

The Evaluation of Tanzania Revenue Authority Administration Systems in Tracing Revenues on Businesses Operating Through Social Media Networks in Moshi Municipality, Tanzania

Furaha Edwin Mlay^{*}, Agnes Bhoke-Africanus' and Amembah A Lamu Amos
Mwenge Catholic University, Tanzania

^{*}Corresponding Author email: mlayfuraha61@yahoo.com

Abstract

This study evaluated the ability of the TRA administration system in tracing revenues on businesses operating through social media networks, in Moshi municipality, Tanzania. The concurrent design method was used during the study. Quantitative data were collected through electronic questionnaires. On the other hand, the purposive sampling technique was utilized to select representatives from tax officers, leading to 51 respondents from TRA officials who were included in the study. The research tools were validated through member checking and reliability was ensured using Cronbach alpha. Thus, the study has proved the inability of the TRA administration system to properly trace revenue generated by social media businesses. However, currently, TRA collection of taxes using the online system, still fails, because it cannot trace revenue generated in these online businesses. Therefore TRA management through its operation officers should redesign the system to fit the collection of tax from social media-operated businesses. The tax system should be designed by considering the factor of revenue tracing to improve overall tax compliance.

Keywords: Social Media Business, TRA Administration System, Revenue Tracing.

1. INTRODUCTION

Tax is the compulsory levy imposed by a government-appointed body on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return. Following that tax revenue is used by the government as source finance for economic activities (Neumark & Charles, 2020). In Tanzania, business operators are supposed to submit their business information to the Tanzania Revenue Authority (TRA) after business registration as business taxes are administered by the TRA. Similarly, Taxpayers around the globe are obliged to comply with tax liability, although some evade tax. Often, there is a conflict in taxation whereby taxpayers focus on minimizing costs and at the same time maximizing profit, while the government on the other hand, desires to maximize revenue through enhanced tax compliance (Lymer & Oats, 2020).

Advancement in science and technology has improved the use of social media networks that made many businesses operate businesses on social networks (Goyal et al., 2010). Social media networks such as WhatsApp, Facebook, and Instagram have a crucial role in performing business-related activities such as marketing products and services and creating relationships with customers (Appel et al., 2019).

In recent years, the digitalization of economic activities has been a key focus of the global debate specifically, on tax issues. The advancement in the mode of business operations brings a debate when comparing taxing a physical business and businesses operating online. The discussion on taxing online businesses is connected with multiple issues of tax policy. According to Bunn et al; (2020) new policies have been developed including levies equalization and digital services taxes together with the more common use of gross-based withholding taxes targeted at digital services.

Recently the growth of social media business operations, has been associated with the policy discussion about the taxes business companies need to pay and where they pay them. According to the ongoing debates, many online business models do not require a physical presence in countries where they have sales, instead, they can reach their customers through remote sales on service platforms Bunn et al; (2020).

Conventional wisdom indicates that the advancement in science and technology has contributed to the changes of how businesses operate in Tanzania. Undeniably, the internet has eased business operations, providing businesses with the ability to have a digital presence for instance businesses can exist on social media platforms only. This has certainly, advanced the commercial ways of conducting businesses, bringing in new relationships, and arrangements in performing transactions (Kwayu et al. (2018). Again, according to Shigella, (2013) due to advancements in technology, business activities can now be performed over the internet or by telephone calls. He goes on to say, activities for instance, sending money and receiving money can now be done through mobile phones and internet banking.

While in many cases this has brought about a positive outcome, it can be debated that our current tax systems, which are a product of 20th Century policy thinking, are not yet suited for this new reality both at the corporate and at individual level (Cassian & Associates, 2018).

The government of Tanzania has made effort to ensure businesses comply with tax through the enactment of different mechanisms including the Income Tax Act 2004 (Tanzania) and Tax Administration Act. The focus on tax collection, however, should be driven by the fact that most government revenues are lost. The government of Tanzania therefore, through TRA, should respond accordingly to the uncontrollable business operation changes resulting from digitalization. This is because businesses operating through social media networks are also obliged to pay tax. Despite the requirement however, tax evasion and tax fraud have been evidenced by Ng'eni, (2016) in most of these businesses.

1.2 Statement of the Problem

According to s.4 of the Income Tax Act 2004 (Tanzania) 2004 (Tanzania), income tax is compulsory and is payable each year of income according to the prescribed procedures. However, according to Ng'eni (2016), some business operators pay tax voluntarily while others evade tax. Subsequently, the study conducted in Canada by Rutherford et al., (2013) indicated the system of tracing income on businesses that are conducted online is ineffective. Furthermore, an Organisation for Economic Co-operation and Development (OECD, 2017), reported that the system of tracing income on businesses that are conducted through social media networks is not perfect in most developing countries. This leads to underreporting of income hence tax evasion. The government of Tanzania has made effort to ensure that businesses comply with the tax through the enactment of different legislative mechanisms including the Income Tax Act 2004 (Tanzania) and Tax Administration Act, but evasion is still there mostly in physically operated businesses as evidenced by Ngeni (2016).

Therefore, this study evaluated the TRA administration system in tracing revenue generated by social media business operators in Moshi municipality, Tanzania.

1.3 Significance of the study

The study provides awareness to the tax authority regarding businesses operating through social media networks and awareness to social media businesses concerning the importance of paying tax to the tax authority. The Tanzania government through TRA gains insight resulting from this study in its effort to redesign suitable tax assessment & collection systems particularly for businesses operating through social media. Moreover, the study adds knowledge to the empirical literature where in the future, researchers can use the study as a source of new explorations.

2. LITERATURE REVIEW

2.1 Theoretical review

2.1.1 The Horizontal Equity Principle of Taxation (HET)

The horizontal equity principle, on taxation, states that individuals with similar income and assets should pay the same amount in taxes (Simons & Pigou, 1938). This theory requires that taxes be charged to people depending on the ability of the liable person to pay regardless of the tax system adopted.

Strength of the theory

Horizontal equity theory abides by the principle of neutrality of taxation so it shows fairness in the treatment of taxpayers. The principle of neutrality supports the fact that when individuals are equally well off before taxes, then they should be equally well off even after taxes.

Weakness of the theory

According to Elkins, (2006) the HET principle ignores the issue of the redistribution of wealth which supports the fact that taxpayers with the ability to pay more taxes should contribute more than those who are not.

Relevance of the theory

This principle is relevant to this study as it can be used by tax authorities in the evaluation and reformation of tax policies and regulations. It is also relevant since social media business operators should also be taxed similar to business operators whose businesses have a physical presence. Tax authorities responsible for administering taxes should have suitable systems that allow all business operators to comply.

2.1.2 Ability to Pay Theory

Ability to Pay is a philosophy in finance and accounting. The theory suggests that taxes should be levied according to the taxpayer's financial capability (Smith, 1776). According to this theory, those who generate more revenue should pay more in taxes also. This means that the amount of taxes paid by an individual of the organization should relate to the amount of income earned.

Strength of the theory

With an ability to pay taxation system, business operators with more income provide more funds for services needed by society. For instance in developing countries taxes are used to finance social services such as education, infrastructure construction, and more.

Criticism of the theory

On the other hand, Bird & Wilkie (2013) criticize the theory by stipulating that a tax system can be considered to discourage economic success as it penalizes those who earn the most. Hardworking taxpayers can be discouraged if making more money leads to payment of more taxes as it becomes unattractive. Also, measurement of the ability to pay can be unfair if not measured with the help of observable measures.

Relevance of the theory

The theory is relevant to this study since the TRA charges taxes to business operators by considering factors like income generated, source of income, size of the family, and more as stipulated in the Income Tax Act 2004 (Tanzania). If all important measures are observed, taxes can be charged to social media business operators depending on the ability to pay.

2.2 Empirical review

Ng'eni (2016) assessed the factors affecting tax morale and voluntary tax compliance towards effective tax administration. The study unveils important aspects of the administration system used by tax authorities which the tax authority need to assess toward effective tax administration. The study comes up with the key qualities of tax administration apart from tax morale and voluntary tax compliance which is the sensitization about the importance of paying taxes to

enable the government to provide quality social services to the general public. The study emphasizes that tax is the main source of government revenue, such that recommendations for improving its administration are of importance to policymakers and implementers across the world. This study assessed the factors influencing tax morale and compliance in physically operated businesses, the current study focused on the administration of taxes specifically in social media operated businesses.

Tesky (2017) conducted a study on tax administration and risk management in the digital age with the main purpose of showing how the Internet business models affect tax administration in the context of risk management. The focus was on the adequacy of the tools for analysis and control used by the tax administrators of OECD countries to deal with the issue of tax avoidance in electronic businesses. At the end, the study highlighted how state tax administration continues to be responsible for ensuring that all taxpayers pay their fair share of taxes. The current research focused on the issue of fairness of tax in social media-operated businesses.

A highly articulated study of Bunn et al., (2020) on digital taxation around the globe, emphasize on the tax policies shift for from the growth of products and services delivery to digital means, where businesses have no a taxable presence within the country where the products are consumed. Additionally, policymakers have examined ways to change corporate taxes to capture the activity of digital firms in countries. The writing insists that countries should conduct clear research on the formulation of policies that allow relief from double taxation and not adopt policies that may sometimes unfit the country's situation.

OECD report (2019) similarly, shows how tax administrations are increasingly adopting e-administration by using a range of technology tools, data sources, and analytics to increase tax compliance. Similar study, shows a significant shift towards e-administration with increasing options for online filing of tax returns as well as online payments. The report focused on e-administration and compliance to businesses that have a physical presence. The current study focused on e-administration and compliance to social media-operated businesses.

Also, Cassian & Associates (2018) in the report titled tax challenges on the digital economy presents that, due to the adoption of the internet in Tanzania the mode of operation of businesses changes. There has been a flow of local entrepreneurs and start-ups looking to ride on the internet wave and reap the benefits of the digital era. To support the development of these businesses, which add value by transforming the way we do things, the Government should consider the impact of current tax policies on these types of businesses. The report entails that, tax is not well administered in Tanzania so there is the need for government to keep on making sure that tax is properly collected in all factors of production.

The current study focused on the administration system to evaluate if it can trace revenue from all sectors of the economy so that revenue generated from all sectors can be traced.

3. RESEARCH METHODOLOGY

3.1 Research Design

This study employed a concurrent design under a mixed approach. The multiple strategies ensured the comprehensiveness and triangulation of results (Creswell, 2012). The concurrent design is suitable for this research as the strategy allows the researcher to collect data on the

research objective at one point in time to evaluate the TRA administration system in tracing revenues on businesses operating through social media networks.

3.2 Target Population

A population refers to any collection of a specified group of human beings or of non-human entities such as objects, educational institutions, time units, geographical areas, and prices of wheat or salaries drawn by individuals (Sekaran & Bougie, 2016). Since the study evaluated the TRA administration system in tracing revenues on businesses operating through social media networks, Tanzania Revenue Authority staff who are responsible to administer tax were the target population. The officers from the Kilimanjaro office comprise 100 staff who make the study population (TRA M.,2021).

3.3 Sampling of TRA officers

The purposive sampling technique was used in sampling representatives of officers in the TRA office in the Kilimanjaro region where the study was undertaken.

Given the number of employees in Kilimanjaro region where this study secured data, sixty(60) respondents participated in the study. According to Graff, (2010)a sample size of thirty (30) is large enough to establish representativeness in concurrent design. Therefore, sixty (60) respondents were included in the research to represent TRA officers.3.3 Data Collection Instruments

3.4 Self-administered questionnaire

Close-ended questionnaires were administered by the researcher to TRA officers to respond to research questions through the mailing method. This method allowed a researcher to collect data in a short period and abide by the issue of social distancing due to the coronavirus pandemic.

The questionnaires were mailed to the human resources officer who assisted the researchers to distribute the electronic questionnaires to respondents after getting permission from the TRA regional manager, after assuring all respondents the confidentiality of the information they provide

3.5 Data Analysis and Presentation

According to Creswell (2012), descriptive statistics helped the researcher to summarize the overall trends in the data. It provides an understanding of how varied the scores might be, and provide insight into where one score stands in comparison with others. Most of the results were presented in tables to facilitate easy interpretation. After reporting and explaining the detailed results, the researcher concluded by summarizing key findings, developing explanations for results, and making recommendations for future inquiries.

3.6 Validity of Research Instruments

In ensuring the validity of the instrument, research instruments were distributed to business experts of Mwenge Catholic University to check on the content validity and their advice was used to update the instrument.

3.7 Reliability of Research Instruments

To ensure the reliability of the instrument; the researcher used Cronbach-Alpha to test the reliability of questionnaires for tax officers as summarized in Table 3.1.

Table 3.1: The Summary for Reliability Testing

Question number	Number of items tested	Cronbach-Alpha Coefficients
Question 5	12	0.923
Question 6	7	0.816

Source: Pilot Testing Data, 2021

The reliability Cronbach-alpha coefficient of the questionnaire for tax officers with a Likert scale for each Likert question was above 0.5 which was acceptable. The research instrument is reliable if the coefficient is 0.6 to 0.8 and highly acceptable when the coefficient is 0.8 to 0.9 (Ogula,2010).

4. FINDINGS AND DISCUSSION

4.1 Demographic information of Respondents

This section gives general demographic information of respondents. The information focused on demographic information for TRA officers and social media business operators.

Table 4.1 Demographic characteristics of TRA officers

Baseline characteristics	F	%
Age		
20-30	30	58.8
31-40	14	27.5
41-50	5	9.8
Above 50	2	3.9
Working Experience		
1-3 Years	6	11.8
3-6Years	17	33.3
6-9 Years	19	37.3
Above 9 Years	9	17.7
Working Department		
Accounting	4	7.8
Operations	35	68.6
Customer care	2	3.9
Other	10	19.6

Source:Field data, (2021)

Table 4.1 shows the number of respondents to include 30 (58.8%) officers aged between 20-30 Years. This entails that, the officers are young and they are capable to deal with the emerging world of science and technology. As they are in the youth group, it means that they understand properly the current business environment as businesses currently operate also through social media networks.

Also, 45 (83.2%) of respondents are experienced people in tax issues as they indicated to work with TRA for more than three years. This entails that, respondents have enough experience on taxation issues so they can provide relevant answers.

Moreover, more than half of respondents 35 (68.6%) indicated to work in the operations department which is the department that specifically deals with tax assessment and collection in TRA. This entails that, the majority of respondents understand properly the TRA tax administration system that could lead to the collection of relevant information.

4.2 Findings of the study

The study was performed to evaluate the extent to which the tax administration system adopted by TRA traces revenue generated by businesses operating through social media networks. The following section represents and discusses the findings obtained from TRA officers in response to questionnaires and interviews.

TRA system aspects	SD		D		U		A		SA	
	F	%	F	%	F	%	F	%	F	%
TRA has proper information on business operated through social media networks	18	35.3	15	29.4	6	11.8	10	19.6	2	3.9
Business operators submit business information voluntarily	6	11.8	28	54.9	9	17.6	8	15.7	0	0
TRA officers place efforts in seeking information on the existence of social-media businesses.	5	9.8	12	23.5	9	17.6	22	43.1	3	5.9
TRA system succeeds to trace revenue from online businesses.	7	13.7	21	41.2	17	33.3	6	11.8	0	0
TRA internal audit department examines online business	3	5.9	27	52.9	17	33.3	4	7.8	0	0

operators' tax reports.

TRA audit businesses every year or at least once in every five years	2	3.9	8	15.7	14	27.5	17	33.3	10	19.6
Auditing lead to recognition of online businesses existence	10	19.6	16	31.4	9	17.6	16	31.4	0	0
TRA impose fines for tax evaders	2	3.9	5	9.8	0	0	8	15.7	36	70.6
Business tax can be filed electronically in Tanzania	2	3.9	4	7.8	5	9.8	20	39.2	20	39.2
There are changes to the tax system in response to emerging online businesses	18	35.3	14	27.5	12	23.5	4	7.8	3	5.9

Table 4.2 TRA officers' response on the extent to which the tax administration system traces revenues on businesses operating through social media networks

Source:Field data, (2021)

Note: *SD = Strongly Disagree, D = Disagree, U =Undecided, A = Agree SA = Strongly Agree*

The data in table 4.2 show the extent to which the TRA tax systems can trace revenue generated by social media-operated businesses. It is indicated that 33 (64.7%) of respondents disagree with the fact that TRA has proper information on businesses operated through social media networks. The findings also indicated that 34 (66.7%) of respondents disagree with the fact that business operators submit business information voluntarily. However, in measuring the efforts placed by the tax authority to trace social media operated businesses, 25 (49%) of respondents agree with the fact that TRA places efforts on tracing social media businesses revenue, 17 (33.3%) disagree while 17.6% neither agree nor disagree with that fact.

This implies that the authority responsible for tax collection through the assessment of businesses does not have proper information of businesses operated through social media networks even though 25 (49%) shows that the authority seeks information on social media business existence. This might be the result of the involuntary submission of business information by social media business operators as indicated in table 4.2. The voluntary submission of business information to the TRA could simplify the recognition of social media-operated businesses by the authority. If the recognition of social media-operated businesses is simplified, tax assessment from social media-operated businesses could also be simple.

The findings are supported by the study of Tesky (2017) which found that tax administration is responsible for ensuring that all taxpayers pay their fair share of taxes. According to his findings, this goal can be effectively achieved when tax evasion is prevented by finding ways to encourage business operators to voluntarily submit their business information to simplify tax assessment.

Table 4.2 indicated that 28 (54.9%) of which represent the majority of respondents disagree with the fact that the TRA system succeeds to trace revenue from social media-operated businesses. However as indicated, 30 (58.8%) of respondents disagree with the fact that TRA internal audit department examines online business operators' tax reports.

This implies that the system adopted by TRA which is the authority responsible for collecting tax, cannot trace successfully revenue generated by social media businesses. The authority should be able to trace social media-operated businesses generated revenue to perform proper tax assessment and thereafter widen the scope of taxation. The Income Tax Act 2004 (Tanzania) stipulates that tax officers shall assess the income of a resident individual for a year of income to determine the correct amount of tax liability. However, according to the majority of the respondents, TRA internal audit department does not examine online business operators' tax reports. This could probably be a result of TRA's failure to access the reports as business operators do not submit them voluntarily.

According to the findings, 27 (52.6%) of respondents agree that TRA audits businesses every year or at least once every five years. However, 26 (51%) disagree with the fact that auditing leads to the recognition of businesses that operate through social media networks.

This implies that, as the normal duty of tax officials, TRA performs auditing to businesses but the auditing does not lead to recognition/identification of social media operated businesses. This entails that, to recognize the existence of social media operated business more efforts must be placed to simplify recognition to facilitate revenue tracing for tax assessment.

The findings accord to that of Bunn et al., (2020) whose study focused on tax policies effectiveness on digital taxation. Accordingly, policymakers should examine ways to change taxation methods to capture digital activities. This can also be applicable in Tanzania that the TRA must be advised to adjust their techniques to facilitate online business tax assessment.

On the issue of fines to tax evaders, 36(86.3%) of respondents agree that TRA imposes fines to tax evaders. Fine to tax evaders is used as a technique to combat tax evasion in Tanzania. The fact that fines are imposed on tax evaders implies that TRA adopted techniques to fight against tax evasion.

Findings from this study are contrary to those of Swistak (2016) in his study on Tax penalties in SME tax compliance. He argued that tax penalties, although necessary for tax enforcement, may not be a first-choice tool in ensuring tax compliance. To be effective, tax penalties should deter evasion and motivate taxpayers rather than exert suppressive measures against them.

Therefore TRA should use penalties (fines) in the way that business operators will be motivated to pay tax and not only as of the tool of ensuring tax compliance. If fines and penalties will be used as a motivational tool, even social media business operators may be motivated to pay tax hence the tax source will be increased.

Table 4.2 also shows responses of tax officers on the issue of filing taxes electronically. Accordingly, 40 (78.4%) of respondents agree that tax can be filled electronically in Tanzania. This means there is improvement in the collection of tax in Tanzania as even the collections methods have improved as a result of technological by social media businesses.

The findings relate to that of the OECD report (2019) on the use of digital technologies set to increase tax compliance. The report explained that technological advancement can lead to improvement in tax administration. Therefore, if TRA succeeds to advance the collection methods and make it possible for taxpayers to file their tax liability electronically, it might as well find ways of tracing revenue generated tools, data sources, and analytics to increase tax compliance. According to the report, there has been a significant shift towards e-administration with increasing options for online filing of tax returns as well as online payments. On average, e-filing rates for personal income tax are now above 70% and those for corporate income tax are around 85%.

Therefore, despite the presence of a system that allows different taxes to be collected electronically, the system must be reformed for social media business operators. The system must be formed to control the operation of social media business operators to capture taxes from social media-generated revenue.

The reformation of the tax administration system should be considered as 32 (62.8%) of respondents disagree with the fact that there are changes to the tax system in TRA in response to emerging social media-operated businesses. Changes must be done in a way that revenue generated in social media-operated businesses will be captured.

4.3 Conclusion

On the extent to which tax administration systems trace revenues on businesses operating through social media networks. The study has proved that the TRA administration system is not properly designed to trace revenue generated by social media businesses. However, currently, TRA collects tax online by using the system, the system still fails to collect tax from social media businesses.

4.4 Recommendations

The researcher has the following recommendations for action,

The TRA management through its operation officers should redesign the system that will suit the collection of tax from social media-operated businesses. The system should be designed by considering the factor of revenue tracing.

An authority like TCRA can be used to facilitate tracking of any business activity that is operated in social media networks like WhatsApp Facebook and Instagram. If the authority will help TRA to trace business activities TRA will take actions like formulating TIN and tracking revenue for tax assessment hence tax collection.

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