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## Factors Contributing to Tax Compliance among Small and Medium Sized Enterprises: A Case of Selected SMEs in Iringa Municipality

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**Keywords:**

SMEs,  
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Education,  
Tax Rate,  
Tax Penalties,  
Taxpayer's  
Compliances.

The purpose of the study was to determine factors contributing to tax compliances among small and medium sized enterprises (SMEs) in Tanzania, with reference to selected SMEs in Iringa Municipality. The study objectives were; to evaluate the contribution of taxpayer's education, to determine the contribution of tax rate and to assess the contribution of tax penalties on tax compliance among SMEs in Iringa Municipality. The targeted population were 172 SMEs where a sample size of 63 SMEs was drawn using descriptive research design. The study used stratified sampling technique and data were analysed using linear regression through ordinary least squares estimator showing relationship between tax compliance among SMEs as dependent variable to taxpayer education, tax rate and tax penalties as independent variables. Taxpayer education and tax penalties had a positive relationship and tax rate showed the negative relationship with tax compliance among SMEs. The results from the regression and t- test showed that taxpayer education, tax rate and tax penalties have a significant impact on tax compliance since the p-values were less than 0.05. In the case of the normal regression output the adjusted R<sup>2</sup> equals 0.534 implying that the model explains about 53.4% variations in tax compliance among SMEs. The study concludes that tax payers' education has positive effects on tax compliance while high tax rates discourage the SMEs on tax compliance. Nonetheless, high tax penalties positively influence tax compliance.. The study recommends fair and at moderate level tax levels and there should be more emphasis on tax payers' education and awareness to increase tax compliance.

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**INTRODUCTION**

Tax collection according to is done to meet the ever-expanding expenditure for the supply of public goods and services, that is, to finance the administrative machinery of the government and the fulfillment of basic infrastructure such as roads, telecommunications, electricity, and other basic social services such as education, health, and water supply facilities (Kenno, 2020). Nguyen (2022) defines tax compliance as when taxpayers choose to abide by tax laws and regulations by filing returns and paying tax on time.

Increased revenue collection by the government depends highly on the timely and voluntary payment of tax by households or individuals, but a government budget may be affected by tax evasion and lead to a fiscal deficit, this may occur when an individuals decide not to comply with the requirements of tax laws and regulations. Fagariba (2016) defines tax evasion as "a taxpayer's deliberate refusal to comply with his/her tax obligation." It includes failure to record income, overestimation of costs, and low-benefit announcements, among other things. While the amount of public services provided by the government decreases as a result of tax evasion, the amount of resources accumulated by taxpayers increases, and this has a negative impact on economic growth. In other words, tax evasion has a negative impact on the entire economy (Muleye, 2016).

Cox (2022) said in modern economies, that taxes are the most important source of governmental revenue. However, taxation is not a government's only source of revenue. Taxes differ from other sources of revenue in that they are compulsory levies and are unrequited they are generally not paid in exchange for some specific thing. In developing countries high amount of tax revenue is collected from indirect taxes such as value-

added taxes (VAT). According to Collin (2021) tax depends on the kind of political institutions in place, political systems that place stronger constraints on the executive power are more likely to lead to taxation systems that have a higher degree of transparency towards their citizens. Thus, they are able to demand greater accountability on the part of the state with respect to the taxes they pay. In turn, processes of tax payment and collection characterized by greater transparency and accountability of tax authorities make taxation more consensual between states and citizens. This builds tax morale and has a significant positive effect on the amount of revenues raised.

Inna (2016) in Kyiv discovered that most of the households who decide to evade tax have very little knowledge about the impact of tax collected or revenue, so taxpayer education is very important and is needed for society to reduce the rate of households that evade paying tax. Furthermore, government transparency has a significant impact on taxpayers' willingness to pay taxes by analysing all of their expenditures and investments in order to encourage a large number of tax payers Inna (2016).

Tax education is one of the best instruments that influence tax collection to boost the potential for public sector performance, to finance the social insurance program and to repay public debt. A country's revenue generation primarily depends upon its sufficient capacity to tax more in both economic and administrative terms. Broadening domestic tax base is a priority for most Sub-Saharan African countries including Tanzania; however, in most African countries these efforts are undermined by widespread of tax avoidance and evasion (Mwakabungu, 2016). Thus, it is expected that taxpayer education would be an appropriate tool to deal with the problem of tax

non-compliance through disseminating tax knowledge among taxpayers on tax matters to enhance voluntary tax compliance and hence enhance tax collections in the economy.

Kenno (2020) proposed a variety of reasons why taxpayers attempt to evade the amount of tax they must pay. Some of the factors could be attributed to the perceived level of tax fairness and equity, the lack of provision of basic social services in exchange for the amount of tax paid, the lack of transparency and the prevalence of corruption, the perceived level of tax law enforcement, the perception of government spending, and the paying tax culture and habit. He also observed that taxpayer education is the most critical factor for governments to emphasize.

Hamid (2021) in his study on taxpayer perception, awareness, and education in Malaysia found that Malaysian government considered huge allocation of funds to SMEs as an incentive for sustaining their businesses. To date, the greatest allocation of RM38.7 billion has been made through the 2021 budget to benefit the SMEs. As such, the obligation of SMEs to contribute to the government by paying taxes voluntarily and accurately is essential.

Undoubtedly, Small and Medium Enterprises (SMEs) highly contribute to the economy of countries worldwide (Hamid, 2021). As the Academy of Sciences Malaysia reported, SMEs accounted for 98.5% of business establishments, with a 38.2% contribution to Malaysia's 2019 gross domestic product (GDP). SMEs, being a prominent player in the Malaysian business industries, provided about half of the country's total employment from 2016 to 2020 (Mahidin, 2021). Whereby Tanzania is set a middle-income country as the economy grew by an average of 6.5% per year in the past decade. The "Tanzania Development Vision (TDV) 2025" highlighted small and medium-sized enterprises (SME) sector as one important contributor to the country's long-term development. It is estimated that Tanzania's SME sector consists of more than 3 million enterprises which contribute to 27% of overall GDP. Most of them are in the agricultural sector,

and more than half are owned by women (World Bank, 2017).

Tax is a source of the government revenue which is accountable with financing all government expenditure and investment, the government needs enough revenue to sufficiently fund public goods and services (Collin, 2021). Small and medium-sized enterprises (SMEs) have a tendency to resist voluntary tax compliance, yet Sub-Saharan African nations prioritize increasing domestic revenue. Governments in Sub-Saharan Africa were deprived of much-needed sources of funding as a result of several lockdowns occasioned by the COVID-19 pandemic which caused a freeze in economic activities as tax forbearance measures were put in place to enable enterprises survive (IMF, 2022). According to Mandar, 2017 the Commissioner General of Tanzania Revenue Authority (TRA) reported that fake electronic fiscal devices created by one businessman and distributed to various companies cost the government Tsh. 29 billion in 2016. The use of the fake devices is one of the indicators that most businessmen choose to deliberately evade the burden of tax they are required to pay, which results in less revenue being collected for the government.

Small and medium enterprises (SMEs) make important contributions to the GDP of the nation as well as national income; nonetheless, they continue to evade taxes as part of their normal business practices. According to (2020/2021) Tanzanian budget, one of the causes of government budget deficit is non-tax compliance where by estimated tax revenue mismatch with collected tax revenue. Deloitte (2022) revealed the 2022/2023 Tanzanian budget was to be largely funded by domestic revenue which accounted for 67.5% of the total budget. Domestic revenue growth was expected to be driven by a 13.6% increase in tax revenue from TZS 20.8 tn in 2021/22 to TZS 23.7 tn in 2022/23. Tanzania's fiscal deficit is expected to reach the lowest level in 5 years, hitting 27% of the total budget, down from 28% in 2021/22. As of April 2022, the national debt had reached USD 29,184 million

compared to last financial year which attained USD 25,519 million equivalents to a growth of 14.4%.

There is a large number of the taxpayers who do not pay their taxes and that the budget cannot finance development and re-current expenditures. A tax evasion has inverse relation on the entire economic system (Muleye, 2016). However, due to SMEs' reluctance to pay their taxes in accordance with the established tax laws and regulations, Iringa region is neither exceptional to tax non-compliance. In order to take their concerns into account when developing strategies to improve compliance, it is interesting to understand the factors that influence tax compliance among SMEs.

Considering Tanzania's southern highland, there is limited research on factors contributing to tax compliance among small and medium sized enterprises (SMEs), meaning such factors in this particular area are not analysed. Therefore, to fill the gap, the study sought to determine the factors contributing to tax compliance among small and medium sized enterprises (SMEs), a case of selected SMEs in Iringa Municipality.

## **THEORETICAL FRAMEWORK**

### **Theory of Reasoned Action**

This theory was developed in 1980 by Fishbein and Ajzen to complement Anderson's theory of information integration. The duration of earlier human attitudes and behavioural intention are the sources of the feature of enhancement. Human intents can foretell a person's behaviour, which indicates that not only will a person's views but also his expectations have an impact on his behaviour.

According to Ajzen (1991), a person's ability to properly operate depends on their ability to process external information, such as behavioural traits, personality traits, and social attitudes that predict and explain human behaviour and reactions. Analysing tax knowledge and comprehension can correspondingly help raise people's awareness of the need to abide by tax

laws and regulations. In fact, one of the elements in the Theory of Planned Behaviour's external variables that can affect taxpayer behaviour is information. Knowledge is one of the factors in the external variables of the Theory of Planned Behaviour that can influence taxpayer behaviour Muzakkir (2019) in this sense; individuals in different countries are driven to behave in a truthful manner as per their knowledge levels of the legitimate tax system.

### ***Optimal Tax Theory***

Optimal tax theory was developed by Ramsey (1927). It looks at how to best optimize a tax system in order to reduce any distortion and inefficiency that may arise. Government's operatives must therefore strike a balance when coming up with a tax system. In its effort to raise revenue from taxation, the government must not create a distortion in economic choices by tax payers. Ramsey argued that a tax that is neutral is a tax which fully avoids distortion and inefficiency. The theory suggests that a benevolent tyrant who respects both individual and social interests in order to attain equality, makes the policy. Auerbach (1986) argued that one may choose to ignore this theory based on the fact that the actual tendency is for the policymakers to represent the interests of some specific groups.

### ***The Standard Deterrence Model***

This model postulates that taxpayers comply with their obligations to avoid legal sanctions such as penalties whenever those sanctions are expected to be costlier than compliance Doran (2014). The deterrence model draws directly from Gary Becker's economic analysis of punishment for criminal conduct. Becker's analysis is normative; As for the individual decision-making strategy, the theory generally assumes informed, rational agents who act if their actions yield private benefits in excess of all costs of acting. Some privately beneficial acts give rise not only to private costs and benefits, but also to external harms that individuals do not take into account absent government intervention. Whatever the

sanctions form; the regulator must choose its magnitude. And given that most violations are not detected with certainty, the regulator must also choose the probability with which the sanction will be imposed and his purpose is to determine optimal punishments by setting a wrongdoer's expected costs equal to the wrongdoer's expected benefits.

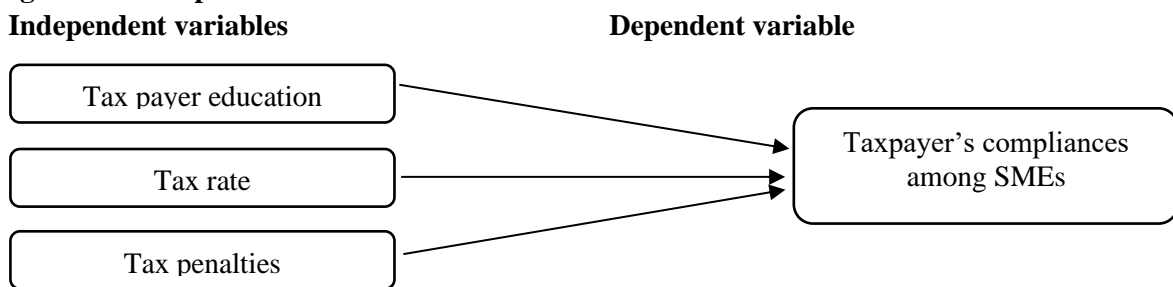
Becker models expected costs as a function of both the severity of the punishment potentially imposed on the wrongdoer and the probability of punishment. This implies that the level of punishment and the probability of punishment generally are substitutes. If all else is held

constant, a less severe punishment with a higher probability of imposition can yield the same expected costs to the wrongdoer and, therefore, the same level of deterrence as a more severe punishment with a lower probability of imposition.

**Conceptual Framework**

According to Bogdan and Biklen (2016), a conceptual framework is a basic structure that consists of certain abstract blocks, which represent the observational, the experiential and analytical/synthetically aspects of process being conceived.

**Figure 1: Conceptual Framework**



Source: Research Construction (2023)

**RESEARCH METHODOLOGY**

This study was conducted in Iringa in Tanzania. The study used the quantitative research approach. This method was used to firm up and modify knowledge first gained in a fundamentally quantitative way which is consistent with the research objectives (Bryman, 2017).

The population used in the study was all 172 registered small and medium-sized businesses who provide services (hotels, restaurants, and cafes) in Iringa Municipality (KCIC, 2020). A sample of 63 respondents (SMEs practice in hotels, restaurants, and cafes) were drawn using solvins formula with level of precision of ±10%.

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

The study used stratified, random sampling techniques (probability) and convenience sampling to select respondents of the study (SMEs) and data for this study was collected by using questionnaires. The study used

questionnaires to collect quantitative data from 63 enterprises. Data from questionnaire were analysed using both descriptive statistics and multiple regression models, the model used to observe magnitude and direction of tax payer's education, tax rate and tax penalties on tax compliance among SMEs.

The hypothesis is:

HO:  $\beta_1 = \beta_2 = \beta_3 = 0$  (model insignificant)

HA:  $\beta_1 \neq \beta_2 \neq \beta_3 \neq 0$  (model is significant)

The level of significance is 5% = 0.05 with 95% confidence interval.

**The Economic Theory Test Analysis**

The model used, as shown from the conceptual model, was linear regression;

That is

TCS = f (TE, TR, TP)

Where TCS = Tax compliance among SMEs; TE = Tax education; TR = Tax rate; TP = Tax penalties; U = Disturbance term.

And  $\beta_1 > 0$ ,  $\beta_2 < 0$ , and  $\beta_3 > 0$

The estimated linear model was  $TCS = 0.519 + 0.564TE - 0.723TR + 0.621TP$

(-1.035) (4.282) (-5.875) (5.166)

From the economic theory test, all signs from parameters conform to the hypothesized signs from the economic theory.

$\bar{R}^2 = 0.510$ ,  $F = 22.534$ , and  $t$  values are in parentheses

**Validity**

Validity refers to the quality that an instrument used in research is accurate, correct, true and meaningful and right Borden and Abbott (2014). The term validity seeks to address the question as to whether a study truly measures what it is supposed to measure; the Bartlett's Test of Sphericity showed that the data variables obtained after data collection process were significant (0.000) to measure the dependent variable with Kaiser-Meyer-Olkin value 0.749 in accordance to Kaiser 1974 who stated that the results from factor analysis can be considered adequate and acceptable if the KMO is 0.5 or greater and the Bartlett's test of sphericity is statistical significant  $p < 0.05$  therefore the factor analysis is valid hence the researcher is confident that factor analysis is appropriate for these data.

**Table 1: KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.749
Bartlett's Test of Sphericity	Approx. Chi-Square	145.334
	Df	6
	Sig.	.001

Source: Field Data (2023)

**Reliability**

Reliability is the degree to which an assessment tool produces stable and internally consistent results (Kothari, 2014). In this study, a measure of reliability was used to evaluate the degree at which different test items probing the same construct produce similar results. The alpha coefficient for the four variables (items) is 0.878 as shown in Table 2 indicating that there is

internal consistency between independent variables (tax education, tax rate, and tax penalties) and the dependent variable (tax compliance among SMEs). According to Lee Cronbach's, Cronbach's alpha test is a measure of the internal consistency of a test or scale; it is expressed as a number between 0 and 1 and the rule of thumb for the reliability test is that 0.5 or higher suggests a good reliability.

**Table 2: Reliability statistics**

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.845	.878	4

Source: Field Data (2023) Data analysis and Presentation???

**FINDINGS AND DISCUSSION**

**Descriptive of the Sstudy**

Table 3 indicate that The data suggests that, on average, about 3.044 tax education seminars are conducted per month, with a relatively high standard deviation of 8.25, indicating substantial variability. The mean tax rate charged per month is 0.26%, and the standard deviation is 2.46, implying variation in tax rates. The average

combined number and percentage of tax penalties imposed on SMEs per month is 0.485, with a notable standard deviation of 3.911. Tax compliance, based on the target versus the collected amount, averages 194.5 per month, with a standard deviation of 77.56. While efforts are made to educate SMEs through seminars, the low mean tax rate and the complex relationship between penalties and compliance suggest that additional factors, beyond those represented in the

data, likely play a significant role in influencing tax compliance and collection levels. Further

analysis is needed to determine the precise impact of these variables on tax compliance outcomes.

**Table 3: Descriptive statistics**

	N	Min	Max	Mean	Std.Dev
Number of seminars conducted to SMEs on tax education per month as to improve tax compliance	63	1	5	3.044	8.25
Tax rate as percentage charged per month on SMEs	63	0.14	0.38	0.26	2.46
Number and percentage of tax penalties imposed to the SMEs to as to improve tax compliance	63	0.07	0.27	0.485	3.911
The compliance base on the target versus the collected amount from tax compliances	63	123	266	194.5	77.56

**Linear Regression**

A linear regression analysis was performed to determine the relationship between a dependent variable (tax payer compliance among SMEs) and independent variables (tax payer education, tax

rate, and tax penalties). A linear regression analysis is a type of association study that simultaneously examines the effects of two or more independent variables on a single, interval-scaled dependent variable. As it is shown in *Table 4*.

**Table 4: Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	.519	.501		1.035	.000
Tax education	.564	.572	.530	4.282	.021
Tax rate	-.723	.660	-.540	-5.875	.000
Tax penalties	.621	.597	.536	5.166	.043

*a. Dependent Variable: Tax compliance among SMEs*

The estimated regression model indicates that a one percentage increase in tax education leads to a change of 0.564 in tax compliance among SMEs. A one percentage change in tax rate leads to a change of -0.723 in tax compliance among SMEs. A unit change in tax penalties leads to a change of 0.621 in tax compliance among SMEs. All three parameters estimate are statistically significant at 5% level. However, all algebraic signs of the parameter estimate for tax education, tax rate and tax penalties conform to the hypothesized signs.

**T-Statistical Test**

This was used to test the significance of the parameter estimates of the model.

The estimated linear model was  $TCS = -0.519 + 0.564TE - 0.723TR + 0.621TP$

(-1.035) (4.282) (-5.875) (5.166)

The t-values are all greater than 2.0. Therefore, according to the rule of thumb, the parameter estimates are statistically significant. That is, they contribute to tax compliance among SMEs in Iringa Municipality.

**F-test**

This was used to test the overall significance of the regression results. The calculated 'F' as shown in table 18 is 22.533 and the critical F-value (from tables) is 4.13. Since the calculated 'F' is greater than critical 'F', the researcher rejects null hypothesis in favour of the alternative hypothesis; that is,  $\beta_1$ ,  $\beta_2$  and  $\beta_3$  are statistically different from zero implying that tax education, tax rate, tax penalties contribute to tax compliance among SMEs in Iringa Municipality. And also, on the table 4.13 it shows that the dependent variable can be explained by the model to the extent of 53.4% (36.729 out of 68.787) while another variable not captured by this model 46.6% (32.057 out of

687.787) of SMEs to tax compliance but the overall significance of the study is less than 0.005

and that make the researcher to reject null hypothesis and accept the alternative hypothesis.

**Table 5: Analysis of Variance – ANOVA**

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	36.729	3	12.243	22.533	.006 <sup>b</sup>
	Residual	32.057	59	.543		
	Total	68.787	62			

a. Dependent Variable: Tax compliance among SMEs

b. Predictors: (Constant), Tax education, Tax rate, Tax penalties

### Adjusted R<sup>2</sup> test

This test was used to explain the total variations in the dependent variable i.e., Tax compliance among SMEs caused by variations in the independent variables i.e., tax education, tax rate,

tax penalties. In the case of the regression output the adjusted R<sup>2</sup> = 0.510, implying that the model explains about 51% of variations in the Tax compliance among SMEs hence the model does half in explain variations in Tax compliance among SMEs.

**Table 6: Model Summary**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std. Err of the Estimate	Change Statistics					Durbin-Watson
					R <sup>2</sup> Change	F Change	df1	df2	Sig. Change	
1	.731 <sup>a</sup>	.534	.510	.73712	.534	22.533	3	59	.000	2.043

a. Predictors: (Constant), Tax education, Tax rate, Tax penalties

b. Dependent Variable: Tax compliance among SMEs

Also, it indicates, R coefficient is 0.731 meaning that there is a correlation of 73.1% between the independent variables (tax education, tax rate, tax penalties) and dependent variable (Tax compliance among SMEs). This shows that the independent variables (tax education, tax rate, tax penalties) are significant predictors of the dependent variable (Tax compliance among SMEs) in Iringa Municipality.

## DISCUSSION

### Contribution of Tax Education to Tax Compliance among SMEs in Iringa Municipality

The findings revealed that the SMEs in Iringa Municipality have tax education and it has positive contribution to tax compliances where by SMEs use the education that they have received from the authorities, schools, seminars, and publication which has positive influence on tax compliance among SMEs. The results are supported by Mokaya (2018) who examined the influence of tax payers' education on voluntary tax compliance in Tanzania: A case study of

Monduli District. The study found that implementing taxpayer education programs through various channels, such as print media, website-based programs, and tax stakeholder workshops, has a significant positive impact on voluntary tax compliance in Tanzania. Both print and electronic media taxpayer education programs were found to be effective in improving voluntary tax compliance.

In addition, the result is supported by Nadia et al. (2021) who examined taxpayer perceptions of tax awareness tax education, and tax complexity among small and medium enterprises in Malaysia a quadrant analysis approach. The study found that taxpayers must also be aware of how and when they are imposed with tax. Furthermore, tax systems must be adaptable to technical and economic developments and tax education is beneficial to taxpayers as it improves their understanding of the tax system to calculate, pay, and declare their income. Taxpayers with poor tax education are likely to show unwillingness or avoidance of paying taxes, either with or without intention.



### **Contribution of Tax Rate to Tax Compliance among SMEs in Iringa Municipality**

The findings revealed that tax rate has negative influence on tax compliance where by the less the tax rate imposed will influence SMEs to tax compliance and also imposing high tax rate to the SMEs will contribute to non-tax compliance in Iringa Municipality where the findings are supported by Chindengwike and Kira (2022) who examined the effect of tax rate on taxpayers' voluntary compliance in Tanzania, where finding shows that there is a negative effect of the tax rate on taxpayers' voluntary compliance. Again, the study indicates that the presence of good tax rates improves taxpayers' voluntary compliance and the tax rates influence taxpayers' voluntary compliance. Lastly, there is statistical significance between tax rates and voluntary taxpayers' compliance in Tanzania. Therefore, the relationship between tax rate and tax compliance among SMEs is statistically significant negative, this means that the higher the tax rate the more the SMEs non-compliances

### **Contribution of Tax Penalties to Tax Compliance among SMEs in Iringa Municipality**

The findings indicate that tax penalties have a positive influence on tax compliance among SMEs in Iringa Municipality. This positive influence is driven by the fear of facing higher penalties for non-compliance, which motivates SMEs to comply with tax payment obligations where by the from the data collected and analysed show us most of the SMEs the comply or will comply so to avoid the sactions. The potential loss of revenue through penalties acts as an incentive for SMEs to ensure timely and accurate tax payments.

In other words, the prospect of incurring penalties serves as a deterrent and encourages SMEs to meet their tax obligations promptly, ultimately leading to improved tax compliance rates. where the findings are supported by Ndlovu and Schutte (2023) who investigated on the influence of penalties on the tax compliance behaviour of

small business owners and the findings indicate that to an extent, penalties do encourage small business owners to pay taxes on time. However, the charging of substantial penalties has the potential to discourage small business owners from registering at all for taxes. Furthermore, non-compliance is often a result of cash flow challenges, in which case the penalties become an unavoidable cost of doing business. A lack of skills and basic tax knowledge lead to unintentional noncompliance therefore, the penalties must be accompanied by training, awareness, and education. Therefore, the findings provided, that there appears to be a positive relationship between tax penalties and tax compliance among SMEs in Iringa Municipality. When SMEs face the risk of higher tax penalties for non-compliance, they are more likely to comply with their tax payment responsibilities to avoid the financial consequences associated with penalties. The fear of losing revenue due to penalties serves as a strong incentive for SMEs to adhere to tax regulations, leading to an increase in tax compliance levels. This positive relationship suggests that the enforcement of tax penalties can play a significant role in promoting tax compliance behaviour among SMEs.

### **CONCLUSION AND RECOMMENDATION**

The study investigated the factors contributing to tax compliance among SMEs in Iringa Municipality. It was specifically aimed at finding out the influence of tax payers' education, the influence of tax rate among SMEs to tax compliance as well as the influence of tax penalties among SMEs to tax compliance in Iringa Municipality. The following is the conclusion of the findings.

#### **Conclusion**

##### ***Tax Rate***

Tax rates play a pivotal role in shaping SMEs' willingness and ability to comply with tax obligations. Higher tax rates could lead to financial burden and reduced compliance, as businesses might seek ways to minimize their tax liabilities. Conversely, reasonable tax rates can

alleviate the pressure on SMEs, fostering a positive environment for voluntary tax compliance.

### ***Taxpayer Education***

Recognizing that knowledge is a powerful driver of compliance, the study emphasizes the role of taxpayer education. Informed SME owners are more likely to understand their tax responsibilities, benefits of compliance, and proper procedures. The research examined how effective taxpayer education programs positively impact

### ***Tax Penalties***

Tax penalties are a deterrent for non-compliance. Penalties might encourage SMEs from meeting their tax obligations, especially if they perceive the penalties to be the one that lead to lessen revenue to their business.

### **Recommendation**

#### ***Recommendation to Policymakers and Tax Authorities***

The research recommends that policymakers consider evaluating the current tax rate structure for SMEs in Iringa Municipality. If the tax rates are perceived as excessively high, they could lead to tax evasion and non-compliance. The research proposes the implementation of comprehensive tax education programs targeting SME owners and managers. These programs could help SMEs better understand of their tax obligations, the benefits of compliance, and how to effectively manage their tax affairs. Increasing tax literacy can lead to improved voluntary compliance. Excessive penalties could deter compliance, especially for small businesses facing financial constraints. The recommendations could include implementing proportional penalties that take into consideration the severity of the violation, offering leniency for minor infractions, and ensuring transparency in penalty assessment.

#### ***Recommendation for Iringa Municipality***

The research recommends that the municipality explore the possibility of providing temporary tax

rate incentives for SMEs that exhibit consistent tax compliance. Such incentives could motivate SMEs to meet their tax obligations promptly. The research proposes organizing workshops and seminars in collaboration with tax experts and relevant authorities. These events could provide practical guidance on tax compliance, record-keeping, and other aspects of managing taxes for SMEs.

### ***Recommendation for Further Study***

It is essential to pursue more research to get better knowledge of the elements affecting tax compliance among small and medium-sized firms (SMEs) in Iringa Municipality. Despite the fact that the current study accounts for a sizable amount of the variation in tax compliance, it is important to note the possibility of other unidentified, contributory factors. Future research projects should focus on conducting qualitative methods like focus groups and interviews to uncover hidden influences, administering thorough surveys to a larger sample of SMEs to capture a wider array of variables, conducting in-depth case studies to delve into particular circumstances, motivations, and strategies, and conducting comparative studies with SMEs in similar regions to identify local factors and regional dynamics impacting SMEs.

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