



Minimising unintended tax non-compliance

Tax compliance is primarily a balancing act between taxpayers and the government. Different schools of thoughts suggest that compliance is as problematic as non-compliance; that taxpayers have different opportunities for both compliance and non-compliance, and that tax non-compliance does not always involve deliberate decisions.

A taxpayer considering wilful non-compliance must assess the revenue authority's ability to detect and assert criminal liability, impose tax statutory penalties, and forcibly collect unpaid tax. In other words, a deliberately non-compliant taxpayer must assume that the risk and likelihood of being 'caught' and penalised is worth taking. Consequently, tax non-compliance is assumed to be deliberate and premeditated

There are numerous tax offenses, they include failure to file and pay tax, tax falsification offences, and outright tax evasion. The tax penalties and interest for failing to comply are intended to deter such deliberate non-compliance.

But does all non-compliance involve deliberate decisions?

Many factors can lead to tax non-compliance. They include multiplicity of compliance requirements, limited knowledge, or an inability to use tax experts. Some taxpayers simply do not have, or are unable to adequately use technology to simplify tax payment and filing.

For example, there was a taxpayer who was audited by the TRA. To his surprise, he was slapped with over TZS100m worth of penalties for failure to file only one return – the monthly Skills and Development Levy (SDL) returns. *“But, I paid all the taxes on time and accurately, where is all this coming from?”* the taxpayer asked. The taxpayer had filed the half-year SDL returns but did not comply with the monthly filing requirement introduced by the Tax Administration Act in 2015. In tax, a small matter can be serious and damaging!

In Tanzania, there are multiple filing requirements. These requirements contribute greatly to non-compliance. In the case of employment taxes, an employer is required to file three different employment tax related returns i.e., half-year PAYE returns, half-year SDL returns and monthly SDL returns. This requirement can easily be summarized into a single return without causing any losses of revenues.

Besides non-compliance penalties, taxpayers suffer compliance costs (monetary and time) associated with multiple filings. It is therefore important for the government to consider consolidating some of the tax returns to enhance compliance and reduce compliance costs. Limited tax knowledge among taxpayers and tax administration practices affects compliance. The majority of taxpayers make deliberate efforts to comply, but taxes are numerous and fairly complex. Consequently, taxpayers who can afford to engage the services of tax experts stand a better chance to comply, as opposed to those who cannot.

We can close this gap by simplifying tax payment and filing procedures. We still have too many manual filings, which increase non-compliance incidences. While there are deliberate efforts to simplify tax payments and filing by the government, more efforts are required to expand online tax filing and payment platforms. Technology-enabled solutions can greatly improve compliance.



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The role of tax authorities

Ensuring high tax compliance among citizens, required tax authorities to rely on two measures. The first is coercive powers around audits, fines and penalties. One only hope that this power is used in a way that fosters fair, transparent and simplified procedures which helps to improve trust. The other measure is requiring the revenue authority to go out of their way to facilitate compliance by informing, sensitising and using technology to help as many taxpayers as possible to comply.

Coercive compliance results from the power of tax authorities, whereas voluntary cooperation is driven by the taxpayers' trust in tax authorities. These two must be balanced to create a conducive taxation climate. Too much power is as dangerous as blind trust. It is therefore encouraging to see both the minister and senior tax administrators coming out and declaring that they will not shut down businesses due to tax arrears. This is the kind of engagement we would like to see more of.

While there are instances where non-compliance arise from deliberate decisions, the majority of non-compliance instances are also unintended, and taxpayers and tax authorities need to keep working together to better the situation.

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