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Do Tax Practitioners Foster Taxpayer Compliance? Empirical Evidence from Tanzania

by

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ABSTRACT

This paper uses micro-level tax audit data from the Tanzania Revenue Authority to test empirically the presumption that, by helping taxpayers to interpret complex tax provisions, tax practitioners foster taxpayer compliance. Using a multivariate econometric model that borrows from Erard (1993), the paper finds no evidence in support of this widely-held presumption. These startling findings could call into question either the proficiency standing of tax practitioners or the integrity of both tax practitioners and tax officials. A feasible option out of this undesirable condition is enhancement of the existing oversight framework for tax practitioners that includes an element of self-regulation. For this to happen in Tanzania, the tax authority may be called upon to champion establishment of a professional tax body.

¹ This paper is based on a larger ongoing REPOA-funded study expected to result in a PhD thesis and is currently under consideration for publication in one referred journal.

TABLE OF CONTENTS

ABSTRACT	I
1.0 INTRODUCTION	1
1.1 BACKGROUND	1
1.2 OVERSIGHT FRAMEWORK FOR TAX PRACTITIONERS	1
1.3 PURPOSE OF THIS STUDY	3
2.0 REVIEW OF THE TAX PRACTITIONER LITERATURE.....	4
2.1 VARIATION IN THE FOCUS OF TAX PRACTITIONER STUDIES.....	4
2.2 TAX PRACTITIONER INFLUENCE ON TAXPAYER COMPLIANCE	4
2.3 CONFLICTING EMPIRICAL FINDINGS: AN EXPLANATION.....	5
3.0 METHODOLOGY	7
3.1 VARIABLES OF THE MODEL	7
3.2 MATHEMATICAL FORM OF THE MODEL	8
4.0 DESCRIPTION OF THE DATA SET	9
5.0 ESTIMATION RESULTS.....	12
6.0 CONCLUSION	15
REFERENCES.....	17

1.0 INTRODUCTION

1.1 Background

In most countries, taxpayers are obliged to self-declare their taxable activities and pay tax accordingly. This phenomenon is what is commonly referred to as a self-assessment tax system. Fulfilment of this obligation without the intervention of the tax authority is termed taxpayer compliance. Failure by a taxpayer to declare his/her taxable activities is known as non-compliance (Myles 1995). Taxpayer compliance is therefore achieved when the taxpayer files all the required tax information at the required time and when the information filed accurately reports tax liability in accordance with the law applicable at the time the information is filed (Richardson and Sawyer 2001). In case the taxpayer intentionally fails to do the foregoing, such taxpayer is said to have engaged himself/herself in tax evasion.

Filing one's tax return is far from a simple and straightforward affair. Even where the taxpayer is sufficiently knowledgeable about the tax requirements, filing a tax return is a time consuming exercise. For example in 2011, the US Internal Revenue Service (IRS) estimated that the average American income taxpayer needed a minimum of 23 hours to file his/her return (Schnepper 2012). Given this typical complexity of tax legislation, taxpayers are normally provided with the option of filing a tax return with the assistance of a tax professional. A tax professional, also known as a tax consultant, tax practitioner or tax advisor, tax accountant or simply accountant/auditor, is a person recognised by a tax authority as sufficiently qualified to provide professional services consistent with tax legislation. Such professional services could be in relation to return preparation, tax advice and/or risk advice (Hite et al. 2003). For the purpose of this discussion, we will consistently refer to any person, whether natural or otherwise, who is legally allowed to provide any or all of the three types of services to a taxpayer as a tax practitioner. It can thus be argued that the use of a tax practitioner is intended to do away with the non-intentional failure to correctly declare taxable activities i.e. to foster taxpayer compliance.

1.2 Oversight Framework for Tax Practitioners

In their service delivery, tax practitioners invariably perform certain types of duties which include representing taxpayers before a tax administration concerning taxpayers' rights, privileges or liabilities and preparing documents to be filed before the tax authority. In order to ensure that tax practitioners are capable of playing the role expected of them, their conduct is typically regulated under the law in different countries. In South Africa for example, registration with the South Africa Revenue

Service² is required before any person can provide tax advice, complete tax forms or assist therewith. In the United States, tax practitioners have to be authorised under federal law to practice before the IRS and are subject to specified standards of practice and ethical requirements. In this regard, IRS exercises elaborate oversight functions on tax practitioners. For example in September 2011, IRS unveiled yet another measure to enhance this oversight role on tax practitioners. The measure introduced a new designation for tax practitioners known as Registered Tax Return Preparer. Under the measure, a competency test has been introduced as an additional requirement. Already existing requirements for tax practitioners in the United States include a background check, a tax compliance check and continuing professional education³ (IRS 2011).

In many other countries including the United Kingdom, Australia, New Zealand, Kenya and Uganda there exists some form of oversight on tax practitioners' professional conduct similar to what is practised in South Africa and the United States.

In Tanzania, tax legislation provides for approval of tax practitioners on such terms and conditions as prescribed under the relevant regulations. In the case of income taxation, section 134 (1) of the Income Tax Act, Cap. 322 provides that:

A person shall not (other than as an employee) in return for a payment, practice or hold out to be an income tax consultant unless the person is an approved tax consultant.

According to section 134 (2) of the same legislation, an approved tax consultant is:

a person approved by the Commissioner on such terms and conditions as may be prescribed.

In the case of value added taxation, section 17 (5) of the Value Added Tax Act, Cap. 148 provides for Mainland Tanzania as follows:

No refund in respect of any claim shall be approved unless it is supported by a certificate of genuineness issued by an auditor who has been registered by the National Board of Accountants and Auditors but who is also a tax consultant registered with the Tanzania Revenue Authority.

² There are exceptions to this registration requirement. Examples of the exceptions include attorneys and advocates when providing advice in anticipation of any litigation or in the course of any litigation to which SARS is a party and any full-time employee providing tax advice to his/her employer.

³ Tax practitioners who are members of professional bodies that subject them to more stringent testing and educational requirements such as CPAs and Attorneys have however, been exempted from this additional measure.

Similarly for Zanzibar, section 26A (1) of the Value Added Tax Act, 1998 provides as follows:

Notwithstanding the provisions of this Act, a tax credit return of more than one million shillings or its equivalent shall not be lodged with the Commissioner unless it is certified by a Tax Consultant approved by the Commissioner.

The provisions of Tanzanian tax law cited above testify to the fact that, like in many other countries, in Tanzania tax practitioners are also regulated by the tax authority. In fact, there are instances where engagement of the services of a tax practitioner is a prerequisite before the tax authority can process certain kinds of tax returns lodged by taxpayers.

1.3 Purpose of this Study

Practice shows that tax authorities invariably recognise the complexity of tax requirements and the need for specialised expertise in order to eradicate the non-intentional failure to correctly declare taxable activities. It has therefore been argued that, by helping taxpayers to interpret tax requirements, tax practitioners do indeed play an important role in tax compliance (for example, Hite et al 2003). The presumption underlying the use of tax practitioners is that, by helping taxpayers to interpret the complex tax requirements, tax practitioners will promote voluntary taxpayer compliance. This study is motivated by, on the one hand, the conflicting empirical findings on the direction of the causal relationship between taxpayer compliance and utilisation of tax practitioners, and on the other, lack of empirical analysis in a developing country context. The key question that this work addresses is therefore whether or not tax practitioner utilisation in Tanzania has a positive relationship with taxpayer compliance.

Contextualisation of the study in the Tanzanian environment is intended to address the fact that, virtually all the studies carried out so far on this question have originated in developed economies, with the overwhelming majority having been carried out in North America. The likelihood of tax practitioner cultural differences across countries, let alone between developed and developing countries, provides ample justification for a similar study in the context of a developing economy such as Tanzania.

2.0 REVIEW OF THE TAX PRACTITIONER LITERATURE

2.1 Variation in the Focus of Tax Practitioner Studies

Considerable empirical work has been done on the phenomenon of tax practitioner utilisation by taxpayers. Not all have looked into how tax practitioners influence taxpayer compliance. Some have examined the role of tax practitioners in reducing compliance costs such as taxpayer uncertainty (Scotchmer 1989a, 1989b and Beck et al 1989) whereas others have focussed on time costs associated with return preparation (Reinganum and Wilde 1991). Other aspects of the tax practitioner utilisation phenomenon that have been studied are listed in Erard (1993) and they include: usefulness of tax practitioners in uncovering legal ways to reduce tax liabilities; exploitation, by tax practitioners, of ambiguous provisions in the tax regime to reduce taxpayer penalties for non-compliance; factors that influence the decision to engage a tax practitioner; and the influence of tax preparation mode on tax liabilities.

2.2 Tax Practitioner Influence on Taxpayer Compliance

Taxpayers need a minimum level of tax knowledge in order to comply with their statutory obligations under the tax system. Moreover, fulfilling one's tax obligations is a time-consuming exercise. Therefore, either as a result of inadequate knowledge of the tax regime or in the quest for efficiency, taxpayers invariably engage the services of tax practitioners. It could therefore be argued that tax practitioners reduce compliance costs by minimising legal uncertainties, time and anxiety costs. However, research to date is inconsistent or at least unclear in helping us understand the role that practitioners play in tax compliance (for example Murphy 2004). In providing the above services, tax practitioners might be:

guardians against unequivocal breaches of the legal code and, on the other hand, exploiters of legally ambiguous features of the tax code to the advantage of the taxpayers (Torgler 2003).

As noted by Murphy (2004), existing empirical findings do indeed support both conflicting roles. On the positive side, some studies have shown that tax practitioners foster compliance by giving 'conservative' advice to their clients thereby acting as tax law enforcers (for example Duncan et al, 1989, Pei et al 1992 and Erard 1993). On the negative side though, there are several empirical studies that have suggested exactly the opposite i.e. tax practitioners are 'aggressive' in exploiting loopholes or ambiguities in the tax regime thereby encouraging non-compliance. In this regard, a good number of such studies have found evidence to the effect that the average level of non-compliance is higher for returns prepared with the assistance of tax

practitioners than for self-prepared tax returns (for example Kaplan et al 1988, Scotchmer 1989a, Ayres et al 1989, Erard 1990 and Hite and Hasseldine 2003).

2.3 Conflicting Empirical Findings: An Explanation

In an attempt to explain the existing empirical findings on the relationship between the use of tax practitioners and taxpayer compliance, Klepper, et al (1991) suggest that tax practitioners behave aggressively or conservatively depending on the ambiguity of the tax regime or lack of it. Using an econometric model, they demonstrate that tax practitioners foster taxpayer compliance by providing conservative advice where tax requirements are 'clear and unequivocal'. Alternatively, tax practitioners hamper taxpayer compliance by providing aggressive advice where the tax law is ambiguous. This same position is supported in earlier work that used data from the IRS Taxpayer Compliance Measurement Programme and an index of legal ambiguity based on Revenue Rulings (Klepper and Nagin 1989).

On their part, Milliron and Toy (1988) argue that the decision by a tax practitioner to offer aggressive or conservative advice rests on such practitioner's assessment of his/her own vulnerability - probability of sanction by the tax authority and/or his/her profession, and potential loss of customers. To Erard (1993), the inconsistency in empirical findings arises from the particular type of tax practitioner utilised. The work by Erard (ibid) builds on previous works by allowing for three different types of tax practitioners on the assumption that both tax preparation mode and tax compliance decisions are influenced by tax practitioner characteristics. Therefore Erard (ibid) examined three tax preparation modes for the US federal income tax returns, namely - returns prepared by Certified Public Accountants (CPAs) or lawyers, returns prepared by non-CPAs or non-lawyers and self-prepared tax returns. On the basis of this argument, Erard (ibid) undertakes an analysis of tax practitioner influence on taxpayer compliance jointly with other independent variables such as audit rate, marginal tax rate, prior audit experience and type of income. Other independent variables included in Erard's model are marital status and age. Erard (ibid) concludes that the use of tax practitioners, especially those who are Certified Public Accountants or lawyers, is associated with a higher level of taxpayer non-compliance.

In his analysis of the reporting of sole proprietor income and the proper claiming of the Earned Income Tax Credit (EITC) in the United States, Book (2008) renders support to the view that tax practitioners do, in fact, promote non-compliance. The analysis notes that despite sole proprietor income and EITC being governed by '*fairly straight forward rules*', as high as 61 per cent of sole proprietor returns filed in 2003 had understated taxable income. Disturbingly, 73 per cent of the returns in question

had been prepared with the assistance of tax practitioners. Similarly, 57 per cent of erroneous EITC claims in 1999 were found to be attributable to returns that had been prepared with the assistance of tax practitioners.

In this work, we borrow from the approach by Erard (1993) to undertake an econometric modelling of the role of tax practitioners in taxpayer compliance taking explicitly into account two other independent variables, namely level of income and level of tax morale. Although the choice of these two additional independent variables is motivated by the existence of data that was collected together with those on tax practitioner utilisation, the two additional variables have been argued in the literature to be important in explaining taxpayer compliance behaviour (Mushi 2003, Torgler 2003, Semboja and Fjeldstad 1998).

3.0 METHODOLOGY

3.1 Variables of the Model

In this paper, we postulate the existence of a causal relationship between the level of taxpayer non-compliance as the dependent variable, and tax practitioner utilisation, as the independent variable. In addition to tax practitioner utilisation as an independent variable, the model used in the ensuing analysis includes two other specific independent variables - income level and the level of tax morale. In Tanzania, studies have associated income level as being a major determinant of compliance with local government taxes. For example, in his study about compliance with tax at the local government level in Tanzania, Mushi (2003) was able to establish a strong positive relationship between household income and compliance with the development levy⁴. Similar conclusions had earlier been reached by Semboja and Fjeldstad (1998).

The level of tax morale, here defined as the intrinsic motivation to pay taxes, can help to explain taxpayer compliance where enforcement cannot explain it all (Torgler 2003). Empirical studies have indeed shown that taxpayer compliance cannot be adequately explained by the level of enforcement alone (see for example Alm and Torgler, 2005). Other factors such as the general attitude of taxpayers in relation to paying tax have been found to influence taxpayer compliance behaviour. Much as the tax practitioner could influence behaviour of his/her client by clarifying the requirements of the tax regime, compliance could also be dependent on the extent to which the client is willing to comply with those requirements. This would be motivated by the two-sided information asymmetry that exists between the taxpayer and the tax practitioner. For example, whereas taxpayers typically have less information about the tax regime they are supposed to comply with, tax practitioners cannot fully verify the financial information they are given by the taxpayers. A moral hazard problem therefore arises since if the tax practitioner insures the taxpayer against losses due to sanctions by the tax authority, the taxpayer would be better off under-reporting his/her taxable activities (Scotchmer 1989a). In our analysis of the role of tax practitioners in taxpayer compliance, we thus attempt to explicitly segregate this potential intrinsic motivation of taxpayers to under-report by introducing an additional independent variable (i.e. level of tax morale) in the relationship between non-compliance and tax practitioner utilisation. For practical purposes, we use the previous non-compliance status of a given taxpayer as a proxy for such taxpayer's level of tax morale.

⁴ Development levy was a kind of poll tax that was a major source of revenue for local government authorities until it was abolished together with other so-called nuisance taxes in 2003.

3.2 Mathematical Form of the Model

The model with which taxpayer non-compliance is explored empirically in this paper can be expressed thus:

$$Y_i = f(X_1, X_2, X_3)$$

Where:

Y_i = non-compliance level of taxpayer^{*i*}, (represented by the proportion of the difference between the tax authority - adjusted and the self-reported taxable income to the tax authority -adjusted taxable income expressed as a percentage).

X_1 = utilisation of a tax practitioner by taxpayer^{*i*} (approximated by a dummy which takes the value of zero if the tax return is self-prepared)

X_2 = level of tax morale for taxpayer^{*i*}, approximated by the previous level of non-compliance (i.e. Y_{t-1}), and

X_3 = income level of taxpayer^{*i*}, represented by the self-reported gross business turnover.

The mathematical stochastic form of the model specified above is as follows:

$$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where:

α , β_1 , β_2 and β_3 are the parameter estimates, and μ is the disturbance term with $\mu \sim N(0, \delta^2)$

Since it is hypothesised that taxpayer non-compliance and tax practitioner utilisation are inversely related, the *a priori* theoretical criteria on the basis of which the results of the estimation of the above model will be evaluated suggest that parameter β_1 will be negative and significant if, in the real world, tax practitioner utilisation reduces non-compliance (i.e. when the dummy variable X_1 is unity). The formal statistical expression of the study null and alternative hypotheses thus becomes respectively:

$$H_0: \beta_1 < 0 \text{ and } H_1: \beta_1 \geq 0$$

Similarly, the other two parameters of β_1 and β_2 are expected to be negative since tax morale and level of income are both expected to be inversely related to taxpayer non-compliance. The constant α is expected to be positive since in real life the level of taxpayer non-compliance will always be greater than zero.

4.0 DESCRIPTION OF THE DATA SET

The data set used for this study consists of information related to a cross section of 879 taxpayers who were subjected to tax audits by the Tanzania Revenue Authority in the fiscal year 2009/2010. This data set comprises the results of tax audits for 879 taxpayers who make up a stratified random sample of the population of all 5,417 taxpayers audited across Tanzania in the fiscal year 2009/2010.

Out of the total 879 taxpayers in the study sample, 99 per cent are privately-owned businesses. The data set includes 30.3 per cent sole proprietorships, 65.4 per cent corporations and the remaining 4.3 per cent partnerships.

The tax audit results are presented based on the tax return preparation mode categorised as either self-prepared, tax practitioner-prepared category I or tax practitioner-prepared category II. The latter consists of audited taxpayers who, in the preparations of the audited tax returns, engaged the services of the four biggest tax consulting firms in Tanzania namely, PWC, KPMG, Deloitte and Ernst & Young, i.e. the Big Four. The tax practitioner-prepared category I includes taxpayers who engaged the services of any other tax consulting firm.

Table 1 presents the frequency of type of organisation by tax return preparation mode. In all, 10 per cent of the returns were prepared without the assistance of a tax practitioner, 87 per cent were prepared with assistance of category I tax practitioners and the remaining 3 per cent were prepared with assistance of category II tax practitioners.

As is expected, the majority of those who did not engage the services of tax practitioners are sole proprietorships. It is important to note that neither sole proprietorships nor partnerships engaged the services of tax practitioner category II. As pointed out earlier, the measure of taxpayer non-compliance used in this paper is the proportion of the difference between the tax authority-determined taxable income and the self-reported taxable income to the tax authority-determined taxable income expressed as a percentage.

Table 1: Frequency of type of organisation by preparation mode

TYPE OF ORGANISATION	TAX RETURN PREPARATION MODE			TOTAL
	Self	Practitioner I	Practitioner II	
Sole proprietorship	19%	81%	0%	100%
Partnership	8%	92%	0%	100%
Corporation	5.7%	89.6%	4.7%	100%
Total	10%	87%	3%	100%

Table 2 presents the frequency and compliance status by tax return preparation mode. Summarised evidence on variations in compliance characteristics among the three categories of tax return preparation mode is also provided in the same table. The self-preparation mode represents cases whereby taxpayers did not engage the services of a tax practitioner in the preparation and filing of the returns.

Table 2: Frequency and compliance status by preparation mode

ATTRIBUTE	TAX RETURN PREPARATION MODE			AVERAGE
	Self	Practitioner I	Practitioner II	
% of taxpayers with over-declared income	4.9	3.1	0	3.2
Average over-declared income in shillings ⁵	2,202,817	141,988,549	0	114,765,648
% of compliant taxpayers	38.3	4.2	30.8	8.3
% of taxpayers with under-declared income	56.8	92.7	69.2	88.4
Average under-declared income in shillings	29,076,000	49,975,488	228,044,66	51,145,566
Mean level of non-compliance ⁶	40.2%	88.7%	92.1%	83.9%
Standard Deviation	57.8	162.2	165.2	155.7

As pointed out above, only 10 per cent of all returns fall into this category. Compared with the two other preparation modes, the frequency of over-declaration of taxable income is highest at 4.9 per cent of all self-prepared returns. It is interesting to note that for practitioner category II, not even a single tax return existed where there was an over-declared taxable income. These raw data show that the average over-declared taxable income was lower for self-preparation mode at shillings 2.2 million compared to shillings 141.9 million for tax practitioner mode I category.

The percentage of compliant tax returns turned to be highest in the self-preparation mode at 38.3 per cent, followed by tax practitioner mode category II at 30.8 per cent. The percentage of compliant returns was lowest at a mere 4.3 per cent for the tax

⁵ Note that in calculating mean value of over-declared and under-declared taxable income values greater than two billion were removed as outliers. These were few observations but due to their disproportionate size, their inclusion would have inflated the results.

⁶ Note that in calculating mean level of non-compliance, percentages greater than 1,500 were removed as outliers.

practitioner mode category I. As for under-declaration of taxable income, it is again interesting to note that the self-preparation mode has the lowest frequency at 56.8 per cent of all tax returns that were self-prepared, followed by 69.2 per cent of all tax returns prepared with the assistance of category II tax practitioners. The frequency of under-declared taxable income for tax returns prepared with the help of category I tax practitioners was highest at 92.7 per cent. The average under-declared income was highest in category II tax practitioner-prepared returns, followed by category I tax practitioner-prepared returns and self-prepared practitioner returns, in that order. It is important also to note that the mean level of non-compliance was highest in category II tax practitioner-prepared returns, followed by category I tax practitioner-prepared returns and self-prepared returns. In general, it can be concluded that self-prepared tax returns have a lower than average non-compliance level in terms of percentage of taxpayers with under-declared taxable income, amount of under-declared income per taxpayer and mean level of non-compliance. Comparing the two categories of tax practitioners, category II tax practitioner group out-shines category I in the percentage of taxpayers with under-declared income by having a smaller number of under-declarations. Category I tax practitioner group was less non-compliant both in terms of the average amount of under-declared taxable income and the mean level of non-compliance.

5.0 ESTIMATION RESULTS

Regression analysis was used to estimate the model for non-compliance. The model was initially estimated using the OLS technique. The test of multicollineality among independent variables was performed to check if there is strong linear association between the three independent variables. The lower values of the Variance Inflation Factor (VIF) for all variables suggest that the model does not suffer multicollineality. According to Gujarati and Porter (2009), VIF values of 10 or higher indicate the presence of strong multicollineality.

The Durbin-Watson (DW) *d* statistic was used to test autocorrelation, and with DW = 1.93, the model can be said not to suffer serious autocorrelation problems. Using Glejser test, the initial model was found to suffer heteroscedasticity which was corrected by using Weighted Least Squares (WLS) method.

The results of the re-estimated model are presented in Table 3 below. The overall test of model significance indicates that the model is significant as indicated by the size of R^2 with significant F-test and large Log-likelihood ratio.

As summarised in Table 3, the results of the regression analysis indicate that there is general non-compliance of taxpayers of about 32.7% as indicated by the constant value (α). The effect of the level of tax morale, as measured by the previous compliance level (X_2), is found to have an insignificant positive influence on taxpayer non-compliance level, implying that it fosters, in an insignificant way, taxpayer non-compliance. It would appear from these results that the previous level of taxpayer compliance does not necessarily reflect the level of tax morale. It would seem necessary first to segregate the previous level of compliance into a component attributable to tax morale and one attributable to other factors if one were to use the previous level of compliance as a proxy for tax morale.

Table 3: Results of the regression analysis

Parameter estimate	Beta	Std. Error	t-value	Prob.	VIF
Constant	32.730	0.189	172.857	0.000	
Tax practitioner use	39.811	0.145	274.662	0.000	1.004
Tax morale	0.002	0.002	1.154	0.249	1.011
Income level	-2.7×10^{-5}	0.000	3.584	0.000	1.015
Adj. $R^2 = 0.99$	Log-likelihood = -2486.6		F = 188484.17**		DW = 1.93

The level of income of a taxpayer (X_3), measured by business turnover, is found to have a negative influence on non-compliance, rendering support to previous studies in Tanzania. This implies that large enterprises comply more, on average, than small and/or medium enterprises.

Tax practitioners' utilisation (X_7) is found to positively and significantly influence taxpayer non-compliance; its parameter (β_7) is not less than zero. The null hypothesis of this study is therefore rejected, suggesting that tax practitioners in Tanzania do not foster taxpayer compliance. It is therefore not surprising that, compared with self-prepared tax returns, returns prepared by either category I or category II tax practitioners had a lower frequency of compliant returns and a higher frequency of returns with under-declared taxable income. Nor is it surprising that for self-prepared tax returns, both the average under-declared taxable income per non-compliant return and the mean level of non-compliance was lower than for returns prepared with the assistance of either category I or category II tax practitioners (see Table 2).

The explanation for such a distinctly higher level of non-compliance for returns prepared with the assistance of tax practitioners remains largely a matter of speculation. If indeed, only an insignificant proportion of taxpayers objected to the tax authority-determined taxable income as the information collected by the authors suggest⁷, it can be concluded that the tax practitioners who had in the first place assisted in the preparation of the returns in question had no legal basis for their 'aggressive' positions. This would, indeed be quite puzzling as it would imply that the respective tax practitioners were not sufficiently knowledgeable about the requirements of the tax regime. However astonishing this might sound, this reasoning seems quite appealing. Going back to Table 2, it can be seen that out of all the 896 returns analysed, compliant returns, returns with over-declared taxable income and returns with under-declared taxable income were respectively 3.2, 8.3 and 88.4 per cent. The fact that in all three categories, returns prepared with the assistance of tax practitioners took a disproportionately larger share seems to render some support to the ignorance assumption.

Alternatively, one may be tempted to question the integrity of individual tax auditors. The fact that as many as 91.7 per cent of the returns audited were found to be non-compliant, resulting in taxable income adjustment in more than half of the cases by at least 50 per cent, and yet only an insignificant number of taxpayers were

⁷ According to the data obtained from the audited tax returns, less than one per cent of the non-compliant taxpayers objected to or appealed against the additional assessments issued by the tax authority.

sanctioned is also quite baffling⁸. Could this be a result of collusion in some cases between individual tax auditors and tax practitioners, in which case the extent of the adjustments officially introduced by the tax authority were a result of 'unofficial negotiations' between unscrupulous tax auditors and crooked tax practitioners? An objective response to this pertinent question, unfortunately, requires comprehensive data on both disputes resulting from adjustments introduced by the tax authority and sanctions imposed for noncompliance.

⁸ Data obtained from the audited tax returns show that less than 10 per cent of the 787 non-compliant taxpayers were sanctioned in 2009/2010.

6.0 CONCLUSION

It has been established in this paper that the previous level of taxpayer compliance is negatively related with the current level of taxpayer compliance. This result supports previous findings that knowledge of the enforcement strategy of the tax authority tends to make taxpayers take more aggressive positions in future. Since the previous level of compliance could only be determined for taxpayers who had previously been audited, it implies that each of them had better knowledge of the enforcement strategy of the tax authority and could be expected to behave more aggressively. Similarly, the study corroborates previous findings that the level of income is positively related to taxpayer compliance. The implication of these findings for compliance management in Tanzania is that taxpayer compliance risk decreases as income increases. Furthermore, these results imply that a previous higher taxpayer compliance level is not associated with a lower taxpayer compliance risk.

It has also been unequivocally shown that the level of taxpayer non-compliance is higher for tax returns prepared with the assistance of tax practitioners than for self-prepared tax returns. Moreover, through the results of regression analysis, the hypothesis that tax practitioners reduce taxpayer non-compliance has been indisputably rejected. However, for anyone to practise as a tax practitioner in Tanzania, he or she must be approved by the tax authority. It is reasonable therefore to assume that, in the approval process for any such applicant, the tax authority ensures at the very minimum that the applicant has the necessary technical proficiency to assist taxpayers to comply with the requirements of the tax regime. It is also reasonable to postulate that the tax authority also seeks to satisfy itself of the professional integrity of any one applying to be a tax practitioner. The findings of this study call into question the validity of these assumptions.

As a matter of fact, the results of our analysis suggest calling into question the professional competence or integrity of tax practitioners or tax officers or both. The fact that the frequency of non-compliance in tax returns prepared with the assistance of tax practitioners was found to be higher and that objections to additional assessments were negligible, calls into question the proficiency standing of tax practitioners. Alternatively, the integrity of individual tax practitioners and individual tax officials would have to be open to question, in case the non-compliance detected by the tax authority was not a result of ignorance on the part of the respective tax practitioners and yet only an insignificant number of non-compliant taxpayers suffered any sanction.

Whether the explanation for the negative role of tax practitioners in taxpayer compliance lies in inadequate proficiency or poor integrity, the need to incorporate tax practitioners in the on-going efforts to enhance taxpayer compliance cannot be

overstated. It would appear that a more effective tax practitioner oversight framework in Tanzania is called for. This would prevent unqualified tax practitioners from practising while at the same time subjecting tax practitioners to ethical standards that promote a tax compliance culture.

It would appear that such an oversight framework needs to have an element of self-regulation in addition to a more elaborate regulatory mechanism by the tax authority. In concrete terms, the former would entail the establishment of a tax professional body. It is certainly in the best interest of the tax authority to do both i.e. put in place a more elaborate regulatory framework for tax practitioners and sponsor the establishment of a national tax professional body.

Clearly, this paper points to specific areas on the role of tax practitioners in Tanzania that require further research. Now that we know for sure that utilisation of tax practitioners in Tanzania does not generally result in a higher level of taxpayer compliance, a pertinent follow up research issue would be whether the explanation for this astonishing finding is lack of proficiency on the part of the practitioners or poor integrity among either tax practitioners and/or tax officers or both. As noted earlier, this issue would require a thorough analysis of the post-audit disputes that followed the adjustments made by the tax authority. It would also entail further analysis of post-audit sanctions to taxpayers found to be non-compliant.

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