

Challenges Affecting Zanzibar Revenue Board Effectiveness on Tax Collection: An Evaluative Study.

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Abstract

The main objective of this study was to evaluate the challenges affecting Zanzibar revenue board effectiveness on tax collection. The researcher has employed quantitative approach. Simple random sampling was used to select 41 Respondents. The data were collected through closed ended questionnaires. The findings of the study revealed that, over 50 percent agreed and strongly agreed bureaucracy in paying taxes, complex tax computation, unfriendly tax administration, multiple taxes and ineffective tax collection as the major challenges affecting ZRB on tax collection. Finally the study recommends that the Government of Zanzibar has to take intentionally measures to widen their tax base thereby reducing tax avoidance. For example, it is recommended to issues identification number or social security number, to keep track of their transactions.

Key terms: *Tax collection, Zanzibar Revenue Board, bureaucracy, Descriptive techniques.*

Date of Submission: 25-03-2021

Date of Acceptance: 09-04-2021

I. Introduction

Government is a responsible board for the provision of better services to its citizens so as to ensure that they have a better social and economic life which will influence peoples to the production as well as good working environment. Normally, all government in the world depends on tax in order to ensure provision of public goods and services, redistribution of income and wealth among members of the society, guarantee economic stability and promote social and economic welfare (Ndemanyisho, 2014).

Taxes are compulsory payments to government without expecting direct benefit or return by the tax payer – not based on direct quid pro quo principle. Taxes/revenues collected by Government are used to provide common benefits to all mostly in form of public welfare services. Taxes/revenues do not guarantee any direct benefit for the person who pays the tax (Chijoriga, 2012).

In order to facilitate some of social services can be either education, health, water, electricity, or other infrastructures must be fund that will be used to finance services provision, such sources may be fees, grants and aids, dividend, bonds, gifts, loan, taxation and any other sources generated by the Government of a certain country. Apart from those sources of fund taxation is a major source of fund where a government can generate/impose worldwide to finance its activities, Tax is the main source of revenue for any government (Bird et al, 2008).

Tanzania tax structure is composed of two main types of tax according to the nature of tax; these are Direct tax and Indirect tax. According to Cambridge dictionary direct tax is a money that people must pay to the government them such as income tax rather than money that paid as a tax for goods or services. Direct tax burden is directly imposed/paid by the individuals who generate income or profit, the direct tax includes withholding tax, income tax and corporate tax.

The Tanzania Revenue Authority (TRA) is a government agency which directly deals with the taxation in the union matters that was established by Act of Parliament No. 11 of 1995, and started its operations on 1st July 1996. It is regulated by law and is responsible for administering impartially various taxes of the Central Government in Tanzania.

On the other side, Zanzibar Revenue Board (ZRB) is the prime agency for collection and administration of all taxes from Inland Revenue sources other than customs, excise and income taxes that are administered by the TRA was established under the ZRB Act No. 7 of 1996. Due to the establishment of these

two institutions, tax collection was classified on Union tax and non-Union tax, whereby TRA is collecting those Union Taxes while ZRB is collecting nonunion taxes for the Government of Zanzibar. The common task for these institutions is tax collection but each of them have their own goals, vision, and mission so as to achieve their goals through effectively (Harry and Kitillya, 2011).

II. Statement of the Problem

Tax system of Zanzibar had evolved overtime to reflect socio-economic and political situation at the time. The country has currently witnessed some increased investments in many sectors with proportional taxes collected impacts due to low collection performance and tax evasion. A low revenue productivity of the tax system is argued to have been attributable to mainly generous tax exemption, low compliance and tax evasion coming both from a weak tax administration and high tax rate (Osoro, 1991) which make tax collected to be below 30% of the GDP as nominated by the international standards.

The Revolutionary Government of Zanzibar has undertaken important steps to improve revenue collection performance by introducing various measures to improve tax collection; these include the introduction of taxpayer's identification number (TIN), broadening tax bases and a major introduction of Value added tax (VAT) to replace sales tax.

Despite of these initiative efforts, the collection of taxes in Zanzibar still faces many challenges which affect the performance of ZRB. Therefore, there is a need to evaluate which challenges affect the effectiveness of ZRB on tax revenue collection.

III. Theoretical literature review

This study is governed by three major theories. These are

Benefit Theory: The benefit theory mandates that those who benefit most from the use of commodities or services should be required to pay for the benefit of use (Emslie et al., 2001:12). According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government. This theory is related to this study because it deals with the principles of taxation in general.

The Cost of Service Theory: Some economists were of the opinion that if the state charges actual cost of the service rend from the people, it will satisfy the idea of equity or justice in taxation. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine, e.g., postal, railway services, supply of electricity, etc., etc. Most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined.

Ability to Pay Theory: The ability to pay theory indicates that, every person should pay taxes to the government depending upon his or her ability to pay (Batt, 2012:70). The insinuation in this theory is that the wealthy class people should pay higher taxes to the government, because without the protection of the government authorities like police and defense, they could not have earned and enjoyed their income that they enjoy. It is the most popular and commonly accepted principle of equity or justice in taxation is that citizens of a country should pay taxes to the government in accordance with their ability to pay.

IV. Empirical Literature Review

Empirically, the study review several study in relation to the challenged facing/affecting tax revenue collection around the world so as to be able to find the gap between the literatures. The following are among them.

Kipilimba (2018) conducted study on the impact of tax administration towards government revenue in Tanzania- Case of Dar-es Salaam region. The questionnaire survey has been used to access the required information 85 respondents out of 100 targeted respondents from the area of the study. Findings of this study have been analyzed and reveal that, Good tax design, Effective tax policy and laws, Tax administrative structure, Tax collection methods, Proper use of computerized system of maintaining taxpayer Register, Outsourcing revenue collections to private tax collectors, Internal and external capacity building, Intensive coordination with other entities and Proper maintenance of taxpayer's records are the main factors that enhance effective tax administration in Tanzania.

According to International Monetary Fund report (2015), the report addresses current challenges in revenue mobilization: improving tax compliance. Specifically, the report addresses core challenges that all tax administrations face in dealing with noncompliance. The report revealed that compliance worsened markedly in countries most affected by the crisis, which exposed structural weaknesses in many tax administrations. There are tentative signs that the effect may be short-lived, perhaps reflecting policy responses, but the need to address

wider vulnerabilities remains. In addition to that, the report said that much remains to be done in many countries to build effective tax administrations. High turnover of senior staff, weak HQs, inadequate/unstable financing are recurrent concerns, as especially in developing countries are weaknesses in auditing, taxpayer services and legal framework

Carnahan (2015) through taxation challenges in developing countries, using public expenditure and financial accountability assessment data, the findings provides that the revenue raising capabilities across 58 developing countries. Tax reforms or tax system changes need to be made mindful of that current capacity. The optimal choice of tax regime may be different when administrative capacity is low. The increasing globalization of economic activity adds a further layer of complexity that developing countries need to manage in building and maintaining their revenue systems. Finally, any proposals to change the revenue system in a developing country need to recognize that, like developed countries, tax reforms are highly political endeavors.

Meena (2013) doing assessment of the challenges facing revenue collection in Tanzania: Evidence From Tanzania Revenue Authority (TRA); Morogoro. Case study research design was used in this study. A sample size of 32 out of 90 respondents (i.e. tax payers and TRA employees) was involved. Interview and questionnaires were used to get information from the respondents. Data collected were analyzed descriptively by using SPSS computer software. The findings show that direct taxes as reported by 100% of the respondents were collected by TRA through the assistance of debt management and compliance section which are responsible for the provision of guidance to taxpayers. However, 80% of the respondents reported the availability of taxpayer resistance and low tax morale on part of the citizenry which resulted into the reduction of revenue collection due to the availability of low level of tax knowledge by tax paying community. Furthermore, 82% of the respondents argued for the application and enhancement of block management system to categorize taxpayers in order to facilitate their monitoring process as to reduce no filers, facilitate collection of arrears and proper assessment while enabling them pay tax in a cost effective way.

Thus, out of these four literatures above, it seems that the revenue collectors are facing several challenges which may hinder the effectiveness of their collections which may be the reasons to reduce GDP especially in developing countries including Zanzibar.

V. Methodology

Research Design: In this study, a case study design or approach was used. A case study approach is selected for this research because it offers the ability to connect the micro-level experience with macro level understanding and assess the mitigation measures on challenges facing tax collection authority in the study area. Also, this instrumental case design in nature it provides an insight into broader issue of addressing the topic.

Study area Selection and Criteria: The study was done at Zanzibar Revenue Board offices in Urban West region - Unguja which are known to have numbers of taxes to be collected and clients including medium and large business enterprise. The criteria for selecting this region is due to high business and financial flow from the port and harbor, shops and hotels and other services providers and business enterprises.

Study Population: The target population for this study comprises of the ZRB offices at harbor, airport, and head quarter. It was not limited to the companies, hotels, and medium to big shop where ZRB collect taxes from them.

Sampling techniques and Sample Size: The random sampling was used to select the respondents from long list of sample frame such as; tax collectors, hotel and shops. Also, a purposive sampling was used to obtain information from key informants. In this case, the managers from the ZRB headquarters, hotels and shops. On the other side of the sample size, the researcher used a sample size of one forty one (41) from the study area. This sample includes ten (10) tax collection officers from ZRB headquarter, three (3) tax collection officers from ZRB Kiembe Samaki airport, three (3) tax collection officers from ZRB Malindi harbor (10) registered companies, five (5) medium shops, five big shops (5), five (5) hotels.

Data Collection Methods: Based on the nature of this study, primary data elicited from the targeted respondents in order to know the reality of what is happening to them at a point in time is preferred. Therefore, questionnaire survey was employed as the method of data collection. A questionnaire was administered in the study area to a sample of 41 tax collectors, to capture quantitative information on assessing the mitigation measures on challenges facing tax collection in the study area.

Data Analysis: The descriptive statistics was employed to analyse and present the quantitative data collected with questionnaire. The Data obtained from questionnaires were organized, coded using Statistical Package for Social Science (SPSS) version 20.

Findings and discussion

6.1 Demographic characteristics of the respondents

Personnel characteristics of respondents have very significant role to play in expressing and giving the responses about the problem within the society. On top of that, this study a set of personal characteristics namely, age, sex, education and work experiences as presented below.

Table 1 Demographic of the respondents

Variable	Category	Frequency	Percentage (%)
Gender	Male	25	61
	Female	16	39
Age	21-30	10	24.4
	31-40	18	43.9
	41-50	8	19.5
	51 and above	5	12.2
Education	Diploma	14	34.1
	Degree	20	48.9
	Master	7	17.1
Work experience	1-3 years	12	29.3
	4 -6 years	25	61
	7 and above	4	9.8

From the table 1 above summarises the demographic information about the respondents. Expectedly, the number of male tax collection officers is almost twice the number of female tax collection officers. This is because, the population of woman in Zanzibar who employed as tax collection officers is lower compared to male.

By the age of the respondents, the result in the table above it seems to suggest 63.4 percent of the respondents are between the ages of 31-50, which is more than half of the total respondents. This indicate that most of the tax collection officers of Zanzibar revenue board are economically active labor force and they can manage work effectively

Also, table1 above shows that about 34.1 percent of tax collection officers are educated up to diploma level, 48.9 percent are educated up to degree and only 17.1 percent of tax collection officers were educated up to master level. This result implies that large portions of household heads have attained certain level of education, but very far to the higher level of education. Therefore, it is important to create a knowledge based society to overcome the problem facing tax revenue authority.

More importantly, more than half of the respondents (61 percent) have work experience from 4 to 6 years and only 9.8 percent have experience of 7 years above. This implies that, in the department of tax collection there is lack of experienced officers who can be able to manage the department effectively.

6.2 Challenges Affecting Zanzibar Revenue Board Effectiveness

The researcher intended to evaluate the challenges affecting the effectiveness of Zanzibar Revenue Board Authority on the tax collection processes. The analysis was done to find out how those challenges, affect the Zanzibar Revenue Board effectiveness such as; bureaucracy in paying taxes, complex tax computation, unfriendly tax administrators, and multiple taxes, reduction of the black economy and ineffective tax collection

a) Bureaucracy in paying Taxes

Here, the respondents were asked to agree, strongly agree, disagree and strongly disagree on the bureaucracy in paying Taxes as the challenges affecting ZRB on tax collection. These results are illustrated in Table 2

Table 2: Bureaucracy in paying Taxes

Level of agreement	Frequency	Percentage
Agreed	11	26.8
Strongly agreed	22	53.7
Neutral	2	4.9
Disagree	4	9.8
Strongly disagreed	2	4.9
Total	41	100.0

Source: Field Data, 2021

The results from Table 2 summarized the findings about the bureaucracy in paying taxes. The results show that, 11 respondents out of 41 equal to (26.8%) agreed, 22 (53.7%) strongly agreed, 2 respondents equal to (4.9%) were neutral, 4 respondents equal to (9.8%) disagreed and those who were strongly disagreed were 2 respondents equal to (4.9%). Therefore, due to these results, it is clear indicated that, bureaucracy in paying Taxes is an effect from the challenge face ZRB on tax collection since large group of the respondents agreed and strongly agreed.

This finding is consistent with the findings of Meena (2013) where the study found that, 80% of the respondents reported the availability of taxpayer resistance and low tax morale on part of the citizenry which resulted into the reduction of revenue collection due to the availability of low level of tax knowledge by tax paying community.

b) Complex Tax Computation

In this part, the researcher was interested to know about the complex tax computation as the challenges affecting ZRB on tax collection. These results are illustrated in Table 3

Table 3 Complex Tax Computation

Level of agreement	Frequency	Percentage
Agreed	18	43.9
Strongly agreed	12	29.3
Neutral	1	2.4
Disagree	6	14.6
Strongly disagreed	4	9.8
Total	41	100.0

Source: Field Data, 2021

Table 3 summarized the findings about the complex tax computation as an effect of challenges face Zanzibar Revenue Board and the results showed that, 18 respondents equal to (43.9%) agreed, 12 respondents equal to (29.3%) strongly agreed. 1 respondent equal to (2.4%) were neutral, 6 respondent equal to (14.6%) disagreed and those who were strongly disagreed were 4 respondents equal to (9.8%). In line with the study results, it is clearly that, most of respondents agreed upon complex tax computation as an effect of challenges face ZRB on tax collection.

Also, this finding agreed with the report of IMF (2015) which states that compliance worsened markedly in countries most affected by the crisis, which exposed structural weaknesses in many tax administrations and many countries need to build effective tax administrations

c) Unfriendly Tax Administration

Furthermore, the respondents asked to agree, strongly agree, disagree and strongly disagree on the unfriendly tax administration as the effect led by the challenges face ZRB on tax collection. These results are illustrated in Table 4

Table 4 Unfriendly Tax Administration

Level of agreement	Frequency	Percentage
Agreed	19	46.3
Strongly agreed	11	26.8
Neutral	5	12.2
Disagree	4	9.8
Strongly disagreed	2	4.9
Total	41	100.0

Source: Field Data, 2021

Table 4 summarized the findings about unfriendly tax administration as an effect of challenges face Zanzibar Revenue Board and the results showed that, 19 respondents equal to (46.3%) agreed, 11 respondents equal to (26.8%) strongly agreed. 5 respondent equal to (12.2%) were neutral, 4 respondent equal to (9.8%) disagreed and those who were strongly disagreed were 2 respondents equal to (4.9%). Therefore, the study results indicated that, most of respondents agreed upon unfriendly tax administration as an effect of challenges face ZRB on tax collection.

In connecting with Carnahan (2015), the researcher in this paper has found that, the optimal choice of tax regime may be different when administrative capacity is low. The increasing globalization of economic activity adds a further layer of complexity that developing countries need to manage in building and maintaining their revenue systems.

d) Multiple Taxes

The researcher was evaluating the Multiple Taxes as the the challenges affecting ZRB on tax collection. During the evaluation the following results were obtained in Table 5

Table 5 Multiple Taxes

Level of agreement	Frequency	Percentage
Agreed	19	46.3
Strongly agreed	11	26.8
Neutral	3	7.3
Disagree	5	12.2
Strongly disagreed	3	7.3
Total	41	100.0

Source: Field Data, 2021

The summarized findings from Table 4.15 about multiple taxes as an effect of challenges face Zanzibar Revenue Board and the results showed that, 19 respondents equal to (46.3%) agreed, 11 respondents equal to (26.8%) strongly agreed. 3 respondent equal to (7.3%) were neutral, 5 respondent equal to (12.2%) disagreed and those who were strongly disagreed were 3 respondents equal to (7.3%). Therefore, due to the study results, it is clearly indicated that, most of respondents agreed and strongly agreed upon multiple taxes as an effect of challenges face ZRB on tax collection.

According to Ndalaha (2016) supported that study from his findings of the study when he indicated the eight major challenges on the issue of taxation include high taxes, multiple taxes, changes in taxes, unreasonable taxes, and bureaucracy in paying taxes. Other challenges include difficulty in paying taxes, complex tax computations, and unfriendly tax administrators. In effort to create a deeper and comprehensive understanding of the each challenge, it is important to discuss these challenges as presented in the data from research participants.

e) Ineffective tax collection

In this part, the respondents asked to agree, strongly agree, disagree and strongly disagree on the ineffective tax collections the effect led by the challenges face ZRB on tax collection. These results are illustrated in Table 6

Table 6 Ineffective tax collection

Level of agreement	Frequency	Percentage
Agreed	8	19.5
Strongly agreed	24	58.5
Neutral	1	2.4
Disagree	3	7.3
Strongly disagreed	5	12.2
Total	41	100.0

Source: Field Data, 2020

The summarized the findings from Table 4.17 about the ineffective tax collection as an effect of challenges face Zanzibar Revenue Board and the results showed that, 8 respondents equal to (19.5%) agreed, 24 respondents equal to (58.5%) strongly agreed. 1 respondent equal to (2.4%) were neutral, 3 respondent equal to (7.3%) disagreed and those who were strongly disagreed were 5 respondents equal to (12.2%). Therefore, due to the study results, it is clearly indicated that, most of respondents were strongly agreed upon Ineffective tax collection as an effect of challenges face ZRB on tax collection.

To connect with the finding of Kipilimba (2018), it was founded that good tax design, effective tax policy and laws, tax administrative structure, tax collection methods, proper use of computerized system of maintaining taxpayer Register, outsourcing revenue collections to private tax collectors, internal and external capacity building, intensive coordination with other entities and proper maintenance of taxpayer's records are the main factors that enhance effective tax administration in Tanzania.

VI. Conclusion

On evaluating the challenges affecting the Zanzibar Revenue Board effectiveness on tax collection, the study indicated that, bureaucracy in paying taxes is an effect from the challenge face ZRB on tax collection since large group of the respondents agreed and strongly agreed. Also, the study indicated that, most of respondents agreed upon complex tax computation as an effect of challenges face ZRB on tax collection. Then, the study results indicated that, most of respondents agreed upon unfriendly tax administration as an effect of challenges face ZRB on tax collection. The study also, indicated that, most of respondents agreed and strongly

agreed upon multiple taxes as an effect of challenges face ZRB on tax collection. The study results also, indicated that, most of respondents were strongly agreed upon Ineffective tax collection as an effect of challenges face ZRB on tax collection.

VII. Recommendations

Upon the conclusion drawn from this study, the researcher recommended that, the uniformity rate of VAT for all the products should be maintained throughout the country so as to be able to improve taxpayer services through the proactive management of taxpayer or constituent relationships through e-reminders, notices and triggered alerts. Also the government of Zanzibar has to take intentionally measures to widen their tax base thereby reducing tax avoidance and tax evasion, so all citizens must be issued a universal identification number or social security number, to keep track of their transactions. In addition, the government has to adhere to tax basic principles so it can function effectively and efficiently. Specifically, the tax system has to be fair for small and medium scale businesses.

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Ali Haji Pandu, et. al. "Challenges Affecting Zanzibar Revenue Board Effectiveness on Tax Collection: An Evaluative Study." *IOSR Journal of Economics and Finance (IOSR-JEF)*, 12(2), 2021, pp. 32-38.