

Why people pay taxes

The case of the development levy in Tanzania

Odd-Helge Fjeldstad and Joseph Semboja

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Summary

This study sheds some light on some of the factors underlying tax compliance in local authorities in Tanzania with the help of original survey data. We use the experience of the poll tax (locally named “development levy”) as our case. The survey data indicate that tax compliance seems to be positively related to ability to pay, the (perceived) probability of being prosecuted, and the number of tax evaders known personally to the respondent. Severe sanctions, including strict enforcement and harassment of taxpayers, and discontent with what people feel they get in return from the government may increase tax resistance, and, thus contribute to explain the widespread evasion observed.

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1. Introduction

Tax evasion seems to take place in practically every country in the world, and should be considered a potential problem everywhere. Still, evasion is a phenomenon which hits developing countries hardest. Studies in different developing countries indicate that it is not uncommon for half or more of the potential tax revenues to be uncollected (Bird, 1989, 1992; Alm et al., 1991). This tax base erosion has had a variety of fiscal effects and there are at least three reasons for concern. First, revenue losses from non-compliance are particularly critical in a context of substantial budget deficit. Second, both horizontal and vertical equity suffer since the effective tax rates faced by individuals may differ because of different opportunities for tax evasion (Alm et al., 1991: 849). Third, the expanding underground economic activities, which are often the other face of tax evasion, may affect the implementation and outcome of economic policies (Tanzi and Shome, 1993:808). Furthermore, citizens' disrespect for the tax laws may go together with disrespect for other laws, and, thus contribute to undermine the legitimacy of government.

Dealing with the policy problem of tax evasion requires at least some understanding of the factors underlying the individual's decision whether to pay or evade taxes. Still, little is known with much certainty about tax compliance behaviour in developing countries. In this study we have attempted to use original survey data to shed light on some of the factors underlying tax compliance in local authorities in Tanzania. We use the experience with the poll tax as our case. The poll tax, commonly referred to as "development levy", has been in place at the local government level since 1983/84, and is the single largest source of tax revenue for district councils in Tanzania.¹ The levy is, in principle, levied on every person above the age of 18 years and ordinarily resident in the area (Tax Commission, 1991). Women are exempted in many councils.² In most areas, the tax is levied on a flat basis. However, in some urban areas, particularly in the wage sector, graduated rates based on income apply. In recent years, some councils have completely abandoned the tax. There is a widespread resentment among the public against paying the tax, and non-compliance is a serious problem.

Revenues from development levy have fallen in urban councils from over 50 per cent of total own revenues in 1984/85 to around 25 percent in 1987/88 (Tax Commission, 1991:285), and further down to about 10 percent in 1995 (Fjeldstad and Semboja, 1998). For district councils the share remained more stable at around 60 percent in the period 1984/85 to 1987/88 (Tax Commission, 1991) but has dropped significantly during the 1990s and in 1995 represented about 25 percent of total own revenues.³ These figures do, however, hide significant differences between individual councils. In 1995, for instance, development levy as a percentage of total own revenues in district

¹ A brief history of development levy in Tanzania is presented in Bukurura (1991) and Tripp (1997). Throughout rural Africa poll taxes, hut taxes or village taxes assessed and collected at the local level have traditionally been important. Generally, these taxes have been levied depending upon a person's circumstances, very often perceived by local chiefs (Besley, 1993). Personal taxes of this kind have provided significant tax revenues in some countries. In Nigeria, for example, they constituted 48 per cent of tax revenues raised in 1960-61 (Bird, 1974). In Western countries, however, such taxes are rarely seen in practice (although often occupying the pages of public finance textbooks). One such instance was the short lived experience with the Community Charge (commonly referred to as the Poll Tax) in the United Kingdom. The Thatcher government introduced a local poll tax in Scotland in 1989 and a year later in England and Wales, replacing a long-standing system of local property taxation (Besley et al., 1993:2). Due to widespread non-compliance and social unrest, including poll tax riots, the tax was abolished and replaced by a return to property taxation in 1993. During this period the Thatcher-government was also replaced.

² The issue of women paying the levy has been controversial (Tripp, 1997:157). Supporters of the levy on women argue that women are equal to men according to the law and thus can own their own property. Opponents argue that women in rural areas rarely own their own property and therefore should be exempted. In particular, the development levy has revealed a conflict between upper- and lower-income women.

³ This estimate is an average for 48 district councils (Fjeldstad and Semboja, 1998). The drop in revenues from development levy in the 1990s is partly explained by the fact that that women in many councils were exempted from paying levy, starting in 1992.

councils varied from 3.3 per cent in Kilwa District Council (DC) to 63.5 per cent in Singida DC.⁴ The collection ratio measured as the ratio between actually reported and projected revenues from development levy also varies significantly between councils. For instance, in Kibaha DC the ratio between levy reported collected in 1996 and projected revenues based on population statistics was 26.7 per cent. The corresponding figure for Kilosa DC was 45.6 per cent (Fjeldstad and Semboja, 1998).⁵ Further, we observe large differences in the collection ratio between areas within the same council. The ratio between actual reported levy and projected revenue between wards in Kibaha DC in 1996, for example, varied from 8.9 per cent to 38.7 percent. The corresponding figures for Kilosa DC were 13 per cent and 97 per cent, respectively.

Different arguments have been offered to explain this widespread non-compliance. Bukurura (1991:91) argues that the evasion of development levy is for the major part due to taxpayers' inability to pay and to a lack of clarity with respect to obligations and reasons to pay. He argues that the government has not done a proper job in educating the public about the purposes of the development levy and convincing them of the necessity of paying the tax. This argument is supported by the Tax Commission (1991:287) statement that "[a]s with other taxes, understanding of the need for local revenues will improve compliance". Implicitly these studies assume that the critical factor behind the level of tax compliance is peoples' (taxpayers') lack of understanding of the relationship between taxes and the provision of public goods and services. Thus, the general formula for establishing voluntary compliance, it is argued, is education and political mobilisation. In other studies, unwillingness to pay is considered to be the result of a combination of political protest against to the degradation of local public services, perceptions of unfairness since the charges do not take ability to pay into consideration as well as corruption and other administrative failings by the councils (see, for instance, URT, 1996; and Tripp, 1997). Accordingly, the prescription is to improve the efficiency, including tax collection, of local government councils.

The studies referred to above focus on identifying possible causes for people not paying taxes. However, in a situation of widespread tax evasion it might be equally relevant to ask who pays and why. Accordingly, by focusing on both compliance and non-compliance behaviour this may enable us to explain the observed differences between and within councils with respect to tax compliance. The purpose of this paper is to present an analytical framework which we feel takes better account of some key variables with respect to peoples' decision making, both with respect to compliance and evasion, and to use that framework to examine original survey data on taxpayers' attitudes and behaviour collected during December 1996 and June-July 1997 in two district councils in Tanzania. This paper describes the approach and substantive results.⁶

The remainder of the paper is organised as follows: Section 2 presents the theoretical framework for analysing tax compliance. The methodological approach and organisation of the empirical study are addressed in section 3. Section 4 presents the results, and section 5 summarises and concludes.

⁴ Ibid.

⁵ Projected revenue is estimated as taxable population in the council multiplied with the levy rate. The large variations between councils can also be illustrated by the effective levy rate of the individual councils, estimated as the ratio between actually reported levy and the taxable population in the council. In 1996, the effective rate varied from 40 TSh to 936 TSh, with an average of TSh 424 for a sample of 27 councils (Fjeldstad and Semboja, 1998).

⁶ Possible implications for fiscal and institutional reforms are discussed in Fjeldstad and Semboja (1998).

2 Theoretical framework

The relationship between a taxpayer and the local government includes at least three elements.⁷ First, is an element of coercion, as represented by the enforcement activities of tax collectors and the penalties imposed on those detected for non-compliance. Second, is an element of fiscal exchange, as taxation and the provision of public goods and services may be interpreted as a contractual relationship between taxpayers and the (local) government. A third element is the impact of social influences on the taxpayer's compliance behaviour, for example, by affecting the individual's perception of the probability of being detected if not paying. An individual's perceptions, in combination with his opportunities, may determine his current choice of whether or not to be a tax evader.⁸

2.1 *The coercive element*

The coercive element of the taxpayer-government relationship is the focus of the classical tax evasion model (Allingham and Sandmo, 1972), which assumes that the taxpayer's behaviour is influenced by factors such as the tax rate which determines the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs. Thus, the problem is viewed as one of rational decision making under uncertainty: Tax evasion is a gamble that either pays off in lower taxes or, with some probability, subjects one to sanctions. This implies that if detection is likely and penalties are severe few people will evade taxes.⁹

The conceptual framework needed to study the development levy is to some extent different from the standard model of tax evasion which typically focuses on the declaration of taxable income when detection is probabilistic. Non-payment of development levy has more to do with disobedience than cheating (see Besley et al., 1993:3). The local tax authorities can (in principle) actually observe the fraction of evaders. Taxpayers cannot hide their liability except by hiding their existence or migrating to a council which does not impose the tax or which imposes it at a lower rate. In so far as sanctions are probabilistic it is because the tax authority's effectiveness to effectuate sanctions is questionable. It seems, however, reasonable to suppose that taxpayers' perceptions concerning the likelihood of being prosecuted and the severity of penalties will affect his choice between paying the levy or not.¹⁰

2.2 *The element of fiscal exchange*

Compliance may be motivated by the presence of government expenditures. Individuals may pay taxes because they value the goods provided by the government, recognising that their payments may be necessary both to help finance the goods and services and to get others to contribute (Alm et al., 1992:313). Thus, a taxpayer may be seen as exchanging purchasing power in the market in return for government services. Fiscal exchange, however, requires trade-off gains which may be seen as prerequisites of voluntary compliance (Levi, 1988:56). Without a material benefit, compliance becomes less assured. The existence of positive benefits may increase the probability

⁷ This approach partly follows Spicer and Lundstedt (1976). Levi (1988) uses a similar approach when discussing the conditions for creating "voluntary" compliance.

⁸ Opportunities to evade taxes vary across tax bases. For instance, income taxes based on tax withholding limit the taxpayer's opportunity to evade taxes.

⁹ Nearly all economic approaches to tax evasion are based on this framework. Cowell (1990) is a thorough and readable review of this literature.

¹⁰ Surveys and experimental studies of tax compliance in Western countries suggest that a high probability of detection is more of a deterrent than heavy penalties. However, in a theoretical model, Christiansen (1980) finds that the penalty rate (fine) is a relatively more efficient deterrent of tax evasion than the probability of detection. See Kinsey's (1984) review of the literature.

that taxpayers will comply voluntarily, without direct coercion.¹¹ Most taxpayers are, of course, not able to assess the exact value of what they receive from the government in return for taxes paid. However, it can be argued that the taxpayer has general impressions and attitudes concerning his own and others' terms of trade with the government (Richupan, 1987:154).¹² If this is the case, then it is reasonable to assume that a taxpayer's behaviour is affected by his satisfaction or lack of satisfaction with his terms of trade with the government. Thus, if the system of taxes is perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the taxpayer to adjust his terms of trade with the government.¹³

2.3 The element of social influences

The importance of social interactions in forming tastes and actions has long been stressed by sociologists and social psychologists (see, e.g., Hessing et al., 1988). It is reasonable to assume that human behaviour in the area of taxation is influenced by social interactions much in the same way as other forms of behaviour (Snaveley, 1990). Tax compliance behaviour and attitudes towards the tax system may, thus, be affected by the behaviour of an individual's reference group such as relatives, neighbours and friends. Consequently, we may reasonably argue that if a taxpayer knows many people in groups important to him who evade taxes, his commitment to comply will be weaker.¹⁴ On the other hand, social relationships may also help deter evasion. Individuals can be dissuaded from engaging in evasion out of fear of the social sanctions incurred should their action be discovered and revealed publicly (Grasmick and Green, 1980; Grasmick and Scott, 1982). Recent theoretical research on herd behaviour in economic situations (e.g., Sah, 1991), also indicates that social influences may affect compliance, in particular, by affecting the perceived probability of detection. Thus, evidence suggests that perceptions about the honesty of others may play an important role in compliance behaviour.¹⁵

2.4 Hypotheses

In summary, the theoretical approaches suggest a number of predictions. The first, and probably most obvious, is that we would expect to observe the highest compliance rates among persons whose opportunity to evade is low and whose probability of being prosecuted is highest.¹⁶

¹¹ The potential for free riding is, however, obvious when the government offers collective goods in return for taxes (see, e.g., Cowell and Gordon, 1988; and Levi, 1988)

¹² Historically, unwillingness of the population to comply with a tax that is deemed unjust has been a catalyst for political action, e.g., the Boston tea party and the Thatcher poll tax. See Bates (1983) for examples from Africa. Survey research from Western countries also suggests that taxpayers make judgements about the fairness of particular taxes. See, for instance, Spicer et al. (1976) and Smith (1992).

¹³ In this context the taxpayer's utility derived from extra income accrued through tax evasion depends on the taxpayer's sense of equity regarding his relationship with the government. If the taxpayer perceives himself to be a victim of inequity, his anger increases the marginal utility that he derives from an extra shilling of income from tax evasion and hence increases tax evasion. On the other hand, if he perceives himself to be the beneficiary of fiscal inequity, his guilt feelings reduce his marginal utility of income from tax evasion and hence decrease tax evasion. This idea has been developed further by Spicer and Becker (1980) as the link between (horizontal) fiscal inequity and tax evasion.

¹⁴ One of the most consistent findings in survey research in Western countries about taxpayer attitudes and behaviour is that those who report compliance believe that their peers and friends (and taxpayers in general) comply, whereas those who report cheating believe that others cheat (see Yankelovich, Skelly and White, 1984). Furthermore, it has been found that interpersonal networks act to reduce an individual's fear of governmental sanctions (Mason, 1987). Few if any such studies are available for developing countries.

¹⁵ This is also consistent with studies which find that participants in the underground economy perceive lower probability of detection than others (e.g., Vogel, 1974; Grasmick and Scott, 1982), while people generally overestimate the chance of being audited. Work by Benjamini and Maital (1985) and Cowell (1990) has produced models in which taxpayers' decisions to evade are interdependent. These models show that the growth of the black economy weakens the rule of tax law and increases tax evasion.

¹⁶ We distinguish between (a) *perceived probability* which is the taxpayer's own perception of the probability of

Second, we would expect to find that willingness to pay is correlated with what taxpayers perceive they get in return from the (local) government. Third, we would not be surprised to find that the perceived honesty of peer groups (i.e., family, neighbours and friends) with respect to taxation might affect the decision to pay or not. Finally, based on previous studies, we would expect that ability to pay also matters.

From this initial framework, five hypotheses have been derived and tested using survey data from Tanzania:

- H 1. Compliance is more likely the higher income a taxpayer has.
- H 2. Compliance is more likely when the probability of prosecution is perceived to be high.
- H 3. Compliance is more likely when sanctions against tax evasion are perceived to be severe.
- H 4. A taxpayer is more likely to comply when he perceives his terms of trade with the government as fair.
- H 5. The fewer tax evaders a taxpayer knows, the more likely he is to comply himself.

The second and third hypotheses are based on the coercive element of the taxpayer-government relationship, while the latter two hypotheses are based on the elements of exchange with the government and the impacts of social relations.

3 Methodology and organisation of the study

The main survey of taxpayers was carried out in Kibaha District Council, Coastal Region, in December 1996. In July 1997 a follow-up study was carried out in Kilosa DC, Morogoro Region. The research design combined both quantitative and qualitative methodologies.

3.1. Methodology

The objective of the study was to assess the extent of the problems of (non-)compliance in the study area, as well as to explore the nature of the decision making by individual taxpayers. We were most concerned with trying to unravel people's perceptions regarding taxation and the decisions they made, especially in relation to other taxpayers, tax collectors, politicians and the local government council, including service provision. Accordingly, the study comprised a formal questionnaire-type survey of taxpayers, and a semi-structured survey of local politicians, and tax collectors at the village, ward and district headquarter levels. In addition, tax revenues for recent years were compiled from the files of the Village Executive Officers (VEOs), Ward Executive Officers (WEOs) and Revenue Department of the council.¹⁷

3.1.1 The questionnaire

The main objective of the questionnaire was to collect information on tax (non-)compliance behaviour with respect to the development levy.¹⁸ Preliminary tests of the questionnaire were carried out (which made us decide to limit the set of answer options for each question). To reduce

being detected, and (b) *actual probability* which is determined by the resources put into tax enforcement by the tax collecting agency.

¹⁷ The institutional set up for the local government tax administration is described in detail in Fjeldstad and Semboja (1998). A general outline is presented in appendix 1.

¹⁸ The questionnaire is presented in appendix 2.

errors of recall, we decided to focus on compliance behaviour for the last two years only, i.e., 1995 and 1996. In Kilosa we also included 1997 (see section 3.1.2.2). In addition, we eliminated questions which focused directly on the respondents' income, and included questions attempting to provide indirect indicators of wealth (see annexed questionnaire). The questions were organised around five main headings:

I. Background information on the respondent.

Of particular interest were data on occupation, main income sources and wealth of the household since these variables are assumed to affect both the opportunity to evade and the ability to pay taxes. Obviously, taxpayers who are employed in the agricultural sector and/or are self-employed, have better opportunity to evade taxation than public sector employees whose development levy is withheld by the employer. Five categories of occupation were included: (a) self-employed, agriculture; (b) self-employed, trade and commerce (shops); (c) self-employed, other; (d) wage-employee, private sector; and (e) wage employee, government and parastatal. The questions in this respect focused on the main occupation of adult members of the household, and the principal source of income of the household. Based on previous survey studies in Tanzania (e.g., the National Cornell/ERB 1991-survey (Tinios et al., 1993), and Semboja and Therkildsen, 1989), a specific set of assets were chosen as indicators of wealth: Bicycle, house (own or rent), type of house (mud wall, bloc wall, iron sheeted roof, cement floor), radio and wristwatch.

Questions on religion (Christian, Muslim, other) and place of origin (born in the area or migrant from other regions of the country) were included, since these variables may impact on the respondent's social network (i.e., peer groups) in the local communities, and, thus, on compliance behaviour. Marital status and age were controlled because research from Western countries indicates that these variables may be related to (non-)compliance behaviour, for instance via perceptions on the severity of sanctions (Kinsey, 1992:266; and Hessing et al., 1992:292).

II. Admitted (non-)compliance

The respondents were asked if they had paid development levy in each of the two recent years (i.e., 1995 and 1996, and in Kilosa also for the first half of 1997). Respondents giving an affirmative answer were then asked about the rate paid. By comparing the answers with the correct rates (known to us), we sought to establish the credibility of the answers given.

III. Tax enforcement

A series of questions were asked on tax collection procedures, including which part of the council was involved and how payment was made. The respondents were further asked if they knew someone in the neighbourhood not paying (and how many), and the types of legal sanctions applied to non-compliers (including bringing people to court). The purpose of these questions was to examine how contact with tax enforcers and procedures of collection might affect taxpayer behaviour.

IV. Perceptions of others' behaviour

Respondents were asked about their perceptions of other taxpayers' behaviour regarding compliance. One question focused on their perception of why some people paid, while another asked about their perception of taxpayers' decision not to comply if the probability of being detected was low. Questions were also asked about their view of tax collectors and local politicians with respect to integrity, and who they considered were most to blame for the problems of collecting development levy.

V. Perceptions of the terms of trade with the government

To measure perceptions of the terms of trade with the government, a series of questions were asked about the quality of public services and the value received in return for tax shillings. In particular, emphasis was put on the perceived view of the possible relationship between tax compliance and the provision of public services.

3.1.2 Selection of sample and administration of the survey

The predominant religion in the study areas is Islam, and the majority of people are agriculturalists. Due to its proximity to Dar es Salaam and the abundance of productive land, many people have migrated to Kibaha from other regions. In Kilosa, too, the abundance of land and job opportunities in the plantation sector (at present, mainly in the sugar industry) have attracted many migrants.

3.1.2.1. The survey in Kibaha

In Kibaha, the sample included three rural villages, i.e., *Pangani*, *Misugusugu* and *Disunyara*, and one combined rural-urban village, i.e., *Mwendapole*. The villages were selected from four different wards on the basis of (1) representativity, which required a balanced representation of rural and urban life, and (2) accessibility.

In order to carry out the survey, we obtained a permit letter (incidentally, with no difficulty) from the acting District Executive Director (DED). This letter was presented to the Ward Executive Officers (WEO) in the selected wards. The WEO accompanied us to the village and introduced us to the Village Executive Officer (VEO).

The respondents were randomly selected from the Tax Register Books of the Village Executive Officers in two of the villages (*Pangani* and *Misugusugu*), and from the Tax Register Books of the Ward Executive Officers in the other two (*Mwendapole* and *Disunyara*). The designated respondent was the head of the household, since this was the person registered in the Tax Register Book, and thus, the person who most likely managed tax matters or played a major role in managing them on behalf of the household. The VEOs and WEOs assisted us by informing the selected taxpayers of our visit.

Not all the selected respondents were available when we looked for them: Some had gone to their shamba to farm, others came back late because they worked as employees or did other businesses. Persons selected who were not available were replaced in the sample by the person next to the selected one in the Tax Registrar Book, or, if this person was not available, by the person listed before the selected one. This technique was also used when the selected person lived in a remote or difficult accessible area, and was excluded from the sample on that basis.

Before starting the interviews all the selected respondents were gathered outside the VEO's office in the village. We informed them collectively about the purpose of the study. Since specific mention of tax evasion or compliance might have threatened the validity of responses and reduced the willingness of respondents (and officials) to participate, respondents were informed that they were being interviewed to determine how they viewed various aspects of the local government tax and political system. In this regard, we emphasised that this was a research project, and that we were independent from the Government in this respect. Further, we made clear that they had been selected randomly and that the interviews would be treated in full confidentiality and that no names were to be noted, so their answers could not be traced back to them.

The interviews of taxpayers were carried out in Swahili by three research assistants recruited from the University of Dar es Salaam (all with a Master's degree in economics). They had been trained in interview techniques beforehand, and had also gone through a brief course focusing on the local government tax administration and fiscal system. The interviews took place outside hearing and talking distance of neighbours and other villagers, but within seeing distance. Each interview ranged in length from 45 minutes to one hour. At the start of each interview the research assistants (once more) made it clear that the interviews were to be conducted in full confidentiality. No attempt was made to ask or note the name of the respondents. During the survey, the team leaders spent most of the time together with the research assistants supervising their conduct.

Altogether 134 taxpayers were interviewed, of whom 33 in Pangani village, 31 in Misugusugu, 31 in Mwendapole and 39 in Disunyara. 6 persons were later excluded from the sample (4 from Mwendapole and 2 from Disunyara) since they had been exempted from paying the levy (4 due to mental and/or physical illness, one woman, and one retired soldier). The final sample, therefore, included 128 respondents (see table 3.1).

3.1.2.2 *The survey in Kilosa*

The design of the survey in Kilosa was similar to the Kibaha-survey. However, in contrast to Kibaha, tax collection at the village level in Kilosa was carried out by the ward office and organised by the Ward Executive Officer (WEO).¹⁹ The village executive officers were to a large extent excluded from the collection process (Fjeldstad and Semboja, 1998). Three villages in three different wards were selected on the basis of the same criteria as in Kibaha. The sample included the rural villages of *Chanzuru* in Chanzuru ward and *Mamoyo* in Mabwerebwere ward, and the rural-urban village of *Dumila* in Dumila ward. Tax Register Books were, however, unavailable in both Chanzuru and Dumila wards. According to the Ward Executive Officers, these books had either been stolen or had just disappeared. Lists of names of development levy payers were provided on hand-written sheets of paper by the WEOs. Respondents were randomly selected on the basis of these lists. For Mamoyo village the sample was selected on the basis of the Tax Register Book made available by the ward executive officer. Even here the list had just been compiled by the newly appointed WEO.

25 respondents were selected from each of the three villages. However, in Dumila only 9 people were interviewed. This had to do partly with people refusing to participate for fear of this exercise being linked with tax collection, and partly because they were not accessible due to the harvesting season. In Chanzuru, 21 of the selected respondents showed up. In Mamoyo village only a few persons showed up initially. The rest refused to participate and ran away when people from the ward office approached them, or they were not accessible. Therefore, we decided to pick randomly people passing on the road by the ward office during the day. On this basis 20 respondents from Mamoyo village were selected. 6 respondents were later excluded from the sample either because they were exempted from paying levy (1 from Dumila and 3 from Mamoyo) or because they had never paid development levy (2 Maasai people from Chanzuru). The final sample in Kilosa therefore included 44 people (see table 3.1). In addition to 1995 and 1996, we included questions on tax payments for 1997 in spite of the fact that the deadline for paying development levy voluntarily did not expire until 1 October.

The representativity of the sample in Kilosa is questionable, both with respect to the size of the sample and how it was selected. In particular, the degree to which the small sample from Dumila village is representative, is questionable. Further, only two of the respondents were traders (both from Chanzuru village), and one was a wage employee in the private sector (from Mamoyo

¹⁹ See appendix 1.

village). The rest, i.e., 41 persons were peasants. This occupational distribution, however, probably reflects fairly well the relative importance of the different occupations in the research area. The average household size of the sample is 7 persons, which is identical with Kibaha, and also reflects fairly well the average rural household size in Tanzania of 6.37 persons (Tinios et al., 1993, table 3.1.1).

Several of the standard methodological criteria for selecting survey samples were not followed in Kilosa. Thus, the Kilosa survey should be considered a case study from which we should be careful to draw general conclusions. However, the Kilosa case is included in the paper since it tells an important story about taxpayers' behaviour and tax enforcement in local authorities in Tanzania: It describes the administrative chaos, the lack of files (which had disappeared), taxpayers who ran away when collectors were approaching them, and enforcement of development levy starting during the voluntary period 3 months before the deadline. Further, it describes a story of harassment of taxpayers, the use of the local militia and road blocks in tax collection, and the opposition, anger and frustration expressed by taxpayers. Finally, it illustrates how problematic it may be to carry out a proper survey on such sensitive issues in certain areas in Tanzania.

Table 3.1. The survey sites in Kibaha and Kilosa

	<i>Village</i>	<i>Number of registered taxpayers in the villages (1996)*</i>	<i>Number of respondents</i>
Tumbi	Pangani	138	33
Visiga	Misugusugu	348	31
Kibaha	Mwendapole	566	27
Mlandizi	Disunyara	257	37
<i>Total sample in Kibaha</i>			<i>128</i>
Chanzuru	Chanzuru	n.a.	19
Dumila	Dumila	n.a.	8
Mabwerebwere	Mamoyo	n.a.	17
<i>Total sample in Kilosa</i>			<i>44</i>

* Compiled from the Tax Registrar Books of the Village Executive Officers and Ward Executive Officers.

3.2 Data analysis and problems

We acknowledge the usual limitations of survey methods when compared with precise experimental forms, yet found the more rigorous methods unsuitable in this particular research effort. The selection of questionnaire items inevitably raised questions about validity and reliability. A careful design of questions and pre-test assured a fairly high degree of face and content validity. In surveys of tax evasion in Western countries (e.g., Kinsey, 1992; Cowell, 1990; Spicer et al., 1976) it is argued that because tax evasion is considered to be socially undesirable, responses to a questionnaire will be adversely biased. This might also be the case in Tanzania, although anecdotes suggest that tax evasion is not associated with the type of social stigma referred to in Western countries. In contrast, some observers describe non-payment of development levy as a form of popular opposition towards state policies (Tripp, 1997:154).²⁰ If

²⁰ Tripp (1997:8), focusing on the informal sector in Dar es Salaam, argues that tax evasion may be understood as

this description is correct, we would expect an "inverse adverse bias" compared to surveys from developed countries, i.e., a larger share of the respondents claims not to have paid relative to the actual compliance rate. However, in our data we do not find any indications of such an inverse relationship. Acknowledging the possible problems of biased responses, there seems to be no other systematic way to obtain this kind of data.

The challenge (and problem) became one of designing questions which would elicit honest responses and also provide a valid indirect measure of behaviour. Experiences from surveys of tax evasion in Western countries, however, find that responses which are fairly directly related to the individual's own propensity to commit tax evasion may be obtained by clearly guaranteeing to the respondent complete confidentiality (see Spicer et al., 1976; Kinsey, 1992).

The share of compliers in the sample is significantly higher than the figures of aggregate compliance rates compiled from the Tax Register Books in Kibaha and the accounts of the revenue department in Kilosa. At least three factors may explain this possible "overrepresentation" of compliers. First, the way the samples were selected. Due to time and budget constraints we decided to exclude from the sample taxpayers living in more remote areas of the selected villages. We would expect that people living in those areas are less compliant than people living in more accessible places, because of less strict tax enforcement. Thus, a certain overrepresentation of compliers in the sample seems reasonable. Further, the reluctance of the population to participate in the survey in Kilosa may have led to an over-representation of compliers there (see section 3.1.2.2). However, we do not expect this to seriously affect the results of the analysis, since we are mainly interested in analysing (non-)compliance behaviour.

Second, it may be due to strategic answering. To supplement measures of non-compliance, we asked the respondents about how much they had paid in development levy in each of the recent two years. These answers were then checked against the actual development levy rate.²¹ Our assumption was that non-compliers claiming to have paid the levy would often be unable to provide correct answers on the rates. Of those claiming to have paid in Kibaha in 1995 and 1996, only 7 percent and 4 percent, respectively, said they didn't know the rates. When asked about the specific rates for 1995, 65 percent of those claiming to have paid said TSh 500 and 13 percent said TSh 750 (which are the correct rates, without and with penalty, respectively). For 1996, 92 percent of the declared compliers said TSh 1000 and 4 percent said TSh 1500 (which are the rates without and with penalty). The 1996 response may indicate a relative high degree of non-strategic answering. The figures for 1995 may, however, indicate a certain strategic bias in the answers, or, alternatively, errors of recall. In Kilosa, 88 percent of those claiming to have paid in 1997 said TSh 2000. For 1996, 73 percent said TSh 1000 and 11 percent said TSh 1500 (which are the rates without and without penalty). However, for 1995 only 55 percent of those claiming to have paid answered TSh 1000. These responses may indicate a higher degree of strategic bias in Kilosa compared to Kibaha. Controlling for background variables such as age and migration, we find that the age group below 30 years in Kilosa is over-represented among those claiming to have paid but providing wrong response on the rates.

Third, we have found evidence that embezzlement of tax revenues by collectors are prevalent in many local authorities in Tanzania (Fjeldstad and Semboja, 1998). These findings are supported by surveys carried out by the Anti-Corruption Commission (1996), as well as anecdotal evidence. Thus, tax revenues reported in the accounts of local authorities may be significantly lower than

one of many forms of "quiet strategies of resistance in the form of economic non-compliance".

²¹ In Kibaha DC, the rate for 1995 was TSh 500 and TSh 1000 for 1996. In Kilosa DC, the rate for 1995 and 1996 was TSh 1000, and TSh 2000 for 1997. A penalty of 50 percent is added if the levy is paid later than 1 October.

what is actually collected. Aggregate compliance, therefore, is likely to be higher than what we can read from the the district council's revenue files.

The quality of the survey data was checked for accuracy soon after the return from the villages. The interviews were then coded and entered into the SPSS statistical programme and subsequently converted into the SYSTAT programme for micro-computers. The statistical analysis consisted of a step-by-step process, starting with frequencies, cross-tabulations and, finally, model testing.

In the following section we present the results of the initial statistical analysis (the model testing is not included in this paper). Given the richness of the data collected, we believe that the present document will be helpful as an input to the ongoing conceptual and methodological debate about tax compliance and its determinants in developing countries, as well as a contribution to the emerging debate on tax evasion in Tanzania.

4 Results

In this section we shall first provide a descriptive presentation of the characteristics of those who pay development levy (i.e., compliers), and then focus on analysing the motivation of compliers in terms of opportunities for tax evasion, the perceived probability of being detected, severity of sanctions, perceived fairness of the terms of trade with the government and the possible impacts of peer groups' compliance behaviour on the individual's decisions. The possible impact of ability to pay is also discussed.

4.1 Who pays?

The aggregate compliance rate of the sample in Kibaha is 66 percent in 1995 and 44 percent in 1996 (see table 4.1). The respective figures for Kilosa are 80 percent and 84 percent, and 18 percent for 1997.²² The sharp decline in aggregate compliance in Kibaha from 1995 to 1996 may be related to the doubling of the development levy rate from TSh 500 to TSh 1,000 (see section 4.2.1). In Kilosa, the low compliance rate for 1997 may partly be due to the doubling of the development levy rate from TSh 1,000 in 1996 to TSh 2,000 in 1997. However, since the deadline for voluntary payment was not expired when the survey was carried out in Kilosa we would expect a relatively low compliance rate for 1997 (see section 3.2). Thus, except from indicating a possible relationship between the level of the tax rate and tax compliance, the 1997 figures can not be used to explore peoples' compliance behaviour. Therefore, we do not report the results for 1997 in the following sections.

Important background variables characterising compliers are place of residence (i.e., village), migration, religion, occupation, wealth and age.

4.1.1 Place of residence and compliance

Compliance rates vary between the selected villages (table 4.1). In Kibaha, compliance is highest in Pangani both for 1995 and 1996 (76 percent and 55 percent, respectively). The compliance rate is also relatively high in Mwendapole (74 percent in 1995 and 48 percent in 1996). Tax resistance is highest in Disunyara (51 percent complied in 1995 and 35 percent in 1996). The *relative* compliance rates between the surveyed villages in Kibaha are consistent with figures from the accounts of the villages compiled from the ward executive officers.

²² Regarding the possibility for over-representation of compliers, and/or biased responses, see the discussion in section 3.2.

The figures from Kilosa also indicate differences in compliance rates between the villages, although we should be cautious to draw general conclusions from the small sample, in particular, for Dumila village. However, also for Chanzuru the high compliance rates claimed are questionable (see section 3.1.2.2).

Table 4.1 Compliance rates of the surveyed villages

<i>Village</i>	<i>Ward</i>	<i>Number of respondents</i>	<i>1995 Compliance rate (%)</i>	<i>1996 Compliance rate (%)</i>	<i>1997 Compliance rate (%)</i>
Pangani	Tumbi	33	76	55	n.a.
Misugusugu	Visiga	31	68	39	n.a.
Mwendapole	Kibaha	27	74	48	n.a.
Disunyara	Mlandizi	37	51	35	n.a.
<i>Total, Kibaha</i>		<i>128</i>	<i>66</i>	<i>44</i>	<i>n.a.</i>
Chanzuru	Chanzuru	19	95	89	21
Dumila	Dumila	8	88	88	25
Mamoyo	Mabwerebwere	17	59	76	12
<i>Total, Kilosa</i>		<i>44</i>	<i>80</i>	<i>84</i>	<i>18</i>

4.1.2 Migration and compliance

Migrants constitute 53 percent of the sample in Kibaha, compared to 30 percent in Kilosa. The observed difference between the two councils in this respect probably reflects fairly well the real situation. Due to its proximity to Dar es Salaam we would expect that a larger share of the population in Kibaha are migrants.

The relative share of migrants differs between the selected villages (table 4.2). In Pangani migrants constitute 94 percent of the respondents, while the corresponding figure for Disunyara is only 11 percent. The share of migrants in the two other villages in Kibaha lies between 50 percent and 60 percent. In the villages in Kilosa, migrants make up 42 percent of the sample in Chanzuru, compared to 25 percent and 18 percent in Dumila and Mamoyo villages, respectively.

Migrants appear to be more compliant than people born in the study areas.²³ This is the case for both Kibaha and Kilosa, although the difference in compliance rates between migrants and non-migrants in Kilosa in 1996 is insignificant (see table 4.3).²⁴ The observed differences in compliance rates between villages may, thus, be related to the share of migrants among the respondents in the respective villages.

²³ In this paper we refer to people born in the areas, i.e., the Coastal Region for Kibaha and Morogoro Region for Kilosa, as "non-migrants".

²⁴ Compliance rate is here defined as the share of respondents (of the specific group referred to) who claims to have paid the levy.

Table 4.2 The share of Muslims and migrants in the samples

Villages	Number of respondents	Muslims (in percent of respondents)	Migrants (in percent of respondents)
Pangani	33	39	94
Misugusugu	31	87	55
Mwendapole	27	81	59
Disunyara	37	92	11
Total sample in Kibaha DC	128	75	53
Chanzuru	19	68	42
Dumila	8	63	25
Mamoyo	17	82	18
Total sample in Kilosa DC	44	73	30

Table 4.3 Compliance rates among migrants and people born in the area (in percent)

	Kibaha (N _{Migr} =68 and N _{Non-migr} =60)		Kilosa (N _{Migr} =13 and N _{Non-migr} =31)	
	Compliance rate in 1995	Compliance rate in 1996	Compliance rate in 1995	Compliance rate in 1996
Migrants	72	54	92	85
Non-migrants	60	32	74	84

4.1.3 Religion and compliance

The majority of the respondents are Muslims, i.e., 75 percent of the sample in Kibaha and 73 percent in Kilosa (see table 4.2). Christians constitute the largest share of migrants in Kilosa, i.e., 69 percent, compared to 41 percent in Kibaha. In Kibaha, the majority of Christians, 97 percent (28 persons out of a sample of 29) have migrated to the area from other regions of Tanzania. In contrast, only 39 percent (37 persons out of a sample of 96) of the Muslim respondents in Kibaha are migrants. 75 percent of the Christians in the Kilosa sample were migrants, compared to only 13 percent of the Muslims.

Comparing the two dominant religious groups, Christians in Kibaha appear to be more compliant than Muslims in both years (see table 4.4). In Kilosa, we find only minor differences between the compliance rates of Muslims and Christians.

The observed differences between Muslims and Christians may indicate that cultural differences, including religion, matter with respect to tax compliance. However, compliance rates of Muslim migrants and Christian migrants differ less than the compliance rates of Muslims and Christians as aggregated groups. In 1996, 51 percent of the compliant Muslims in Kibaha were migrants,

while the corresponding figure for 1995 was 42 percent.²⁵ These figures indicate that migrants, in general, independently of religion, are more compliant than non-migrants. We do not find significant differences between Muslims and Christians with respect to other variables.

Table 4.4 Religion and compliance (in percent)

<i>Religion</i>	<i>Share of the total number of respondents</i>	<i>Compliance rate 1995</i>	<i>Compliance rate 1996</i>	<i>Migrants (as a percentage of group total)</i>
<i>Kibaha:</i>				
Christians	23	79	59	97
Muslims	75	63	39	39
Other	2	50	50	100
<i>Kilosa:</i>				
Christians	27	83	83	75
Muslims	73	78	84	13

4.1.4 Occupation and compliance

We find only small differences between the three rural villages in Kibaha (Pangani, Misugusugu and Disunyara) with respect to principal income sources (table 4.5). However, in the rural-urban village, Mwendapole, agriculture is, as expected, a relatively less important income source, while self-employment (other) is more important than in the other villages. In Kilosa, the majority of the respondents were agriculturalists (41 respondents of a total of 44), only two were traders (both were from Chanzuru village), and one was a wage employee in the private sector (from Mamoyo village).²⁶

Table 4.5 Principal source of income in the households in Kibaha (in percent)

<i>Source of income</i>	<i>Pangani</i>	<i>Misugusugu</i>	<i>Mwendapole</i>	<i>Disunyara</i>
Agriculture	85	77	59	89
Self-employed trade and commerce	0	3	4	0
Self-employed other	12	19	26	8
Wage-employee private sector	0	0	4	3
Wage-employee public sector	0	0	7	0
<i>Total*</i>	<i>100 (33)</i>	<i>100 (31)</i>	<i>100 (27)</i>	<i>100 (37)</i>

**The figures in brackets refer to the number of respondents.*

²⁵ As shown in table 4.4, 39 percent of the Muslim respondents are migrants.

²⁶ See the discussion in section 3.1.2.2 on how the sample was selected.

The relationship between compliance and occupation is presented in table 4.6. For 1995 and 1996, the highest compliance rate is found in households with wage-employees in the public sector. This is the case for both Kibaha and Kilosa. The compliance rate for self-employed in trade and commerce is also relatively high. In Kilosa, the compliance rate is surprisingly high among wage employees in the private sector, compared to Kibaha. Further, a general pattern found (not reported in the tables) is that households with more than one income earner are more compliant than households with only one income earner. Thus, income (ability to pay) may be an important background variable.

Table 4.6 Main occupation of income earners in the household and compliance, Kibaha and Kilosa (Kilosa in brackets)

<i>Main occupation</i>	<i>Number of persons*</i>	<i>Compliance rate 1995 (in %)</i>	<i>Compliance rate 1996 (in %)</i>
Agriculture	123 (43)	67 (79)	44 (84)
Self-employed, trade and commerce	9 (21)	89 (86)	56 (86)
Self-employed, other	49 (9)	65 (89)	37 (78)
Wage-employee, private sector	5 (13)	20 (100)	20 (100)
Wage-employee, public sector	5 (1)	100 (100)	100 (100)

**The number of persons in each category is different from the number of respondents, since there may be several income earners in each respondent's household.*

The main differences between non-migrants and migrants with respect to occupation are presented in table 4.7.

Table 4.7 Migration and occupation, Kibaha and Kilosa (in percent, figures for Kilosa in brackets)

<i>Source of income</i>	<i>Non-migrants</i>	<i>Migrants</i>
Agriculture	47 (72)	53 (28)
Self-employed trade/commerce	67 (67)	33 (33)
Self-employed other	51 (67)	49 (33)
Wage-employee private sector	40 (67)	60 (33)
Wage-employee public sector	20 (0)	80 (100)

In both Kibaha and Kilosa, the majority of the public sector wage employees are migrants. However, a larger share of the wage-employees in the private sector in Kibaha are migrants (60 percent), compared to Kilosa (33 percent). In contrast, and for both districts, two thirds (67 percent) of the self-employed in trade and commerce are non-migrants. The share of migrants employed in agriculture seems to reflect the relative share of migrants in each sample.

4.1.5 Wealth and compliance

Three of the selected wealth indicators seem to have explanatory power in Kibaha: Radio and wristwatch ownership and iron sheeted roof (the other "house-standard indicators" don't seem to be of importance in this respect).²⁷ The compliance rate of respondents who live in houses with corrugated iron-sheeted roofs is higher than average, i.e., 74 percent in 1995 and 56 percent in 1996 (not included in table 4.8). A larger share of the migrants compared to non-migrants have iron-sheeted roofs on the houses they live in (out of the total sample, 63 percent of those with iron sheeted roofs are migrants). Further, a larger share of the migrants (64 percent) own wristwatches compared to non-migrants (22 percent). We do, however, observe only minor differences in the compliance rates of house-owners and renters. Not unexpectedly, a smaller share of migrants (79 percent) own the houses they live in compared to non-migrants (95 percent). As for houseowners and renters in general, we find only small differences between migrants owning houses and migrants renting houses with respect to compliance behaviour.

Table 4.8 Assets and compliance, Kibaha and Kilosa
(in percent, Kilosa in brackets)

Year	1.995		1.996	
	Own and comply	Do not own and comply	Own and comply	Do not own and comply
Radio	70 (81)	52 (33)	49 (85)	24 (100)
Bicycle	62 (90)	70 (50)	44 (90)	43 (67)
Wristwatch	69 (93)	58 (73)	65 (79)	38 (87)

In Kilosa, owners of wristwatches and radios are (or claim to be) more compliant than those not-owning these durables in 1995, while the opposite is the case for 1996. Respondents owning bicycles are, however, significantly more compliant than those not owning this asset. Further, we observe that a larger share of migrants (85 percent) compared non-migrants (67 percent) own bicycles.²⁸ We also find that a larger share of migrants compared to non-migrants possess wristwatches and live in houses with iron-sheeted roofs.

A larger share of migrants compared to non-migrants seems to possess the specified durables. This is the case for both Kibaha and Kilosa, and indicates that migrants, in general, are more wealthy than non-migrants.

²⁷ According to the National Cornell/ERB 1991 survey (see World Bank, 1993:41), radios and watches are the two durables whose ownership is most closely connected with poverty in households in Tanzania. See the discussion in section 3.1.1.

²⁸ The greater importance of bicycles as an indicator of wealth in Kilosa compared to Kibaha is consistent with our observations during the field studies. However, in the National Cornell/ERB 1991-survey on households' consumption and poverty a positive correlation between the ownership of bicycles and income is not found (World Bank, 1993:41)

4.1.6 Age and compliance

Regarding the possible relationship between age and compliance, we find that compliance is lowest for the youngest age group (i.e., between 18 and 29 years). The age groups between 30 and 49 years and between 50 and 59 years appear to be the most compliant ones. In Kilosa, however, respondents above the age of 60 appear to be the most compliant ones in 1995 (see table 4.9).²⁹ The small number of respondents within the age groups below 30 and above 50 in Kilosa, makes generalisations on the basis of age questionable.

Table 4.9 Age and compliance, Kibaha and Kilosa
(Kilosa in brackets)

Age (years)	Number of respondents	Compliance rate 1995 (in %)	Compliance rate 1996 (in %)
18-29	19 (7)	53 (29)	21 (57)
30-49	54 (27)	76 (85)	54 (92)
50-59	16 (6)	75 (100)	47 (100)
60-	36 (4)	62 (100)	38 (50)

4.2 Why people pay

Three of the five hypothesised relationships are lent some support by the analysis. Tax compliance seems to be positively related to ability to pay, opportunities for tax evasion, the (perceived) probability of being prosecuted, and the number of tax evaders known personally by the respondent. No positive relationships were found between tax compliance and the perceived severity of sanctions against defaulters and the perceived terms of trade with the government. In contrast, we find that severe sanctions (e.g., strict enforcement and harassment of taxpayers), and discontent with what people feel they get in return from the government may increase tax resistance, and, thus, contribute to explain the widespread tax evasion observed.

4.2.1. Ability to pay

A general observation from the surveys is that the better-off respondents seem to be most compliant. For instance, households with more than one income earner are, in general, more compliant than households with only one income earner (section 4.1.4). We also find that the relatively better-off migrants seem to be more compliant than people born in the survey areas (section 4.1.5). Further, the relationship between age and compliance may also be related to ability to pay. The youngest age group (i.e., 18-29) is the less wealthy one measured in durable assets (section 4.1.6).

As noted above (section 4.1), the sharp increase in admitted non-compliance in Kibaha from 1995 to 1996, and in Kilosa from 1996 to 1997, may indicate that higher taxes have led to larger compliance problems (see table 4.1). The respondents' views on the tax rate may also provide an indication on the importance of ability to pay. 89 percent of the respondents in Kilosa consider the development levy rate to be too high, while only 11 percent consider it to be reasonable. The

²⁹ Regarding the background variable "age", there is a bias in our sample. In Mwendapole village only one respondent is below the age of 30. Since this age group is the less compliant, this may contribute to explain the higher compliance in this village (see table 4.1).

corresponding figures for Kibaha are 51 percent and 44 percent.³⁰ One should here take into consideration that the present development levy rate in Kilosa is twice as high as in Kibaha. These responses indicate that ability to pay is an important background variable in explaining compliance. However, establishing a link between ability to pay and compliance does not show which way causation flows. Is tax resistance lower among the better-off, or are these people more directly targeted by tax enforcers? In the following section we discuss this question.

4.2.2 Probability of being prosecuted

The observed differences in compliance between occupations are partly due to different opportunities to evade and partly due to differences in the probabilities of being prosecuted (see section 4.1.4). The highest compliance rate (100 percent) is found among wage earners in the public sector (see table 4.5). Since development levy is withheld from their salaries, these persons have no opportunity to evade the levy. The relatively low compliance rates of agriculturists in Kibaha (67 percent in 1995 and 44 percent in 1996) and self-employed, other (i.e., carpenters, charcoal makers, etc.) (65 percent in 1995 and 37 percent in 1996) are consistent with findings from Western countries, which reveal that admitted tax evasion is relatively high among the self-employed (e.g., Mason and Lowrey, 1981).³¹ Thus, the relatively high compliance rate of self-employed in trade and commerce may seem surprising (table 4.5). However, several factors may contribute to explain this observation:

During tax campaigns many taxpayers "hide in the bush".³² These campaigns are organised by the Ward Executive Officers accompanied by the local militia. In Kibaha, the Village Executive Officer also participates. In principle, tax campaigns are organised when the deadline for paying has expired, i.e., 1 October. Before this date, and according to by-laws, payment is considered to be "voluntary". However, tax campaigns seem to be an ongoing affair throughout the year.³³ It is reasonable to assume that the opportunity costs of hiding from tax enforcers are higher for the more wealthy people compared to poorer households. Thus, we may expect that relatively better-off persons put less effort into hiding, and that they, therefore, are more easily targeted by tax enforcers. We may, further assume that the marginal utility of a shilling saved by evading taxes is higher for the poorer households than for the better-off. This may also induce poorer households to hide during tax campaigns. Given limited administrative resources, efforts by tax collectors to maximise yields from scarce enforcement resources may lead them to concentrate on the most accessible and better-off taxpayers. When tax enforcement priorities are made we would, therefore, expect that ability to pay and accessibility are key variables. Such mechanisms, in addition to factors related to opportunity for evasion, could well explain the relatively high compliance rate of self-employed in trade and commerce. In principle, shop-owners need a development levy card (a receipt) to get a business licence. Their opportunities to evade are thereby reduced. In addition, we would expect that even if they had the opportunity, their

³⁰ We may of course question the relevance of comparing the two councils with respect to tax rates. However, according to World Bank (1993:29) the poverty profiles in Coastal Region (incl. Kibaha DC) and Morogoro Region (incl. Kilosa DC) are fairly similar. This observation is based on a comparison of farming environments in different regions, since agriculture is the main economic activity in rural areas. Thus, assuming that the survey samples fairly well reflect the structure of the taxable population in the two areas, it is probably relevant to comparing peoples' perceptions on tax rates.

³¹ The number of self-employed and wage employees in the samples is relatively small. Therefore, these results should only be considered as indicative. However, our tentative results are consistent with survey studies carried out in Western countries which report opportunities to evade to be an important explanatory factor behind compliance behaviour (Slemrod, 1985; Witte and Woodbury, 1985). Experimental studies also suggest that opportunity for tax evasion does have a causal role (Robben et al., 1991).

³² This information was provided by tax collectors interviewed in Kibaha and Kilosa.

³³ In particular, this is the case in Kilosa where the ward level is in charge of tax collection (Fjeldstad and Semboja, 1998).

opportunity costs of hiding from tax enforcers are relatively high compared to people in other occupations, say agriculture. Further, respondents in this occupation are relatively better-off, as reflected by the selected wealth indicators, than respondents in other occupations.

The factors discussed above may also contribute to explain differences in the compliance rates of villages (see table 4.1). According to the wealth indicators, people in Mwendapole village are better-off than people in the other villages. This observation is not surprising due to the location of the village by the main road and other structural characteristics (i.e., being a rural-urban village). More trading and easier access to markets may arguably contribute to greater wealth. For instance, a larger share of the respondents in Mwendapole (93 percent) own radios compared to only 77 percent in Pangani. A similar pattern is found with respect to the other wealth indicators (wristwatches and iron-sheeted roofs). Wealth, reflecting ability to pay, may, therefore, be an important background variable in explaining compliance in this village. In addition, Mwendapole is more easily accessible than the other villages. These factors contribute to ease tax collection and make it an easier target for tax enforcement compared to the other villages. Thus, in Mwendapole, both the actual (i.e., real) probability as well as taxpayers' perceived probability of being prosecuted is likely to be higher than in the other villages.

In Pangani village, which is the most compliant village in Kibaha, two factors, partly different from those observed in Mwendapole, support the assumption that coercion influences compliance behaviour. First, the relatively high compliance rate may have to do with more efficient enforcement compared to the situation in the other villages (see table 4.1). The Village Executive Officer (VEO) in Pangani was recruited in August 1995, and revenue collection improved significantly since he took over.³⁴ The relatively small size of this village also contributes to make tax compliance more transparent, and may, therefore, make it easier to target non-compliers.³⁵ Second, a larger share of the respondents in Pangani are migrants who, in general, are more compliant than non-migrants.

Why are migrants more compliant than people born in the survey areas? Three factors may contribute in explaining this observation, which all support the hypothesis that tax enforcement and taxpayers' perceived probability of being prosecuted are important. First, migrants, in general, seem to be better-off than people born in the area. We may, therefore, expect that tax collectors, maximising yields from scarce enforcement resources, enforce taxes more firmly on the perceived more wealthy migrants. The importance of ability to pay as a background variable is supported by the finding that a larger share of migrants in Kibaha considers the tax rate to be reasonable compared to non-migrants.³⁶

Second, migrants seem (not unexpectedly) to be less integrated and have looser relations to local authorities, including tax collectors, than people born in the area (non-migrants). Thus, we may expect that it is easier, and probably more convenient, for tax enforcers to target migrants rather than targeting people from the area who might be their relatives, neighbours or who are related to local politicians and authorities. This argument is supported by the observation that a larger share of migrants (46 percent in Kibaha and 31 percent in Kilosa) compared to non-migrants (33 percent and 16 percent, respectively, for Kibaha and Kilosa) said they knew no one not paying.

³⁴ This observation does also support the possible importance of establishing arm's length relationships between taxpayers and collectors with respect to tax enforcement.

³⁵ The importance of more efficient tax enforcement in Pangani is supported by the observation that a larger share of the respondents in Pangani, compared to the other villages, said they pay the levy directly to the VEO.

³⁶ In Kilosa we don't observe significant differences between groups in this respect. There seems to be a general resentment among the public about the doubling of the levy rate from 1996 to 1997. Generally, about 90 percent of the respondents in Kilosa consider the rate to be too high.

This may indicate a lack of integrity in the tax collectors' relationship with taxpayers.³⁷ This effect implies that the *real probability* of being prosecuted probably is higher for migrants compared to non-migrants. In addition, it is reasonable to assume that the number of tax evaders observed, have impacts on the individual taxpayer's *perceived probability* of being prosecuted: The smaller the fraction of the local population that is known to be not paying, the more likely the individual may perceive his risk of being prosecuted (see the discussion in section 4.2.4). Thus, a migrant's perceived probability of being prosecuted may be higher than that perceived by a person born in the area. In Kibaha, this proposition is supported by the finding that a larger share of the migrants (25 percent) compared to non-migrants (8 percent) consider lack of opportunity for evasion to be the main reason why some people pay the levy, or, alternatively, they perceive the probability of being prosecuted to be higher than non-migrants.

Direct targeting by collectors, however, requires that the collectors are familiar with the taxpayers, knowing who is who, background, ability to pay, etc.. This is the case in Kibaha where tax collection is carried out by the Village Executive Officer, who lives in the village and is nominated to his position by the Village Council.³⁸ However, in the villages surveyed in Kilosa tax collection is carried out by the ward level. The revenue collectors are nominated by the district level, and are often transferred to the ward by the district management. They are, therefore, in general not villagers *per se*. Thus, we may expect that the Ward Executive Officers and Ward Revenue Collectors have less detailed knowledge than the VEOs on the background of and ability to pay of the individual taxpayers. This may indicate that targeting is less relevant in Kilosa. However, in Kilosa too we find that the better-off, including migrants, are more compliant than others, which indicates that some kind of targeting, is still relevant. For instance, we find that respondents owning bicycles are more compliant than others (see table 4.8). According to the WEOs interviewed in Kilosa, roadblocks are frequently used to enforce taxes. People passing these roadblocks are required to show their receipts or to pay the levy. In addition, Kilosa DC has imposed a bicycle tax which is to be paid on an annual basis.³⁹ Since bicycles are frequently used to transport goods to and from markets, it is often inconvenient for the users to find alternative routes through the bush to avoid the roadblocks. The ward collectors and the local militia also make use of bicycles. Thus, if someone is observed trying to avoid the roadblock they may be chased. By using roadblocks and thereby also targeting cyclists, tax collectors manage to enforce two types of local taxes. The inconvenience experienced when passing a roadblock without a development levy receipt and a bicycle sticker may also induce "bikers" to pay "voluntarily". These arguments are supported by peoples' response to the question "why do you think some people pay taxes?". As many as 31 percent of the respondents in Kilosa answered "to avoid disturbances".⁴⁰

The third factor which may induce migrants to comply is based on the general observation that migrants, generally, maintain their relations with (and obligations towards) the family at their home-place. In a study from Kenya, Smoke (1994:39) reports that "[f]amilies of migrants remain in their "home" area of origin, and the migrants visit "home" frequently, fully intending to return there to settle down after accumulating some desired level of resources". This probably describes fairly well the adaptation of migrants in Tanzania, too. Thus, it is reasonable to assume that migrants travel more, visiting their families, compared to non-migrants. Anecdotal evidence

³⁷ Tanzi (1995) uses the term "lack of arm's length relationship" to describe this situation.

³⁸ The position of the Village Executive Officer is a continuation of the previous position of CCM secretary which was abolished when the multiparty system was introduced in 1995.

³⁹ For 1997 the bicycle tax in Kilosa is TSh 1,000. The estimated number of bicycles in the council are 13,718. When the bicycle tax is paid a receipt in the form of a sticker to be attached to the bike is provided. This system is similar to the "car stickers" used as a receipt for various car-related taxes paid in many Western countries.

⁴⁰ The corresponding figure for Kibaha is 10 percent. However, this option was not included in the Kibaha questionnaire. Thus, the importance of this option is probably highly underestimated in Kibaha.

shows that the police often controls travellers, in particular, bus passengers, at road checkpoints and requires to see their development levy receipts (Tripp, 1997; and Bukurura, 1991). We may, therefore, expect that the probability of being controlled and prosecuted for persons who travel frequently is higher compared to people who travel less.⁴¹ To avoid police harassment and inconvenience migrants may therefore decide to "voluntarily" pay the levy.⁴² This argument is consistent with the observation that people in Pangani village in Kibaha, where migrants constitute the majority of the respondents, are more compliant than people in other villages (see section 4.1.1). It is also consistent with the observation that people self-employed in trade and commerce - whom we may also expect travel relatively often - are more compliant than people in other occupations in the private sector (see section 4.1.4).⁴³

How do we explain the poor compliance of the oldest age group in the Kibaha sample (see section 4.1.6, table 4.9)? This observation diverges from information received during the survey that elderly people in general were expected to be more compliant than younger ones, due to the stigma costs and embarrassment associated with being brought to court for not paying. It diverges also from surveys carried out in Western countries which find that increasing age appears to be related to lower tax resistance (see, e.g., Spicer et al., 1976). Our result may either suggest poor measurement or a failure to include other important variables. However, it does support the result that income and wealth are important background variables when explaining compliance. Elderly people often have low ability to pay, representing small and less affluent households. Thus, we may expect that the marginal utility of evading one shilling is higher for these people compared to better-off people, and, further, that the opportunity costs of hiding from tax collectors are less. The same set of arguments is probably relevant when explaining compliance behaviour of younger people, i.e., the age group below 30 years (see table 4.9). However, given the traditional respect for elders in African societies, we may also expect that tax enforcement is less strict on elderly people.

4.2.3 Perceptions on the severity of sanctions

Anticipated positive relationships between compliance and the perceived severity of sanctions against defaulters are not supported. An important background variable here is personal experience with and observation of others' experiences with tax enforcement at the village and ward levels. Thus, a taxpayer's observation of how many others are being brought to court and prosecuted during tax campaigns may be used as an indicator of the severity of sanctions against defaulters.

We find only small differences between the views of compliers and non-compliers on this issue. The most significant pattern found in Kibaha is the different experiences of migrants and non-migrants. 34 percent of the migrants answered that they (or someone they knew personally) had *never* been contacted by the tax collector to pay tax with penalty, while only 13 percent of the respondents born in the area gave this answer. The corresponding figures for Kilosa are 23 and 26 percent, respectively. 66 percent of the migrants in Kibaha said they had been contacted one or more times, compared to 83 percent of the non-migrants. In Kilosa, we found only minor differences between migrants and non-migrants on this issue (75 percent versus 77 percent). Regarding the question whether they personally knew someone who had been convicted for not paying, 68 percent of the migrants in Kibaha answered no one, compared to 47 percent of the non-migrants. The corresponding figures for Kilosa were 77 percent and 68 percent, respectively.

⁴¹ Probability refers here to both perceived and real probability.

⁴² This is comparable to the discussion above on explaining the relatively high compliance of cyclists in Kilosa.

⁴³ Controlling for origin of birth, only one third of the traders in the two samples are migrants. This supports the arguments above on a correlation between travel frequency and compliance.

Regarding the question about the reaction of the council or ward to people who didn't pay, 15 percent of the migrants in Kibaha said "no reaction", while none of the non-migrants gave this answer. 57 percent of the migrants said they "have to pay tax plus penalty", compared to 75 percent of the non-migrants gave this answer.

In general, non-compliers in Kilosa seem to be more discontented with tax collectors than compliers (see table 4.10). People born in the area also seem to be more dissatisfied. We observe only minor differences between the perceptions of these groups in Kibaha.

Table 4.10 The respondents' views of tax collectors in Kibaha and Kilosa (in percent, figures for Kilosa in brackets)

<i>Category</i>	<i>Harass and dishonest</i>	<i>Don't do as best they can*</i>
Total sample	15 (21)	14 (2)
Migrants	15 (8)	13 (0)
Non-migrants	15 (26)	15 (3)
Compliers, 1995	14 (15)	13 (3)
Non-compliers, 1995	17 (44)	15 (0)
Compliers, 1996	18 (19)	13 (3)
Non-compliers, 1996	13 (28)	15 (0)

* By "don't do as best they can" is meant laxity.

How do we interpret these responses? From the standard theory we would expect that the more severe the sanctions perceived by taxpayers, the higher the compliance.⁴⁴ The survey results seem to point in the opposite direction: The more severe the sanctions observed, the more widespread the tax resistance. The reason for this "perverse" relationship is not entirely clear, however, it may be due to reciprocity considerations.⁴⁵ The reciprocity argument leads to the proposition that tax authorities' unresponsive, corrupt, disrespectful, and unfair treatment of taxpayers foster disrespect for and resistance against tax authorities and tax laws - also a kind of reciprocation in kind.⁴⁶

The strength of the possible direct reciprocity effects on compliance of tax enforcement procedures probably depends on how much personal experience taxpayers have had with the tax

⁴⁴ The responses do, however, support the assumption that migrants are less integrated in the village society, and, therefore, observe less enforcement (see the discussion in section 4.2.1).

⁴⁵ One of the strongest socio-psychological reasons for expecting that positive behaviour by administrators towards taxpayers will increase the likelihood of compliance is the strong tendency for humans to try to reciprocate, in kind, behaviour toward them (e.g., Smith, 1992; Cialdani, 1989; and Sugden, 1984). Sugden (1984) refers to the response of reciprocating behaviour as a "cross-societal norm of reciprocity: a norm both in the sense of a universal regularity and a moral responsibility". Much research across a wide range of applied areas demonstrates that reciprocation is a powerful mode of persuasion. Axelrod (1984), for instance, in two computer simulations demonstrated that the reciprocity rule was better than more complex punitive rules at obtaining cooperation from the other player. The reciprocity norm evokes an obligation for individuals to make a concession to someone who has made a concession to them. Strumpel (1969), in a multinational study of tax compliance, argues that enforcement techniques emphasising detection and punishment may have an indirect, negative effect by alienating taxpayers and lowering their willingness to comply voluntarily. Lower willingness to comply may lead to active efforts to evade taxes, as well as to other forms of tax resistance.

⁴⁶ This proposition can also be stated in positive terms: Tax authorities responsive, honest, respectful and fair treatment of taxpayers tends to foster respect for and cooperation with the tax system (Smith, 1992:227).

authorities. Those who have had significant personal contacts, for instance by being brought to court by the local militia, may reciprocate on the basis of resentment (i.e., tit-for-tat) while also developing a more generalised normative response. Those who have not had much personal contact may develop their perceptions on how tax authorities treat taxpayers from what they know about the experiences of others and from their more general concepts of the tax system and of how government officials treat citizens. Because these perceptions are typically less specific than are personal experiences, their effects on compliance are likely to be primarily indirect ones through generalised normative commitments and loyalty.

If the proposition on reciprocity is correct, it may contribute to explain the widespread non-compliance observed in the survey area:⁴⁷ Harsh enforcement of development levy and harassment by collectors may induce tax evasion. Tax evasion may then be interpreted as a strategy of public resistance and opposition against the authorities.⁴⁸ Thus, it may be reasonable to suppose that suffering the penalties and inconvenience of a prosecution (being brought to court by the local militia, etc.), will increase tax resistance. However, this proposition should only be considered as tentative. Further studies are needed to test its robustness. Harsh tax enforcement is, however, considered to be a problem in many councils, not least by politicians. During election campaigns both local and central government politicians usually deliver the message that tax collectors should not harass taxpayers (Bukurura, 1991; Fjeldstad and Semboja, 1998).

4.2.4 Terms of trade with the government (fiscal exchange)

The hypothesis concerning a positive relationship between tax compliance and the use of tax revenues, i.e., the perceived fairness of the terms of trade with the government, is not supported. However, although taxpayers' perceptions of an unfair contract with the government do not appear to explain why some people pay, they may explain why many don't. A major problem perceived by taxpayers is that they see few tangible benefits in return for the taxes they pay.⁴⁹ The respondents' perceptions of the quality of public services are very similar in Kilosa and Kibaha (see table 4.11). However, dissatisfaction seems to be highest in Kilosa where 75 percent of the respondents consider the quality to be bad (compared to 66 percent in Kibaha), and 25 percent consider them to be average (compared to 26 percent in Kibaha). None of the respondents in Kilosa consider the public services to be good (compared to 6 percent in Kibaha).⁵⁰ 77 percent of the respondents in Kilosa say the quality of services today is worse than three years ago (compared to 66 percent in Kibaha).

⁴⁷ Widespread non-compliance with respect to development levy seems to characterise the situation in most councils in Tanzania (see section 1).

⁴⁸ This interpretation is supported by Tripp (1997) who focuses on the behaviour of people in the informal sector Dar es Salaam. Tax resistance may sometimes also take more violent forms. In Kilosa we were informed about tax collectors being attacked by the public. Recently one collector had been seriously wounded after being hit in the head with a panga (a large chopping knife used by peasants) when he approached an assumed tax defaulter. In 1996 the ward office in Chanzuru was destroyed during night and the Tax Register Books were burnt. We were told that certain villages in Kilosa were avoided by collectors, and some were only visited by collectors accompanied by the local militia. Similar cases are reported from other councils, too. *Daily News* (28 November, 1997:5) reports that "[o]ver twenty Moshi Municipal Council workers who were on a special operation to net development levy defaulters were attacked by a mob at Mbuyuni Market on Wednesday afternoon and eight of them were injured, some seriously, it was learned yesterday."

⁴⁹ Taxpayers' views are here supported by the tax collectors (Fjeldstad and Semboja, 1998).

⁵⁰ The response from people in Kilosa is interesting considering the long-term involvement of international development aid agencies in the area, in contrast to Kibaha. For instance, the main roads in Kilosa have a fairly good standard due to donor funding. Further, donors are involved in the education and health sectors. However, people do seem to be well aware about who is responsible for the different services, and distinguishes between "council services" and "donor provided services". Thus, the main roads are referred to as "Irish roads" and the almost non-passable feeder roads are named council roads. Donors' presence in Kilosa may have contributed to reveal the poor standard of local services for the constituents.

*Table 4.11 Perceptions on the quality of public services
(in percent of total number of respondents)*

<i>Perception</i>	<i>Kibaha (N=128)</i>	<i>Kilosa (N=44)</i>
Good	6	0
Average	26	25
Bad	66	75
Don't know	2	0

In Kibaha, 83 percent of the respondents answer that in their view development levy is "only partly" or "not at all" used to provide public services. The corresponding figure for Kilosa is 88 percent (the majority, i.e., 70 percent, answer "not at all"). There are only minor differences between compliers and non-compliers in this respect. However, we observe certain differences between the perceptions of migrants and non-migrants. In Kibaha, 84 percent of the migrants and 65 percent of non-migrants consider development levy only partly or not at all to be used to provide services. In Kilosa, 69 percent of the migrants compared to 96 percent of the non-migrants give this response.

Regarding the respondents' perceptions on the major problems with tax collection, we observe only minor differences between compliers and non-compliers. However, the views of migrants and non-migrants seem to differ on this issue too (see table 4.12). In Kibaha, the major problem is considered to be that taxes are not spent on public services (55 percent of the respondents). 62 percent of the migrants consider this to be the major problem, compared to 47 percent of the non-migrants. In Kilosa, however, the majority (46 percent of the sample) considers the high tax rates to be the major problem, and the second most important problem to be that taxes are not being used to provide services (23 percent of the respondents). This response in Kilosa most likely reflects the frustration among the constituents that the development levy rate was doubled in 1997, and does not necessarily contradict the general dissatisfaction with public services reflected in table 4.11 (see section 4.2.1).⁵¹

*Table 4.12 The most important problems with respect to tax collection,
Kibaha and Kilosa (in percent, Kilosa in brackets)*

<i>Problem</i>	<i>Aggregate N=128 (N=39)</i>	<i>Non-migrants N=60 (N=29)</i>	<i>Migrants N=68 (N=10)</i>
Too high rates	12 (46)	18 (48)	6 (40)
Taxpayers are unwilling to pay	17 (13)	17 (10)	18 (20)
Taxes are not spent on public services	55 (23)	47 (21)	62 (30)
Other	16 (18)	18 (20)	14 (10)

⁵¹ The dissatisfaction among the respondents in Kilosa with the high tax rate is reflected in peoples' perceptions of local politicians whom they consider to be responsible for proposing increased rates. 66 percent of the respondents say that local politicians "do not do as best they can", 11 percent consider them to be "dishonest", and only 14 percent say they "do as best they can". The corresponding figures for Kibaha are 43 percent, 11 percent, and 44 percent.

Two observations seem evident. First, there is a widespread discontent among people regarding their terms of trade with the government. More than 60 percent of the respondents in Kilosa agree with people saying that all taxpayers would cheat to some extent if they thought they could get away with it. The corresponding figure for Kibaha is 55 percent. Peoples' tax resistance is correlated to deteriorating or, in some cases, non-existent public services. This argument is supported by other studies. Bukurura (1991:91) refers to an investigation from 1987 by the *Tanzania News Agency* in Kigoma Town Council, which reported that "many people were defaulting apparently because they thought the council was not doing its best to serve the residents". Tripp (1997:233) refers to an article in *Daily News* (from 9 June 1985) in which she quotes a typical comment by a Dar es Salaam resident: "When it comes to Development Levy we have seen nothing as a result of the levy we pay..... the city is very dirty and the situation is deteriorating day in and out..... What we want to see is how such taxes are being spent."

Second, migrants seem to be more dissatisfied than non-migrants.⁵² The reason for this relationship is not obvious. However, migrants may have greater expectations on improved living conditions when moving. When not experiencing improvements, their disappointment and frustration may possibly be reflected in their perceptions of the authorities, including their views of the quality of public services. As discussed in previous sections, migrants are generally more compliant, something which may add to their frustration since they see little in return from what they pay in taxes.

Table 4.13 Agree with people who say they will not pay taxes until they get better services in return from the Council (in percent, Kilosa in brackets)

	<i>Total sample</i> N=128 (N=44)	<i>Non-migrants</i> N=60 (N=31)	<i>Migrants</i> N=68 (N=13)
Agree	30 (55)	28 (58)	32 (46)
Neither-nor	2 (2)	0 (0)	3 (8)
Disagree	68 (43)	72 (42)	65 (46)

When asking people if they "agree with people saying that they will not pay taxes until they get better services in return from the Council", surprisingly many disagreed (68 percent of the respondents in Kibaha and 43 percent in Kilosa, see table 4.13). The difference between the two councils may reflect greater dissatisfaction with public services in Kilosa (see note 49). This response may also seem contradictory to the findings discussed above. However, it may also indicate that many people do in fact understand the relationship between taxes and public services. One respondent used the metaphor that one "can't build a house without first buying concrete". Further, a majority of the respondents (more than 90 percent) said they would be willing to pay more taxes if services were improved, although some expressed the reservation that it depended on their ability to pay (see table 4.14).⁵³ These results therefore seem to deviate from other studies, including Tax Commission (1991) and Bukurura (1991), which claim that people in Tanzania lack a basic understanding of their duty to pay taxes.

⁵² This is most evident for Kibaha. However, the responses reported in table 4.12 point in the same direction for Kilosa.

⁵³ This response is consistent with studies from other countries which show that even poor people are willing to pay something for services they value, for example, education (Bird, 1990:407). Bird adds that people also value more those things for which they have to pay.

Table 4.14 Willing to pay more taxes if public services are improved, Kibaha and Kilosa (in percent, Kilosa in brackets)

	<i>Total sample N=128 (N=44)</i>	<i>Non-migrants N= 60 (N=31)</i>	<i>Migrants N=68 (N=13)</i>
Yes	91 (95)	90 (97)	93 (92)
No	10 (5)	8 (3)	7 (8)
Don't know	1 (0)	2 (0)	0 (0)

4.2.5 The element of social influences

The analysis of the survey results lends some support to the hypothesis concerning the impacts of others' behaviour on the individual taxpayer's compliance decision. The number of tax evaders known to a given taxpayer may impact on his tax compliance behaviour by influencing his perceived probability of being detected (see section 4.2.2). A larger share of compliers compared to non-compliers in Kilosa say they don't know anyone not paying (see table 4.16). In Kibaha, we observe only minor differences between compliers and non-compliers on this issue. However, in both surveys we find significant differences between migrants and non-migrants in this respect. While 84 percent of the non-migrants in the sample from Kilosa say they know one or more persons not paying, 62 percent of the migrants give this answer. The corresponding figures from Kibaha are 65 percent and 54 percent. Correspondingly, we find that a larger share of the migrants compared to non-migrants in both councils claim that they don't know anyone not paying. This observation supports the assumption that migrants are less integrated in the village society, and, thus, have less knowledge of the behaviour of others. Observations of others' behaviour may, thus, impact on the individual's perceived probability of being prosecuted: The larger the fraction of the local population that is observed not paying, the lesser the perceived risk of being prosecuted. This may contribute to explain why migrants, in general, are more compliant than non-migrants. Since migrants may know of fewer tax evaders than non-migrants, this may imply that on average a migrant's perceived probability of being prosecuted is higher than the perceived probability of a non-migrant.

Table 4.15 Knowing someone not paying (in percent, Kilosa in brackets)

<i>Category</i>	<i>Knowing none evaders</i>	<i>Knowing one or more evaders</i>
Total sample	40 (20)	59 (77)
Migrants	46 (31)	54 (62)
Non-migrants	33 (16)	65 (84)
Compliers, 1995	41 (23)	59 (74)
Non-compliers, 1995	41 (11)	59 (89)
Compliers, 1996	36 (22)	64 (76)
Non-compliers, 1996	43 (14)	56 (86)

5 Summary and conclusions

In this study we have attempted to use original survey data to shed light on some of the factors underlying tax compliance in local authorities in Tanzania. Acknowledging the obvious weaknesses of this essentially exploratory study, the survey data indicates that the following factors contribute to explain compliance and non-compliance behaviour:

(1) *Opportunities*: Differences in opportunities for evasion matter; employees paying their taxes through a tax withholding system have lesser opportunities to evade than the self-employed.

(2) *Ability to pay*: Respondents that are relatively better-off in terms of durable assets are more compliant due to (i) higher opportunity costs connected with evasion, and because (ii) they are easier targeted by tax collectors. The opportunity costs of hiding from tax collectors are higher for the better-off, since hiding "puts one out of business". Thus, we may expect that relatively better-off persons put less effort into hiding, and, therefore, are more accessible to tax enforcers. We find, for instance, that respondents who have migrated to the area from other regions in Tanzania are relatively more compliant than respondents who are born in the area, and that migrants, in general, seem to be wealthier than people from the area. This result further implies that development levy is a less regressive tax than what is usually claimed (see e.g., Tax Commission, 1991).

(3) *Coercion*: Migrants seem (not unexpectedly) to be less integrated and have looser relations to local authorities, including tax collectors, than people born in the area. Thus, it is easier, and probably more convenient, for the tax enforcer at the village level (i.e., the Village Executive Officer), who lives in the village and is nominated to his position by the Village Council, to target migrants rather than people from the area who might be his relatives, neighbours or who are related to local politicians and authorities. This indicates a lack of integrity in the tax enforcers' relationship with taxpayers, and implies that the probability of being prosecuted most likely is higher for migrants.

The background variables "wealth" (as an indirect indicator of income, i.e., ability to pay) and "migration" also seem to influence the probability of prosecution through their impacts on tax collectors' decisions. Given limited administrative resources, when deciding on how and whom to target, it appears rational for collectors to concentrate on the easiest accessible and better-off taxpayers. When tax enforcement priorities are made we would, therefore, expect that ability to pay and accessibility are key variables. In addition, we find that taxpayers who travel regularly to other areas are more compliant than others. For instance, traders seem to be more compliant than people in other occupations in the private sector. The higher compliance rate of migrants compared to people born in the area, may also be due to more frequent travelling. In general, we would expect that migrants maintain their relations with the family at their home-place, and, thus, travel relatively more frequently than non-migrants. Since the police regularly controls travellers at roadblocks and requires to see peoples' development levy receipts, we would expect that the probability of being controlled is higher for persons who travel repeatedly compared to people who travel less. To avoid police harassment and inconvenience "travellers" may therefore decide to pay the levy "voluntarily".

(4) *The relationship between taxation and public services (fiscal exchange)*: A critical inter-mediating factor in understanding why many people refuse to pay development levy is the perceived relationship between taxes paid and public services obtained. The name of the tax indicates that taxpayers will receive "development" in return from the tax paid. However, the levy is widely perceived as unfair. Perceptions of exploitation due to unfair terms of trade with the

government, promotes non-compliance. Peoples' tax resistance, thus, seems to be correlated to deteriorating or, in some cases, non-existent public services.

(5) *Reciprocity*: How the tax law is administered and enforced seems to influence compliance behaviour. In particular, the severity of sanctions seems to have fuelled tax resistance. This contradicts the standard theory which tells us that the more severe the sanctions perceived by taxpayers, the higher the compliance we would expect. Our survey results seem to point in the opposite direction; the more severe the sanctions observed, the more widespread the tax resistance. The reason for this "perverse" relationship is not entirely clear, however, it may be due to reciprocity considerations: Tax authorities' unresponsive, corrupt, disrespectful and unfair treatment of taxpayers foster disrespect for and resistance against tax authorities and tax laws. Accordingly, harsh enforcement and harassment by collectors may induce tax evasion. Tax evasion may, thus, to some extent be interpreted as a strategy of public resistance and opposition against the authorities.

We have not explored the relative strength of the various factors in explaining the observed patterns of tax compliance. However, the results in this paper suggest that the standard economic influences of tax size and detection probability are at work, but that other determinants cannot be ruled out when understanding taxpayers' behaviour. In particular, the relationship between taxation and service provision and how the tax law is enforced seem to be important. If our analysis of the factors determining compliance as well non-compliance behaviour is correct, this may contribute in explaining the observed differences in tax compliance between councils and between areas within individual councils (see section 1). Thus, the experience with development levy may enrich our understanding of tax compliance behaviour in Tanzania. Further, the experience with development levy also seems to have contributed to undermine tax morale and the legitimacy of the state in a way that may have long term consequences for the performance of local governments in Tanzania.

The study further provides us with some directions for future research. In improving our understanding of tax compliance behaviour in developing countries, there is a need for more thorough examination of the apparently important concept of unfairness in fiscal exchange, i.e., the contractual relationship between taxpayers and the government. Further, there is a need to examine how taxpayers' perceptions of the probability of being detected are formed, including the impacts of peer groups on the individual taxpayer's decisions. By broadening the conceptual frameworks to include these types of socio-psychological and sociological variables which are often ignored by economists, new and useful insights into economic behaviour will be gained.

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Appendix 1

The institutional setup for local government tax collection

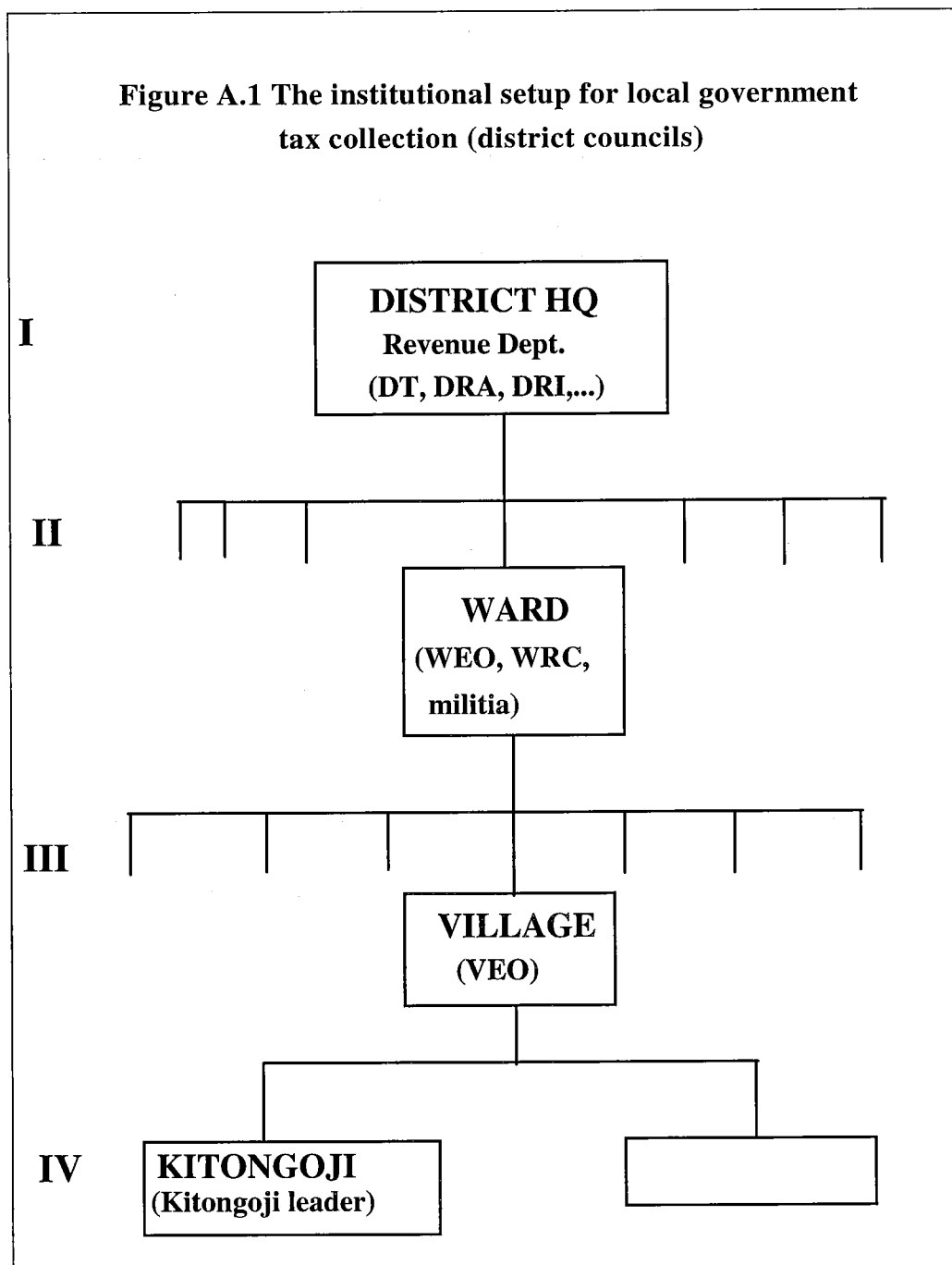
in Tanzania



Local government tax collection in Tanzania; institutional setup

In principle, the local government administrative structure in district councils is organised in a four layer hierarchy:

- I. District headquarter: The Revenue Department is responsible for tax collection.
Main staff: District Treasurer (DT), District Revenue Accountant (DRA) and District Revenue Inspector (DT).
- II. Ward:
Main staff: Ward Executive Officer (WEO), Ward Revenue Collector (WRA), militia.
- III. Village:
Staff: Village Executive officer (VEO).
- IV. Khitongoji:
Headed by a politically appointed khitongoji leader whose role is to mobilise people.





Appendix 2

Survey of taxpayers: The questionnaire



Economic Research Bureau (ERB)
and
Chr. Michelsen Institute (CMI)
Research project on local government
taxation and tax reforms

Interviewer.....
Interview no.....
Date.....

Survey of Taxpayers in Kilosa District Council

Interviewer's introduction: The objective of the project is to examine how the local government tax system functions in Tanzania. In this survey, we are particularly interested in exploring the problems facing taxpayers.

Section I: Background information

Ward..... Village..... Kitongoji/Mitaa.....

Name of Ward Executive Officer:.....

Name of Village Chairman:.....

Name of Kitongoji/Mitaa Chairman:.....

1) Age of the respondent (years):

2) Gender: 1()M 2()F

3) Marital status: 1()Married 2()Single 3()Other
[Not been married] specify.....

4) Household size (number):

5) Were you born in this Region? 1() Yes 2() No
If No, what is your Home-Region? (specify)

6) If No on question 5), when did you move to this Region?
Specify when (year).....

7) Was your spouse born in this Region? 1() Yes 2() No 3() Single

8) If No to question 7), what is your spouse's home-region?
(specify)

9) Religion: 1() Chr. Confession 2() Muslim 3() Other

Section II: Household characteristics*Interviewer's introduction:*

We will now ask you some questions on details of your household.

10) Can you read and write? 1() Yes 2() No

11) What kind of education do you have?

- 1 () Primary school
- 2 () Secondary school
- 3 () University/College
- 4 () Adult education classes
- 5 () No formal school

12) Did you complete this education? 1() Yes 2() No

13) How many members of the household are contributing to the household's income?

Write down the number:.....

14) What is the main occupation of adult members of the household?

Write the number of people belonging to each category in the brackets:

- a () Self-employed, agriculture
- b () Self-employed, trade and commerce (shops)
- c () Self-employed, other (specify).....
- d () Wage-employee, private sector
- e () Wage employee, Government and parastatal

15) What is the principal source of income in the household?

Rank in priority where 1=most important; 2=second most important

- a () Self-employed, agriculture
- b () Self-employed, trade and commerce (shops)
- c () Self-employed, other (specify).....
- d () Wage-employee, private sector
- e () Wage employee, Government and parastatal

Section III: Ownership of assets

16) What is your major means of transport to work?

1()Bicycle 2()By foot 3()Other (specify).....

17) What are the major means of transport to work for other members of your household?

1()Bicycle 2()By foot 3()Other (specify).....

18) Do you often listen to radio programmes? 1()Yes 2()No

19) If Yes on question 18), do you listen to radio programmes in your own house?

1()Yes 2()No (specify).....

20) Do you own the house you live in? 1()Yes 2()No

21a) If Yes on question 20), which type of house do you own? [*Interviewer ticks*]

1()Mud-wall 2()Bloc wall 3()Corrugated iron sheets (roof)
4()Cement floor 5()Other (specify).....

21b) If No on question 20), which type of house do you rent? [*Interviewer ticks*]

1()Mud-wall 2()Bloc wall 3()Corrugated iron sheets (roof)
4()Cement floor 5()Other (specify).....

22) Does the respondent own a wristwatch? [*Interviewer ticks*]

()Yes 2()No

Section IV: Development levy

Interviewer's introduction:

We are now through with the questions on the household and will now ask you some questions about development levy.

23) What is the current rate of the development levy?

1 () Rate (specify):.....
2 () Don't know

24) Have you paid development levy this year (1997)? 1()Yes 2()No

25) If Yes on question 24), how much did you pay (specify)?.....

26) Did you pay development levy last year (1996)? 1()Yes 2()No

27) If Yes on question 26), how much did you pay (specify)?.....

28) Did you pay development levy last year (1995)? 1()Yes 2()No

29) If Yes on question 28), how much did you pay (specify)?.....

30) What is your personal view on the level of development levy in this district?

- 1 () Too high
- 2 () Reasonable
- 3 () Too low

31) Do you think it is appropriate to exempt women from paying development levy?

- 1()Yes 2()No 3()Don't know

32) Do the villagers get any information on how much development levy is collected here?

33) If Yes on 32), from whom?

- 1 () Village chairman
- 2 () Village executive officer (VEO)
- 3 () Ward executive officer (WEO)
- 4 () The councillor
- 5 () District office
- 6 () Employer
- 7 () Other (specify).....
- 8 () Don't know

V: Procedures of collecting development levy

Interviewer's introduction:

We will now ask you a few questions on the way tax collection is carried out.

34) Who collects development levy in your village?

- 1 () The Kitongoji/Mitaa chairman
- 2 () The village chairman
- 3 () The village executive officer (VEO)
- 4 () The ward executive officer (WEO)
- 5 () The councillor
- 6 () The District office
- 7 () The employer
- 8 () Other (specify).....
- 9 () Don't know

35) What is the collection procedure when you pay development levy?

- 1 () Pay direct in cash to collector
- 2 () Tax withhold via salary
- 3 () Other (specify).....
- 4 () Don't know

36) Do you receive a receipt from the collector when you pay development levy?

- 1 () Never
- 2 () Sometimes
- 3 () Always

37) If (and when) you receive a receipt, is the receipt you receive on the same amount that you paid?

- 1 () Higher
- 2 () The same
- 3 () Lower

38) Do you know someone in the neighbourhood who don't pay development levy?

- 1 () Many persons
- 2 () One person
- 3 () A few persons
- 4 () No one at all

39) What is the reaction of the ward office to people who do not pay development levy?

- 1 () No reaction
- 2 () They have to pay tax plus penalty
- 3 () Other forms of punishment (specify).....
- 4 () Don't know

40) Within the last three years, have you or has someone you know personally been contacted by the ward authorities and required to pay tax plus penalty?

- 1 () Never
- 2 () Yes, once
- 3 () Yes, a few times
- 4 () Yes, often

41) Within the last three years, has someone you know personally been sent to Court because of not paying developing levy?

- 1 () No, nobody
- 2 () Yes, one person
- 3 () Yes, a few persons
- 4 () Yes, many persons

42) Within the last three years, has someone you know personally been convicted for not paying developing levy?

- 1 () No, nobody
- 2 () Yes, one person
- 3 () Yes, a few persons
- 4 () Yes, many persons

43) Do you think development levy with its problems is a preferred source of revenue?

- 1 () Yes
- 2 () No
- 3 () No view

44) If No on question 43), specify alternatives which could replace development levy (specify).....

VI: Perceptions of others behaviour

45) Kilosa District Council faces problems of collecting development levy. Whom do you consider is *most* to blame for the incomplete collection of development levy in this area? Rank in priority where 1=most to blame; 2=second to blame

- a () Taxpayers
- b () Tax collectors
- c () Civil servants at the ward level (specify).....
- d () Central Government politicians ((Members of Parliament)
- e () No view

46) What do you consider is the major problem in collection of development levy? Rank in priority where 1=most important problem; 2=second most important

- a () The rates are too high
- b () The taxpayers are unwilling to pay taxes
- c () There is already too many taxes
- d () The tax collectors are dishonest
- e () The tax collectors harass people
- f () Local Government politicians are dishonest
- g () Central Government politicians are dishonest
- h () The taxes are not spent on public services
- i () Other (specify).....

47) Do you agree with people who say that almost every taxpayer would cheat to some extent if he thought he could get away with it?

- 1 () Disagree
- 2 () 50 - 50
- 3 () Agree

48) Why do you think some people pay development levy?

- 1 () They have no opportunity to evade
- 2 () They anticipate public services
- 3 () They feel obligations towards the Government
- 4 () They will avoid disturbances
- 5 () Other (specify).....
- 6 () Don't know

49) What is your view of tax collectors?

- 1 () They do as best they can
- 2 () They harass people
- 3 () They are dishonest
- 4 () They do *not* do as best they can
- 5 () Don't have any view

50) Was this also your view three years ago?

- 1 () Yes
- 2 () No
- 3 () Don't know

(Specify if No).....

51) During tax campaigns, do you observe that anyone from above the village level participate?

- 1 () Yes
- 2 () No
- 3 () Don't know

52) If Yes on question 51), specify (tick more than one if necessary):

- 1 () District level
- 2 () Ward level
- 3 () Police
- 4 () Other (specify).....

53) What is your view on Local Government politicians?

- 1 () They do as best they can
- 2 () They are dishonest
- 3 () They do *not* do as best they can
- 4 () Don't have any view

54) Was this also your view three years ago?

- 1 () Yes
- 2 () No
- 3 () Don't know

(Specify if No).....

55) What is your view on Central Government politicians?

- 1 () They do as best they can
- 2 () They are dishonest
- 3 () They do *not* do as best they can
- 4 () Don't have any view

56) Was this also your view three years ago?

- 1 () Yes 2 () No 3 () Don't know
(Specify if No).....

V: Tax compliance and public services

Interviewer's introduction:

Finally, we would like to ask you some questions on taxation and local government services in Kilosa.

57) Do you consider that tax revenues collected in Kilosa are used to provide public services?

- 1 () Yes, most of it
2 () Only partly
3 () Not at all
4 () Don't know

58) How do you rate the quality of local government services (e.g., roads, education, health services, etc.) in Kilosa District?

- 1 () Good
2 () Average
3 () Bad
4 () Don't know

59) What do you think of the quality of local government services today compared to three years ago?

- 1 () Worse than before
2 () About the same as before
3 () Better than before
4 () Don't know

60) Do you think development levy should be used to pay the salaries of local government staff?

- 1 () Yes 2 () No 3 () Don't know

61) If No to question 60), who do you think should pay the salary of local government staff?

- 1 () District Council
2 () Central Government
3 () Donors
4 () Others (specify).....
5 () Don't know

62) Do you agree with people who say they will not pay taxes until they get better services from the Council in return?

- 1 () Agree
- 2 () Neither agree nor disagree (50-50)
- 3 () Disagree
- 4 () Don't know

63) Would you be willing to pay more taxes if the public services were improved?

- 1 () Yes
- 2 () No
- 3 () Don't know

Interviewer's final comments:

This was the last question. Thank you very much for your kind assistance in answering our questions.