit87
Appendix IV: Plagiarism report89

LIST OF ABBREVIATION AND ACRONYMS

EFD	Electronic Fiscal Devices
GDP	Gross Domestic Product
GFI	Global Money Integrity
MTEF	Medium-Term Expenditure Framework
SD	Standard deviation
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for the Social Sciences
TRA	Tanzania Revenue Authority
TZS	Tanzanian Shillings
URT	United Republic of Tanzania
VIF	Variance Inflation Factor

ABSTRACT

Taxation remains a fundamental tool for governments to raise revenue for essential services such as defence and legal order. Within this context, the study is set to assess the factors influencing tax evasion in small retail enterprises in Moshi Municipality, Tanzania. Through a cross-sectional study design, 380 out of 7,500 retail shops in Moshi were examined. Data were collected using interviews and survey questionnaires, and a subsequent analysis with SPSS offered significant insights. A critical finding is the widespread inability among small business owners to accurately compute taxes, often leading to incorrect payments. The study reveals that high tax rates and the associated compliance costs significantly impact businesses' willingness to comply. Additionally, a gap in taxpayer education and dissatisfaction with public utilities and government services contributes to tax evasion attitudes. Notably, only 59% of businesses reported adequate use of public utilities, with the remainder expressing profound dissatisfaction, influencing their tax compliance decisions. The research suggests that reducing tax rates and penalties might enhance compliance, as lower rates diminish the incentive to evade taxes. Simplification of tax return forms, along with robust taxpayer education, is recommended to address complexities and knowledge gaps. Improving the quality of services offered by the Tanzania Revenue Authority (TRA), including dispute resolution and refund processes, is also crucial. Continuous training for TRA staff to keep them abreast of tax law changes and customer service is emphasised. Future research should explore income tax compliance factors in other Tanzania regions and examine the relationship between voluntary compliance strategies and deterrent measures, considering the limited tax awareness among Tanzanian SMEs.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background to the Study

All taxes are mainly imposed in order to raise money for government expenditures. Most of the government's fiscal requirements should be covered by taxes (Mlay, 2015). Government spending includes defence and law enforcement, two functions that the private sector is unable to provide (Machogu, 2013). It also pays for costs associated with social security and education initiatives. The tax system depends heavily on small business owners (Nkwe, 2013). Since they file taxes less frequently than owners of larger enterprises and small business owners are perceived as the "hard to tax group" from the unorganised sector (Akinboade, 2015).

Building on earlier research, it is clear that small firms struggle to comply with laws despite being essential to the tax system (Nkwe, 2013). Illiteracy exacerbates this issue by fostering a complex environment that makes it challenging to comprehend and abide by tax regulations (Mlay, 2015). The data from TRA's annual report, which can offer insights that bolster Machogu's assertion that taxes are the government's main source of income, can help to bridge this information gap (Machogu, 2013). By describing the specific tax categories and associated evasion strategies, the study validates Akinboade's definition of small enterprises as a hard to tax group and delves deeper into the subtleties of this classification (Akinboade, 2015).

Most of the developed countries impose a variety of direct and indirect taxes and both individuals and corporations must pay their fair amount of taxes. More than thirty percent of developing countries face administrative, social and political difficulties in running their public financial systems (OECD and DAC, 2016). Tax evasion and the prevalence of fraud in tax administration are especially harmful to developing nations. Research from several developing countries indicates that 50% or more of the taxes that should be collected are not being tracked down by government treasuries due to tax evasion and corruption (Abiola and Asiweh, 2012). In addressing the issue of tax evasion and fraud, particularly in developing countries, underlying factors such as illiteracy play a pivotal role (Abiola and Asiweh, 2012). Small business owners who have not had enough schooling may find it challenging to

understand the complexities of the direct and indirect tax systems. This information gap makes it more difficult to diversify the revenue base and increase compliance. Furthermore, a solid empirical foundation for assessing, delving into and resolving the nuances of tax evasion can be provided by integrating information from trustworthy data sources such as TRA's annual reports (OECD and DAC, 2016). A detailed understanding of the intricate topography of tax evasion can be obtained by carefully separating the various tax types and the ways in which they are evaded. This process also makes it possible to build pertinent, knowledgeable, and effective countermeasures that will improve tax compliance and lower fraud.

Global money Integrity (GFI) estimates that the yearly cost of illicit money flows to developing countries ranges from \$859 billion to \$1.06 trillion. Small business owners are accountable for paying and collecting taxes (Gupta, 2013). Since most African countries have higher rates of illiteracy than those in Europe or the USA, their circumstances are often worse (Mustapha, 2015).

Similarly, Southern Asia is home to 49% of the world's illiterate population. Moreover, the combined populations of the remaining regions (Central Asia, Europe and Northern America and Oceania) comprise less than 2% of the world's illiterate population. Sub-Saharan Africa and Southern Asia have the lowest adult literacy rates with percentages under 50%. Furthermore, Sub-Saharan Africa accounts for 27% of all illiterate adults, followed by Eastern and South-Eastern Asia (10%), Northern Africa and Western Asia (9%) and Latin America and the Caribbean (approximately 4%). For a variety of causes, this leads to a lack of feeling in West African countries. According to taxpayers, filing taxes requires a lot of time and is impacted by factors such as the tax authorities' poor quality of service and the business owner's low literacy rate (Mahangila, 2017).

In East African countries, the problem of tax noncompliance is as old as taxes itself (Mwansa, 2014). It occurs when taxpayers fail to file or submit all necessary taxes on time, as well as when they fail to adequately declare their tax liability in line with tax legislation (Masawa, 2017). When there is non-payment or late payment of taxes, understatement of income and overstatement of costs are utilised to conceal the situation (UNESCO, 2017). In an effort to lower the percentage of sales that are not reported, most countries including Rwanda have increased the use of Electronic

Fiscal Devices (EFD) to track sales transactions. Similar circumstances exist in Kenya; nevertheless, SMEs' attempts to use EFD machines have not shown great success (Kamote and Ngowi, 2015).

In East African nations, problems extending beyond the timely and accurate filing of taxes exacerbate tax non-compliance (Mwansele, 2014). These problems are made worse by illiteracy, which leaves knowledge gaps that result in inaccurate or incomplete submissions (Masawa, 2017). A customised, evidence-based response might be based on specific information from TRA's yearly reports, which could assist highlight the trends and scope of these problems (UNESCO, 2017). Additionally, a detailed analysis of the tax categories avoided and the particular techniques in conjunction with the use of Electronic Fiscal Devices provides a more sophisticated insight. This improved understanding is crucial for developing customised techniques that consider the specificities of each tax type and related evasion strategies especially in nations like Kenya where the success of EFDs among SMEs has proven difficult (Kamote and Ngowi, 2015).

The complex tax laws and regulations in Tanzania might make it difficult, even for professionals who are knowledgeable with the requirements to comply with them because of the lengthy procedures. 2017 in Masawa). However, Kamote and Ngowi (2015) noted that small and medium-sized businesses have observed that a variety of factors, such as the state of the economy, social interactions and individual factors like tax rates, alterations in governmental policies and personal financial constraints, can have an impact on the issue of tax evasion. According to Schnepfer (2012), the average Tanzanian taxpayer needed 180 hours to finish their tax return, illustrating how complicated the process is. As a result, many choose to postpone paying their taxes until they are compelled to do so by law or to seek expert assistance.

According to Adesina and Uyioghosa (2016), one way that recent data shows the problem of declining voluntary tax compliance, both numerically and qualitatively is through a discernible decline in tax income. These opinions are supported by empirical data from the TRA's yearly reports, which demonstrate trends and patterns of non-compliance among SMEs (TRA yearly Report, Year). This trend therefore, is of particular concern to the Tanzanian government, which is committed to not using

domestic borrowing for budgetary spending, as stated in the Medium-Term Expenditure Framework (MTEF) (URT, 2013).

The tendency of the SME sector to underreport sales to the tax authority is consistent with the statistical evidence pointing to a chronic imbalance in tax receipts (Kamote and Ngowi, 2015). The TRA's yearly assessments corroborate the notion that cash transactions in particular leave a hole that is frequently exploited for tax evasion (Masawa, 2017). These studies provide statistical data that highlight the scope and complexity of the problem, offering a data-driven basis for the development of enforcement measures and policies.

Given this, the study's objective was to look into the intricacies of tax evasion among small business owners in Moshi Municipality, Kilimanjaro Region. By combining quantitative data from TRA's annual reports with qualitative observations, it provides a thorough, multidimensional examination of the dynamics of tax evasion, underreported sales and the effects these have on the status of the national economy. The study's conclusions may guide focused, empirically supported efforts to improve compliance and reduce tax evasion in line with the country's larger financial and economic goals.

1.2 Statement of the Problem

Tax evasion and noncompliance are global issues, significantly affecting countries like Tanzania. Adesina and Uyioghosa (2016) highlight that tax fraud and evasion are rampant in Tanzania and other East African nations, jeopardising the integrity of their domestic revenue bases. Despite being a longstanding issue in Tanzania, tax evasion continues to pose challenges, as noted by Drummond et al. (2012), who emphasise that increasing internal revenue is a primary goal for most sub-Saharan African countries.

In response, the Tanzanian government has implemented various initiatives to enhance its fiscal capacity and provide essential public services. A notable measure is the establishment of the Tanzania Revenue Authority (TRA), charged with tax assessment, collection, and accounting to maximise revenue generation (Abiola and Asiweh, 2012). A significant step towards achieving these objectives was the distribution of Electronic Fiscal Devices (EFDs) to the business sector. According to

Masawa (2017), the introduction of EFDs has improved compliance and revenue collection, averaging 1.3 trillion shillings per month since their implementation.

Despite these efforts, challenges persist. Alphayo (2017) reports resistance in the usage of EFD machines, particularly in regularly providing EFD receipts to customers. Kamote and Ngowi (2015) acknowledge that tax evasion remains an unresolved issue in Tanzania. Extensive research by Ojochogwu and Stephen (2012), Nyamweza et al. (2014), Kamote and Ngowi (2015), and Alphayo (2017) demonstrates that non-compliance, especially among small businesses, results in significant revenue losses for the government.

This enduring problem underscores a critical research gap: understanding the specific factors influencing tax evasion among Tanzanian small retail enterprises owners. Despite the measures taken, the persistence of tax evasion calls for a deeper investigation into the reasons behind the continued non-compliance, particularly among small retail enterprises. This study aimed to fill this gap by exploring the underlying causes and motivations for tax evasion in this sector, contributing to the development of more effective strategies to combat this issue in Tanzania.

1.3 Objectives of the Study

1.3.1 General objective

General objective of the study was to assess factors influencing tax evasion among small retail enterprise owners in Moshi Municipality, Tanzania.

1.3.2 Specific objectives

Specifically, the study sought to:

- i. Examine the strategies employed by small enterprise owners for tax evasion within the specified study area,
- ii. Determine the perception of retail shops owners on tax compliance in the study area, and
- iii. Examine determinants for tax evasion among small enterprises owners in the study area.

1.4 Research Questions

- i. What are the strategies employed by small enterprise owners for tax evasion within the specified study area?
- ii. What are the perceptions of retail shop owners on tax compliance in the study area?
- iii. What are the determinants for tax evasion among small enterprises owners in the study area?

1.5 Significance of the Study

The insights garnered from this study can be useful to scholars, researchers, policymakers, and the business community. Scholars and researchers believe that this study can provide essential data for enriching academic discourse on tax compliance in Tanzania. It offers a detailed analysis that serves as a vital reference for literature reviews and academic research, furthering understanding of tax evasion in the SME sector.

Policymakers can utilise the findings to shape more effective tax legislation. By revealing the factors leading to tax evasion among small enterprise owners, this research provides to the Tanzanian government the necessary information for developing and refining tax policies. It presented practical insights for enhancing revenue collection strategies at a national level. These contributions will be particularly relevant in the context of the objectives of the Tanzania Revenue Authorities (TRA), established under the Act of Parliament No. 11 of 1995, along with subsequent tax reforms from 2004 to 2017. The study's findings can be used to guide the TRA in adapting its strategies to ensure better compliance among SMEs, focusing on methods beyond mere enforcement.

The study also serves as an educational resource for the business community. It highlighted the challenges and perceptions surrounding tax compliance in the SME sector, fostering a deeper understanding of the crucial role of taxation in national development. Business owners can learn about the importance of taxes for the growth of their country, aligning with the main goals of the TRA. This research bridged the theoretical understanding and practical application gap. It laid a foundation for the government, in collaboration with the business community, to develop cooperative and effective tax compliance strategies and combat tax evasion incidences. The

insights were relevant not only for Tanzania but also offered lessons for other countries facing similar challenges in tax compliance within their SME sectors.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Definitions of the Key Terms

2.1.1 Tax

In essence, there are two types of taxes, and each type is categorised based on how it impacts the final payer in both a legal and practical sense. Helm and Ahmed (2014) define taxes as a required monetary contribution made by an individual or group of individuals to cover a governmental authority's expenses. The government is primarily funded by direct and indirect taxes, while it also receives funding from grants, loans, contributions, and public trading (Rudyk, 2020). As per the Tanzania Income Tax Act (2004), paying taxes is a legitimate method of obtaining funds from qualified revenue sources (Magiya, 2013).

For the purposes of this study, tax refers to any mandatory financial charge or other levy that a government agency imposes on a taxpayer (an individual or a business organisation) in order to pay for specific public expenses. According to the Tanzania Income Tax Act of 2004, it is unlawful to refuse to pay taxes, withhold taxes, or evade paying them. Taxes can be paid to the government in cash or labour equivalents, either directly or indirectly. In the context of this work, a concept tax has been defined according to Magiya, 2013.

2.1.2 Tax evasion

In general, tax evasion refers to unlawful methods used to avoid paying taxes. Examples of such methods include hiding taxable income, profits subject to taxation, or other taxable activities; misrepresenting the amount or source of income; or purposefully inflating tax-reducing elements like credits, exemptions, or deductions (Mwangi, 2014). In the informal economy, tax evasion takes place when the entire operation is conducted in an informal manner; in this case, the business is not only avoiding paying taxes but is also not registered as a formal enterprise at all (Magiya, 2013). Alternatively, tax evasion can occur as a single incident within other legal activities.

In the context of this study, tax evasion was defined as the deliberate or inadvertent actions and behaviours of an individual who owes taxes but chooses not to comply with this obligation by underreporting his tax liability or by completely omitting to account for his income-generating activities through illicit means.

2.1.3 Small enterprises

Micro, small, and medium-sized firms are defined by the terminology "SMEs" (also abbreviated as MSMEs). According to URT (2002), SMEs are classified as non-farm economic activity that mainly include mining, manufacturing, services, and commerce.

A small and medium-sized firm (SME) is not defined in a way that is universally accepted; rather, different countries use different measures to evaluate a company's size according to its stage of development. According to UNESCO (2017), the most popular measures are total employees, total investment, and sales turnover. Small enterprises are frequently organised ventures with five to forty-nine employees or capital expenditures between million and two hundred TZS million. Medium-sized companies have between 50 and 99 employees and capital expenditures between 200 million and 800 million TZS (The SMEs Development Policy, 2002). For the sake of this study, small enterprise has been defined according to UNESCO, (2017).

2.2 Theoretical Review

2.2.1 Theory of Individual Choice

Based on the findings of Allingham and Sandmo (1972) as cited by Magiya (2014), the Basic theory of Individual Choice posits that individuals are faced with the responsibility of determining the proportion of a given sum of money that should be designated as taxable value and subsequently remitted to the tax authorities. The practical implication of this method is that the level of enforcement plays a crucial role in determining the extent to which compliance is achieved. It is crucial to acknowledge, however, that individuals pay taxes solely due to the apprehension of facing penalties if found to be non-compliant. Based on the aforementioned, individuals who adhere to rational decision-making principles, as outlined in this theory, would choose not to report any taxable income. In this context, a rational individual is defined as someone who evaluates the benefits of maximising tax

evasion, considering both the advantages of successfully exploiting the tax system and the potential repercussions of being detected engaging in fraudulent activities. Due to their apprehension regarding the potential imposition of penalties, individuals will consequently adhere to the established tax compliance regulations (Magiya, 2014).

The Theory of Individual Choice is essential in providing intricate understandings of the tendencies that taxpayer's exhibit. The above-mentioned assertion offers a thorough examination of the significant correlation that exists between the choices made by taxpayers and the subsequent outcomes concerning their compliance with tax laws and their engagement in tax avoidance. This phenomenon's strength is its breadth; it reveals the delicate balance that exists between the possible advantages of tax evasion and the potential risks of detection and consequent legal ramifications (Allingham & Sandmo, 1972; Magiya, 2014). The argument emphasises how important it is for people to be motivated to follow their duties by enforcement and the subsequent application of fines. The flexibility of the framework adds to its intrinsic value because it can be customised to fit a variety of situations, including the intricate world of tax compliance for small business owners.

It is imperative to acknowledge that the Theory of Individual Choice is not without limitations. The above-described method sufficiently addresses the rational computations that people use to make tax-related decisions. It ignores, therefore, the moral and intrinsic incentives that may potentially have an impact on decisions about tax compliance. The approach may overlook the moral and societal factors that frequently influence taxpayers' decisions because it mainly depends on the use of financial penalties and external enforcement methods (Magiya, 2014). The idea that tax evasion follows a uniform logic fails to account for the wide range of motivations and actions that different taxpayer groups exhibit.

The Theory of Individual Choice serves as the fundamental framework for this study, which looks into the topic of tax evasion among small business owners in Moshi Municipality. When faced with the challenge of weighing the advantages of tax evasion against the possible penalties, the owners of the firms demonstrate logical decision-making processes that are in line with the theoretical framework proposed by Allingham and Sandmo. The theory's emphasis on the cost of complying with

regulations is very important because it aligns with the finding that complex tax structures and high compliance expenses are key factors that contribute to tax evasion in the area that is being studied (Magiya, 2014). This theoretical paradigm's application makes it easier to analyse the complex behavioural processes that underpin tax evasion in detail. This paradigm provides a lens through which scholars can study the intricate relationships between the expenses associated with compliance, enforcement actions, and small business owners' tax behaviours.

Thus, the theory was selected due to its ability to depict the correlation between numerous factors that may potentially lead to tax evasion. According to the theory, those who pay taxes are more likely to engage in tax evasion if they believe that complying with tax laws will cost a lot of money. Furthermore, it has been discovered that the existence of complex and burdensome tax systems and procedures fosters an environment conducive to tax evasion. In addition, people who believe that tax rates are excessively high and punitive are more likely to evade taxes.

The theory directly informs the first objective of the study: to examine the strategies employed by small enterprise owners for tax evasion. It provides a rationale for why small business owners might choose to evade taxes, considering the balance between the benefits of evasion and the risks of detection. This theoretical lens helps to explore the specific strategies they adopt in this rational decision-making process.

In addressing the second objective: determining the perception of retail enterprise owners on tax compliance; the Theory of Individual Choice helps to understand the cognitive processes behind their compliance decisions. It offers insights into how perceptions of enforcement, penalty severity and the benefits of evasion influence their attitudes towards tax compliance.

For the third objective: examining determinants for tax evasion among small enterprises owners; this theory is crucial as it underscores the role of enforcement and the perceived cost of compliance in influencing the decision to evade taxes. This theory helps in dissecting the various factors that contribute to tax evasion, such as the complexity of tax structures, compliance costs, and perceptions of tax rates.

While the Theory of Individual Choice is instrumental in explaining the rational calculations behind tax-related decisions, it is essential to acknowledge its limitations.

The theory predominantly focuses on financial penalties and external enforcement as motivators for compliance, potentially overlooking the moral, social, and intrinsic factors that can also impact tax compliance decisions. This study, therefore, calls for a broader consideration of these additional factors, recognizing that tax evasion behaviours are influenced by a complex interplay of both rational calculations and ethical considerations.

2.2.2 Theory of Planned Behaviour

The Theory of Planned Behaviour, introduced by Ajzen (1991), posits that an individual's behaviour is influenced by their intention, which is shaped by attitudes towards the behaviour, subjective norms and perceived behavioural control. This framework is vital for understanding the multifaceted nature of tax compliance decisions.

When examining tax evasion strategies among small enterprise owners, the Theory of Planned Behaviour, as supported by Fishbein and Ajzen (1975), provides insights into how their attitudes, influenced by personal and societal norms, and their perceived ability to manage tax affairs, drive their evasion tactics. For understanding retail shop owners' perceptions of tax compliance, Ajzen's theory (1991) helps to analyse how their personal beliefs, societal pressures and perceptions of the ease or difficulty of tax compliance shape their attitudes and behaviours. In exploring determinants of tax evasion among small enterprise owners, this theory, further elaborated by Armitage and Conner (2001), complements the Theory of Individual Choice by considering subjective norms and perceived control, alongside rational calculations.

Integrating the Theory of Individual Choice with the Theory of Planned Behaviour offers a comprehensive framework. The Theory of Individual Choice (Allingham & Sandmo, 1972; Magiya, 2014) focuses on rational decision-making, while the Theory of Planned Behaviour (Ajzen, 1991; Fishbein & Ajzen, 1975; Armitage & Conner, 2001) expands the scope to include social influences and perceived control. This combination provides a robust theoretical basis for investigating tax evasion in Moshi Municipality's small enterprise sector.

In conclusion, the Theory of Individual Choice serves as a fundamental framework for this study, allowing for a detailed analysis of the behavioural processes

underpinning tax evasion among small retail enterprises in Moshi Municipality. Its application facilitates a deeper understanding of the intricate relationships between compliance costs, enforcement actions, and tax behaviours, while also acknowledging the need to consider a wider range of motivational factors.

2.3 Empirical Literature Review

2.3.1 Strategies employed in tax evasion

Masawa (2017) conducted a comprehensive analysis of the tax evasion strategies utilised by small business owners in Tanzania, alongside the factors influencing voluntary tax compliance. Employing a robust empirical methodology, the study offered a multifaceted perspective on the SME tax environment through factor, regression, and descriptive analyses. It was found that small and medium-sized business owners frequently resorted to document falsification as a means of evading taxes. Additionally, the study highlighted the pivotal role of taxpayer trust, the efficacy of public governance, fairness in tax laws, and the quality of services provided by the Tanzania Revenue Authority (TRA) in promoting voluntary compliance. The research suggested targeted reforms aimed at enhancing the fairness and transparency of tax legislation and bolstering the service standards of the TRA. These reforms, coupled with vigorous public awareness campaigns and improved public governance, were posited as strategies to cultivate taxpayer trust and consequently, elevate voluntary tax compliance. Despite these valuable insights, the study's primary limitation lies in its regional focus, primarily centring on Dar es Salaam, which raises questions about the generalizability of its findings to other regions in Tanzania and beyond. Furthermore, the study's concentration on traditional tax evasion methods and compliance factors may not fully capture the evolving dynamics shaped by technological advancements and global trends. Future research could benefit from exploring how these emerging trends impact tax evasion strategies and compliance attitudes, particularly in different Tanzanian locales and in the context of increasing digitalization and international tax policy developments.

Williams (2021) conducted a detailed investigation in Accra, Ghana, focusing on the specific tax evasion strategies employed by small business owners. Through interviews with 75 proprietors, the study identified common practices such as underreporting income and exaggerating expenses. A key finding was the role of cash

transaction opacity in facilitating these evasion tactics and minimising detection risks. The research also highlighted emerging digital developments that may challenge these traditional methods of tax avoidance. While Williams' study offers a clear understanding of various tax evasion strategies, its geographical focus on Accra limits its broader applicability. It does not extensively explore how these strategies are adapting in response to new legislative measures and tax enforcement tools, particularly in different settings like Moshi Municipality. This gap indicates the need for further research to understand how evolving tax environments and enforcement approaches impact evasion tactics in various regions.

Turner (2022) presented a study on the modern strategies of tax evasion used by small firms in Lagos, Nigeria. This research delved into the interplay between technical and socioeconomic factors in tax evasion. A significant aspect of Turner's findings was the increasing complexity of evasion methods, especially those involving cross-border tax planning enabled by digital technologies and globalisation. The study underscored the necessity for advanced and adaptable tax enforcement mechanisms, highlighting the complex nexus between technological progress and tax evasion. However, while offering a contemporary perspective on tax evasion strategies, Turner's research predominantly focuses on the technological dimensions. The study leaves a gap in understanding how these digital strategies are being assimilated and manifested in different economic and regulatory environments, such as in Moshi Municipality. This points to the need for further explorations into how small businesses in varied settings are responding to and integrating these advanced tax evasion techniques within their operations.

2.3.2 Perception of small retail enterprise owners on tax compliance

Mwangi (2014) undertook an insightful study to identify factors influencing tax compliance among SMEs in a particular area of Kenya. Utilising both questionnaires and interviews, the study effectively illuminated the challenges in tax compliance faced by SMEs. Key barriers identified included the multiplicity of tax heads and high tax rates, coupled with a lack of accessible information on tax issues, making navigation through the tax environment daunting for SMEs. The study recommended a comprehensive revision of the tax code to enhance its SME-friendliness, focusing on streamlining tax heads and demystifying tax rates. However, the geographic

limitation of Mwangi's study to a specific Kenyan region constrains the generalizability of its conclusions. The complexity of tax compliance, influenced by a convergence of economic, social, and legal factors, calls for context-specific research to derive insights applicable to diverse settings, including the examination of the role of technology and administrative efficiency in tax compliance.

Johnson (2019) conducted a qualitative study examining the perspectives of retail sector owners in Nairobi, Kenya, on tax compliance. The study, involving fifty retail shop owners, revealed a spectrum of attitudes, with perceived equity in the tax system and the complexity of tax laws being significant influencers. Concerns were raised about the transparency of tax laws and the perceived direct benefits of tax contributions. While Johnson's research provides essential insights, it leaves a knowledge gap regarding how these attitudes translate into actual tax compliance or evasion behaviours, particularly in different geographic and economic contexts like Moshi Municipality.

Adams (2022) presented groundbreaking research on the perspectives of retail store owners in Kampala, Uganda, regarding tax compliance in the digital era. This study unveiled a complex scenario where perceptions of tax compliance were closely linked to technological literacy, access to information, and the transparency of tax authorities. Adams' research painted a detailed picture of evolving attitudes in the retail sector, but its focus on the Ugandan context limits its broader applicability. Further investigation is needed to fully understand the nuances and uniqueness of retail store owners' views on tax compliance in distinct environments such as Tanzania.

In a comprehensive study, Newman (2018) explored the impact of tax knowledge on tax compliance among SMEs in a specific developing country. The research uncovered a prevalent pattern of tax law violations, linked to a fundamental lack of understanding of tax obligations among small and medium-sized enterprises. While SMEs demonstrated a basic grasp of tax regulations, their knowledge was found to be limited. Crucially, Newman's study revealed that merely increasing tax literacy was not enough to foster higher compliance, especially against the backdrop of pervasive corruption and high tax rates. The research advocated for a multi-faceted approach to improve compliance, combining systemic reforms to reduce corruption and adjust tax

rates with efforts to enhance tax literacy among SMEs. Despite its informative nature, Newman's study was limited in its focus on a singular developing country, raising questions about the applicability of its findings in different cultural, economic, and regulatory contexts. This gap highlights the need for more region-specific research. Moreover, the study's emphasis on tax knowledge and attitudes opens avenues for further investigation into other factors influencing SMEs' tax compliance, such as technological advancements and administrative processes.

Wahabu (2017) conducted an extensive study on SMEs' compliance with tax legislation in the Tamale Metropolis. Utilising a descriptive survey and cross-sectional methodology, Wahabu analysed data from 265 SMEs, uncovering a significant lack of tax expertise among owners and managers. The study found that compliance levels were heavily influenced by factors such as tax rates, corporate profit margins, opinions on government spending, and the complexity of tax laws. The findings led to recommendations for a varied approach to address these challenges, including increasing government spending transparency, simplifying tax laws, and implementing targeted educational programs to boost tax literacy. Adjusting tax rates to better accommodate SMEs, particularly those with narrow profit margins, was also suggested. While Wahabu's study provides an in-depth analysis, its applicability is limited to the Tamale Metropolis. The unique physical and economic context of this area raises questions about the generalizability of the findings to other locations with different characteristics. Additionally, the study's lack of focus on sector-specific challenges within the broad category of SMEs suggests the need for more detailed research that considers the diversity within this business classification and explores the varying impacts of tax policies across different types of SMEs.

2.3.3 Determinants for TAX evasion

Smith (2020) delved into the motivations behind tax evasion among small business owners in Johannesburg, South Africa, using a qualitative approach to target this demographic. The study identified key factors influencing tax compliance, such as the perceived complexity of the tax system, the discerned value of taxes paid, and administrative barriers. A significant finding was the inclination of business owners to evade taxes when the system was deemed overly complex or when they could not

clearly see the benefits of their contributions. While Smith's investigation provides useful insights, it primarily focuses on the South African context, leaving a gap in understanding the unique, localised factors driving tax evasion in regions like Tanzania, which have different economic and regulatory environments.

Kim (2022) explored the evolving dynamics of tax fraud among small business owners in Seoul, South Korea, highlighting how technological advancements, globalisation, and the evolution of financial instruments have transformed tax evasion practices. The study brought to light the complexities of digital and online currency transactions, uncovering a novel domain of tax evasion that challenges conventional beliefs. Kim's research is insightful in identifying new trends in tax evasion, but its focus remains largely on technological factors. There is a noticeable absence of research offering a holistic view of tax evasion, encompassing socio-economic and regulatory factors, particularly in diverse settings like Moshi Municipality.

Magiya (2016) conducted a study in the Nairobi East Tax District, examining factors contributing to tax evasion and compliance. Using a linear regression profit model, the study identified key characteristics related to tax compliance, such as the number of taxpayers, taxpayer awareness, and government accountability in providing public goods and services. The findings suggested that increased taxpayer education, simplification of the tax system, and a better understanding of tax compliance behaviour are essential for improving tax collection and compliance. While Magiya's research contributes valuable insights, the study's applicability to other regions, particularly those with different economic and regulatory climates, remains to be explored.

Ojeka (2015) undertook a comprehensive analysis in Zaria, North-Central Nigeria, to determine the factors leading SMEs to neglect their tax obligations. The study, employing a quantitative approach, pinpointed complex filing procedures and high tax rates as primary drivers of tax non-compliance among SMEs. Other factors like inadequate education and double taxation were also identified, though their impacts were considered secondary to the more critical issues of tax system complexity and rate levels. Ojeka recommended a complete overhaul of the tax code to simplify it and suggested lowering tax rates alongside improving filing procedures to enhance compliance. While the study sheds light on SMEs' tax noncompliance in Zaria, its

generalizability to other geographic and economic contexts, such as Moshi Municipality, is limited. The study's focus on North Central Nigeria calls for additional research in regions with distinct political, economic, and social settings. Moreover, there is a need for more detailed studies that examine how these factors interplay and impact specific sectors within the SME group.

2.4 Research Gap

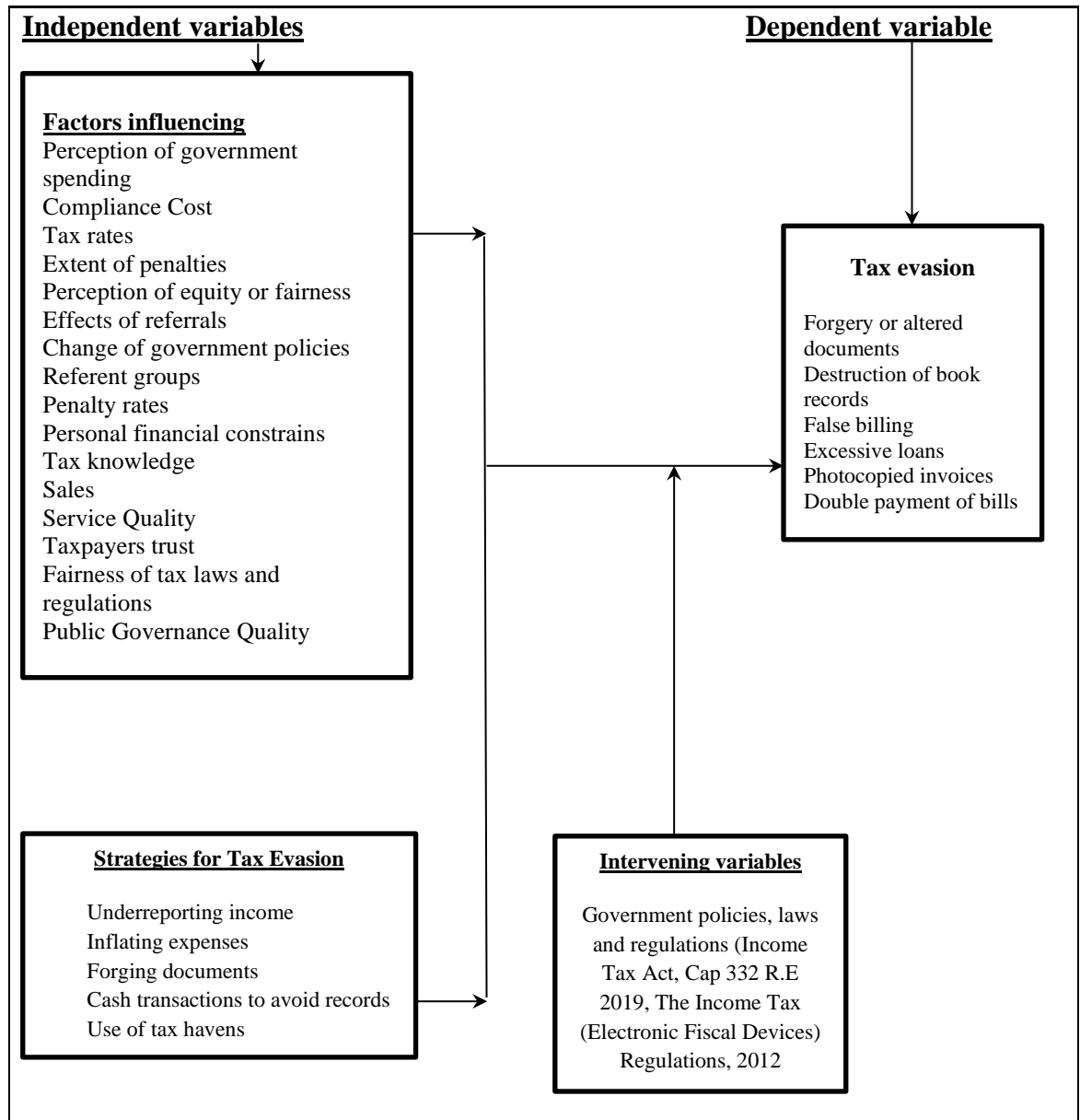
Despite the extensive body of research on tax evasion and compliance among SMEs, several critical gaps remain unaddressed, as highlighted in various studies. Masawa (2017), Williams (2021), and Turner (2022) have provided valuable insights into tax evasion strategies, yet their findings are predominantly region-specific and do not fully encapsulate the impact of evolving global trends and technological advancements, particularly in settings like Moshi Municipality. Similarly, studies like Mwangi (2014), Johnson (2019), and Adams (2022) have explored the perceptions of tax compliance among retail shop owners, but they are limited in geographic scope, calling for more contextualised research in different economic environments, including Tanzania. Moreover, Newman (2018) and Wahabu (2017) have investigated the effect of tax knowledge and administrative challenges on SME compliance. However, their focus on specific regions underscores the need for research that considers the diverse and multifaceted nature of tax compliance across various economic and regulatory landscapes. Smith's (2020) study in Johannesburg and Kim's (2022) research in Seoul highlight important factors driving tax evasion, yet they lack a comprehensive view that integrates socio-economic and regulatory components in diverse settings.

Magiya (2016) and Ojeka (2015) offer insights into taxpayer compliance and the determinants of tax evasion in Nairobi and North-Central Nigeria, respectively. However, their studies' regional focus and the limited examination of the interplay of various factors within different SME sectors indicate a significant research gap. There is a palpable need for a more holistic and encompassing study that addresses the nuances of tax evasion and compliance, especially in areas with distinct characteristics like Moshi Municipality. The existing literature reveals a consistent theme, the need for research that transcends regional limitations and offers a comprehensive understanding of the dynamics of tax evasion and compliance among

SMEs especially small retail enterprises in varied contexts. This includes an exploration of how technological advancements, globalisation, and socio-economic factors collectively shape tax behaviours in diverse regulatory environments.

2.5 Conceptual Framework

The conceptual framework presents the relationship between the many components in the subject topic. This research assumes that the factors under discussion have a direct impact on Tanzanian small enterprise owners' tax evasion. The independent variables are societal, economic, and individual factors. Economic factors include things like government spending, compliance costs, tax rates, and the harshness of penalties. Referent groups, changes in governmental policy, the effect of referrals, and the idea of equity or fairness are examples of social influences. Individual factors include sales, tax expertise, individual budgetary constraints, and penalty rates. The dependent variable in this study is small enterprise owners' tax evasion; the intervening factors are government rules and regulations. Government policies can thereby lessen the issue of tax evasion. However, in order to improve tax compliance, the government must change tax laws, rules, and regulations if no tactic proves successful in combating tax evasion.



(Source: Researcher Constructions 2023)

Figure 1 : The Conceptual Framework on the factors influencing tax evasion in Moshi Municipality, Tanzania

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The cross-sectional research approach was chosen for the study since it made it possible to analyse multiple elements in-depth and simultaneously. This strategy allowed for the investigation of the intricate nuances of tax evasion techniques, attitudes toward tax compliance, and the underlying factors influencing these dynamics among small business owners as recommended by Creswell, (2008). This approach saves money and time because all the data was collected at once. To get an idea of the common beliefs, habits, and trends, the study used a variety of methods, such as surveys and interviews. Rich and contextually anchored insights were made available as a result, solidifying the basis for well-informed assessments and conclusions.

3.2 Geographical Coverage

The Kilimanjaro region's Moshi Municipality served as the study's site. The municipality of Moshi is the capital of the Kilimanjaro region in north eastern Tanzania. The municipality's population density, as of 2017, is 3,409 people per km², with an estimated 201,150 residents. There were 184,292 people living in the municipality as per the 2012 official census. The Moshi Municipality's chosen retail establishments served as the study's sites. The Municipality was chosen for the study because, according to information presented during the annual Taxpayers' Appreciation Week (2019), tax evasion by small- and medium-sized business owners in this region is more common even though tax collection amounts in Moshi are on the rise.

3.3 Population, Sample and Sampling Strategies

3.3.1 Sampling population

The study targeted the retail establishments within Moshi Municipality, a significant economic hub characterised by a diverse range of retail activities. As of 2022, the total number of retail establishments in Moshi Municipality was estimated to be

around 7,500. This population provides a comprehensive perspective on the retail sector's dynamics, particularly regarding tax compliance behaviours.

3.3.2 Sample size

The sample size for this study was set at 380 retail business owners. This figure was derived using the Yamane formula (Yamane, 1967), a widely recognized method for sample size calculation in research studies. The formula is given by:

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

Whereby:

n = estimated individual sample size,

N = total number of people within the study area,

e = level of precision, was 5% used to obtain manageable respondents (Yamane, 1967).

$$n = \frac{7500}{1+7500*0.05^2}$$

$$n = \frac{7500}{1+7500*0.05*0.05}$$

$$n = \frac{7500}{1+7500*0.0025}$$

$$n = \frac{7500}{19.75}$$

$$n = 379.74$$

Therefore, the sample size was 380 respondents.

3.3.3 Sampling techniques

For the selection of participants, a simple random sampling technique was employed. This method, a fundamental form of probability sampling, was chosen for its merit in ensuring that each unit in the target population had an equal chance of selection. This approach mitigates sampling bias and enhances the representativeness of the sample, thus allowing the study's findings to be more generalizable to the entire population of retail business owners in Moshi Municipality.

3.4 Types and Sources of Data

3.4.1 Types of data

Both quantitative and qualitative data were collected. The study gathered quantitative data on the age, income level, sex, and marital status of participants. Meanwhile, the qualitative data covered aspects such as the nature of the businesses, the reasons behind tax avoidance in small businesses, the strategies employed by entrepreneurs to evade taxes, and the obstacles encountered by Tanzania Revenue Authority in their efforts to reduce tax evasion in Moshi Municipality, Tanzania.

3.4.2 Sources of data

The data came from primary and secondary data sources. Primary data on respondents' age, sex, marital status, household income, level of education, and business experience were gathered via a questionnaire. Information about the challenges Tanzania Revenue Authority experienced in lowering tax evasion in Moshi Municipality was gathered using a checklist. Other secondary data, such as the quantity of tax evaders, was gathered with the aid of a documentation review guide because it was not instantly provided by individuals.

3.5 Data Collection Methods

In this study, different data collection methods were used including survey, documentary and interview as explained in the subsequent section below.

3.5.1 Survey method

Survey was deployed to undertake this study with the use of a questionnaire tool which was distributed to each of the 380 owners of small businesses. Both closed-ended and open-ended questions were included in the poll. After meeting them at their places of work, respondents were asked if they would like to take part in the survey. Information about their firm was requested of those who consented to take part in the survey. Due to time and respondent constraints, a questionnaire was required for this study; consequently, a large number of persons may receive questionnaires at once.

3.5.2 Interview method

The Key Informants were chosen based on their individual business experiences as well as the variables impacting tax evasion among Moshi Municipality's small

business owners. Three (3) in-person interviews with small business owners and two (2) in-person interviews with TRA tax officers were conducted. The information supplied by the primary informant was noted in a notebook.

3.6 Reliability and Validity of Data

As a general rule, an alpha coefficient value of 0.7 or above is required for a construct to be considered genuine, according to Mugenda and Mugenda (2009). Thus, Cronbach's alpha (α) coefficient was used to pretest the instruments for internal consistency. It was determined that the questionnaire's reliability was acceptable when a Cronbach's alpha of 0.701 was attained. The researcher checked that all of the research instruments addressed the predetermined objectives in order to verify the authenticity of the data.

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

3.7 Assessment of Collinearity and Multicollinearity among Independent Variables

Table 2 : Collinearity and Multicollinearity test

Variables	VIF	Tolerance
Tax knowledge	2.3	0.435
Compliance Cost	1.8	0.556
Tax rates	2.1	0.476
Extent of penalties	1.9	0.526
Perception of equity or fairness	2.4	0.417
Effects of referrals	1.7	0.588
Change of government	2.0	0.500
Penalty rates	2.2	0.455
Personal financial constraints	1.6	0.625
Sales	2.5	0.400
Perception of government spending	1.9	0.526
Public governance quality	2.1	0.476
Taxpayers Trust	2.6	0.385
Fairness of tax laws and regulations	2.0	0.500
Service Quality	2.2	0.455

Table 2, which illustrates the reliability and consistency of the multiple regression model that was employed, is an essential point of reference for the analysis in this thesis. Each variable that represented various aspects influencing tax evasion was thoroughly examined in order to rule out collinearity and multicollinearity. Important tools for this study are the Variance Inflation Factor (VIF) and tolerance metrics. Every variable consistently shows a VIF below the cutoff of 10, indicating a lack of multicollinearity and ensuring that every variable adds a unique perspective to the model instead of just reflecting other variables.

By demonstrating how each variable can stand alone and make a distinct contribution to our understanding of the dynamics of tax evasion, the tolerance levels lend even more credence to this assertion. The comprehensive examination and subsequent validation of the absence of noteworthy multicollinearity bolster the robustness of our findings. The intricacy and diversity of tax evasion among small business owners, in addition to a solid analytical foundation, bolster the results drawn. This thesis provides a comprehensive and multifaceted knowledge of the complexity of tax evasion, which is strengthened by the distinct contributions made by each variable, as demonstrated by the collinearity and multicollinearity assessment.

3.8 Data Analysis

The study employed a mixed-approaches strategy to analyse data utilising both quantitative and qualitative techniques. The data gathered through surveys and interviews were coded and analysed using version 23 of the Statistical Package for the Social Sciences (SPSS).

The amalgamation of both qualitative and quantitative approaches enabled a more comprehensive analysis of the data. While quantitative tools made it simpler to find patterns and connections among variables, qualitative methods increased our understanding of the myriad factors that contribute to tax evasion.

3.8.1 Strategies employed by small enterprises owners in evading tax

The many strategies that small business owners employ to evade taxes were understood through the application of descriptive statistics. More specifically, frequency distributions and percentages were computed to identify the most common

tax evasion strategies in the study region. These methods offer a simplified, compressed view of the data, making it easier to identify trends and patterns.

3.8.2 Perception of retail shops owners on tax compliance

Using principal component analysis, the attitudes of retail store owners toward tax compliance were ascertained. We can identify the critical components that account for retail businesses owners' perceptions by using a statistical method that reduces the dimensionality of the data while preserving its variance.

3.8.3 Determinants of tax evasion

Multiple linear regression analysis was used to look at the factors influencing tax evasion among small business owners in the study area. With the help of this model, we may determine the strength and direction of the correlations between a variety of independent variables (such tax rates, government spending, compliance costs, and so forth) and the dependent variable (tax evasion).

The regression model is:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \dots + \beta_{16}X_{16} + e$$

Here, Y represents the dependent variable (Tax evasion), X1 to X16 are the independent variables (factors influencing tax evasion), β_0 is the Y-intercept of the regression line (the predicted value of Y when all independent variables are zero), β_1 to β_{16} are the coefficients of the independent variables (representing the change in Y associated with a one-unit change in the corresponding independent variable), and e is the error term (representing the difference between the observed and predicted values of Y). This model provides a robust framework for identifying the key drivers of tax evasion and quantifying their effects.

Whereby;

Y= dependent variables in this case (Tax evasion in TZS)

$\beta_1, \beta_2, \beta_3$, = Regression constants

e = Error term

X₁= Government spending in TZS

X₂= Compliance Cost in TZS

X₃= Tax rates in TZS

- X₄= Extent of penalties in TZS
 X₅= Perception of equity or fairness
 X₆= Effects of referrals
 X₇= Change of government policies
 X₈= Referent groups
 X₉= Penalty rates in TZS
 X₁₀ = Income TZS
 X₁₁ = Sales in TZS
 X₁₂= Education
 X₁₃= Service Quality
 X₁₄= Taxpayers Trust
 X₁₅= Fairness of tax laws and regulations
 X₁₆ = Public governance quality

Table 3 : Measurement and description of Variables

Variable	Description
Y (Tax Evasion)	Amount of tax evaded (in TZS)
X1 (Government Spending)	Perception of government spending (1=Bad, 2=Good)
X2 (Compliance Cost)	Cost of compliance with tax laws (in TZS)
X3 (Tax Rates)	Amount of tax rates (in TZS)
X4 (Extent of Penalties)	Extent of penalties for tax evasion (in TZS)
X5 (Perception of Equity or Fairness)	Perception of tax system fairness (1=Bad, 2=Good)
X6 (Effects of Referrals)	Effects of referrals on taxpayer behaviour (1=Bad, 2=Good)
X7 (Change of Government Policies)	Changes in government policies (0=No Change, 1=Change)
X8 (Referent Groups)	Influence of referent groups (1=Bad, 2=Good)
X9 (Penalty Rates)	Rates of penalties for tax evasion (in TZS)
X10 (Income)	Income level (in TZS)
X11 (Sales)	Sales amount (in TZS)
X12 (Education)	Level of education (1=Low, 2=High)
X13 (Service Quality)	Perception of service quality (1=Bad, 2=Good)
X14 (Taxpayers Trust)	Level of trust in the tax system (1=Low, 2=High)
X15 (Fairness of Tax Laws and Regulations)	Perception of fairness of tax laws (1=Bad, 2=Good)
X16 (Public Governance Quality)	Perception of public governance quality (1=Low, 2=High)

CHAPTER FOUR

4.0 FINDINGS AND DISCUSSION

4.1 Socio-demographic Characteristics of Retail Shop Owners

This study only included owners of retail stores, and while other factors such as age are the primary determinants of decision-making, social demographic aspects are a formative and motivating element to examine the interest of the responder in tax evasion. Thus, a social demographic attribute influences learning growth as well as actions, norms, rights, obligations, and responsibilities. 380 people participated in the study. A response rate of 50% is deemed adequate, 60% good, and more than 70% is deemed extremely satisfactory, according to Mugenda and Mugenda (2003). The assertion of (Kothari, 2004) that a response rate of 50% is deemed satisfactory and a rate of more than 70% is deemed very good is also supported by this. This supposition implies that the study's 100% response rate was a great response rate that will yield long-lasting outcomes.

Table 4 : Social-demographic characteristics of the Respondents (n=380)

Age category	Frequency (n)	Percent (%)
18-30 years	214	56.3
31-40 years	84	22.1
41-50 years	70	18.4
51 years and above	12	3.2
Total	380	100
Number of children		
None	70	18.4
1	88	23.2
2	68	17.9
3	102	26.8
Above 3	53	13.7
Total	180	100
Sex of the respondents		
Male	150	39.5
Female	230	60.5
Total	380	100
Marital status		
Single	142	37.4
Married	164	43.2
Widow / Widower	12	3.2
Divorce	38	10.0
Separated	24	6.3
Total	380	100
Education level of the respondents		
Primary school	20	5.3
Ordinary level	50	13.2
Advanced level	30	7.9
Certificate level	82	21.6
Diploma	128	33.7
bachelor Degree	44	11.6
Master degree	26	6.8
Total	380	100
Occupation		
Agriculture	54	14.2
Business	104	27.4
Employed	134	35.2
Housewives	88	23.2
Total	380	100
Source of income		
Family donation	66	17.4
Business	194	51.1
Farming	40	10.6
Job	80	21.1
Total	380	100

4.1.1 Age of the respondents

The age distribution of research participants is seen in Table 4 above, with 56.3% of respondents falling into the 18–30-year age bracket. The respondents' ages were distributed as follows: 22.1% were between the ages of 31 and 40, 18.4% were between the ages of 41 and 50, and just 3.2% were older than 51, according to the results. The fact that most of the respondents are young shows that they can handle managing household and other duties. This becomes an essential part of development and responsibility. A tax of some type should also be applied to the majority of respondents, as the data shows that they were in their peak working years (between the ages of 20 and 35 and 36 and 50). All of the respondents to these questions were retail store owners, as was previously stated. The study's findings concur with those of the interviewers, who said;

“...It's true that most retail store owners join with the goal of eventually improving their financial status because they are often in their prime. This may also contribute to the explanation of why the majority of them use tax evasion as a way to give themselves more ability to do so...” (Respondents, Moshi Municipality, 16th July, 2020).

These study results are consistent with those of Miller (2019), who studied the relationship between gender and business. Miller's study found that since the majority of retail store owners are under 50 years old and have room to grow personally, they should be considered for any taxes that are imposed on them in our community because they can make a positive impact on all aspects of life.

4.1.2 Number of children of the respondents

Their family must be planned, their education must be excellent, and their lifestyle must be healthy. To protect yourself from discrimination, make family plans. Individual roles and obligations are significantly impacted by the number of family members. Among the participants, 26.8% had a household with three children, followed by 17.9% with two, 23.2% with one and 18.4% with no children at all, and 13.7% with more than three, according to the survey results shown in Table 4. Obviously, having a larger family is related to higher responsibility levels, but this also suggests that the majority of retail store owners find it difficult to support their kids.

Apart from their offspring, the study's results showed that 43.2% of participants had one to three dependents, 26.8% had four to six dependents, 11.1% had no dependents at all, and 18.9% had more than six dependents residing at their residence. The results of the poll showed that more retail business owners than families were parents, and that they also moved with a higher number of children living with them.

Their active commitments, as shown by a finding in Table 2, may contribute to the explanation of their decision to withhold taxes. This study finding is in line with the findings from interview where one respondent said;

“...I believe that most store owners, whether they are married or have children, do what they do because they have to support their families. They are also usually having money problems that make them think about tax evasion as a way to get more money and meet their families' basic needs. This also makes it easier for them to run their own businesses, since they always think paying taxes is wrong given their current financial situation...”
(Respondents, Moshi Municipality, 28th July, 2022).

The present study's findings are consistent with those of Ibrahim and Allen (2007), who discovered that it is highly improbable to come across a family in poor countries, especially in sub-Saharan Africa, that has less than three houses and children. According to their research, married couples were found to have more than two children, and the majority of families had more than three households. This results in stress and financial difficulties for those who are responsible for managing the family.

4.1.3 Sex of the respondents

Table 4 shows that 39.5% of participants in this study were men and 60.5% of participants were women. This implies that compared to male owners, there were more female small and medium-sized business owners. SMEs as a subsector shows characteristics particular to gender. This may indicate that women are more inclined than men to pursue careers in business. The Ministry of Health and Social Welfare (2012) states that there are more women than men in Tanzania, which has an effect on a number of industries, including small companies. According to Tundui (2012), women-owned businesses account for almost 43% of Tanzania's small businesses. They account for up to 40% of all newly created jobs and provide roughly 35% of the

country's GDP (Mwakaje, 2011). Nonetheless, the majority of women are employed in small-scale industries like hair salons (Makombe, 2006). The results of Sharma et al. (2012), who discovered that women manage small enterprises in poor countries, support this. Women may now work for themselves and realise their full potential thanks to these small enterprises, which also provide them with flexible funding options and skill sets (Dariansyah, 2021).

4.1.4 Marital Status of the respondents

Table 4 revealed that the respondents' marital status was crucial to understand, as it also affects socioeconomic development and tax evasion among retail store owners. Ten percent are divorced, 3.2% are widowed, 10% are single, and 43.2% of the respondents are married. Additionally, 6.3% of the respondents were separated. Given that the majority of respondents are married, it is evident that retail store owners, who receive benefits, have a lot of responsibilities. These include managing their households and raising their children and other family members. As a result, they are very concerned about their income status and may feel pressured to avoid paying taxes in order to supplement it. The results of this study are consistent with those of the interviewees, who stated;

“Two things that can make it hard for store owners to do other business tasks are having a family and being married. They have to take care of both their husbands and their kids, which makes it hard for them to follow the law and pushes them to find ways to make extra money, like avoiding taxes.”
(Respondents, Moshi Municipality, July, (2022).

The results of this study agree with those of Haile *et al.* (2012), who looked at family responsibilities and tax evasion and found that married business owners are the most likely to not pay their taxes because most people in developing countries don't pay much attention to those facilities. Other studies, like Hennink et al. (2012) and Hermes (2011), have also found that families go through a lot of pain.

According to Ellis *et al.*, (2007) Marriage presents upon the individual a new category which concerns her function concert in each specialty of life, Marriage burdens retail shop owners with heavier household tasks and responsibility which they have to perform as a wife, husband or parents this factor influences them to

evade tax. The study went even further and said that her marriage and family duties have made it much harder for her to participate economically in a middle-class family. One way to measure empowerment is by marital status (not married, married, divorced, or separated). Duflo (2003) found that married retail shop owners are more likely to be involved in household decisions and that marriage has a positive effect on tax compliance. Being the head of the household should have a positive effect on empowerment because it gives you power. This study showed that store owners can easily avoid paying taxes in order to make more money when they are trying to fix their money troubles.

4.1.5 Education level of the respondents

When Haile *et al.* (2012) looked at family responsibilities and tax evasion, they found that married business owners are most likely to not pay their taxes because most people in developing countries don't pay much attention to those kinds of services. These results agree with those findings. Couples and families go through a lot of pain, according to studies like Hennink *et al.* (2012) and Hermes (2011).

Ellis *et al.* (2007) say that marriage puts a person into a new group that affects how she acts in all areas of her life. When people get married, they take on more responsibilities and housework as a wife, husband, or parent. Because of this, they may not pay their taxes. More than that, the study said that her marriage and family chores have made it harder for her to work in a middle-class family. Status of marriage (not married, married, divorced, or separated) is one way to measure strength. According to Duflo (2003), married store owners are more likely to be involved in making choices about the household and are more likely to pay their taxes. Because it gives you power, being the head of the home should make you feel more empowered. If store owners are having trouble with money, this study showed that they can easily avoid paying taxes in order to make more money.

4.1.6 Occupation of the respondents

A person's job is the set of tasks they do to help the business reach its goals. Table 4 shows what the study found. It shows that 41.6% of those who answered were self-employed in some way, like by farming or running other businesses. There were 35.2% who worked and 23.2% who stayed home. The people who answered were

mostly self-employed, then those who worked for someone else, and finally those who were stay-at-home moms. To put it another way, very few of the people who answered were both working and staying at home. People said the same things in interviews that this study backs up with one of the respondents stating that;

“...It is true that most store owners are self-employed and always looking to support their own business or some other form of personal social and economic empowerment. This is because they can't get help from family and friends and usually already have their own business but want to grow and improve it at some point...” (Respondents, Moshi Municipality, 18th July, 2022).

Rudyk (2020) says that most people would rather be self-employed than work for someone else. These people have also worked in other economic activities for a long time, mostly on farms and in small businesses. These study's results match those results. This study found that most small business owners feel pressured to get married, stay home with their kids, and take care of their grown families. People who own these kinds of stores always look to social groups to make them feel better.

4.1.7 Source of income of the respondents

For living a good life and becoming strong, having money is the most important thing. Things get better and people are happy when their families make more money. Things get worse and people are less happy when their family doesn't make as much money. Table 4 shows that 51.1% of the people who answered the survey made most of their money from their business. Another 21.1% had other jobs, 10.6% farms, and 17.4% got all of their money from gifts from family. Most store owners rely on their business as their main source of income, the study found. Just a few shop owners count on their families for help, while most have to work hard to meet their own needs. These things may also make it easy for them to try to avoid paying taxes.

Kuzilwa looked into how loans helped small businesses grow in Tanzania in 2005. What this study found is the same as what that study found. Who said most people who want to start their own business have trouble? This is true even if they say that other family members can afford to support them. So, they have to find other ways to make money, which is why they start cutting taxes.

4.2 Strategies Employed by Small Retail Enterprises Owners in Evading Tax

In order 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 5 : Kind of Tax evasion mostly used by retail shops owners (n=380)

Tax evasion practised	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strongly disagree
Having two sets of records and books	27.4	34.7	30	7.9	0
False or changed records	27.9	48.4	16.8	3.7	3.2
Over or undervaluation of goods	28.9	38.9	21.6	8.4	2.1
Billing and/or bills that aren't true	25.3	30.5	23.7	15.8	4.7
Too many loans to workers, friends, and other people	19.5	35.3	22.6	19.5	3.2
A lot of cash and cashier's checks being used	26.8	36.8	4.7	31.1	0.5
Cashing business checks that have been received	26.3	35.3	10.5	16.8	11.1
copies of bills and papers instead of the originals	23.2	31.1	16.3	25.8	3.7
Personal costs paid for with company money	16.3	26.8	24.7	29.5	2.6
Paying bills twice	17.4	25.3	18.9	32.6	5.8
Checks that have been cashed by more than one person	16.3	26.8	19.5	34.2	3.2

The results showed that 76.3% of respondents said they avoided taxes by using fake or changed documents, 16.8% said they were unsure, and 6.7% said they disagreed. The results showed that 67.8% of respondents agreed that overvaluing or undervaluing assets is one method they employ to avoid paying taxes, while 21.6% were unsure and 10.5% disagreed. These results also align with the understandings gleaned from qualitative interviews. According to one interviewee:

"In my circle, it's no secret that people resort to unconventional methods to navigate the complexities of the tax system. False or tampered documents seem to be a popular choice among many. The percentage from the survey isn't surprising to me at all. I believe that if the system were more transparent and straightforward, perhaps fewer people would resort to such tactics. But

as things stand, many see this as the easier route, even if it's ethically questionable." (Respondents, Moshi Municipality, 23rd July, 2022).

The study found that 62.1% of respondents indicated they avoid paying taxes in part by keeping two sets of books and records, while 30% were unsure and 7.9% disagreed. The results showed that 62.1% of respondents agreed that using cash and cashier's checks frequently or unusually was one way they avoided paying taxes, while 4.7% were unsure and 31.6% disagreed. According to the results, 61.6% of respondents agreed that one technique to avoid paying taxes is to cash business checks that are received; 10.5% disagreed, and 27.9% were unsure. These results support the inferences made from our qualitative interviews. According to one interviewee;

"The dynamics of tax evasion are complex. I've seen businesses maintaining two sets of books, and it's become a norm for many. Frequent cash transactions or using cashier's checks is another method I've observed in the community. It provides a layer of opacity, making financial tracking harder. Then there's the act of immediately cashing business checks, another way to keep money flowing under the radar. The survey results resonate with what's happening on the ground. There's a clear need for more awareness and reforms to change these practices."(Respondents, Moshi Municipality, 25th July, 2022).

According to the results, using false invoices and/or billings is one method of evading taxes; 20.5% of respondents disagreed, 23.7% were unclear, and 55.8% agreed. According to the results, 54.8% of respondents agreed that borrowing big sums of money from friends, coworkers, and other individuals was one way they avoided paying taxes, while 22.6% of respondents were unsure and 22.7% disagreed. The results showed that although 16.3% of respondents expressed scepticism and 29.5% disagreed, 54.3% of respondents agreed that one way they avoid paying taxes is by using copies of invoices and bills rather than the originals.

Additionally, 43.1% of respondents agreed, while 32.1% disagreed and 24.7% were unsure, that utilising corporate funds for personal purposes is one strategy to avoid paying taxes. The findings revealed that while 19.5% of respondents were unsure and

57.4% disagreed, 43.1% of respondents agreed that using several endorsements on checks cashed is one tactic they use to evade taxes. The results showed that 18.9% of respondents were unsure, 38.4% disagreed, and 42.7% of respondents agreed that paying bills in full twice is one technique to avoid paying taxes. These outcomes align with the inferred qualitative observations from our interviews. One interviewee said that;

"Over the years, I've noticed certain practices gain traction among business owners. Multiple endorsements on checks, for instance, are used by some to add confusion and make tracking harder. Another curious method I've seen is paying certain bills twice in full. At first glance, it might seem counterintuitive, but when you consider the paper trail it creates, it's clever in its own right. The methods highlighted by the survey are, unfortunately, more common than many would think."(Respondents, Moshi Municipality, 27th July, 2022).

The results of this study are consistent with those of Aanu & Ojochogwu (2012), who also found that most business owners evade taxes in a variety of ways. However, the tax collection authority found that the most common methods of tax avoidance were maintaining two sets of books and records, recording different business records simultaneously, and manipulating records that they shared with the tax authority, particularly prior to tax assessment. And as a result, various tax authorities were compelled to develop new methods, such as the Point of Sale system and the usage of electronic fiscal devices, to ascertain the exact amount of tax that a business must pay. Although the implemented system wasn't entirely effective, it did considerably boost tax revenue in the various locations where it was used.

These findings are consistent with those of Abdullai (2012), who discovered that the majority of East African small company owners try to avoid paying taxes by creating fake or changed business paperwork. In addition, even if the majority of tax investigators are unsuccessful, they think they can outsmart them. Making up fake invoices and billings is the most widely utilised technique to evade paying taxes and collecting unpaid debt.

This result is consistent with that of Abertbach and Christensen (2017), who discovered that the majority of business owners pose as lenders to friends, family, and staff in order to avoid paying taxes that are due. They use the fact that their organisation is badly impacted when they fail to make timely repayments as a justification for distorting their enterprise's tax assessments.

These findings align with the research conducted by Abiola (2012), who examined the many methods employed by small and medium-sized enterprises in Nigeria to avoid paying taxes. Abiola (2012) distinguished three primary methods by which small and medium-sized enterprises avoid paying taxes: maintaining duplicate sets of books and records; fabricating invoices and bills; and using photocopies of invoices and bills in lieu of the originals. This was supported by a different study conducted in 2012 by Abiola and Asiwe, which found that the majority of Nigerian business owners avoid paying taxes by maintaining duplicate sets of books and records, charging clients falsely, forging papers, and utilising copies of invoices and bills in lieu of the originals.

4.3 Perceptions on Tax Compliance by Retail Shop Owners

4.3.1 Tax Identification number ownership and fairness on the tax

The investigator tried to find out if the responders' companies had TINs. Since the TIN is a requirement for every operating business, this was done to confirm that the enterprises are tax registered. Every firm has a personal identity number, according to the results, which are displayed in a table. This was really admirable since it demonstrates that every business owner who took part in the survey had the proper registration information with the government for tax purposes. Considering the tax rates, it is commonly accepted that the primary driver of tax avoidance is high tax rates. The marginal rates of taxation, which compute the benefits from evasion as the entire amount of taxes avoided, establish the incentives for evasion (Kaldor, 1956).

Finding out how much Tanzania's tax rates affect SMEs' tax compliance was the aim of the study. The purpose of the survey was to determine whether Tanzanian small businesses thought the tax rates were too high. Only 15% of respondents disagree with the results, which are shown in the table below, which indicate that 85% of

respondents believe Tanzania has high tax rates. It follows that the majority of small businesses believe the tax rates are too high.

Table 6 : TIN ownership and fairness of tax (n=380)

Statement	Category	Frequency (n)	Percentages (%)
Ownership of tin	Yes	380	100
	No	0	0
	Total	380	100
Fairness on the tax	Tax rates are higher	323	85%
	Tax rates are not higher	57	15%
	Total	380	100

4.3.2 Small business owners perception on tax rates and compliance cost

Small enterprises understanding of the various types of taxes that are typically payable to TRA is the other aspect of the study that was examined. The table below shows the study's findings.

Table 7 : Small business owners understanding on tax (n=380)

Statement	Frequency (n)	Percentages (%)
There are too many kinds of taxes.	361	95
There aren't too many taxes.	19	5
Total	380	100
Tax amount and tax compliance		
Tax to be paid influences compliances	247	65%
Tax to be paid doesn't influence	133	35%
Total	380	100

The results of the research showed that 95% of participants believed there were too many tax heads, with only 5% disagreeing. This clearly demonstrates that the majority of small businesses feel that they are being asked to pay too much taxes. The study also attempted to ascertain whether small business tax compliance was impacted by the Tax amount payable. The researcher sought to determine whether small business compliance was impacted by the amount of tax that must be paid. In order to corroborate these conclusions with our qualitative data, one business owner revealed:

"The sheer number of taxes we're expected to navigate and pay is overwhelming. It's not just about the amount; it's the complexity of it all. Sometimes, it feels like we're more engaged in tax management than actually running our business. And yes, the tax amount does matter. If it's perceived as too high or unfair, some businesses might lean towards non-compliance, either by evading or by delaying payments. Simplification and fairness in the tax system are key to better compliance." (Respondents, Moshi Municipality, 29th July, 2020).

The results, displayed in a table, indicate that 35% of respondents thought that the amount payable had no effect on whether or not individuals filed their taxes, while 65% of respondents thought that the amount of tax that had to be paid directly affected whether or not people filed their taxes. Therefore, the study can conclude that the amount of TRA tax payable significantly affects the compliance level of most small enterprises.

4.3.3 Availability of tax information on calculation of taxes

The definition of tax information, which was defined as the amount of information available to taxpayers that permits them to engage voluntarily without being coerced by TRA authorities, was aided by the literature research conducted in chapter two of this study. The study examined how simple it was for taxpayers to obtain tax information, how this accessibility affected taxpayer compliance, and how accurately a business could compute its taxes using the available data.

Table 8 : Tax information and estimation (n=380)

Tax information and compliance	Frequency (n)	Percentages (%)
Data is easily accessible.	95	25
Not all information is easily accessible.	285	75
Total	380	100
Accurate tax calculation based on information available		
I think they calculate the correct taxes	114	30
I think they do not calculate the correct taxes	42	10
I don't know	228	60
Total	380	100

The purpose of the survey was to determine whether respondents thought it was easy to obtain information regarding tax issues and how to proceed, as well as whether small businesses could accurately compute their taxes using the information at hand. This was an attempt to find out if tax compliance is impacted by the amount of information available.

According to the data, 25% of respondents stated that tax information is easily accessible, while 75% stated that it is not. Thus, it can be said that most taxpayers are unable to accurately compute the tax owed from small businesses and may, as a result, wind up paying the wrong amount based on the tax information that is accessible to them.

4.3.4 Tax compliance cost on tax compliance and benefit of tax

Hiring tax experts adds to the expenses of SMEs in the majority of developing nations, including Tanzania (Harjo *et al.*, 2021). and as a result, even though they might not be familiar with taxes or the filing process, many turn to filing their own taxes. For the majority of small businesses, maintaining books and records is also a significant expense. This study aimed to determine the impact of small business compliance costs on the amount of taxes paid to TRA by owners of small and medium-sized businesses. The respondents were asked to state whether their organisation's overall tax compliance is impacted by the costs associated with compliance.

Table 9 : Tax compliance cost on tax compliance and benefit of tax (n=380)

Extent to which tax compliance cost affects tax compliance	Frequency (n)	Percentage (%)
Not at all	24	6
Less Extent	49	13
Some Extent	87	23
Great Extent	152	40
Very Great extent	68	18
Total	380	100
extent of access to public utilities and services funded by tax	Frequency	Percentage
Not at all	42	11
Less Extent	114	30
Some Extent	133	35
Great Extent	65	17
Very Great extent	25	7
Total	380	100

Based on the data shown above, forty percent of research participants said that their level of compliance was significantly impacted by the expenses of complying. For 23% of the respondents, it was somewhat, for 18% it was very much, for 13% it was somewhat, and for 6% it was not at all. It follows that the majority of small enterprises' compliance levels were significantly impacted by the costs they incurred for tax compliance.

The concept of attitude was defined as a taxpayer's degree of trust in the tax system following a careful review of the literature. When a taxpayer believes that the tax system is unfair, they intentionally evade taxes instead of choosing to comply with the law voluntarily. Thus, the study's objective was to ascertain how the attitudes of small firms in the study area toward taxes affect their adherence to income tax regulations. The availability of tax-funded public utilities to small business owners was one of the many issues that this study looked at. 35% of respondents to the study said that taxes paid by the government partially funded their access to public utilities. Of those surveyed, thirty percent reported having less access to publicly funded utilities, seventeen percent reported having excellent access, eleven percent reported having none at all, and seven percent reported having great access to publicly funded utilities. The study's hypothesis was that when enterprises had widespread access to public utilities, there would be a notable increase in voluntary income tax compliance. Only 59% of those who took part in the poll used public utilities in some way, very much, or both.

4.3.5 Perceptions on tax compliance by retail shop owners

In order to find out how retail store owners in the study area perceived tax compliance, a number of comments were made. The study's conclusions also indicated whether or not respondents thought that tax systems needed to be changed. With a mean score of 2.344 and a standard deviation of 1.02, the results demonstrated that a greater proportion of respondents agreed, suggesting that the tax collection authority needed to be improved.

The results demonstrated that a higher percentage of respondents agreed that the cost of tax compliance has an impact on tax compliance, with a mean score of 2.352 and a standard deviation of 1.2. The study's findings revealed that a higher proportion of respondents disagreed with the statement when asked if they thought having access to

public utilities and services had an effect on tax compliance, with a mean score of 3.013 and a standard deviation of 1.4. This study demonstrated that retail store owners are not too concerned about the presence of public devices in terms of tax compliance.

At a mean score of 2.3.89 and a standard deviation of 1.01, a greater proportion of respondents agreed with the statement about whether tax information influences compliance findings. This illustrates how tax information affects the tax compliance of owners of retail stores. The results addressing the existence of various taxes encouraging tax evasion revealed that a higher percentage of respondents believed that this is the case for retail business owners, with a mean of 2.339 and a Std. D of 1.09. According to this study, a higher percentage of retail store owners are evading taxes since they think they pay several taxes.

The issue of whether tax amount affects compliance yielded a mean score of 2.412 and a standard deviation of 1.3, indicating that a higher percentage of retail business owners think tax amount can influence compliance in addition to whether tax collector authorities are not collecting taxes fairly with a mean score of 2.423 and a standard deviation of 1.15, the findings indicated that a higher proportion of retail business owners think that tax authorities are fair. This suggests that a higher percentage of participants lacked confidence in tax authorities' ability to collect taxes. The average mean of the responses was 2. This indicates that most respondents accepted the statements regarding the tactics used by small business owners in the research region to evade paying taxes. A range of responses is indicated by an SD of 1.

Table 10 : Perceptions on tax compliance by retail shop owners

Statement	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

4.4 Determinants of Tax Evasion

4.4.1 Economic factors influencing tax evasion among small enterprise owners in the study area.

Understanding the economic factors driving tax evasion in the research field was essential to understanding the reasons behind small business owners' tax evasion. The findings indicate that 95.8% of respondents agreed that tax evasion is influenced by small business owners' perceptions of government spending, 4.2% were unclear, and none disagreed. The findings indicate that 80.5% of respondents agreed that compliance costs have an impact on small business tax evasion, whereas 8.3% disagreed with the statement and 11.1% were unclear.

Additionally, the findings indicate that 76.4% of respondents agreed, 18.4% were doubtful, and 5.3% disagreed that tax rates have an effect on small business owners' tax evasion. The findings indicate that 65.8% of respondents agreed that the severity of sanctions affects tax evasion, whereas 10% disagreed with the assertion and 24.2% were unclear. The average mean of the responses was 2. This indicates that the majority of respondents supported the assertions made regarding the impact of the study area's economic circumstances on tax evasion. A range of responses is indicated by an SD of 1.

Table 11 : Economic Factors Influencing Tax Evasion among Small Enterprise Owners. (n=380)

Economic Factors	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strong Agree
Do you think Perception of government spending among small business owners is Influencing Tax Evasion?	47.4	48.4	4.2	0	0
Does Compliance Cost in any way influence Tax Evasion influences among small businesses?	27.9	52.6	11.1	3.2	5.3
Does Tax rate influence 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

These findings are in line with those of Belozyorov & Zabolotskaya (2021), who discovered that most small and medium-sized enterprises refrain from paying taxes due to their perception that the government does not use them efficiently. They consequently downplay the significance of paying taxes in their lives and make every effort to avoid doing so. Because of this, the bulk of tax collection agencies use force to get people to pay taxes, which stokes conflict amongst them, results in inaccurate tax assessments, and shuts down a lot of firms.

These findings are consistent with those of Utomo (2021), who examined the economic determinants of tax evasion. According to Utomo, tax payers' financial circumstances have a big influence on business owners' tax evasion, to the point where tax authorities penalise taxpayers for their tax evasion, which makes things worse for them and makes them more likely to try evading taxes in the future. In order to encourage taxpayers to pay taxes voluntarily and discourage them from dodging taxes in their enterprises, it is urged that they focus on maintaining reasonable penalties based on their economic standing.

This study confirms the findings of Adebisi & Gbegi (2013), who discovered that since most small- and medium-sized business owners are from low-income backgrounds and rely on their enterprises to help them financially, tax compliance

influences tax evasion. Consequently, they naturally consider ways to evade paying taxes when they realise that doing so will impede their ability to prosper financially. Since businesses will automatically close if taxpayers fail to pay taxes, it is stated that the greatest strategy to enhance tax compliance is to establish connections with taxpayers rather than making things more difficult for them.

The findings of Adesina and Uyioghosa (2016), who also discovered that most tax authorities pay little attention to the tax rates and penalties imposed on taxpayers, are consistent with our results. Additionally, they discovered that the current tax rates and penalties are not a true representation of the financial situation of taxpayers, especially small- and medium-sized business owners, who are frequently forced to pay rates that are twice as high as what they can afford in the majority of Africa and other developing countries. This is unjust and adds to their community's tax evasion.

4.4.2 Social factors influencing tax evasion among small enterprise owners in the study area.

Understanding the sociological factors driving tax evasion in the research field was essential to understanding the factors influencing the tax evasion of small business owners. Results reveal that 84.7% of participants thought referent groups had an impact on tax evasion, 9.5% weren't sure, and 6.8% didn't agree. The findings indicate that 70% of respondents believed that changes in government policy are what impact tax evasion, despite the fact that 20.5% of respondents were unclear and 9.5% disagreed with the assertion. The findings indicate that, although 12.1% of respondents disagreed and 32.1% of respondents were undecided, 55.8% of respondents agreed that views on equality and fairness have an impact on tax evasion. The findings demonstrate that while 30% of respondents were doubtful, 31.6% disagreed, and 38.4% of respondents agreed that referrals have an impact on tax evasion. The average mean of the responses was 2. This implies that most respondents agreed with the statements put forth regarding the ways in which societal elements relevant to the research field influence tax evasion. A range of answers is indicated by an SD of 1.

Table 12 : Social factors influencing tax evasion among small enterprise owners in the study area (n=380)

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 present study's findings align with those of Adeyemi (2012), who discovered that a significant proportion of taxpayers, especially those in the early stages of their businesses and small and medium-sized enterprises, hold an unfavourable view of tax equity or fairness, which prompts them to participate in tax evasion. Most business owners said they didn't think the government was spending money wisely at all when asked if they thought it used the taxes they paid properly. This can be as a result of the numerous instances of corruption and inappropriate use of public funds by local government officials, which all serve to promote tax evasion.

The findings of this study are further supported by Aguolu's (2014) results. Who said the majority of taxpayers argue they are paying unjust taxes? When taxpayers do this, they automatically become obligated to produce proof since tax collectors will argue that the majority of people underpay taxes. This usually results in misunderstandings and deters people from supporting the government since they start dodging taxes whenever they can, certain that the case will end in a loss whether it is fair or unjust to them. Because of this, some entrepreneurs will never give up evading taxes.

The findings of this study are in line with those of Ali *et al.* (2015), who discovered that political shifts can affect tax evasion because business owners frequently seize the opportunity to carry on with their operations despite the potential for changes in laws and regulations from the new government, which may be intended to either support or oppose them. This anxiety makes it very simple for individuals to start

dodging taxes, especially in poor countries where toppling governments is a protracted process that profoundly affects people's livelihoods. On the other hand, tax evasion is less widespread in developed countries where citizens are used to seeing one government come and go at a time and where changing administrations are not a huge thing.

Taufik's (2018) findings are also related to these outcomes. According to reports, most people who evade taxes do so by picking up tips from different close friends or relatives. Tax evaders who have been apprehended do not appear to be unaware of the repercussions of not paying taxes, as they have repeatedly claimed to have learnt from other business organisations. This implies that tax authorities might use people who are arrested to spread awareness of the negative effects of not filing taxes.

There is a link between these outcomes and those of Alphayo (2017). They added that tax cheating is a widespread occurrence in the business sector and that small and medium company owners are always coming up with new ways to evade taxes in spite of stringent laws, rules, and enforcement measures against them. Consequently, they advised tax authorities to investigate new channels for possible tax evasion instead of focusing on typical techniques that have already been established, like periodically initiating awareness campaigns to lower tax evasion among small and medium-sized enterprises.

4.4.3 Individual factors influencing tax evasion among small enterprise owners in the study area.

It was crucial to comprehend the specific elements influencing tax evasion in the research area in order to comprehend the causes influencing small business owners' tax evasion. Results show that, while 4.7% disagreed with the assertion, 14.7% were unsure, and 80.5% of respondents agreed that increased penalty rates are what influence tax evasion. Results show that, while 24.7% of respondents were unsure and 10% disagreed with the statement, 65.2% of respondents agreed that personal financial constraints influence tax evasion among business owners. The results show that 57.9% of respondents agreed that business owners' tax evasion is influenced by their lack of tax expertise, 29.5% were unsure, and 12.7% disagreed with the assertion. The results show that while 23.2% of respondents disagreed with the

assertion, 29.5% were unsure, and 47.3% of respondents agreed that business sales influence tax evasion. The responses had an average mean of 2. This suggests that the majority of respondents agreed with the claims made about the specific variables driving tax evasion in the research area. A SD of 1 indicates a range of answers.

Table 13 : Individual factors influencing tax evasion among small enterprise owners in the study area. (n=380)

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 constraints Influencing Tax Evasion among business owners	26.8	38.4	24.7	10	0
Is lack of Tax knowledge is 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

These outcomes align with the World Bank's (2018) findings. They discovered that the majority of small and medium-sized businesses committed tax evasion as a result of their own financial difficulties, which included high family obligations and the poverty levels of other family members. These circumstances made it difficult for them to pay for sanitary bills, school fees, and electricity bills on top of their daily needs for food and shelter. Most small- and medium-sized business owners depend on their companies to support their families and friends, which encourages them to start evading taxes whenever possible.

These findings are in line with those of Richard Bird (2014), who discovered that in certain circumstances, tax payers may believe that their fines are unjust because of individual financial difficulties. It's fascinating to hear that some business owners don't understand the rationale for tax collection; this puts them in a position where they see tax collecting authorities negatively and feel compelled to start dodging taxes. This condition is additionally exacerbated by the fact that most business owners lack the tax understanding required to avoid paying taxes.

The findings of Nyamweza et al. (2014), who recommended that tax collection organisations seek for methods to lower tax rates in order to encourage taxpayers to pay more taxes and to decrease the problem of tax evasion, are consistent with these results. In addition, a number of studies have demonstrated a substantial correlation between rising tax rates and tax evasion, as well as a link between higher tax rates and higher tax aversion. These findings highlight the need for fair tax penalties to be enforced in order to reduce tax evasion and boost tax collection.

This outcome is consistent with Mustapha's (2015) research, which backs small- and medium-sized business owners by claiming that there are circumstances in which they are forced to avoid paying taxes. Additionally, they claimed to have studied the causes of tax cheating and discovered that most taxpayers have poor sales, which makes them lose faith in their business and results in them paying more in taxes than they make. As a result, they feel discouraged from filing taxes and believe they are ineligible due to the nature of their business. Their greatest option, since they must pay taxes, is to devise a plan to prevent having to do so.

4.4.4 TRA service quality influencing tax evasion among small enterprise owners in the study area.

To understand the factors influencing small business owners' tax evasion, it was essential to understand the TRA service quality elements affecting tax evasion in the research area. According to the findings, 94.7% of respondents agreed that TRA is the organisation most willing to help taxpayers and offer timely service; 2.1% disagreed, and 3.2% were unclear. According to the findings, 94.2% of respondents agreed that they receive benefits from the government in exchange for paying taxes, 3.2% were doubtful, and 2.7% disagreed. The findings indicate that 74.8% of participants concurred that extant laws and regulations necessitate them to make greater payments than they earn. 6.3% were unsure, and 18.9% disagreed with the statement. The findings indicate that 74.7% of participants believed their present tax burden was appropriate in light of the high price of social services. 6.3% were unsure, and 18.9% disagreed with the statement.

According to the findings, 79.5% of participants agreed with this statement, while 11.6% disagreed. Furthermore, I pay a fair amount of taxes to the government. Nine

percent of respondents disagreed with the statement. According to the findings, 74.1% of respondents disputed that TRA personnel give taxpayers the required amount of considerate, one-on-one time; 18.4% were doubtful, and 6.8% agreed with the statement. The findings indicate that although 10% of respondents disagreed and 20.5% of respondents were unsure, 69.5% of respondents said TRA had the best ability to carry out the promised service precisely and consistently. The government gives them rather considerable perks in exchange for my taxes.

According to the findings, 62.1% of participants agreed with the statement, 28.4% expressed uncertainty, and 9.5% disagreed. TRA is a trustworthy, transparent, and polite organisation that treats taxpayers with consideration. According to the findings, 16.9% of respondents agreed with the statement, compared to 54.2% who opposed and 28.9% who were undecided. The results showed that 49% of respondents agreed, 32.6% were doubtful, and 18.4% disagreed that the tax system and regulations apply properly to their business. The findings indicate that 48.4% of participants believed the TRA's physical structures, personnel, tools, and marketing collateral were presentable. Of those surveyed, 23.7% were undecided and 27.9% disagreed with the statement.

Table 14 : TRA service quality factors influencing tax evasion among small enterprise owners in the study area. (n=380)

Authorities factors	Percentages				
	Strong Agree	Agree	Neutral	Strong Agree	Strong Agree
I think our local laws and tax structure are reasonable.	15.3	33.7	32.6	16.3	2.1
Considering how much money is spent on social services, the tax burden I pay is reasonable.	25.8	48.9	18.9	6.3	0.0
The government provides me with very little benefits in return for my taxes.	40.5	53.7	3.2	1.6	1.1
I pay the government a fair amount of taxes. Excessively	27.9	51.6	11.6	3.7	5.3
I am required by current rules and regulations to pay more than I make.	29.5	45.3	18.9	4.2	2.1
I receive a fair amount of benefits from the government in return for paying taxes.	24.2	37.9	28.4	9.5	0.0
TRA is a reliable source of information that is open and courteous to taxpayers.	25.8	28.4	28.9	13.7	3.2
The physical facilities, tools, staff, and communication materials of the TRA are all in good condition.	18.4	30.0	23.7	23.2	4.7
TRA is best suited to deliver the promised service with accuracy and reliability.	23.7	45.8	20.5	10	0.0
TRA is really eager to assist taxpayers and offers timely assistance.	38.9	55.8	2.1	1.1	2.1
Employees at TRA provide taxpayers with the necessary compassionate, one-on-one care.	27.9	46.8	18.4	4.2	2.6

These study findings are in line with the findings of Rudyk, (2020). who reported that most taxpayers perceived that poor relationship between business owners and tax collection official is what encourages tax evasion this is so due to the fact that tax collection authorities sometimes requires using unnecessary force to push taxpayers to pay tax instead of using polite way of negotiating through listening to one another views which creates hate and forces tax payers to find every possible to evade tax and

this also forces tax collection authorities to start using force which affects the whole process of collecting taxes and affects economy of the country as well.

These study findings are also supported by the findings of (Micheni, and Jackson, 2013).who reported that most taxpayers fails to pay tax due to poor relationship from tax collection authorities official as sometimes they tend to hate taxpayers due to different personal reason and rust's to unwillingness to help taxpayers and provide prompt services which discourages the whole system of tax collection and results to quarrels and encourages small and medium business owners to think every possible ways to evade tax.

This study findings also links with the findings of Muiru, (2012) who also reported that tax collection authorities they always tend to provide promises they can't keep and always claim to improve their system and listen to their customers complains more effectively and work to improve the system but often tax payers claims the same problem now and then which discourage them when it comes to tax compliance which also in turn increases tax evasion as most of business owners tent to go on their ways dealing with tax issue as evading tax also reduce their complains since they know they are benefiting the other way.

These findings are also related with the findings of Ojochogwu and Stephen (2012) who also reported that most taxpayers as small and medium enterprises owners claimed that tax collection officials are not trustworthy, not transparent and treats taxpayers in a disrespectful manner. This explains why some business owners can easily evade tax. One of the reasons is low cooperation with Tax collection authority's officials which also indicated that if tax officials could maintain good relations with taxpayers could automatically improve tax compliance among small and medium enterprises.

This finding are also correlated with the findings of Olotu, (2012) who reported that most of people evade paying tax as they do not see direct impact of their tax to their community this is due to the fact most of government spending doesn't benefit them directly and due to reported corruption most of taxpayers perceive to receive less from the government in exchange for their tax which also they claim to be reasonably high. This is also supported by Sikayu *et al.*, (2022). Who also cemented that idea

that most taxpayers are unhappy with the tax they pay which encourages most of them to start evading tax. As (Helhel, and Ahmed, 2014) and Rudyk, (2020). Also reported that a higher number of small and medium enterprises owners evade paying tax due to higher tax rates which often doesn't resonate with the nature and sales of the business.

4.4.5 Results from multiple regression analysis

The study area examines various factors that contribute to tax evasion. These factors include tax knowledge, compliance cost, tax rates, penalties, perception of equity or fairness, effects of referrals, changes in government, referent groups, penalty rates, personal financial constraints, sales, perception of government spending, public governance quality, taxpayers' trust, fairness of tax laws and regulations, and service quality. These factors collectively influence the predictor variable. The coefficients table presents the regression equations. In the context of unstandardized coefficients, the "a" coefficient is represented by the Constant (3.556). The remaining values within this column correspond to the coefficients denoted as "b".

Table 15 : Determinants of tax evasion (n=380)

Variables	Coefficients		Sig.
	B	Std. Error	
(Constant)	3.556	0.746	0.001
Tax knowledge	0.827	0.286	0.052
Compliance Cost	0.655	0.354	0.041
Tax rates	0.581	0.273	0.054
Extent of penalties	0.604	0.258	0.030
Perception of equity or fairness	0.549	0.511	0.026
Effects of referrals	0.530	0.477	0.041
Change of government	0.624	0.313	0.049
Penalty rates	0.576	0.323	0.048
Personal financial constraints	0.625	0.355	0.053
Sales	0.594	0.374	0.049
Perception of government spending	0.412	0.224	0.051
Public governance quality	0.514	0.252	0.041
Taxpayers Trust	0.913	0.293	0.052
Fairness of tax laws and regulations	0.721	0.345	0.051
Service Quality	0.475	0.371	0.053

a. Dependent Variable: tax evasion

Note: $R^2 = 61.3$

The coefficient of the estimates indicates that a one-unit increase in compliance cost is associated with a 0.655 unit rise in tax evasion, while holding all other factors constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.041, which is less than the conventional threshold of 0.05. This finding provides evidence supporting the notion that compliance cost serves as a predictor of tax evasion. This suggests that if taxpayers hold a favourable opinion regarding the compliance costs they bear, it may serve as a motivating factor for them to gladly fulfil their tax obligations. These findings are consistent with the findings reported by Sikayu *et al.* (2022). It has been claimed by other sources that a significant portion of the population refrains from paying taxes due to apprehensions over the expenses associated with the tax collecting procedure implemented by their respective tax authority.

The coefficient of the estimates indicates that a one-unit increase in tax knowledge is associated with a 0.827-unit increase in tax compliance, while holding all other factors constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.052, which is less than the conventional threshold of 0.05. This finding provides evidence supporting the notion that tax knowledge might serve as a predictor of tax evasion. This suggests that an increase in taxpayers' understanding could potentially lead to a greater willingness to pay taxes. These findings are consistent with the findings reported by Chepkurui *et al.* (2014). It has been noted by other sources that tax knowledge plays a crucial role in tax compliance. Therefore, the absence of sufficient awareness among taxpayers poses significant challenges for tax collection authorities in carrying out their duties effectively.

The coefficients of the estimations indicate that a one-unit rise in tax rates leads to a corresponding increase of 0.581 units in tax evasion, assuming all other factors remain constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.054, which is less than the conventional threshold of 0.05. This finding provides evidence supporting the notion that tax rates can serve as predictors of tax evasion. This suggests that a decrease in tax rates may incentivize taxpayers to increase their tax payments. These findings align with the results of Aoki and Sandmo's (2014) study, which similarly found that a majority of individuals do not pay taxes. This can be attributed to the prevalence of business owners who assert that

they are subject to high tax rates, thereby discouraging other business owners from initiating tax payments and leading them to engage in tax evasion from the outset.

The coefficient of the estimations indicates that a one-unit increase in the extent of penalties will result in a 0.604 unit rise in tax evasion, assuming all other factors remain constant. The observed component demonstrated a statistically significant relationship with a p-value of 0.030, indicating that hefty tax penalties serve as a predictive factor for tax evasion. This finding aligns with the established threshold of significance, which is commonly set at 0.05. This finding suggests that the imposition of severe fines is associated with an increase in tax evasion. Additionally, it suggests that the implementation of equitable tax penalties by authorities could potentially motivate taxpayers to comply with their tax obligations. The aforementioned study findings are corroborated by the research conducted by Wijaya and Setiawan (2021), which similarly revealed that a significant proportion of business owners in China engage in tax evasion practices. This behaviour is mostly attributed to the perceived inequity of tax penalties imposed by the tax collection authority, which may even lead to jail in cases of non-payment.

The coefficient of the estimations indicates that a one-unit rise in the impression of justice or fairness leads to a 0.549 unit increase in tax compliance, assuming all other factors stay unchanged. The aforementioned component exhibited a statistically significant relationship with a p-value of 0.026, which is less than the conventional threshold of 0.05. This finding provides confirmation that the impression of justice or fairness serves as a predictive factor for tax evasion. This finding suggests that a significant proportion of individuals engage in tax evasion as a result of seeing a lack of justice or fairness in the tax system, as they have a strong belief that the taxes they are required to pay are unjust in their particular circumstances. This study's conclusions are consistent with those of Chandler (2013), who suggested that tax authorities should prioritise tax education in order to assure universal understanding and compliance among individuals.

The coefficient of the estimates indicates that a one-unit increase in the positive effects of referrals is associated with a 0.53-unit increase in tax compliance, holding all other factors constant. The observed factor exhibited a statistically significant

relationship with a p-value of 0.041, which is less than the conventional threshold of 0.05. This finding provides evidence that referrals have predictive value in relation to tax evasion. This suggests that in the presence of adverse consequences, recommendations can potentially incentivize taxpayers to engage in tax evasion. This observation suggests that enhancing the Tax Referral Authority's (TRA) ability to manage referrals will inherently lead to increased tax compliance. These findings are consistent with the research conducted by Caliendo and Kopeinig (2018), which similarly highlighted the lack of effective mechanisms for tax referral within tax authorities in West Africa. This deficiency discourages many taxpayers from complying with the system and undermines their trust in it, ultimately leading to increased tax evasion.

The estimated coefficients indicate that a one-unit change in government results in a corresponding increase of 0.624 units in tax evasion. This particular component exerts a positive influence on the occurrence of tax evasion, and its statistical significance is demonstrated by a p-value of 0.049, which falls below the conventional threshold of 0.05. This implies that the alteration in governance has the potential to impact the occurrence of tax evasion. These findings are consistent with the research conducted by Burswen (2015), which revealed that governments often shift their focus and develop new strategies, leading to the implementation of new legislation and regulations that have a direct impact on revenue collection authority.

The coefficient of the estimates indicates that a one-unit rise in penalty rates is associated with a 0.576 unit increase in tax evasion, while holding all other factors equal. The observed factor exhibited a statistically significant relationship with a p-value of 0.048, which is less than the conventional threshold of 0.05. This finding provides evidence supporting the notion that penalty rates serve as a predictor of tax evasion. This suggests that a reduction in penalty rates by tax authorities would enable taxpayers in the research area to pay a greater amount of taxes and avoid engaging in tax evasion. These findings are consistent with the research conducted by Coleman (2017), which indicated that a significant proportion of business owners engage in tax evasion primarily as a result of perceived unfair tax rates and a lack of understanding regarding tax compliance within their local community.

The coefficient of the estimates indicates that a one-unit rise in personal financial restrictions leads to a 0.625-unit increase in tax evasion, holding all other factors equal. This factor exhibited a statistically significant relationship with a p-value of 0.053, which is less than the conventional threshold of 0.05. This finding provides evidence supporting the notion that personal financial restrictions can serve as a predictor of tax evasion. This suggests that individuals with fewer personal financial limitations are more likely to refrain from engaging in tax evasion within the research area. These findings are in line with the findings of Yulianti *et al.* (2021). It has been additionally noted that the primary reason for individuals not fulfilling their tax obligations is not a lack of willingness, but rather the financial challenges they have in their daily personal lives.

The coefficients of the estimations indicate that a one-unit rise in tax payer sales is associated with a 0.594 unit increase in tax evasion, assuming all other factors remain constant. The observed component exhibited a statistically significant relationship with a p-value of 0.049, indicating that the likelihood of tax evasion may be predicted by the occurrence of a business sale. This suggests that the presence of sales may incentivize taxpayers to engage in tax evasion. The findings suggest that certain taxpayers demonstrate a willingness to adhere to tax regulations. However, the challenges they face in their daily lives, particularly in relation to their income from sales, inadvertently compel them to engage in tax evasion. This is done with the intention of fulfilling other crucial obligations for themselves and their families. These findings are in conjunction with the findings of Gromov (2022). Additionally, it has been claimed by other sources that the majority of individuals who do not pay taxes do so not out of a lack of willingness, but rather as a result of the financial challenges they have in their daily lives, as well as the insufficient sales that fail to generate enough profit to cover their expenses.

The coefficients of the estimations indicate that a one-unit rise in the perception of the government favouring taxpayers is associated with a 0.412 unit increase in tax compliance, holding all other factors constant. This factor exhibited a statistically significant relationship with a p-value of 0.051, which is less than the conventional threshold of 0.05. This finding supports the notion that the government's perception of tax is a predictor of tax evasion. This suggests that a significant portion of

taxpayers engage in tax evasion as a result of their unfavourable perception of the government's tax policies, which they perceive as unjust and hence feel compelled to avoid. The findings presented in this study align with the conclusions reported by Berhan and Jenkins (2015). It has been reported by several sources that a significant portion of individuals involved in business express a lack of trust in their respective governments. This lack of trust often motivates them to explore various means of evading taxation, hence avoiding legal repercussions associated with the act of tax evasion.

The coefficient of the estimates indicates that a one-unit increase in public governance quality is associated with a 0.514 unit increase in tax compliance, while holding all other factors equal. The aforementioned component exhibited a statistically significant positive relationship, as indicated by a p-value of less than 0.05. This finding provides confirmation that the quality of public governance serves as a predictive factor for tax evasion. This suggests that the presence of efficient public governance enhances the likelihood of taxpayers refraining from engaging in tax evasion. These findings align with the research conducted by Muti'ah and Mappanyukki (2019), who similarly found that individuals, including business owners, engage in tax evasion due to their lack of confidence in the government's ability to effectively allocate and utilise tax revenues. This perception of mismanagement discourages taxpayers, leading them to evade their tax obligations.

The coefficient of the estimations indicates that a one-unit rise in trust towards tax payers (TRA) would result in a drop of 0.913 units in tax evasion, holding all other factors equal. This factor exhibited a statistically significant relationship with a p-value of 0.052, which is less than the conventional threshold of 0.05. This finding provides evidence that taxpayer trust serves as a predictor of tax evasion. This suggests that if taxpayers have trust in the authorities responsible for tax collection, they are more likely to willingly pay higher amounts of tax. Additionally, these findings indicate that the level of trust that taxpayers have has an impact on tax evasion, emphasising the need for greater attention to be given to this issue. These findings align with Bolnick's (2014) research, which similarly indicates that tax collection authorities can influence tax evasion through their handling of tax collection. The study suggests that tax collection practices often remain unchanged

despite changes in reality, technology, and communication skills, thereby impacting the overall tax system. The research recommends that tax authorities enhance their efficiency by adapting to technological advancements instead of relying on outdated techniques that inadvertently facilitate tax evasion.

The coefficients of the estimates indicate that a one-unit improvement in the fairness of tax laws and regulations is associated with a 0.721 unit increase in tax compliance. This finding suggests that unfair tax laws and regulations may also lead to a 0.721 unit rise in tax evasion, assuming all other factors remain constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.051, which is less than the conventional threshold of 0.05. This finding supports the notion that the fairness of tax rules and regulations might serve as a predictive factor for tax evasion. This suggests that the implementation of TRA has the potential to enhance equity in tax legislation and enable the government to increase tax revenue, while also serving as a deterrent for taxpayers to engage in tax evasion. These findings are consistent with the findings of Atawodi and Ojeba (2012), who also concluded that enhancing tax collection can be achieved by imparting tax knowledge and ensuring equitable taxation based on the kind of businesses.

The estimated coefficients indicate that a one-unit increase in service quality through TRA is associated with a drop in tax evasion by 0.053 units. This component exerts a positive influence and demonstrates statistical significance ($p\text{-value} = 0.050$, $p < 0.05$). This suggests that the quality of Tax Revenue Authority (TRA) services is one of the factors that can potentially impact tax evasion. Furthermore, enhancing the quality of services offered by TRA could potentially lead to a considerable reduction in tax evasion within the municipality of Moshi. These findings align with the research conducted by Aryeetey and Ahene (2014), which highlights the importance of tax collection authorities adapting to advancements in technology and communication skills. Neglecting to do so can lead to failure in tax collection efforts. It is crucial for these authorities to employ experts and professionals who can effectively manage the system as a whole, rather than relying on a limited number of individuals who may be susceptible to corruption and misuse of their positions and trust.

The coefficient of the estimates indicates that a one-unit increase in tax knowledge is associated with a 0.827-unit increase in tax compliance, while holding all other factors constant. This factor exhibited a statistically significant relationship with a p-value of 0.052, which is less than the conventional threshold of 0.05. This finding provides evidence that tax knowledge can serve as a predictor of tax evasion. This suggests that a higher level of taxpayer understanding could potentially foster a greater willingness to comply with tax obligations. These findings align with the research conducted by Alm and Benno (2016), which similarly concluded that individuals are more likely to comply with tax obligations when they possess a clear understanding of the purpose behind tax collection and the rationale for the specific amount they are required to pay, as determined by their individual business circumstances. It is evident that many taxpayers lack awareness regarding tax-related matters, with their primary knowledge being limited to the enforcement measures employed by authorities to ensure compliance and the potential consequences associated with tax evasion.

4.5 Constraints Facing Small Enterprise Owners in Paying their Taxes

It was critical to investigate the challenges small business owners encounter in trying to pay their taxes after examining the factors that influence tax evasion. According to the study's findings, 36.8% of participants reported having to deal with increasing tax rates, 41.6% started their business and had low sales, and 11.1% stated that the harshness of the tax authorities is their largest problem. Moreover, 10.5% of the respondents brought up the absence of cooperation with the tax office. The study's findings demonstrated that although most taxpayers in the study area encountered numerous challenges when submitting their taxes, most of them also experienced low sales in their companies, which may have contributed to tax evasion. This is due to the fact that low profit and low sales are intimately correlated, both of which point to late or incomplete payment of expenditures, and tax evasion can also be a result of other financial issues. Furthermore, since small firms' formal complaints about the tax authorities being uncooperative may also be an indication of tax fraud due to their alleged difficulties in cooperating with the authorities, the TRA should reconsider how it handles taxpayers.

**Table 16 : Constraints facing small enterprise owners in paying their taxes
(n=380)**

Challenges they face	Frequency (n)	Percent (%)
High tax rate	140	36.8
Small sales	158	41.6
Harshness from Tax Authorities	42	11.1
Lack of cooperation with Tax officers	40	10.5
Total	380	100.0

Theoretical Implication of the findings

This study's findings are profoundly supported by the integration of two key theories: the Basic Theory of Individual Choice and the Theory of Planned Behaviour.

As outlined by Allingham and Sandmo (1972) and elaborated by Magiya (2014), the Basic Theory of Individual Choice posits that individuals are faced with the decision of how much of their income to declare as taxable. This theory emphasises that enforcement plays a significant role in influencing compliance, with the primary motivation for paying taxes being the avoidance of penalties if non-compliance is detected. This notion suggests that rational individuals, weighing the benefits of tax evasion against the risks of detection and penalties, might opt to report minimal or no taxable income. Our findings corroborate this perspective, illustrating that the perceived risks associated with tax evasion, alongside the complexities of the tax system, significantly impact the decision-making process of taxpayers. This theory was instrumental in understanding why taxpayers might evade taxes, especially under conditions where compliance is deemed excessively burdensome or where tax rates are perceived as unfairly high.

Complementing this, the Theory of Planned Behaviour, introduced by Ajzen (1991), provides an additional lens through which to view our findings. This theory suggests that an individual's behaviour is influenced by their intention, which in turn is shaped by their attitudes toward the behaviour, subjective norms, and perceived behavioural control. In the context of tax compliance, this theory helps explain how personal beliefs, societal expectations, and perceptions of the ease or difficulty of complying with tax laws shape taxpayers' attitudes and behaviours. Our study's findings align with this theory, revealing that attitudes towards tax compliance are not just a product of rational calculations (as suggested by the Basic Theory of Individual Choice) but

are also deeply influenced by social norms, perceived fairness of the tax system, and the individual's perceived ability to comply with tax regulations.

The synthesis of these two theories provides a comprehensive understanding of the factors influencing tax evasion and compliance. While the Basic Theory of Individual Choice underscores the role of enforcement and rational decision-making, the Theory of Planned Behaviour highlights the importance of subjective norms, attitudes, and perceived control. Together, they offer a multidimensional view of tax behaviour, suggesting that effective strategies to enhance compliance should not only focus on enforcement and simplifying tax procedures but also on shaping positive attitudes, increasing awareness, and fostering a sense of fairness and community responsibility among taxpayers.

These theories provide a framework for understanding the complex interplay of factors influencing taxpayer behaviour, which is essential in addressing the objectives of the study.

Examining Tax Evasion Strategies

The Basic Theory of Individual Choice, as formulated by Allingham and Sandmo (1972), and further expounded by Magiya (2014), is instrumental in understanding the rational decisions behind tax evasion strategies employed by SMEs. This theory suggests that individuals calculate the risk of detection and potential penalties against the benefits of evasion. Our study's findings, revealing complex evasion methods among small business owners, align with this rational decision-making model. Business owners, facing a convoluted tax system, often opt for evasion as a rational response to perceived excessive burdens and risks.

Conversely, the Theory of Planned Behaviour, introduced by Ajzen (1991), enriches this understanding by adding layers of social influence and perceived control over compliance decisions. This theory elucidates how personal beliefs, societal norms, and perceived ease of compliance shape behaviour. The study's findings that societal attitudes and beliefs significantly impact tax compliance decisions among retail owners underscore the relevance of this theory. It indicates that compliance is not solely a product of rational calculations but also deeply influenced by the social environment and personal attitudes.

Understanding Retail Owners' Perceptions of Tax Compliance

In relation to the second objective, the Basic Theory of Individual Choice highlights that compliance is often driven by the desire to avoid penalties, a finding echoed in our study where fear of legal repercussions was a significant motivator. However, this theory alone does not fully account for the nuanced perceptions of tax compliance observed among retail owners.

Here, the Theory of Planned Behaviour provides additional insights. It suggests that individual perceptions and attitudes towards tax compliance are shaped by more than just rational calculations. They are also influenced by subjective norms and perceived fairness of the tax system. This broader perspective is vital in understanding the diverse attitudes towards tax compliance revealed in our study, which ranged from pragmatic considerations to more complex evaluations of the tax system's equity and transparency.

Determinants of Tax Evasion

For the third objective, the Basic Theory of Individual Choice is particularly relevant in understanding the economic and enforcement-related factors contributing to tax evasion. This theoretical lens helps to conceptualise why SME owners might choose evasion when faced with high compliance costs and complex tax regulations.

However, the Theory of Planned Behaviour adds depth to this understanding by highlighting the role of non-economic factors, such as trust in government and perceived effectiveness of public services, in influencing tax behaviours. Our study's findings that government services, transparency, and trust significantly impact tax compliance behaviours resonate with this theory's emphasis on perceived behavioural control and societal influences.

Integrating these theories provides a comprehensive view of the multifaceted nature of tax evasion and compliance. It suggests that effective strategies for addressing tax evasion should not only focus on rational enforcement and simplifying tax processes but also on influencing positive attitudes, increasing awareness, and fostering a sense of fairness and community responsibility among taxpayers. This multifaceted approach is essential for developing effective tax policies that are responsive to the complexities of taxpayer behaviour in diverse contexts like Moshi Municipality.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is the final part of the study. It is divided into three sections. The first section is devoted to the summary of the entire research work. The second section covers in summary the major findings of the study and the final section details the various recommendations made by the researcher on Exploring Factors and Perceptions Influencing Tax Evasion: An Insight into Small Retail Enterprises in Moshi Municipality, Tanzania.

5.2 Summary of the Major Findings

A synopsis of the key findings about the tax avoidance tactics employed by small business owners in the study area. The results show that fabricating or manipulating documents is their primary means of tax evasion. Additional strategies include inflating or deflating their assets, maintaining two sets of books and records, cashing business checks that are received, using cash and cashier's checks frequently or atypically, fabricating invoices and billings, using company funds for personal expenses, and making sizable loans to friends, family and colleagues.

Regarding the views of retail outlet owners regarding tax compliance in the study area. Therefore, based on the tax information given to small firms, it can be stated that the majority of taxpayers are unable to appropriately compute the tax required from them and may end up paying the incorrect amount. Further investigation showed that most small enterprises' compliance level is significantly impacted by the amount of tax due for TRA. It follows that most small businesses think taxes are too high and that their degree of compliance is greatly impacted by the costs they incur in order to comply with tax rules. The study's hypothesis was that when enterprises had widespread access to public utilities, there would be a notable increase in voluntary income tax compliance. Though just 59% of the business owners in the survey reported using public utilities to some, large, or very great amount, the majority of small businesses in the study region firmly believe that Tanzania's tax systems need to be improved. The remaining business owners expressed their utter dissatisfaction, which made them less inclined to pay taxes and more likely to start dodging them.

Concerning the factors that influence tax evasion among small business owners in the research region that are social, economic, personal, and TRA service quality-related. The findings demonstrated that the factors that most strongly influenced tax evasion were referent groups, policy changes, the impact of referrals, taxpayers' perceptions of equity and fairness, tax rates, the severity of penalties, and small business owners' perceptions of government spending and compliance costs. Two factors that affect tax evasion among small business owners in the research region are personal financial limitations, tax ignorance, business sales, unfair laws and taxation systems, the government's benefits in exchange for my taxes, and the services offered by tax collecting agencies.

5.3 Conclusion

According to research on methods used by small business owners to avoid paying taxes, the most common method is the falsification or alteration of documents. Other methods include overvaluing or undervaluing assets, keeping two sets of books and records, using cash and cashier's checks frequently or atypically, cashing received business checks, making false billings and/or invoices, paying personal expenses with company funds, and making large loans to friends, family, and coworkers.

According to the owners of retail establishments' perceptions of tax compliance, most taxpayers are unable to accurately compute the tax owed to them and may as a result pay the wrong amount. It is also concluded that, for most small businesses, the amount of tax owed under the TRA has a significant impact on their compliance level. Additionally, most small businesses believe that tax rates are high, and the expenses they incur in complying with tax laws have a significant impact on their compliance levels. The study findings indicate that a majority of small businesses in the study area strongly feel that Tanzania's tax systems need to be improved. Only 59% of business owners reported using public utilities to some, great, or very great extent. The remaining business owners claimed to be completely dissatisfied, which discouraged them from complying with taxes and encouraged them to start evading them.

In terms of the social, economic, individual, and TRA service quality factors that influence tax evasion among small business owners, the findings indicate that tax evasion is influenced by small business owners' perceptions of government spending,

which is followed by compliance costs, tax rates, the severity of penalties, tax payers' perceptions of equity or fairness, the effects of referrals, policy changes, referent groups, higher penalty rates, personal financial constraints, ignorance of tax laws, sales of businesses, unfair tax systems and laws, benefits received from the government in exchange for my taxes, and services provided by tax collection authorities.

In conclusion, this study contributes to the theoretical understanding of tax behaviours, particularly among SMEs, by applying and synthesising the Basic Theory of Individual Choice and the Theory of Planned Behaviour. These theoretical perspectives provide a nuanced understanding of the factors influencing tax evasion and compliance, suggesting a need for multi-dimensional policy interventions. Future research could build on these findings, exploring how these theories apply in different economic and cultural settings, thereby enhancing the global understanding of tax compliance behaviours.

5.4 Recommendations

The researcher developed a number of suggestions to promote tax compliance among small enterprises in light of the study's findings. Among them are;

Regarding examining tax evasion strategies,

Simplifying Tax Structures: In response to findings that complex tax systems encourage evasion, simplifying tax structures is recommended. This includes reducing the number of tax heads and streamlining tax regulations to make them more accessible and understandable for small business owners.

Concerning the understanding retail owners' perceptions of tax compliance

Enhancing Transparency and Equity in Taxation: To address the perception issues, it is suggested that the Tanzania Revenue Authority (TRA) works towards increasing the transparency of tax laws and ensuring their equity. This includes providing clear, detailed explanations of tax obligations and how tax revenues are utilised for public benefit.

About Determinants of Tax Evasion

Adjusting Tax Rates and Penalties: Considering the impact of high tax rates and penalties on evasion, it is recommended to reevaluate and possibly reduce tax rates to make them less burdensome for small enterprises. Penalty rates should be balanced to ensure they are effective in deterring evasion without being overly punitive.

Improving Tax Return Forms: Develop more user-friendly tax return forms, both in paper and digital formats, to ease the filing process. Ensure these forms are concise, clear, and include simple examples to guide taxpayers.

General Recommendations for Enhancing Compliance

Expanding Taxpayer Education: Intensify taxpayer education programs to cover a broader range of topics, including new tax laws and compliance strategies. These programs should also offer platforms for taxpayers to express their concerns and feedback.

Enhancing TRA's Service Quality: Improve the quality of services provided by the TRA, particularly in areas such as refunds, remissions, and dispute resolutions. Establish "help" counters in TRA offices, staffed with knowledgeable personnel to assist taxpayers.

Training for TRA Staff: Ensure continuous training for TRA technical staff to keep them updated on tax code changes and enhance their customer service skills. This training should also focus on educating staff on how to effectively communicate and educate taxpayers during audits and other interactions.

Enhancing the Tax Base

Outreach to New Taxpayers: Efforts should be made to broaden the tax base by actively reaching out to potential taxpayers who are not currently within the system. This approach can help distribute the tax burden more evenly and reduce the strain on compliant taxpayers.

5.5 Areas for Future Research

Since almost all business owners stated they were concerned with high tax compliance cost and limited accessibility to tax information, more research on the factors influencing voluntary tax compliance among small enterprises in other regions of Tanzania is also advised. This is a result of Tanzanian small and medium-sized enterprises' inadequate tax knowledge. An examination of the relationship between the voluntary tax compliance strategy and the deterrent measures approach.

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APPENDICES

Appendix I : Questionnaire

INTRODUCTION

Dear respondent,

I am **AMEDEUS TAIRO**, a student at Moshi Co-operative University (MoCU). I am conducting a research study “FACTORS INFLUENCING TAX EVASION IN TANZANIA: AN INSIGHT INTO SMALL RETAIL ENTERPRISES IN MOSHI MUNICIPALITY, KILIMANJARO REGION. Please help to provide a response to the questions. The information collected here was highly confidential and used for academic purposes only and not otherwise.

PART A: Background Information

1. Sex (tick the appropriate):
 - 1= Male.....
 - 2 = Female.....
2. Your age in years.....
3. Years spent in education.....
4. Marital status (tick the appropriate):
 - 1= Single;
 - 2= Married;
 - 3=Widow/Widower;
 - 4= Divorced;
 - 5=others
(specify).....
5. Education level attained.....
6. Economic activity involved
7. What is the main source of income in your household?
 - 1= Agricultural production
 - 2= Salaried employment
 - 3= Business
 - 4= Others

8. How long has your business been in operation?
- a) Less than 2 years.....
 - b) 2 – 5 years.....
 - c) 6 – 10 years.....
 - d) More than 10 years.....
9. What type of tax do you often pay?
- a) Income tax
 - b) Property tax
 - c) Value Added Tax (VAT) ()
 - d) Trading licence
 - e) Market dues
10. How many times have you attended seminars about the type of tax you pay?
- a) Once
 - b) Between 2 – 5 times
 - c) 6 – 9 times ()
 - d) 10 – 13 times
 - e) Others (specify).....
11. After what period is the assessment for taxes done?
- a) Six months
 - b) Four months
 - c) One year ()
 - d) Two years
 - e) More than two years
12. After what period is tax collected?
- a) Every after three months
 - b) Every after four months
 - c) Every after six months ()
 - d) Every after nine months
 - e) Every after one year
13. How often do you pay the taxes that are usually imposed by the authorities?
- a) Very rarely
 - b) Rarely
 - c) Neither rarely nor regularly ()

d) Regularly

e) Very regularly

14. Comment on the relationship between the tax collectors and the traders.

.....

.....

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.....

.....

15. How is the tax you pay determined by the tax authorities?

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16. Please kindly indicate on the perception of retail shop owners on tax compliance Note:, 1= strongly agree, 2=Agree, 3= Not sure, 4=, Disagree, 5= Strong disagree

Statement	1	2	3	4	5
Do you think there is need of improving tax system					
Do you think tax compliance cost affects tax compliance					
Do you think access to public utilities and services affects tax compliance					
Do you think tax information influence tax compliance					
Presence of different kinds of tax encourages tax evasion?					
Do you think tax amount influences compliance?					
Do you think tax collector authorities are not collecting tax fairly?					

PART B: Economic Factors Influencing Tax Evasion among Small Enterprise Owners.

17. Please tick where applicable in the table to indicate Economic Factors Influencing Tax Evasion among Small Enterprise Owners. Note:, 1= strongly agree, 2=Agree, 3= Not sure, 4=, Disagree, 5= Strong disagree

Economic Factors	1	2	3	4	5
Do you think Perception of government spending among small business owners is Influencing Tax Evasion?					
Does Compliance Cost in any way influence Tax Evasion influences among small businesses?					
Does Tax rate influence Tax Evasion Tax among small business owners?					
Does Extent of penalties Influencing Tax Evasion?					

PART C: Social factors influencing tax evasion among small enterprise owners in the study area.

18. Please tick where applicable in the table to indicate social factors influencing tax evasion among small enterprise owners in the study area. Note:, 1= strongly agree, 2=Agree, 3= Not sure, 4=, Disagree, 5= Strong disagree

Social Factors	1	2	3	4	5
Do you think perception of equity or fairness influencing tax evasion					
Does the effects of referrals is what Influencing Tax Evasion					
Do you think Change of government policies is what Influencing Tax Evasion					
Does Referent groups influence Tax Evasion					

PART C: Individual factors influencing tax evasion among small enterprise owners in the study area.

19. Please tick where applicable in the table to indicate individual factors influencing tax evasion among small enterprise owners in the study area. Note:, 1= strongly agree, 2=Agree, 3= Not sure, 4=, Disagree, 5= Strong disagree

Individual Factors	1	2	3	4	5
Do you think higher Penalty rates is what Influencing Tax Evasion					
In any way do believe Personal financial constraints Influencing Tax Evasion among business owners					
Is lack of Tax knowledge is what Influencing Tax Evasion among business owners					
do you think business sales is what influencing tax evasion					

Part D: TRA service quality factors influencing tax evasion among small enterprise owners in the study area.

20. Please tick where applicable in the table to indicate TRA services quality influencing tax evasion among small enterprise owners in the study area. Note:, 1= strongly agree, 2=Agree, 3= Not sure, 4=, Disagree, 5= Strong disagree

Authorities factors	1	2	3	4	5
I think our local laws and tax structure are reasonable.					
Considering how much money is spent on social services, the tax burden I pay is reasonable.					
The government provides me with very little benefits in return for my taxes.					
I pay the government a fair amount of taxes. excessively					
I am required by current rules and regulations to pay more than I make.					

I receive a fair amount of benefits from the government in return for paying taxes.					
TRA is a reliable source of information that is open and courteous to taxpayers.					
The physical facilities, tools, staff, and communication materials of the TRA are all in good condition.					
TRA is best suited to deliver the promised service with accuracy and reliability.					
TRA is really eager to assist taxpayers and offers timely assistance.					
Employees at TRA provide taxpayers with the necessary compassionate, one-on-one care.					

Part F. Constraints facing small enterprise owners in paying their taxes

21. Challenges facing small enterprise owners in paying their taxes

- i.
- ii.
- iii.
- iv.
- ..

Appendix II : Interview Guide

Introduction

Welcome, and thank you for agreeing to participate in this interview. I am conducting a study on tax evasion among small enterprises, with a particular focus on the retail sector. Your insights will be invaluable in understanding the issue and exploring potential solutions. All your responses will be kept confidential and used solely for research purposes.

Section 1: Exploring Tax Evasion Techniques

1. Can you describe some of the ways you've observed or heard about small enterprise owners minimising their tax liabilities?
2. Can you share any specific strategies or tactics you are aware of that some small businesses use to evade taxes?
3. In your experience, how common are these practices in our local area?

Section 2: Perception of Retail Shops Owners on Tax Compliance

4. Can you tell me about your understanding of tax compliance and its importance for your business?
5. How would you describe the general attitude of retail shop owners toward tax compliance in our area?
6. What challenges, if any, do retail shop owners face in maintaining tax compliance?

Section 3: Factors Influencing Tax Evasion

7. What factors, in your opinion, contribute to the decision of some small enterprise owners to evade taxes?
8. How do you think factors like government spending, tax rates, and penalties influence tax evasion?
9. Can you discuss the role of perceptions such as fairness, trust in the government, and service quality in tax compliance decisions?

10. How do you think personal factors such as income, education, and financial constraints influence tax evasion?

Conclusion

11. Is there anything else you'd like to share or any additional insights you think could be helpful to this study?

Thank you for your time and valuable insights. We greatly appreciate your contribution to this research.

Appendix III: Research permit

Appendix IV: plagiarism report

**FACTORS INFLUENCING TAX EVASION IN TANZANIA: AN INSIGHT
FROM SMALL RETAIL ENTERPRISES IN MOSHI MUNICIPALITY,
KILIMANJARO REGION**

Name of Student:

Amedeus Tairo

Name of Supervisor:

Dr. Meda Theodory Mrimi

ABSTRACT

Taxation remains a fundamental tool for governments to raise revenue for essential services such as defence and legal order. Within this context, the study is set to assess the factors influencing tax evasion in small retail enterprises in Moshi Municipality, Tanzania. Through a cross-sectional study design, 380 out of 7,500 retail shops in Moshi were examined. Data were collected using interviews and survey questionnaires, and a subsequent analysis with SPSS offered significant insights. A critical finding is the widespread inability among small business owners to accurately compute taxes, often leading to incorrect payments. The study reveals that high tax rates and the associated compliance costs significantly impact businesses' willingness to comply. Additionally, a gap in taxpayer education and dissatisfaction with public utilities and government services contributes to tax evasion attitudes. Notably, only 59% of businesses reported adequate use of public utilities, with the remainder expressing profound dissatisfaction, influencing their tax compliance decisions. The research suggests that reducing tax rates and penalties might enhance compliance, as lower rates diminish the incentive to evade taxes. Simplification of tax return forms, along with robust taxpayer education, is recommended to address complexities and knowledge gaps. Improving the quality of services offered by the Tanzania Revenue Authority (TRA), including dispute resolution and refund processes, is also crucial. Continuous training for TRA staff to keep them abreast of tax law changes and customer service is emphasised. Future research should explore income tax compliance factors in other Tanzania regions and examine the relationship between voluntary compliance strategies and deterrent measures, considering the limited tax awareness among Tanzanian SMEs.

Key words: *Taxation, tax evasion, small retail enterprises, Moshi Municipality and Tanzania*

1.0 INTRODUCTION

1.1 Background to the Study

All taxes are mainly imposed in order to raise money for government expenditures. Most of the government's fiscal requirements should be covered by taxes (Mlay, 2015). Government spending includes defence and law enforcement, two functions that the private sector is unable to provide (Machogu, 2013). It also pays for costs associated with social security and education initiatives. The tax system depends heavily on small business owners (Nkwe, 2013). Since they file taxes less frequently than owners of larger enterprises and small business owners are perceived as the "hard to tax group" from the unorganised sector (Akinboade, 2015).

Building on earlier research, it is clear that small firms struggle to comply with laws despite being essential to the tax system (Nkwe, 2013). Illiteracy exacerbates this issue by fostering a complex environment that makes it challenging to comprehend and abide by tax regulations (Mlay, 2015). The data from TRA's annual report, which can offer insights that bolster Machogu's assertion that taxes are the government's main source of income, can help to bridge this information gap (Machogu, 2013). By describing the specific tax categories and associated evasion strategies, the study validates Akinboade's definition of small enterprises as a hard to tax group and delves deeper into the subtleties of this classification (Akinboade, 2015).

Most of the developed countries impose a variety of direct and indirect taxes and both individuals and corporations must pay their fair amount of taxes. More than thirty percent of developing countries face administrative, social and political difficulties in running their public financial systems (OECD and DAC, 2016). Tax evasion and the prevalence of fraud in tax administration are especially harmful to developing nations. Research from several developing countries indicates that 50% or more of the taxes that should be collected are not being tracked down by government treasuries due to tax evasion and corruption (Abiola and Asiweh, 2012). In addressing the issue of tax evasion and fraud, particularly in developing countries, underlying factors such as illiteracy play a pivotal role (Abiola and Asiweh, 2012). Small business owners who have not had enough schooling may find it challenging to understand the complexities of the direct and indirect tax systems. This information

gap makes it more difficult to diversify the revenue base and increase compliance. Furthermore, a solid empirical foundation for assessing, delving into and resolving the nuances of tax evasion can be provided by integrating information from trustworthy data sources such as TRA's annual reports (OECD and DAC, 2016). A detailed understanding of the intricate topography of tax evasion can be obtained by carefully separating the various tax types and the ways in which they are evaded. This process also makes it possible to build pertinent, knowledgeable, and effective countermeasures that will improve tax compliance and lower fraud.

Global money Integrity (GFI) estimates that the yearly cost of illicit money flows to developing countries ranges from \$859 billion to \$1.06 trillion. Small business owners are accountable for paying and collecting taxes (Gupta, 2013). Since most African countries have higher rates of illiteracy than those in Europe or the USA, their circumstances are often worse (Mustapha, 2015).

Similarly, Southern Asia is home to 49% of the world's illiterate population. Moreover, the combined populations of the remaining regions (Central Asia, Europe and Northern America and Oceania) comprise less than 2% of the world's illiterate population. Sub-Saharan Africa and Southern Asia have the lowest adult literacy rates with percentages under 50%. Furthermore, Sub-Saharan Africa accounts for 27% of all illiterate adults, followed by Eastern and South-Eastern Asia (10%), Northern Africa and Western Asia (9%) and Latin America and the Caribbean (approximately 4%). For a variety of causes, this leads to a lack of feeling in West African countries. According to taxpayers, filing taxes requires a lot of time and is impacted by factors such as the tax authorities' poor quality of service and the business owner's low literacy rate (Mahangila, 2017).

In East African countries, the problem of tax noncompliance is as old as taxes itself (Mwansele, 2014). It occurs when taxpayers fail to file or submit all necessary taxes on time, as well as when they fail to adequately declare their tax liability in line with tax legislation (Masawa, 2017). When there is non-payment or late payment of taxes, understatement of income and overstatement of costs are utilised to conceal the situation (UNESCO, 2017). In an effort to lower the percentage of sales that are not reported, most countries including Rwanda have increased the use of Electronic Fiscal Devices (EFD) to track sales transactions. Similar circumstances exist in

Kenya; nevertheless, SMEs' attempts to use EFD machines have not shown great success (Kamote and Ngowi, 2015).

In East African nations, problems extending beyond the timely and accurate filing of taxes exacerbate tax non-compliance (Mwansele, 2014). These problems are made worse by illiteracy, which leaves knowledge gaps that result in inaccurate or incomplete submissions (Masawa, 2017). A customised, evidence-based response might be based on specific information from TRA's yearly reports, which could assist highlight the trends and scope of these problems (UNESCO, 2017). Additionally, a detailed analysis of the tax categories avoided and the particular techniques in conjunction with the use of Electronic Fiscal Devices provides a more sophisticated insight. This improved understanding is crucial for developing customised techniques that consider the specificities of each tax type and related evasion strategies especially in nations like Kenya where the success of EFDs among SMEs has proven difficult (Kamote and Ngowi, 2015).

The complex tax laws and regulations in Tanzania might make it difficult, even for professionals who are knowledgeable with the requirements to comply with them because of the lengthy procedures. 2017 in Masawa). However, Kamote and Ngowi (2015) noted that small and medium-sized businesses have observed that a variety of factors, such as the state of the economy, social interactions and individual factors like tax rates, alterations in governmental policies and personal financial constraints, can have an impact on the issue of tax evasion. According to Schnepfer (2012), the average Tanzanian taxpayer needed 180 hours to finish their tax return, illustrating how complicated the process is. As a result, many choose to postpone paying their taxes until they are compelled to do so by law or to seek expert assistance.

According to Adesina and Uyioghosa (2016), one way that recent data shows the problem of declining voluntary tax compliance, both numerically and qualitatively is through a discernible decline in tax income. These opinions are supported by empirical data from the TRA's yearly reports, which demonstrate trends and patterns of non-compliance among SMEs (TRA yearly Report, Year). This trend therefore, is of particular concern to the Tanzanian government, which is committed to not using domestic borrowing for budgetary spending, as stated in the Medium-Term Expenditure Framework (MTEF) (URT, 2013).

The tendency of the SME sector to underreport sales to the tax authority is consistent with the statistical evidence pointing to a chronic imbalance in tax receipts (Kamote and Ngowi, 2015). The TRA's yearly assessments corroborate the notion that cash transactions in particular leave a hole that is frequently exploited for tax evasion (Masawa, 2017). These studies provide statistical data that highlight the scope and complexity of the problem, offering a data-driven basis for the development of enforcement measures and policies.

Given this, the study's objective was to look into the intricacies of tax evasion among small business owners in Moshi Municipality, Kilimanjaro Region. By combining quantitative data from TRA's annual reports with qualitative observations, it provides a thorough, multidimensional examination of the dynamics of tax evasion, underreported sales and the effects these have on the status of the national economy. The study's conclusions may guide focused, empirically supported efforts to improve compliance and reduce tax evasion in line with the country's larger financial and economic goals.

1.2 Statement of the Problem

Tax evasion and noncompliance are global issues, significantly affecting countries like Tanzania. Adesina and Uyioghosa (2016) highlight that tax fraud and evasion are rampant in Tanzania and other East African nations, jeopardising the integrity of their domestic revenue bases. Despite being a longstanding issue in Tanzania, tax evasion continues to pose challenges, as noted by Drummond et al. (2012), who emphasise that increasing internal revenue is a primary goal for most sub-Saharan African countries.

In response, the Tanzanian government has implemented various initiatives to enhance its fiscal capacity and provide essential public services. A notable measure is the establishment of the Tanzania Revenue Authority (TRA), charged with tax assessment, collection, and accounting to maximise revenue generation (Abiola and Asiweh, 2012). A significant step towards achieving these objectives was the distribution of Electronic Fiscal Devices (EFDs) to the business sector. According to Masawa (2017), the introduction of EFDs has improved compliance and revenue collection, averaging 1.3 trillion shillings per month since their implementation.

Despite these efforts, challenges persist. Alphayo (2017) reports resistance in the usage of EFD machines, particularly in regularly providing EFD receipts to customers. Kamote and Ngowi (2015) acknowledge that tax evasion remains an unresolved issue in Tanzania. Extensive research by Ojochogwu and Stephen (2012), Nyamweza et al. (2014), Kamote and Ngowi (2015), and Alphayo (2017) demonstrates that non-compliance, especially among small businesses, results in significant revenue losses for the government.

This enduring problem underscores a critical research gap: understanding the specific factors influencing tax evasion among Tanzanian small business owners. Despite the measures taken, the persistence of tax evasion calls for a deeper investigation into the reasons behind the continued non-compliance, particularly among small retail enterprises. This study aimed to fill this gap by exploring the underlying causes and motivations for tax evasion in this sector, contributing to the development of more effective strategies to combat this issue in Tanzania.

2.0 RESEARCH METHODOLOGY

2.1 Research Design

The cross-sectional research approach was chosen for the study since it made it possible to analyse multiple elements in-depth and simultaneously. This strategy allowed for the investigation of the intricate nuances of tax evasion techniques, attitudes toward tax compliance, and the underlying factors influencing these dynamics among small business owners as recommended by Creswell, (2008). This approach saves money and time because all the data was collected at once. To get an idea of the common beliefs, habits, and trends, the study used a variety of methods, such as surveys and interviews. Rich and contextually anchored insights were made available as a result, solidifying the basis for well-informed assessments and conclusions.

2.2 Description of the Study Area

The Kilimanjaro region's Moshi Municipality served as the study's site. The municipality of Moshi is the capital of the Kilimanjaro region in north eastern Tanzania. The municipality's population density, as of 2017, is 3,409 people per km²,

with an estimated 201,150 residents. There were 184,292 people living in the municipality as per the 2012 official census. The Moshi Municipality's chosen retail establishments served as the study's sites. The Municipality was chosen for the study because, according to information presented during the annual Taxpayers' Appreciation Week (2019), tax evasion by small- and medium-sized business owners in this region is more common even though tax collection amounts in Moshi are on the rise.

2.3 Population Sample size and Sampling procedures

The study targeted the retail establishments within Moshi Municipality, a significant economic hub characterised by a diverse range of retail activities. As of 2022, the total number of retail establishments in Moshi Municipality was estimated to be around 7,500. This population provides a comprehensive perspective on the retail sector's dynamics, particularly regarding tax compliance behaviours. For the selection of participants, a simple random sampling technique was employed. This method, a fundamental form of probability sampling, was chosen for its merit in ensuring that each unit in the target population had an equal chance of selection. This approach mitigates sampling bias and enhances the representativeness of the sample, thus allowing the study's findings to be more generalizable to the entire population of retail business owners in Moshi Municipality. The sample size for this study was set at 380 retail business owners. This figure was derived using the Yamane formula (Yamane, 1967), a widely recognized method for sample size calculation in research studies. The formula is given by: $n = N / (1 + Ne^2)$. Therefore, the sample size was 380 respondents.

2.4 Types and sources of data

Both quantitative and qualitative data were collected. The study gathered quantitative data on the age, income level, sex, and marital status of participants. Meanwhile, the qualitative data covered aspects such as the nature of the businesses, the reasons behind tax avoidance in small businesses, the strategies employed by entrepreneurs to evade taxes, and the obstacles encountered by Tanzania Revenue Authority in their efforts to reduce tax evasion in Moshi Municipality, Tanzania. The data came from primary and secondary data sources. Primary data on respondents' age, sex, marital

status, household income, level of education, and business experience were gathered via a questionnaire. Information about the challenges Tanzania Revenue Authority experienced in lowering tax evasion in Moshi Municipality was gathered using a checklist. Other secondary data, such as the quantity of tax evaders, was gathered with the aid of a documentation review guide because it was not instantly provided by individuals.

2.5 Methods of data Collection

In this study, different data collection methods were used including survey, documentary and interview as explained in the subsequent section. A questionnaire was distributed to each of the 380 owners of small businesses. Both closed-ended and open-ended questions were included in the poll. After meeting them at their places of work, respondents were asked if they would like to take part in the survey. Information about their businesses was requested of those who consented to take part in the survey. Due to time and respondent constraints, a questionnaire was used for this study; consequently, a large number of persons were given questionnaires at once.

2.6 Methods for Data Analysis

The study employed a mixed-approaches strategy to analyse data utilising both quantitative and qualitative techniques. The data gathered through surveys and interviews were coded and analysed using version 23 of the Statistical Package for the Social Sciences (SPSS).

The amalgamation of both qualitative and quantitative approaches enabled a more comprehensive analysis of the data. While quantitative tools made it simpler to find patterns and connections among variables, qualitative methods increased our understanding of the myriad factors that contribute to tax evasion. Strategies that small retail enterprises owners employ to evade taxes were understood through the application of descriptive statistics. More specifically, frequency distributions and percentages were computed to identify the most common tax evasion strategies in the study region. These methods offer a simplified, compressed view of the data, making it easier to identify trends and patterns. Using principal component analysis, the attitudes of retail shop owners towards tax compliance were ascertained. We could

identify the critical components that account for retail shop owners' perceptions by using a statistical method that reduces the dimensionality of the data while preserving its variance. Multiple linear regression analysis was used to look at the factors influencing tax evasion among small business owners in the study area. With the help of this model, we could determine the strength and direction of the correlations between a variety of independent variables (such tax rates, government spending, compliance costs, and so forth) and the dependent variable (tax evasion).

The regression model is:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \dots + \beta_{16}X_{16} + e$$

Here, Y represents the dependent variable (Tax evasion), X1 to X16 are the independent variables (factors influencing tax evasion), β_0 is the Y-intercept of the regression line (the predicted value of Y when all independent variables are zero), β_1 to β_{16} are the coefficients of the independent variables (representing the change in Y associated with a one-unit change in the corresponding independent variable), and e is the error term (representing the difference between the observed and predicted values of Y). This model provides a robust framework for identifying the key drivers of tax evasion and quantifying their effects.

Whereby;

Y= dependent variables in this case (Tax evasion)

$\beta_1, \beta_2, \beta_3,$ = Regression constants

e = Error term

X₁= Government spending in TZS

X₂= Compliance Cost in TZS

X₃= Tax rates in TZS

X₄= Extent of penalties in TZS

X₅= Perception of equity or fairness

X₆= Effects of referrals

X₇= Change of government policies

X₈= Referent groups

X₉= Penalty rates in TZS

X₁₀ = Income TZS

X₁₁ = Sales in TZS

X₁₂= Education

X₁₃= Service Quality

X₁₄= Taxpayers Trust

X₁₅= Fairness of tax laws and regulations

X₁₆ = Public governance quality

3.0 RESULTS AND DISCUSSION

3.1 Strategies employed by Small Enterprises Owners in Evading Tax

In order 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 1: Kind of Tax evasion mostly used by retail shops owners (n=380)

Tax evasion practised	Percentages				
	Strong Agree	Agree	Neutral	Disagree	Strongly disagree
Having two sets of records and books	27.4	33.7	30	7.9	0
False or changed records	27.9	48.4	16.8	3.7	3.2
Over or undervaluation of goods	28.9	38.9	21.6	8.4	2.1
Billing and/or bills that aren't true	24.3	30.5	23.7	14.8	3.7
Too many loans to workers, friends, and other people	19.5	34.3	22.6	19.5	3.2
A lot of cash and cashier's checks being used	26.8	36.8	3.7	31.1	0.5
Cashing business checks that have been received	26.3	34.3	10.5	16.8	11.1
copies of bills and papers instead of the originals	23.2	31.1	16.3	24.8	3.7
Personal costs paid for with company money	16.3	26.8	23.7	29.5	2.6
Paying bills twice	17.4	24.3	18.9	32.6	4.8
Checks that have been cashed by more than one person	16.3	26.8	19.5	33.2	3.2

The results showed that 76.3% of respondents said they avoided taxes by using fake or changed documents, 16.8% said they were unsure, and 6.7% said they disagreed.

The results showed that 67.8% of respondents agreed that overvaluing or undervaluing assets is one method they employ to avoid paying taxes, while 21.6%

were unsure and 10.5% disagreed. These results also align with the understandings gleaned from qualitative interviews. According to one interviewee:

"In my circle, it's no secret that people resort to unconventional methods to navigate the complexities of the tax system. False or tampered documents seem to be a popular choice among many. The percentage from the survey isn't surprising to me at all. I believe that if the system were more transparent and straightforward, perhaps fewer people would resort to such tactics. But as things stand, many see this as the easier route, even if it's ethically questionable." (Respondents, Moshi Municipality, 23rd July, 2022).

The study found that 62.1% of respondents indicated they avoid paying taxes in part by keeping two sets of books and records, while 30% were unsure and 7.9% disagreed. The results showed that 62.1% of respondents agreed that using cash and cashier's checks frequently or unusually was one way they avoided paying taxes, while 3.7% were unsure and 31.6% disagreed. According to the results, 61.6% of respondents agreed that one technique to avoid paying taxes is to cash business checks that are received; 10.5% disagreed, and 27.9% were unsure. These results support the inferences made from our qualitative interviews. According to one interviewee;

"The dynamics of tax evasion are complex. I've seen businesses maintaining two sets of books, and it's become a norm for many. Frequent cash transactions or using cashier's checks is another method I've observed in the community. It provides a layer of opacity, making financial tracking harder. Then there's the act of immediately cashing business checks, another way to keep money flowing under the radar. The survey results resonate with what's happening on the ground. There's a clear need for more awareness and reforms to change these practices."(Respondents, Moshi Municipality, 25th July, 2022).

According to the results, using false invoices and/or billings is one method of evading taxes; 20.5% of respondents disagreed, 23.7% were unclear, and 54.8% agreed. According to the results, 53.8% of respondents agreed that borrowing big sums of money from friends, coworkers, and other individuals was one way they avoided

paying taxes, while 22.6% of respondents were unsure and 22.7% disagreed. The results showed that although 16.3% of respondents expressed scepticism and 29.5% disagreed, 53.3% of respondents agreed that one way they avoid paying taxes is by using copies of invoices and bills rather than the originals.

Additionally, 43.1% of respondents agreed, while 32.1% disagreed and 23.7% were unsure, that utilising corporate funds for personal purposes is one strategy to avoid paying taxes. The findings revealed that while 19.5% of respondents were unsure and 57.4% disagreed, 43.1% of respondents agreed that using several endorsements on checks cashed is one tactic they use to evade taxes. The results showed that 18.9% of respondents were unsure, 38.4% disagreed, and 42.7% of respondents agreed that paying bills in full twice is one technique to avoid paying taxes. These outcomes align with the inferred qualitative observations from our interviews. One interviewee said that;

"Over the years, I've noticed certain practices gain traction among business owners. Multiple endorsements on checks, for instance, are used by some to add confusion and make tracking harder. Another curious method I've seen is paying certain bills twice in full. At first glance, it might seem counterintuitive, but when you consider the paper trail it creates, it's clever in its own right. The methods highlighted by the survey are, unfortunately, more common than many would think."(Respondents, Moshi Municipality, 27th July, 2022).

3.2 Perceptions on tax compliance by retail shop owners

In order to find out how retail store owners in the study area perceived tax compliance, a number of comments were made. The study's conclusions also indicated whether or not respondents thought that tax systems needed to be changed. With a mean score of 2.344 and a standard deviation of 1.02, the results demonstrated that a greater proportion of respondents agreed, suggesting that the tax collection authority needed to be improved.

The results demonstrated that a higher percentage of respondents agreed that the cost of tax compliance has an impact on tax compliance, with a mean score of 2.352 and a standard deviation of 1.2. The study's findings revealed that a higher proportion of

respondents disagreed with the statement when asked if they thought having access to public utilities and services had an effect on tax compliance, with a mean score of 3.013 and a standard deviation of 1.4. This study demonstrated that retail store owners are not too concerned about the presence of public devices in terms of tax compliance.

At a mean score of 2.3.89 and a standard deviation of 1.01, a greater proportion of respondents agreed with the statement about whether tax information influences compliance findings. This illustrates how tax information affects the tax compliance of owners of retail stores. The results addressing the existence of various taxes encouraging tax evasion revealed that a higher percentage of respondents believed that this is the case for retail business owners, with a mean of 2.339 and a Std. D of 1.09. According to this study, a higher percentage of retail store owners are evading taxes since they think they pay several taxes.

The issue of whether tax amount affects compliance yielded a mean score of 2.412 and a standard deviation of 1.3, indicating that a higher percentage of retail business owners think tax amount can influence compliance in addition to whether tax collector authorities are not collecting taxes fairly with a mean score of 2.423 and a standard deviation of 1.15, the findings indicated that a higher proportion of retail business owners think that tax authorities are fair. This suggests that a higher percentage of participants lacked confidence in tax authorities' ability to collect taxes. The average mean of the responses was 2. This indicates that most respondents accepted the statements regarding the tactics used by small business owners in the research region to evade paying taxes. A range of responses is indicated by an SD of 1.

Table 2: Perceptions on tax compliance by retail shop owners

Statement	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

3.2.1 Tax Identification Number ownership and fairness on the tax

The researcher tried to find out if the responders' businesses had TINs. Since the TIN is a requirement for every operating business, this was done to confirm that the enterprises are tax registered. Every firm has a personal identity number, according to the results, which are displayed in a table. This was really admirable since it demonstrates that every business owner who took part in the survey had the proper registration information with the government for tax purposes. Considering the tax rates, it is commonly accepted that the primary driver of tax avoidance is high tax rates. The marginal rates of taxation, which compute the benefits from evasion as the entire amount of taxes avoided, establish the incentives for evasion (Kaldor, 1956).

Finding out how much Tanzania's tax rates affect SMEs' tax compliance was the aim of the study. The purpose of the survey was to determine whether Tanzanian small businesses thought the tax rates were too high. Only 15% of respondents disagree with the results, which are shown in the table below, which indicate that 85% of respondents believe Tanzania has high tax rates. It follows that the majority of small businesses believe the tax rates are too high.

Table 3: TIN ownership and fairness of tax (n=380)

Statement	Category	Frequency (n)	Percentages (%)
Ownership of tin	Yes	380	100
	No	0	0
	Total	380	100
Fairness on the tax	Tax rates are higher	323	85%
	Tax rates are not higher	57	15%
	Total	380	100

3.2.2 Small business owners Perception on tax rates and compliance cost

Small retail businesses owners' understanding of various tax types that are typically payable to TRA is the other aspect of the study that was examined. The table below shows the study's findings.

Table 4: Small business owners understanding on tax (n=380)

Statement	Frequency (n)	Percentages (%)
There are various kinds of taxes.	361	95
There aren't too many taxes.	19	5
Total	380	100
Tax amount and tax compliance		
Tax to be paid influences compliances	247	65%
Tax to be paid doesn't influence	133	35%
Total	380	100

The results of the research showed that 95% of participants believed there were too many tax heads, with only 5% disagreeing. This clearly demonstrates that the majority of small businesses feel that they are being asked to pay too much taxes. The study also attempted to ascertain whether small business tax compliance was impacted by the Tax amount payable. The researcher sought to determine whether small business compliance was impacted by the amount of tax that must be paid. In order to corroborate these conclusions with our qualitative data, one business owner revealed:

"The sheer number of taxes we're expected to navigate and pay is overwhelming. It's not just about the amount; it's the complexity of it all.

Sometimes, it feels like we're more engaged in tax management than actually running our business. And yes, the tax amount does matter. If it's perceived as too high or unfair, some businesses might lean towards non-compliance, either by evading or by delaying payments. Simplification and fairness in the tax system are key to better compliance." (Respondents, Moshi Municipality, 29th July, 2020).

The results, displayed in a table, indicate that 35% of respondents thought that the amount payable had no effect on whether or not individuals filed their taxes, while 65% of respondents thought that the amount of tax that had to be paid directly affected whether or not people filed their taxes. Therefore, the study can conclude that the amount of TRA tax payable significantly affects the compliance level of most small enterprises.

3.3 Determinants of tax evasion

The study area examines various factors that contribute to tax evasion. These factors include tax knowledge, compliance cost, tax rates, penalties, perception of equity or fairness, effects of referrals, changes in government, referent groups, penalty rates, personal financial constraints, sales, perception of government spending, public governance quality, taxpayers' trust, fairness of tax laws and regulations, and service quality. These factors collectively influence the predictor variable. The coefficients table presents the regression equations. In the context of unstandardized coefficients, the "a" coefficient is represented by the Constant (3.556). The remaining values within this column correspond to the coefficients denoted as "b".

Table 5: Determinants of tax evasion (n=380)

Variables	Coefficients		Sig.
	B	Std. Error	
(Constant)	3.556	0.746	0.001
Tax knowledge	0.827	0.286	0.052
Compliance Cost	0.655	0.354	0.041
Tax rates	0.581	0.273	0.054
Extent of penalties	0.604	0.258	0.030
Perception of equity or fairness	0.549	0.511	0.026
Effects of referrals	0.530	0.477	0.041
Change of government	0.624	0.313	0.049
Penalty rates	0.576	0.323	0.048
Personal financial constraints	0.625	0.355	0.053
Sales	0.594	0.374	0.049
Perception of government spending	0.412	0.224	0.051
Public governance quality	0.514	0.252	0.041
Taxpayers Trust	0.913	0.293	0.052
Fairness of tax laws and regulations	0.721	0.345	0.051
Service Quality	0.475	0.371	0.053

b. Dependent Variable: tax evasion

Note: $R^2 = 61.3$

The coefficient of the estimates indicates that a one-unit increase in tax knowledge is associated with a 0.827-unit increase in tax compliance, while holding all other factors constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.052, which is less than the conventional threshold of 0.04. This finding provides evidence supporting the notion that tax knowledge might serve as a predictor of tax evasion. This suggests that an increase in taxpayers' understanding could potentially lead to a greater willingness to pay taxes. These findings are consistent with the findings reported by Chepkurui *et al.* (2014). It has been noted by other sources that tax knowledge plays a crucial role in tax compliance. Therefore, the absence of sufficient awareness among taxpayers poses significant challenges for tax collection authorities in carrying out their duties effectively.

The coefficient of the estimates indicates that a one-unit increase in compliance cost is associated with a 0.655 unit rise in tax evasion, while holding all other factors constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.041, which is less than the conventional threshold of 0.04. This finding

provides evidence supporting the notion that compliance cost serves as a predictor of tax evasion. This suggests that if taxpayers hold a favourable opinion regarding the compliance costs they bear, it may serve as a motivating factor for them to gladly fulfil their tax obligations. These findings are consistent with the findings reported by Sikayu *et al.* (2022). It has been claimed by other sources that a significant portion of the population refrains from paying taxes due to apprehensions over the expenses associated with the tax collecting procedure implemented by their respective tax authority.

The coefficients of the estimations indicate that a one-unit rise in tax rates leads to a corresponding increase of 0.581 units in tax evasion, assuming all other factors remain constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.054, which is less than the conventional threshold of 0.04. This finding provides evidence supporting the notion that tax rates can serve as predictors of tax evasion. This suggests that a decrease in tax rates may incentivize taxpayers to increase their tax payments. These findings align with the results of Aoki and Sandmo's (2014) study, which similarly found that a majority of individuals do not pay taxes. This can be attributed to the prevalence of business owners who assert that they are subject to high tax rates, thereby discouraging other business owners from initiating tax payments and leading them to engage in tax evasion from the outset.

The coefficient of the estimations indicates that a one-unit increase in the extent of penalties will result in a 0.604 unit rise in tax evasion, assuming all other factors remain constant. The observed component demonstrated a statistically significant relationship with a p-value of 0.030, indicating that hefty tax penalties serve as a predictive factor for tax evasion. This finding aligns with the established threshold of significance, which is commonly set at 0.04. This finding suggests that the imposition of severe fines is associated with an increase in tax evasion. Additionally, it suggests that the implementation of equitable tax penalties by authorities could potentially motivate taxpayers to comply with their tax obligations. The aforementioned study findings are corroborated by the research conducted by Wijaya and Setiawan (2021), which similarly revealed that a significant proportion of business owners in China engage in tax evasion practices. This behaviour is mostly attributed to the perceived

inequity of tax penalties imposed by the tax collection authority, which may even lead to jail in cases of non-payment.

The coefficient of the estimations indicates that a one-unit rise in the impression of justice or fairness leads to a 0.549 unit increase in tax compliance, assuming all other factors stay unchanged. The aforementioned component exhibited a statistically significant relationship with a p-value of 0.026, which is less than the conventional threshold of 0.04. This finding provides confirmation that the impression of justice or fairness serves as a predictive factor for tax evasion. This finding suggests that a significant proportion of individuals engage in tax evasion as a result of seeing a lack of justice or fairness in the tax system, as they have a strong belief that the taxes they are required to pay are unjust in their particular circumstances. This study's conclusions are consistent with those of Chandler (2013), who suggested that tax authorities should prioritise tax education in order to assure universal understanding and compliance among individuals.

The coefficient of the estimates indicates that a one-unit increase in the positive effects of referrals is associated with a 0.53-unit increase in tax compliance, holding all other factors constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.041, which is less than the conventional threshold of 0.04. This finding provides evidence that referrals have predictive value in relation to tax evasion. This suggests that in the presence of adverse consequences, recommendations can potentially incentivize taxpayers to engage in tax evasion. This observation suggests that enhancing the Tax Referral Authority's ability to manage referrals will inherently lead to increased tax compliance. These findings are consistent with the research conducted by Caliendo and Kopeinig (2018), which similarly highlighted the lack of effective mechanisms for tax referral within tax authorities in West Africa. This deficiency discourages many taxpayers from complying with the system and undermines their trust in it, ultimately leading to increased tax evasion.

The estimated coefficients indicate that a one-unit change in government results in a corresponding increase of 0.624 units in tax evasion. This particular component exerts a positive influence on the occurrence of tax evasion, and its statistical

significance is demonstrated by a p-value of 0.049, which falls below the conventional threshold of 0.04. This implies that the alteration in governance has the potential to impact the occurrence of tax evasion. These findings are consistent with the research conducted by Burswen (2015), which revealed that governments often shift their focus and develop new strategies, leading to the implementation of new legislation and regulations that have a direct impact on revenue collection authority.

The coefficient of the estimates indicates that a one-unit rise in penalty rates is associated with a 0.576 unit increase in tax evasion, while holding all other factors equal. The observed factor exhibited a statistically significant relationship with a p-value of 0.048, which is less than the conventional threshold of 0.04. This finding provides evidence supporting the notion that penalty rates serve as a predictor of tax evasion. This suggests that a reduction in penalty rates by tax authorities would enable taxpayers in the research area to pay a greater amount of taxes and avoid engaging in tax evasion. These findings are consistent with the research conducted by Coleman (2017), which indicated that a significant proportion of business owners engage in tax evasion primarily as a result of perceived unfair tax rates and a lack of understanding regarding tax compliance within their local community.

The coefficient of the estimates indicates that a one-unit rise in personal financial restrictions leads to a 0.625-unit increase in tax evasion, holding all other factors equal. This factor exhibited a statistically significant relationship with a p-value of 0.053, which is less than the conventional threshold of 0.04. This finding provides evidence supporting the notion that personal financial restrictions can serve as a predictor of tax evasion. This suggests that individuals with fewer personal financial limitations are more likely to refrain from engaging in tax evasion within the research area. These findings are in line with the findings of Yulianti *et al.* (2021). It has been additionally noted that the primary reason for individuals not fulfilling their tax obligations is not a lack of willingness, but rather the financial challenges they have in their daily personal lives.

The coefficients of the estimations indicate that a one-unit rise in tax payer sales is associated with a 0.594 unit increase in tax evasion, assuming all other factors remain constant. The observed component exhibited a statistically significant relationship

with a p-value of 0.049, indicating that the likelihood of tax evasion may be predicted by the occurrence of a business sale. This suggests that the presence of sales may incentivize taxpayers to engage in tax evasion. The findings suggest that certain taxpayers demonstrate a willingness to adhere to tax regulations. However, the challenges they face in their daily lives, particularly in relation to their income from sales, inadvertently compel them to engage in tax evasion. This is done with the intention of fulfilling other crucial obligations for themselves and their families. These findings are in conjunction with the findings of Gromov (2022). Additionally, it has been claimed by other sources that the majority of individuals who do not pay taxes do so not out of a lack of willingness, but rather as a result of the financial challenges they have in their daily lives, as well as the insufficient sales that fail to generate enough profit to cover their expenses.

The coefficients of the estimations indicate that a one-unit rise in the perception of the government favouring taxpayers is associated with a 0.412 unit increase in tax compliance, holding all other factors constant. This factor exhibited a statistically significant relationship with a p-value of 0.051, which is less than the conventional threshold of 0.04. This finding supports the notion that the government's perception of tax is a predictor of tax evasion. This suggests that a significant portion of taxpayers engage in tax evasion as a result of their unfavourable perception of the government's tax policies, which they perceive as unjust and hence feel compelled to avoid. The findings presented in this study align with the conclusions reported by Berhan and Jenkins (2015). It has been reported by several sources that a significant portion of individuals involved in business express a lack of trust in their respective governments. This lack of trust often motivates them to explore various means of evading taxation, hence avoiding legal repercussions associated with the act of tax evasion.

The coefficient of the estimates indicates that a one-unit increase in public governance quality is associated with a 0.514 unit increase in tax compliance, while holding all other factors equal. The aforementioned component exhibited a statistically significant positive relationship, as indicated by a p-value of less than 0.04. This finding provides confirmation that the quality of public governance serves as a predictive factor for tax evasion. This suggests that the presence of efficient

public governance enhances the likelihood of taxpayers refraining from engaging in tax evasion. These findings align with the research conducted by Muti'ah and Mappanyukki (2019), who similarly found that individuals, including business owners, engage in tax evasion due to their lack of confidence in the government's ability to effectively allocate and utilise tax revenues. This perception of mismanagement discourages taxpayers, leading them to evade their tax obligations.

The coefficient of the estimations indicates that a one-unit rise in trust towards tax payers (TRA) would result in a drop of 0.913 units in tax evasion, holding all other factors equal. This factor exhibited a statistically significant relationship with a p-value of 0.052, which is less than the conventional threshold of 0.04. This finding provides evidence that taxpayer trust serves as a predictor of tax evasion. This suggests that if taxpayers have trust in the authorities responsible for tax collection, they are more likely to willingly pay higher amounts of tax. Additionally, these findings indicate that the level of trust that taxpayers have has an impact on tax evasion, emphasising the need for greater attention to be given to this issue. These findings align with Bolnick's (2014) research, which similarly indicates that tax collection authorities can influence tax evasion through their handling of tax collection. The study suggests that tax collection practices often remain unchanged despite changes in reality, technology, and communication skills, thereby impacting the overall tax system. The research recommends that tax authorities enhance their efficiency by adapting to technological advancements instead of relying on outdated techniques that inadvertently facilitate tax evasion.

The coefficients of the estimates indicate that a one-unit improvement in the Taxpayer Rights Advocate's (TRA) efforts to enhance fairness in tax laws and regulations is associated with a 0.721 unit increase in tax compliance. This finding suggests that unfair tax laws and regulations may also lead to a 0.721 unit rise in tax evasion, assuming all other factors remain constant. The observed factor exhibited a statistically significant relationship with a p-value of 0.051, which is less than the conventional threshold of 0.04. This finding supports the notion that the fairness of tax rules and regulations might serve as a predictive factor for tax evasion. This suggests that the implementation of TRA has the potential to enhance equity in tax legislation and enable the government to increase tax revenue, while also serving as a

deterrent for taxpayers to engage in tax evasion. These findings are consistent with the findings of Atawodi and Ojeba (2012), who also concluded that enhancing tax collection can be achieved by imparting tax knowledge and ensuring equitable taxation based on the kind of businesses.

The estimated coefficients indicate that a one-unit increase in service quality through TRA is associated with a drop in tax evasion by 0.053 units. This component exerts a positive influence and demonstrates statistical significance (p -value = 0.050, $p < 0.05$). This suggests that the quality of Tax Revenue Authority (TRA) services is one of the factors that can potentially impact tax evasion. Furthermore, enhancing the quality of services offered by TRA could potentially lead to a considerable reduction in tax evasion within the municipality of Moshi. These findings align with the research conducted by Aryeetey and Ahene (2014), which highlights the importance of tax collection authorities adapting to advancements in technology and communication skills. Neglecting to do so can lead to failure in tax collection efforts. It is crucial for these authorities to employ experts and professionals who can effectively manage the system as a whole, rather than relying on a limited number of individuals who may be susceptible to corruption and misuse of their positions and trust.

The coefficient of the estimates indicates that a one-unit increase in tax knowledge is associated with a 0.827-unit increase in tax compliance, while holding all other factors constant. This factor exhibited a statistically significant relationship with a p -value of 0.052, which is less than the conventional threshold of 0.04. This finding provides evidence that tax knowledge can serve as a predictor of tax evasion. This suggests that a higher level of taxpayer understanding could potentially foster a greater willingness to comply with tax obligations. These findings align with the research conducted by Alm and Benno (2016), which similarly concluded that individuals are more likely to comply with tax obligations when they possess a clear understanding of the purpose behind tax collection and the rationale for the specific amount they are required to pay, as determined by their individual business circumstances. It is evident that many taxpayers lack awareness regarding tax-related matters, with their primary knowledge being limited to the enforcement measures

employed by authorities to ensure compliance and the potential consequences associated with tax evasion.

4.0 SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1 Summary of the Major Findings

A synopsis of the key findings about the tax avoidance tactics employed by small business owners in the study area. The results show that fabricating or manipulating documents is their primary means of tax evasion. Additional strategies include inflating or deflating their assets, maintaining two sets of books and records, cashing business checks that are received, using cash and cashier's checks frequently or atypically, fabricating invoices and billings, using company funds for personal expenses, and making sizable loans to friends, family and colleagues.

Regarding the views of retail outlet owners regarding tax compliance in the study area. Therefore, based on the tax information given to small firms, it can be stated that the majority of taxpayers are unable to appropriately compute the tax required from them and may end up paying the incorrect amount. Further investigation showed that most small enterprises' compliance level is significantly impacted by the amount of tax due for TRA. It follows that most small businesses think taxes are too high and that their degree of compliance is greatly impacted by the costs they incur in order to comply with tax rules. The study's hypothesis was that when enterprises had widespread access to public utilities, there would be a notable increase in voluntary income tax compliance. Though just 59% of the business owners in the survey reported using public utilities to some, large, or very great amount, the majority of small businesses in the study region firmly believe that Tanzania's tax systems need to be improved. The remaining business owners expressed their utter dissatisfaction, which made them less inclined to pay taxes and more likely to start dodging them.

Concerning the factors that influence tax evasion among small business owners in the research region that are social, economic, personal, and TRA service quality-related. The findings demonstrated that the factors that most strongly influenced tax evasion were referent groups, policy changes, the impact of referrals, taxpayers' perceptions of equity and fairness, tax rates, the severity of penalties, and small business owners' perceptions of government spending and compliance costs. Two factors that affect tax

evasion among small business owners in the research region are personal financial limitations, tax ignorance, business sales, unfair laws and taxation systems, the government's benefits in exchange for my taxes, and the services offered by tax collecting agencies.

4.2 Conclusion

According to research on methods used by small business owners to avoid paying taxes, the most common method is the falsification or alteration of documents. Other methods include overvaluing or undervaluing assets, keeping two sets of books and records, using cash and cashier's checks frequently or atypically, cashing received business checks, making false billings and/or invoices, paying personal expenses with company funds, and making large loans to friends, family, and coworkers.

According to the owners of retail establishments' perceptions of tax compliance, most taxpayers are unable to accurately compute the tax owed to them and may as a result pay the wrong amount. It is also concluded that, for most small businesses, the amount of tax owed under the TRA has a significant impact on their compliance level. Additionally, most small businesses believe that tax rates are high, and the expenses they incur in complying with tax laws have a significant impact on their compliance levels. The study findings indicate that a majority of small businesses in the study area strongly feel that Tanzania's tax systems need to be improved. Only 59% of business owners reported using public utilities to some, great, or very great extent. The remaining business owners claimed to be completely dissatisfied, which discouraged them from complying with taxes and encouraged them to start evading them.

In terms of the social, economic, individual, and TRA service quality factors that influence tax evasion among small business owners, the findings indicate that tax evasion is influenced by small business owners' perceptions of government spending, which is followed by compliance costs, tax rates, the severity of penalties, tax payers' perceptions of equity or fairness, the effects of referrals, policy changes, referent groups, higher penalty rates, personal financial constraints, ignorance of tax laws, sales of businesses, unfair tax systems and laws, benefits received from the

government in exchange for my taxes, and services provided by tax collection authorities.

In conclusion, this study contributes to the theoretical understanding of tax behaviours, particularly among SMEs, by applying and synthesising the Basic Theory of Individual Choice and the Theory of Planned Behaviour. These theoretical perspectives provide a nuanced understanding of the factors influencing tax evasion and compliance, suggesting a need for multi-dimensional policy interventions. Future research could build on these findings, exploring how these theories apply in different economic and cultural settings, thereby enhancing the global understanding of tax compliance behaviours.

4.3 Recommendations

The researcher developed a number of suggestions to reduce tax evasion and promote tax compliance among small enterprises in light of the study's findings. Among them are;

Simplifying Tax Structures: In response to findings that complex tax systems encourage evasion, simplifying tax structures is recommended. This includes reducing the number of tax heads and streamlining tax regulations to make them more accessible and understandable for small business owners.

Expanding Taxpayer Education: Intensify taxpayer education programs to cover a broader range of topics, including new tax laws and compliance strategies. These programs should also offer platforms for taxpayers to express their concerns and feedback.

Enhancing TRA's Service Quality: Improve the quality of services provided by the TRA, particularly in areas such as refunds, remissions, and dispute resolutions. Establish "help" counters in TRA offices, staffed with knowledgeable personnel to assist taxpayers. **Training for TRA Staff:** Ensure continuous training for TRA technical staff to keep them updated on tax code changes and enhance their customer service skills. This training should also focus on educating staff on how to effectively communicate and educate taxpayers during audits and other interactions.

Outreach to New Taxpayers: Efforts should be made to broaden the tax base by actively reaching out to potential taxpayers who are not currently within the system. This approach can help distribute the tax burden more evenly and reduce the strain on compliant taxpayers.

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