

# The Impact of Vat Compliance Strategies on Taxpayer Compliance in Tanzania: A Case Study of the Tanzania Revenue Authority in Morogoro Municipality

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**Abstract:-** Taxpayers VAT compliance has been a constant concern for tax administration in developing countries including Tanzania. This is partly due to the nature of this tax and the portion of revenue contributed by this tax to finance public services. The purpose of this study is to evaluate the effect of VAT compliance strategies on taxpayer adherence in Tanzania, specifically focusing on the TRA in Morogoro Municipality. The research targeted VAT-registered taxpayers and TRA staff in Morogoro Municipality. Sample size for this study was 88 respondents. Data were gathered through questionnaires and interviews. Quantitative data were analyzed using multiple ordinary least squares regression model. The study highlights that VAT compliance is notably influenced by the relationship between tax officials and taxpayers, the involvement of tax advisers, and the frequency of tax audits, with the relationship between tax officials and taxpayers having the most significant impact. Information sources on VAT, however, do not significantly affect compliance levels. To enhance VAT compliance, it is recommended that tax authorities focus on improving interactions between officials and taxpayers, increase the involvement of tax advisers, and conduct regular and thorough tax audits. Additionally, while information sources were not found to be highly influential in this study, providing clear and accessible VAT information remains important for ensuring that all taxpayers are well-informed.

**Keywords:-** *Vat Compliance Strategies and Taxpayer Compliance.*

## I. INTRODUCTION

The transformative impact of technological advancements on tax administration is profound, especially in the realm of Value-Added Tax (VAT). These innovations extend far beyond operational efficiency, heralding an era characterized by heightened accuracy and effectiveness in tax reporting and collection (Mazur, 2022). Electronic filing systems, for instance, have streamlined tax processes, reducing administrative burdens for both taxpayers and tax authorities while improving VAT collection efficiency. The integration of modern technologies has fundamentally shifted

the paradigm, granting tax authorities the capability to analyze extensive financial datasets with unprecedented precision (Linders, 2012). This enhanced analytical power allows for the identification of patterns indicative of tax evasion, including VAT fraud, that were previously unattainable.

Technology's role in VAT compliance extends beyond operational improvements, serving as a formidable tool in combating tax evasion. The advent of VAT monitoring and reporting systems empowers tax authorities to identify high-risk taxpayers, prioritize audits, and allocate resources more strategically (Okunogbe & Santoro, 2023). This not only increases the likelihood of detecting non-compliance but also acts as a deterrent by fostering a perception of rigorous oversight.

In a globalized economy where businesses operate across borders, effective tax compliance strategies, including VAT measures, are crucial. International collaboration, facilitated by organizations such as the Organisation for Economic Co-operation and Development (OECD) and the United Nations, plays a vital role in setting common standards and guidelines to combat VAT fraud globally. Initiatives like the Common Reporting Standard (CRS) exemplify this collaborative effort, promoting the automatic exchange of financial information among countries and enhancing oversight of cross-border activities (Alonso, 2018).

Despite the advances in technology, the human element remains critical in shaping compliance strategies. Insights into human behavior, including perceptions of fairness, trust in the tax system, and the likelihood of detection, are essential for designing effective VAT compliance measures (van Dijke et al., 2019). Therefore, strategies that integrate technological advancements with an understanding of taxpayer psychology are more likely to succeed.

VAT is a key revenue source for the Tanzanian government, crucial for funding public services and development initiatives (Makamme, 2015). However, challenges in VAT compliance significantly impact revenue collection. Understanding the effectiveness of VAT

compliance strategies is vital for enhancing taxpayer adherence and improving revenue collection. This study focuses on the Tanzania Revenue Authority (TRA) in Morogoro Municipality, aiming to evaluate the impact of various VAT compliance strategies on taxpayer behavior. By examining specific strategies implemented by the TRA, this research seeks to fill existing knowledge gaps and provide actionable insights for enhancing VAT compliance and revenue generation in Tanzania.

### ➤ Purpose of the Present Study

The purpose of the present study is to investigate the impact of VAT compliance strategies on taxpayer compliance in Tanzania, with a particular focus on the Tanzania Revenue Authority (TRA) in Morogoro Municipality.

## II. METHOD

### ➤ Research Design

This study employed case study research design. The rationale for using a case study research design in this study is to gain a deep understanding of the specific context of tax compliance strategies and taxpayer compliance in Tanzania, with a focus on the TRA in Morogoro Municipality. The case study research design allows for an in-depth exploration of the strategies employed by the TRA and their impact on taxpayer compliance within a real-world setting.

### ➤ Sample

For the purpose of this study, the sample size for VAT registered taxpayers were 79 respondents. This sample size was obtained by using the proposed formula by Yamane (1967) as presented below.

$$n = \frac{N}{1 + N(e)^2}$$

Where

n = Sample size;

N = Population;

e = Level of Precisions (Level of tolerance 10% = 0.1); and

1 = Constant

Hence,

$$n = \frac{367}{1 + 367(0.1)^2}$$

n = 79

### ➤ Data Collection Instruments

To collect data, questionnaires were used, and these questionnaires included scales that had been adapted from previous studies. The scale developed by Kirchler and Wahl Msangi (2010) was used to determine the level of tax compliance, while another scale developed by Msangi (2015) was used to assess VAT compliance strategies, such as the use of tax advisers, sources of advice and information, the relationship between tax officials and taxpayers, and tax audits. The questionnaires were distributed to VAT registered taxpayers either by mail or in person, depending on their feasibility and preferences.

### ➤ Data Analysis

The data collected through questionnaires were thoroughly analyzed using multiple ordinary least squares (OLS) regression model. OLS regression model was conducted using Statistical Package for Social Sciences version 25 to determine the impact of VAT compliance strategies on VAT compliance as presented below:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4$$

Where  $\beta_0$  = constant,  $\beta_1$  = linear estimates of use of tax advisers,  $\beta_2$  = linear estimates of sources of advice and information,  $\beta_3$  = linear estimates of the relationship between tax officials and taxpayers,  $\beta_4$  = linear estimates of tax audits.

## III. RESULTS

In order to determine the impact of VAT compliance strategies on VAT compliance in Morogoro Municipality, multiple regression analysis was used. Table 1 below present the model summary.

Table 1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Sig. F Change
1	.895 <sup>a</sup>	.800	.638	.40586	.002

a. Predictors: (Constant), Tax advisers concerning VAT, Sources of information on VAT, Relationship between tax officials and VAT taxpayers, Tax audits Dependent Variable: Level of VAT compliance

Source: SPSS V. 25

Table 2 presents the model summary for a regression analysis examining factors influencing VAT compliance. The model demonstrates a strong fit with an R Square of .800, indicating that 80% of the variance in VAT compliance can be explained by the predictors included in the model. The adjusted R Square of .638 suggests that this model adjusts for the number of predictors, providing a more conservative estimate of explained variance. The standard error of the

estimate is .40586, indicating the average distance between observed VAT compliance levels and those predicted by the model. The significant F Change value (.002) suggests that the overall regression model is statistically significant, implying that at least one of the predictors significantly contributes to explaining the variance in VAT compliance levels. The predictors included in the model are constant, tax advisers concerning VAT, sources of information on VAT,

relationship between tax officials and VAT taxpayers, and tax audits, each playing a role in influencing VAT compliance as

indicated by the regression coefficients.

Table 2 Multiple Regression Model

	Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.412			-1.076	.098
	Tax advisers concerning VAT	-.180	.118	-.293	-2.527	.046
	Sources of information on VAT	.032	.114	-.061	.284	.780
	Relationship between tax officials and VAT taxpayers	1.055	.322	.704	3.274	.005
	Tax audits	.608	.272	.494	2.240	.040
a. Dependent Variable: Level of VAT compliance						

Source: SPSS V. 25

Table 2 presents the results of a multiple regression model examining factors influencing VAT compliance. The unstandardized coefficients show the effect of each predictor on the dependent variable (VAT compliance), while the standardized coefficients (Beta) indicate the relative importance of each predictor in explaining variance. The constant term (-2.412) represents the estimated VAT compliance when all predictors are zero. Among the predictors, tax advisers concerning VAT (-.180,  $p = .046$ ), relationship between tax officials and VAT taxpayers (1.055,  $p = .005$ ), and tax audits (.608,  $p = .040$ ) show significant effects on VAT compliance, as indicated by their respective t-values (-2.527, 3.274, 2.240). Sources of information on VAT (.032,  $p = .780$ ) does not significantly influence VAT compliance. Overall, this model suggests that the relationship between tax officials and taxpayers, involvement of tax advisers, and frequency of tax audits are critical factors influencing VAT compliance levels, with statistical significance in their impact.

#### IV. CONCLUSION AND RECOMMENDATIONS

##### ➤ Conclusion

The study reveals that VAT compliance is significantly influenced by the relationship between tax officials and taxpayers, the involvement of tax advisers, and the frequency of tax audits. The multiple regression model emphasizes the importance of these factors, with the relationship between tax officials and taxpayers having the most substantial impact. Conversely, sources of information on VAT do not play a significant role in compliance levels. These insights highlight the need for improved interactions between tax authorities and taxpayers, the strategic use of tax advisers, and regular tax audits to enhance VAT compliance effectively.

##### ➤ Recommendations

Based on the findings, it is recommended that tax authorities prioritize strengthening the relationship between tax officials and taxpayers to foster a more cooperative and transparent environment, which has been shown to significantly impact VAT compliance. Additionally, increasing the involvement of tax advisers in guiding taxpayers through VAT regulations and procedures could further enhance compliance. Regular and rigorous tax audits should be conducted to maintain accountability and deter

non-compliance. Finally, efforts should be made to provide clear and accessible information on VAT to ensure that all taxpayers are adequately informed, even though this factor was not found to be significantly influential in the current study.

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