

## **Factors Influencing Tax Revenue Collection in Urban Municipal Council Zanzibar**

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### **Abstract**

**Background:** Local governments are capable of providing public services, mobilizing community resources, stimulating private investment, expanding urban linkages, adopting national developments to local conditions and investing in local infrastructure. That's why this study examines the factors affecting tax revenue collection conducted at Urban Municipal Council in Zanzibar.

**Materials and Methods:** A quantitative research design was used with a sample of 65 respondents were chosen among workers and taxpayers. Data collected using questionnaire to get information from respondents and descriptive statistical techniques were used to analyse the collected data with the help of SPSSv23 software.

**Results:** the findings show that tax collection technology system, tax management and administration, staff knowledge and skills, tax laws and regulations, collector's attitude and market forces were factors affect tax revenue collections in Urban Municipal Council in Zanzibar.

**Conclusion:** It concludes that revenue section should be taken serious measures to mobilise tax revenue collection in urban Municipal.

**Key terms:** Tax revenue, Urban Municipal Council, Descriptive Statistics.

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### **I. Introduction**

Zanzibar Municipality is situated in Urban District of the Urban West Region. It shares boundaries with West 'A' and West 'B' Districts, each with its respective municipality. The Urban Municipality covers about 16km<sup>2</sup> with a population of 223,033; out of that 116,422 are female and 106,611 male (Population and Housing Census 2012). This corresponds to a population density of about (92) people per km<sup>2</sup>. The population growth is about (5.3%) per annum. Zanzibar Municipality lies in tropical belt and rainfall depends heavily on the season and is related to the changes of monsoon (Population and Housing Census 2012).

Zanzibar Municipal Council (ZMC) is a corporate body responsible for the management of urban space (control of streets including numbering and lighting, market management, parks and open spaces including vehicle parking thereon). ZMC has a power to enter into contracts, conduct business and ensure economic health (Moh'd2014). The economy of the Municipality depends on tourism, commercial, manufacturing, agriculture and fishing. Commercial account 65% while tourism 25% of the total Growth Domestic Product of the District. These sectors also provide employment to about 80% of the most Municipal labor forces (NLUP, 2013).

Municipality is an important agent of development in a country. It ensures that stable environment in economic development can take place by providing infrastructure such as road, water supply, waste management, and information and telecommunication facilities. Also, it promotes public health, education and environmental sustainability. Municipality is part of a Local Government that aims to promote self governance and enhance the participation of people and communities in maintaining law and order, and promote democratic, transparent and accountable local government.

Local governments are capable of providing public services, mobilizing community resources, stimulating private investment, expanding urban linkages, adopting national developments to local conditions and investing in local infrastructure. They can also be a crucial source of empowerment by offering opportunities for long neglected citizens to participate in the local decision making process. They also act as a voice for local needs at higher levels and providing adopted support for local people initiatives (Josephat, 2015). Local Government Authorities in Zanzibar could be classified into those located in rural, with predominantly agriculture as mainstay of their activities, and others in urban areas where trade is the main activity.

To attain economic growth and development in Government, Zanzibar must generate enough revenue to keep up with the challenges of expenditures in terms of provision of social facilities and the running costs of the government. Also, Government must take steps to widen tax base in order to reduce black economy and tax evasion. Moreover, citizens must be issued a universal identification number to keep track of their transactions (Khatib, 2015). Delivery of socio-economic services such as education, health, water, depends on efforts of various governments to ensure that there are reliable sources of revenue. High demand for social economic services calls for huge expenses to be financed by various sources, internal revenues inclusive.

To realize that, government has established various sources of income in municipals in order to improve municipal economy. Yet, the process of tax collection is hampered by various factors such as lack of skilled staff, outdated technology, poor office facilities, low incentives to workers and limited awareness of taxpayers. This study, therefore aims to address these factors.

## **II. Statement of the Problem**

Local Governments play an important role in effectively reaching to the needs of people at the grassroots. The Zanzibar Government has introduced several measures to ensure that local governments provide services that contribute to economic development and welfare of the people at the local level according to the resources in their surrounding environments.

The Zanzibar Local Government Authority Act of 2014 and the Regional Administration Authority Acts of 2014 were introduced in order to facilitate improvement in services, including revenue collection, to meet socio economic development needs of the people from the grassroots to the national level.

In addition, the Zanzibar Government has been implementing several local government decentralization programs such as feeder road, water supply and waste management for the purpose of improving services of the local governments to the people. Obviously, tax collections remain fundamental in funding provision of the intended services; without adequate funds and their proper utilization, service provision would remain a far-fetched dream.

Thus, examining factors affecting tax revenue collection in local government level is very crucial not only in realizing its goal of service provision to the people, but also overall economic development of the country.

## **III. Theoretical literature review**

**Economic Based Theories:** The first and well-known theory of economics suggests that “taxpayers are amoral utility maximizers- they are influenced by economic motives such as profit maximization and probability of detection”. As such they analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative that maximizes their expected after-tax returns after adjusting for risk. This process is referred to as “playing the audit lottery” by Trivedi and Shehata (2005). Therefore, according to the theory, in order to improve compliance, audits and penalties for noncompliance should be increased.

**Psychology Theories:** Psychology theories on the other hand posit that taxpayers are influenced to comply with their tax obligations by psychological factors. They focus on the taxpayers’ morals and ethics. The theories suggest that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize increased audits and penalties as solutions to compliance issues, psychology theories lay emphasis on changing individual attitudes towards tax or revenue systems (Chaudhry, 2010).

## **IV. Empirical literature review**

Several studies have been done concerning tax collection on local government authorities. The following are some of them Nuluva (2015) on factors affecting revenue collection in local government authorities: the case of four recognized local government authorities in Morogoro region. The study employ quantitative research designs the study targeted Revenue Collectors, Planning Officers, Accountants, District Treasurers and Trade Officers who totaled 160. Using simple random sampling the researcher selected 80 respondents to participate in the study. Data was collected using a structured questionnaire. Data analysis was done with the help of Statistical Package for Social Sciences (SPSS) version 20 and presentation was done in terms of frequencies and percentages in the form of figures and tables. The study found that 63.8% of the participant agreed that LGAs charges low revenue collection rates while 60% of the participant agreed that weather condition is among the factor affecting revenue collection. Also, 77.5% of the participants agreed that revenue outsourcing has an impact on revenue performance and 60% agreed that there is ineffective implementation of bylaws. The data were analysed by multiple regressions, using Independent Variable (Low revenue collection rates (sig.0.000), the effect of weather condition (sig.0.602), ineffective implementation of bylaws (sig.0.666) and Revenue outsourcing (sig.0.00) and Dependent Variable (Revenue Performance).

Richard (2018) conducted study on the factors affecting local revenue generation in local governments: a case study of Wakiso district. The study used a cross sectional study with both quantitative and qualitative approaches. Primary data was collected on 300 respondents using closed ended and open ended questionnaire and interviewed 7 respondents. Results on the major source of local revenues revealed that business licenses, market fees property tax, fish levy, business licenses, fines, penalties, revenue from agricultural and forestry products market fees, bus stand and car parking. The trend of local revenue collection kept fluctuating over the period of time with the tremendous decrease of from 2016 to date which justifies the poor performance at Wakiso district due to inadequate financing of activities.

Shemdoe (2015) examine the factors affecting collection of revenues in Muleba district council in Kagera region Tanzania: the case study of Muleba district council in Kagera region. The study used multiple methodologies including survey questionnaires, in-depth interviews, and documentation analysis so as to increase richness of the research findings. Furthermore, sampling techniques was used to enable the researcher to reduce the amount of data needed to be collected by considering groups of people rather than the whole population. It was found that, the Muleba District Council (MDC) did not plan properly before decision of assigning the revenue collection function to revenue collectors (own revenue collectors or agents) is made. Not all sources of revenues with the council were identified, documented and adequately studied to establish the potential amount to collect annually.

Lumenyela (2014) illustrates the assessment of the performance in revenue collection from fresh water fishes at Nyamagana municipal council in Mwanza. The study used both primary and secondary data. Primary data were collected using structured questionnaires with 120 randomly selected fish traders and fisheries officers. The data were analyzed using SPSS and MS-Excel. Multiple regression model was used to determine administrative (revenue payers identification, revenue payers assessment, collection procedures as well as revenue payers sensitization) factors that influence revenue collection performance. It was found that both administrative factors are significant at five percent level of significance. Adjusted  $R^2$  was 0.60 (indicating the relationship between dependent and independent variables by 60%). F-value is positive (35.10357) and significant at. All coefficients indicate positive relationship between variables (revenue payers' identification (0.20), revenue payers' assessment (0.12), revenue collection procedures (0.12) and sensitization (0.12). Identification of revenue payers' has the highest contribution ( $p=0.000$ ), followed by revenue payers' assessment ( $p=0.01$ ), sensitization of revenue payers ( $p=0.04$ ) and last revenue collection procedure ( $p=0.024$ ) both at five percent level of significance.

## V. Methodology

**Research Design:** The quantitative research design is employed in this study because it allows the researcher to explore, explain a phenomenon, and interpret data statistically in a wider and easy ways.

**Study Population:** Zanzibar Municipality had about 870 workers. The unit of analysis used in this study were households and the target population based on the business (taxes providers) who is engaged on their earning income from business sector. Also, the study involved key informants people including Municipal council staff members, Association business committee members, taxpayers and taxes collectors.

**Sample Size and Sampling Procedure:** In order to save the limited time and money, this study involved (65) respondents select from Zanzibar Municipality who provided their views through questionnaires and convenience sample techniques was used whereby the researcher visited into Municipality sites. Also, the study applied non- probability sampling techniques to select a sample of 65 households from taxes beneficiaries. The purposive sampling used to select the respondents from business related activities whereby retailer, wholesaler, food Vander, Dealers, Official Local Authority staffs and Municipal stakeholders included in the study.

**Data Collection Methods:** The self-administered questionnaire was used for this study because it enables the researcher to collect data from relatively large sample size, limited the biasness from the interviewer, and protected the privacy of respondents. The questionnaire was used closed ended questions. The close ended questions required the respondents to select an appropriate answer from the given options.

**Data Processing and Analysis:** Data obtained was entered into a Statistic Package for Social Sciences version 23.0 (SPSS<sub>23</sub>). The data was analyzed through the use of descriptive statistics including frequency distribution tables, which present simple statistical results obtained from the study.

## VI. Results and Discussion

### Demographic respondents

The following below are the characteristics of the selected respondents of this study.

**Table 1** Demographic of the respondents

Variable	Category	Percentage (%)
Gender	Male	69.0
	Female	31.0
Age	20-30	8.0
	31-40	42.0
	41-50	38.0
	51 and above	12.0
Marital Status	Married	54.0
	Single	15.0
	Widow	20.0
	Divorced	11.0
Duration of working	1-5 years	3.0
	6-10 years	12.0
	11-15 years	62.0
	16 years and above	23.0

From the table 1 above summarises the demographic information about the respondents. The number of male respondents is more than half of the number of female respondents. This is because; the population of woman in Zanzibar who working in municipal council in the department of tax revenue is also low.

An overwhelming number of the respondents (80 percent) are between the ages of 31-50, which is more than half of the total respondents. This indicates that most of the respondents are economically active labor force and they can perform their duties and responsibilities timely.

Although, from the table 1 above more than half of the respondents (54 percent) were married, 20 percent were widow, 15 percent were single and 11 percent were divorced. The average respondents were found from widow, at this level normally comprised either of persons have some who taking care or is depending him/herself. The implication of this is to increase poor performance in tax revenue collection.

Finally it can be seen in table 1 that, the 62 percent of the respondents have experience of 11 to 15 years in urban municipal council and only 3 percent of the respondents have experience of their work for 1 to 5 years. The implication of this result is that, the large of respondents are staying for long time in their work, so, they can bring their work in to productive better output.

### Factors influencing tax revenue collection in urban municipal council Zanzibar

The researchers intended to know from the respondents the administrative factors that influence tax revenue collection in Urban Municipal Council Zanzibar. The respondents were asked several factors and the analysis was done and the results were clearly summarized in the table below.

**Table 2** Factors are influencing tax revenue collection

The following factors are influencing tax revenue collection in Urban Municipal Council Zanzibar	SA	%	A	%	D	%	SD	%
Staff knowledge and skills	35	53.8	20	30.8	10	15	0	0
Collector's attitude	30	46.2	29	44.6	4	6.2	2	3.1
Tax collection technology system	23	35.4	39	60	1	1.5	2	3.1
Tax management and administration	43	66.2	22	33.8	0	0	0	0
Tax law and regulations	32	49.2	23	35.4	6	9.2	4	6.2

**Source: Researcher (2021)**

The intention of knowing these factors was to understand the ways of strengthening tax collections in the study area. The results from table 2 above showed that the majority of respondents (which represent more than 70 percent of the total respondents) revealed; staff knowledge and skills, collector's attitude, tax collection technology system, tax management and administration and tax law and regulations are the main factors affecting tax revenue collection in Urban Municipal Council Zanzibar.

Normally, to be effective in work performance the mentioned factors above such as; skills and knowledge were the factors to consider through intellectual capabilities possessed workforce which enable them to perform their duties accordingly. The organization must have a strong team of intellectuals who possess high

academic educations. Ineffective local revenue collection is to a large extent contributed by presence of outdated by-laws. Findings from the case study on revenue collection in LGAs indicated that some of the by-laws were enacted in 1988. The rates of revenue to be collected are very low and have not been revised to be consistent with the changing environments. For example, Property tax collection in Municipals is Tshs.10,000 only per annum for residential houses without regard to the value of houses. Similarly the rates of fees and fines for noncompliance to payment of taxes have been low due to lack of frequent revisions Dietrich (2015)

Also, researcher was interested to know from the respondents if the laws on taxation make administration of the organization easier. From the findings the respondents felt that because the taxation laws are not ambiguous, and they do not change frequently, they enhance better planning for the organization and thus make administration of the organization easier. Also the findings reveal that imposition of tax laws enhanced protection of the environment.

These findings are in consistent with Moh'd (2014) on his findings revealed supporting factors which provide the capability for the revenue management to operate and critical to its performance and effectiveness are: Information Technology as solutions effectively process large amounts of data for the systems and processes of each core function. Staff capabilities (human resources) are maintenance and building of a diverse range of human skills and knowledge necessary to operate the revenue systems.

Effective communications to stakeholders and the broader Community encourages community confidence in the revenue office. Whereby, internal Audit is to protect the integrity of the organization. Revenue Administrations needs to be accountable through having measures and reporting mechanisms in place for Government to ensure that revenue administration, resources are used effectively and noncompliance is effectively managed.

## VII. Conclusion

The researcher was aim to examines the factors influencing tax revenue collection in Urban municipal council in Zanzibar. Several factors were tested so as to measure this objective. Based on the results, five factors (staff knowledge and skills, collector's attitude, tax collection technology system, tax management and administration and tax law and regulations) have direct relationship with revenue collections. This means that, these factors have impact to revenue collection in urban municipal council Zanzibar.

## VIII. Recommendations

In relation to the factors, affecting tax revenue collection in Urban Municipal, The researcher recommends that Municipality should put more emphasis in training their staff to manage the operations in professional way. Only qualify and competent employees need to be recruited and the recruitment policy be followed. Amendments of law, policy and regulation also must be considered in order to improve collections as well as service provided. Municipality need to motivate their employees through participation in decision making, innovation and empowerment. Working environment need to be improved as a way of getting employees motivated. Effective communication needs to be in place as a way of management.

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