ENGAGING SMALL TAXPAYERS IN THE ENHANCEMENT OF REVENUE COLLECTION FOR LOCAL GOVERNMENT AUTHORITIES IN TANZANIA: A META-ANALYSIS STUDY

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Abstract: This paper seeks to analyze different strategies that Local Government Authorities (LGAs) in Tanzania need to undertake in order to ensure small taxpayers are fully involved in paying taxes, fees and levies owed to them. This is exacerbated by the fact that, more often, the targeted revenues as planned by LGAs are not met hence creating a havoc during the process of budget implementation. The deficit in the local revenues in Tanzania is sometimes among other things caused by poor tax-compliance on small taxpayers who in turn are the most beneficiaries of the services provided by local authorities. Small taxpayers in Tanzania being stakeholders in the local taxation systems are obliged by laws to pay taxes, levies and fees to their local authorities, however, strategies to engage them and an extent to which they should feel engaged in the exercise of revenue collection seem not to be fully explored in Tanzania. Hence, using a meta-analysis design, this paper have revealed that awareness is the key important strategy in order to ensure that small taxpayers are engaged in the local taxation system. Moreover, it has also been revealed that in order to get taxpayers engaged in the local taxation system, tax administrators need to be honest and uphold integrity throughout their duties. Nonetheless, LGAs need to ensure that small taxpayers are entitled the right of information in order to create openness and transparency among payers and administrators.

Index Terms: **Small taxpayers, strategies for engagement, revenue collection, local government authorities**

INTRODUCTION

Fiscal decentralization – the devolution of revenue mobilization and spending powers to lower levels of government – has become a main theme of local governance in recent years (Fjeldstad & Heggstad, 2012). This is attributable to the fact that, Local Government Authorities (LGAs) being closer to the grassroots need stable and reliable revenues in order to serve the surrounding community (Fjeldstad et al., 2014). However, the revenues mobilized by most local authorities in Africa are generally not sufficient to develop and supply adequate services for the fast-growing population (Haas & Manwaring, 2017). More often, it seems that targeted revenue as planned by local authorities are not met hence needing a plausible solutions. Strategizing on this problem, among other issues, several studies have highlighted the need for scholars to research on the side of taxpayers' compliance on paying taxes and fees (Fjeldstad et al., 2014). Small taxpayers in Tanzania being stakeholders in the local taxation systems are obliged by laws to pay taxes, levies and fees to their local authorities, however, strategies to engage them and an extent to which they should feel engaged in the exercise of revenue collection seem to be not fully explored in Tanzania. Hence, using a meta-analysis design, this paper seeks to analyze different strategies through which small taxpayers need to get involved in enhancing local revenue collection in Tanzania.

By, and large the local government tax systems existing in sub-Saharan Africa largely look similar to those of colonial masters. According to Fjeldstad et al., (2014), in contrast to central government tax systems, local government tax systems in many African countries have remained largely unchanged since independence. In Africa, the central government tax system seems to be efficient, effective and easy to administer unlike the local tax system that often seems to be distortive, costly to administer and exacerbate inequity (PMO-LARG, 2013). The huge disparity between central government system and that of local tax system look similar in both Anglophone and Francophone countries. By and large, it is argued that, consultation and cooperation between the central government revenue administration and local government authorities are generally limited. Lack of coordination between the central and local levels has led to duplication of taxes and inconsistencies between taxes imposed by local authorities (e.g. high taxes on export crops) and the national government's policy to encourage export production. This

lack of coordination has allowed a high degree of arbitrariness and abuse to emerge in local tax systems, while little attention is paid to economic efficiency (Fjeldstad & Heggstad, 2012).

Efficient and effective tax collection is a key to raising revenues from taxation (Haas & Manwaring, 2017). However, for many African countries, this has not been the case for most of local taxes. As a result, local governments in most sub-Saharan African countries have been underperforming when it comes to revenue collection. Several studies and reports have repeatedly indicating the deficit between targeted and collected revenues (Lubua, 2014; Kimaro, 2014). In South Africa, for example, the 'tax gap' between actual and potential tax revenues collected ranges between 15-30% of revenues. Similar problems are existing in Sierra Leone, where city councils frequently collect significantly less than budgeted targets (Haas & Manwaring, 2017). Moreover, the same case has been happening in Tanzania whereby reports for successive years have been showing the recurrent deficit. For example, a report of Controller and Audit General (CAG) in Tanzania has shown that for four financial years starting from 2015/2016 to 2018/2019, almost 70% of LGAs did not achieve their target for revenue collection (National Audit Office, 2020). As Mbegu and Komba (2018) pointed out, recurrent tax gap between the actuals and planned is consequently leading most local government authorities to a poor delivery of required services to the community.

To ensure that LGAs have stable revenues collection, several studies in Tanzania (see, for example, Fjeldstad et al., 2014; Mgonja & Poncian, 2019; Mrutu, 2016; Nuluva, 2015) have been conducted to analyze the nature of poor collection and its quencequences on service delivery. In tandem with poor revenue collection, several issues pertaining to it have been raised, such as marginalization of LGAs, implications of different administrations, limited administrative resources, poor data and information processing and poor management on outsourced revenue sources. It is recommended that, creating a more effective transparent and accountable tax system is part of the process of building a state able to promote growth, poverty reduction, and social inclusion and reduce aid-dependency more efficiently (Fjeldstad & Heggstad, 2012). Although, changes have been undertaken to foster the stabilization of revenue collection on local governments, however, it shows that LGAs have not been able to reduce dependency from the central governments (National Audit Office, 2020). Based on the financial performance report for LGAs it is shown that the LGAs dependency on central governments accounts for 87% (National Audit Office, 2020)

In the backdrop of poor revenue collection among LGAs, scholars have started to think about the involvement of small taxpayers in the collection of local revenues. It is understood that majority of the people who are responsible for paying local taxes and fees are small businesspersons who work on different economic activities in different African countries. Sometimes defining small businesses is problematic because of their diversity (Nkwe, 2013). Thus, various parties adopt different definitions based on the criteria appropriate for their purposes. According to Terkper (2003), groups of taxpayers are arranged based on different criteria such as turnover, expedient measures like profit, net or gross asset values, floor space, rent, and employees. Using these criteria, taxpayers can be grouped as small taxpayers, medium taxpayers and large taxpayers. However, at some point, there seem to be no universal standards for making the distinction between these three groups. This paper takes a Tanzanian definition of small taxpayer, who is referred to as small entrepreneur whose annual turnover is less than Tsh.4, 000,000 (MoF, 2018). Sometimes these people are conventionally treated as 'hard to tax' group. According to Atawodi & Ojeka (2012) it is said that tax compliance among Small and Medium Entrepreneurs (SMEs) is poor. Despite tax aversion' allegations, small entrepreneurs form a crucial part of many national economies, providing a base fundamental to economic growth and the creation of employment (Tusubira & Nkote, 2013).

This paper seeks to analyze different strategies that LGAs need to undertake to ensure that revenue are sustainably collected and managed in relation to the engagement of small taxpayers. It draws its analysis from various literatures from developing countries including Tanzania.

THEORIES OF TAXATION

Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations (Nkwe, 2013). In the world of taxation, theoretical issues pertinent to tax compliance have been widely discussed in the literature. There are a number of theories or principles of taxation, which guide imposition, and payment of tax in different jurisdictions. These theories which main of them were introduced by the father of economics Adam Smith in the 18th century aim at achieving equity in taxation. The first theory that facilitates the taxpayers' compliance is the *benefit theory* which requires the state to levy taxes on individuals according to the benefit conferred on them. The theory suggests that the presence of government expenditures may serve as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government (Bello & Danjuma (2014). However, this theory is contrary to the principle of tax, as a compulsory contribution made to the government that enables it to meet various expenses and to provide various general public goods and services. In this regard, there is the so-called quid pro quo in taxation. Therefore, the taxpayers are required to pay their respective required tax amount irrespective of whether they benefit more or less. In the standard economic model of taxpayer behaviour, the perceived quality of government does not influence the level of taxes remitted. The basic behavioural assumption is that people are free riders: no one will voluntarily contribute to the government unless the threat of punishment makes it sensible (Fjeldstad, 2004).

Secondly, *the Cost of Service Theory*: Some economists and tax payers argue that, the government has to charge tax in relation to the actual cost of public good or service rendered to the people. However, in practice it is seems to be difficult to establish with certainty how much every member of the public has consumed out of the rendered service. Hence, the taxpayers need to play their role of paying respective local taxes regardless of the benefit or cost of service received by them from the local authority; this will enable the local authority to strengthen their service provision. Thirdly, *the ability to pay theory*: It is the most accepted taxation theory as many taxpayers commend to be the most equity taxation theory. Most local taxes are administered under this principle, whereby individuals are taxed according to their economic prowess. Proponents of this theory tend to consider income as a very basic measure of how to charge taxes on individuals. This means that, whoever possess high income is most likely be taxed highly and whoever possess low income will be taxed lowly. Indeed, taxpayers are argued to play their role because it is through their taxes then the local governments authorities are able to deliver their services. The more the tax revenue

raised by the LGAs the better service delivery is guaranteed of them. (Al-Zaqeba et al., 2018; Bello & Danjuma, 2014; Fjeldstad, 2004; Fjeldstad, 2001)

Fourth, *theory of convenience*: Local taxes like other taxes should be levied at the time and the manner that is most convenient for the respective payers to pay it. Therefore, local authorities are argued to levy taxes to the different taxpayers in the most convenient way and timing. In addition, method of payment and payment point or means are to be most convenient to the taxpayers to enable them fulfill their roles.

I.   FISCAL DECENTRALIZATION AND SLIPPAGE OF REVENUE COLLECTION IN TANZANIA

Article 146 (1) of the Constitution of the United Republic of Tanzania provides that the purpose of having LGAs is "to transfer authority to the people". LGAs have been given powers to participate and to involve the people in the planning and implementation of development programmes within their respective areas. The early history of local government in Tanzania is not untypical of the region, with the pragmatic development of decentralized administration under the colonial rule. In the early years of independence, the government introduced a system characterized by norms of top-down approaches with a centralized structure of regional administrations. Coupled with malfunctioning of regional administration set-up, in early 1980s, the government re-introduced a de-concentration system of local government. By the mid-1990s the shortcomings of this mixed de-concentrated system were so apparent that the Local Government Reform Programme (LGRP) was launched aiming to reorganize local government based on principles that are more devolutionary over the period 1998–2011. Despite the government efforts geared towards supporting LGAs in improving their capacity to collect revenues, there are still reported challenges related to ineffectiveness in revenue collections in these authorities (PMO-LARG, 2013).

Until mid-2003, LGAs in Tanzania often had more than 70 different taxes, fees, and charges (Fjeldstad & Heggstad, 2012). There were also large variations in the rates imposed by councils on similar revenue bases, which led to smuggling of tradable goods across council borders within the country. In June 2003, a comprehensive reform of the local government revenue system was carried out. A large number of so-called nuisance taxes, which were costly to administrate and generated limited revenue were rationalized. In June 2004 local business licenses were abolished, based on the argument that they provided disincentives for the development of local enterprises. The Tanzanian reform demonstrates that, radical changes of the local revenue system are possible. The longer-term impact of this reform on local government revenues, however, has been reduced fiscal autonomy and increased dependency on central government transfers. The survival of LGAs in the country stays on the hands of central government. This is because in Tanzania the fiscal decentralization is yet to be realized whereby the central government has now consolidated most of the revenue sources, which previously were under the jurisdiction of the LGAs.

LGAs in Tanzania are commonly experiencing difficulty in collecting taxes, fees and charges (Fjeldstad & Heggstad, 2012). Indeed, this has resulted into different slippage of own source collection for various LGAs. For example, a study by Mbegu and Komba (2018) in Magu District Council indicated a slippage of above 30% in revenue collection. Again, a study by Kimaro (2014) in Dar es Salaam municipalities found out that, there was a gap of 5% to 8% between LGA's budgets and revenue collections. Equally important, the report of CAG have also shown that, starting from 2015/2016 to 2018/2019, the LGAs collection has been slipping from its target for an average of 13.5% (Table.1). Nonetheless, according to the CAG report of 2020, it is indicated that, on average 53% of LGAs have recorded more than 20% variation from the set targets. Emphasizing on that, the CAG report indicated that, the situation of revenue collection slippery was happening despite an emphasis from the Presidents' Office – Regional Administration and Local Government (PO-RALG) which has call upon LGAs to ensure that deficit from their actual collection do not exceed 20% for each revenue source (National Audit Office, 2020).

Table. 1: The trend of revenue collection and variations for LGAs in Tanzania

Financial Year	Approved (Budget TZS)	Actual collections (TZS)	Variance	%
2018/2019	725,633,451,671	639,401,151,405	(86,232,300,266)	11
2017/2018	677,965,549,714	566,729,291,189	(111,236,258,525)	16
2016/2017	628,045,048,644	523,564,835,716	(104,480,212,928)	17
2015/2016	536,203,527,158	482,898,501,332	(53,305,025,824)	10

Source: CAG Report (2020)

In principle, LGAs receive funds (grants) from the central government for recurrent expenditure. It has to be understood that, LGAs own source revenue collected together with grants received from central government and donors are the only financial sources used to finance their budget. The main sources for LGAs own source revenue as stipulated in the Local Government Finance Act, 1982 are mainly levies, fees, taxes, charges, licenses and grants. A report by CAG in 2020 indicates that LGAs can only sustain 13% of total recurrent expenditure implying that 87% of its recurrent expenditure depends on grants from central government. Looking on data presented in Table. 2, which indicate the level of independence of LGAs, it is shown that, for almost four consecutive years the percentage of independence has not increased, although, in 2018/2019 there was a slight increase. This means that contrary to D-by-D policy, the LGAs' dependency to central government is yet to change. It has been hypothesized that, as population increases, the amount of revenues collected from own sources would increase in the same pace because of the increased demands for the social needs. However, the situation seems to be different.

Table.2: The level of independence of Tanzania LGAs

Financial Year	Actual collection	Recurrent expenditure	% of independence
2017/2018	566,729,291,189	4,396,541,585,486	13
2016/2017	519,863,656,618	4,656,643,395,963	11
2015/2016	482,898,501,334	4,453,470,809,033	11
2014/2015	409,100,130,028	3,569,212,750,970	11
2013/2014	353,514,526,384	3,264,872,488,097	11

Source: CAG Report (2020)

7. STRATEGIES TO ENGAGE SMALL TAXPAYERS INTO HEIGHTENING LOCAL REVENUES

Most studies have shown that small taxpayers are the ones among people who are mostly evading paying taxes (Adu-Gyamfi, 2014; Nuluva, 2015). This has largely been attributed by poor strategies, which have been taken by LGAs. It is well understood that, most of small taxpayers are the small entrepreneurs who walk around selling their goods and sometimes possessing low capital. In that regards, LGAs are supposed to be cautious in putting in place thorough strategies that will inspire small taxpayers to voluntary pay taxes and fees to their local authorities. Below are some of the strategies, which LGAs are bound to undertake.

4.1. Creating awareness on local taxpayers

Awareness on taxation is the most important element that tax administrators need to create for the sake of letting taxpayers understand the entire system of taxation. It is necessary for the taxpayers to acquire the tax knowledge that will enable them to make right compliance decisions. Studies in different countries such as Oladipupo & Obazee (2016) and Olowookere & Fasina (2013) in Nigeria, Machogu & Amayi (2013) in Tanzania and Abdul-Razak & Adafula (2013) in Ghana reveled that there is a positive relationship between tax knowledge and tax compliance. Indeed, most of these studies were conducted on SMEs in those respective counties. Awareness on taxpayers need to concentrate on why people need to pay taxes, how to pay those taxes and most important where to pay those taxes. Different ways of learning are necessary in order to impart small taxpayers with the knowledge regarding paying taxes. According to Machogu & Amayi (2013), tax administrators are supposed to be keen enough to ensure tax knowledge are fully disseminated to payers and in so doing they may use easy techniques including provision of brochures, leaflets or magazines to payers. It is further recommended that, for payers to be aware of taxation issues, tax knowledge might be taught at all levels of education, starting from primary schools upwards with an emphasis on promoting voluntary tax compliance.

In Tanzania it has been well stipulated in the Local Government Finance Act (1982).Sec.17(2) that it is the duty of every resident of a local government authority to pay rates or duties which he is required to pay to the respective authority for the purposes of ensuring the development of the area. Thus, in order for the law to be enforced, it is then important to create awareness to taxpayers of their role to pay local taxes to their respective local government authorities. Pertaining to that matter, different studies have been undertaken to assess the relationship between taxpayers' awareness and tax compliance in the country. For example, a study by Lubua in Kinondoni Dar es Salaam on tax compliance by SMEs indicates a significant relationship between the level of voluntary submission of tax returns by SMEs and the level of awareness of tax law. Moreover, a study by Kira (2017) in Arusha and Dodoma also revealed that most of the respondents pointed out education and training as the popular means to create awareness and understanding of tax laws and regulations. Nonetheless, a study by Mwakabungu (2016) revealed that taxpayer education has significant effect on voluntary tax compliance in Tanzania

4.2 Emphasizing integrity among tax collectors and administrators

Employees' integrity is a core value and must be an integral part of the tax collectors and administrators (Kiow et al., 2017). It is argued that even though people might be aware of the channel and importance of paying revenue they may be discouraged due to lack of trust on the revenue collectors. Thus, when taxpayers fail to trust the authorities in term of integrity they tend to evade the tax hence decreasing revenues collection. A study by Kiow et al. (2017) in Malaysia has suggested that tax compliance behaviour of individual taxpayers is influenced by ethical perception of individual taxpayers and their ethical perception is affected by public governance and transparency in government operations. In reality, when people feel that their taxes are honestly collected and spent, they tend to voluntarily comply with paying taxes. Apparently, the most serious problem hampering tax collection, according to Fjeldstad (2004), is that, taxes collected are not spent on public services something which deter tax compliance. A study conducted by Obeid (2015) in Sudan showed that people do not mind paying taxes but they need to see that their government works in a transparent manner on spending tax revenues. People feel discontent when they pay huge amounts of money and the same time fail to observe tangible services provided in comparison to the tax collected.

The poor and inadequate service provided by LGAs to the public has also been pointed out as one of the contributing factor for residents' unwillingness to pay local taxes in Tanzania (PMO RALG, 2013). Poor social services provided by local government indicate the improper use of funds by the local authorities that lowers the morale of the people to pay revenue even those who understand the importance and the channel for paying revenues. Apart from poor services LGAs needs to employ people who have ethics and integrity in order to win taxpayers' trust. A study by Isaac & Kazungu (2016) in Moshi revealed that, stable collection and management of local authorities revenues needs people who display high levels of honest, moral, trustworthiness, self-discipline and competence. Even though, revenue collectors play an important role in LGAs' attainment of the intended revenue collection, a study by Katunzi (2013) found that, the councils' own revenue collectors are not motivated enough to enable them to be committed in revenue collection task. Indeed, the study pointed out that many council revenue collectors had poor knowledge of respective revenue by-laws as well as low revenue administration and mobilization techniques.

4.3. Dissemination of right information at the right time

Information to the public on tax revenues collected, financial allocations and how to report corruption are highly required by small taxpayers. It has to be understood that citizens' access to and right to information is often seen as a necessary condition to achieve accountable, transparent and participatory governance and people-centred development (Fjeldstad, 2004). The study conducted by Kira (2017) revealed that in order for taxpayers to be aware of anything they need first to be informed. The study found that the alternative way to increase voluntary tax compliance to small taxpayers is by the use of mobile phones to educate and disseminate tax information to small taxpayers (Kira, 2017). However, in order to build trust between citizens and their councils more efforts have to be taken by the local government authorities to strengthen tax information sharing and collaboration between revenue collectors and revenue payers, also by so doing will encourage tax payers to comply by paying local taxes for local government revenue enhancement (Chongela et al., 2018).

CONCLUSION

The growth of Africa's population has outpaced LGAs capacity for service delivery in terms of management, infrastructure, and financing. Many LGAs are financially weak and rely on financial transfers and assistance from central government. Moreover, local government tax administrations are often inefficient and not able to properly account for revenues collected. As a result, many LGAs in Africa are facing a governance crisis and poor service delivery capability. Different strategies are needed to be in place to ensure that local authorities are substantially collecting their taxes and fees. Studies have shown that most of the local taxpayers seem to evade paying taxes hence local authorities are supposed to underline the reasons behind that motive and come up with a plausible solutions. Although, there is no 'one model fits all' for engaging taxpayers, however, this study has explained some of the strategies which might help LGAs to engage small taxpayers into paying taxes and fees hence boosting their revenue collections. The said strategies include creating awareness of small taxpayers on local taxation, emphasizing integrity among tax collectors and administrators and disseminating right information at the right time

It is argued that, successful taxation entails the efficiency and effectiveness in both sides of tax collectors and taxpayers. Citizens as taxpayers have roles and responsibilities to play in order to ensure taxes are sufficiently collected. In that sense, citizens or taxpayers need to understand the importance of paying taxes and more importantly they need to own the process (Lago-Penas & Lago-Penas, 2008). For example, the raising of revenue locally is generally considered an essential element in local development, not only because it contributes to available public resources at that level, but also because it promotes public ownership, accountability, and good governance (The World Bank, 2006). It is further said that, citizens are be more likely to hold their local government to account for its performance if it is spending their own tax money. In that regard, for successful revenue collection; an entire community needs to be aware of what tax entails, where to pay and how to pay (ibid). Indeed, payers must have reasonable trust to tax collectors and must be convinced that what they pay is going to be used for the intended purpose.

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