

Income tax law simplification and tax compliance: a case of medium taxpayers in Zanzibar

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ABSTRACT

Tax law simplification was among tax reform strategies formulated to address tax law complexity and improve tax compliance. Although it is about two decades of implementation of the new tax laws, little is known on the effect of such simplification on tax compliance. This paper examined the influence of the Income Tax Law (ITL) simplification on tax compliance in Zanzibar. A survey was conducted among 367 medium taxpayers registered with TRA– Zanzibar. Descriptive and Structural Equation Model were used for data analysis. The findings reveal that tax compliance level of medium taxpayers is high and the ITL simplification positively and significantly influenced tax compliance among medium taxpayers in Zanzibar. The study found medium taxpayers considered the ITL as readable, though the challenge was on its understandability and applicability. This study urges tax authorities to improve the ITL education and establish a special unit to deal with medium taxpayers only.

Key words: *Income tax law simplification, Tax compliance, Medium taxpayers.*

INTRODUCTION

In the current global economic environment, the contribution of income tax compliance to economic development cannot be undervalued. Income tax contributes a large part of domestic revenue collections (IMF, 2014; OECD, 2008). It guarantees governments with reliable internal sources of fund for public expenditure [like security, road construction, education, poverty reduction and create framework for economic growth] (IMF, 2014; IMF, OECD, UN, & World Bank, 2011; OECD, 2008). Tax compliance means the willingness of taxpayers to follow the requirements of tax laws (James & Alley, 2002; Kirchler, 2007).

Although, high tax compliance becomes the desire of all governments, spurring tax compliance is a challenging and complex task of all tax administrations (Brondolo, 2009; Alm & Martinez-Vazquez, 2006). The challenges arise from the fact that, most tax administrations have scarce resources with a high demand for revenue collections (IMF, 2013; Ongwamuhana, 2011). Yet, many people do not like to pay tax (Hofmann, Hoelzl & Kirchler, 2008). The critical question raised here is, why don't many people like to pay taxes? Literature shows that tax compliance is a complex interdisciplinary phenomenon, which is determined by various factors (Kirchler, 2007; Nichita, 2012). The complexity nature of tax compliance leads to a lack of agreed definitions, measurement and consensus as to why people do or do not pay their taxes (Kirchler, 2007). Hence, the literature recommends that tax authorities should understand factors which are highly influencing taxpayers' decisions to comply with the tax laws and employ effective tax compliance strategies to ensure high tax compliance (Ayres & Braithwaite, 1992; Devos, 2014; Morris & Lonsdale, 2004; Nichita, 2012).

Tax law complexity has been mentioned as an important determinant of tax compliance (Kirchler, 2007; Fjeldstad & Moore, 2008; Loo, McKerchar & Hansford, 2010). This is because the tax law provides a tax base, responsibilities of taxpayers, procedures as well as tax rate (Forest & Sheffrin,

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2002). For taxpayers to be compliant, they are supposed to have a clear knowledge of the tax law. That is, they must be able to read, understand and apply the tax law effectively (Kasipillai, 2000; Palil, 2005; Saad, 2010). However, many tax laws are considered to be complex (Carnes & Cuccia, 1996; Kirchler, 2007; Looet *al.*, 2010). The complexity nature of tax laws comes from the user's difficulty in reading, understanding and applying tax laws (Mulder, Verboon & De Cremer, 2009; Saad, 2010). The complex tax law affects tax compliance (Fjeldstad & Moore, 2008; Richardson, 2006). Saad (2010) noted that high level of complexity in tax law leads to reduction of technical accuracy to both tax administrators and taxpayers. Fjeldstad & Moore (2008) noted that many large corporations in Tanzania litigate against the tax system for lack of simplicity and constructive dialogue with the tax administration. The tax law complexities cause taxpayers to deploy services of tax professionals, which increase the cost of compliance. The increased compliance cost may cause some taxpayers, especially small and medium taxpayers, to opt not to comply (Loo *et al.*, 2010; Mckerchar, 2003; Mahangila, 2017). This assertion speaks to the Theory of Planned Behaviour that argues that an individual's decision to conduct a particular behaviour is determined by his/her perception of the ease or difficulty of performing such behaviour (Ajzen, 1991).

Tax law simplification was among tax reform strategies undertaken in many countries (including Tanzania) to promote tax compliance (Gill, 2003; IMF, 2013; Kitillya, 2011; Ongwamuhana, 2011). This process was intended to place simple tax law from user's perspectives; to enable users to be able to read, understand, and correctly apply them (Saad, 2014). The simple tax law was expected to reduce the need for hiring tax experts. It was also aimed at reducing the compliance cost to improve tax compliance and revenue collections (Loo *et al.*, 2010; Palil, 2005; Richardson, 2006). In Zanzibar, tax laws simplification has led to the improvement of existing tax laws and the introduction of new tax laws. The new tax laws include the Income Tax Act No 11 of 2004, The Value Added Tax, 1997 as well as the East African Community Customs Management Act, 2004.

Despite decades of implementations of simplified tax laws in many countries, still the question of how it influences tax compliance is not full addressed in academic circles. The empirical literature proffers few studies that have examined the effect of tax law simplification on compliance (Akhand, 2012; Ongwamuhana, 2011). However, the findings of these studies are not consistent and have some limitations which encourage further investigation. For example, Akhand (2012) found out that simplified tax laws have a significant positive influence on overall compliance among large taxpayers in Bangladesh. Ongwamuhana (2011) opined that, despite the reforms undertaken in Tanzania, tax laws do not encourage taxpayers to comply. However, this study did not assess the impact of ITL simplification on tax compliance in Tanzania.

Literature also shows few studies that examined the impact of tax laws simplification on simplicity of tax laws (Forest & Sheffrin, 2000; Kirchler, Niemirowski, & Wearing; 2006; Tan & Tower, 1992; Pau, Sawyer & Maples, 2007; Saw & Sawyer, 2010). These studies assess the simplicity of tax law in terms of the readability factor only and ignore the understandability and applicability of the tax laws, which are also important variables in assessing the simplicity of tax law. However, these studies portray conflicting results some studies found tax law simplification improved the readability of tax law (Kirchler *et al.*, 2006; Pau *et al.*, 2007), while other studies found that tax laws simplification failed to improve the readability of tax laws (Tan & Tower, 1992). Moreover, many studies have been conducted in developed countries and ignore many developing countries that also simplified their tax laws. The findings of existing studies cannot be applied effectively by developing countries, because of cultural, socio-economic as well as tax systems differences. To the best of this researcher's knowledge, no study has examined the influence of ITL simplification on tax compliance of medium taxpayers in Zanzibar.

The medium taxpayer's compliance is very crucial, because of their potential revenue contributions (Arachi & Santoro, 2007; Bennett, 2008). However, the accessed literature shows no study

investigated this phenomenon. Many studies group medium together with small taxpayers and report them as small and medium taxpayers (Arachi & Santoro, 2007, Mahangila, 2014; Ondimu, 2015; OECD, 2012). These studies claim that, small and medium taxpayers made huge contributions to the economy, but they are associated with tax non-compliance (Akhand, 2012; Arachi & Santoro, 2007; Bennett, 2008; Cynthia, 2009). For example, Kimungu & Kileva (2007) noted that, the Small and Medium Enterprises (SMEs) contribute between 35 and 50 per cent of Gross Domestic Product in Tanzania. But the Tanzania Revenue Authority (TRA) collects below 30% of tax revenue from SMEs who form 90% of all taxpayers in the country. However, the findings from SME's taxpayer's studies cannot be effectively used for promotion of medium taxpayer's compliance. This is due to the fact that medium taxpayers are different from small taxpayers in many respects like business size, type of business, profit margin, and most likely in their level of tax compliance (Akhand, 2012; Kirchler, 2007; Morris & Lonsdale, 2004). Therefore, separate medium taxpayer's studies are needed to develop effective strategy that ensures long-term compliance of this prospective group of taxpayers.

Zanzibar is a part of the United Republic of Tanzania commonly known as Tanzania (TRA, 2004). The researcher was interested on Zanzibar because of business densities and nature of economic activities. For a long time, Zanzibar has been considered as a centre for business across eastern and central Africa (ZNCCIA, 2013). The Zanzibar Small and Medium Enterprises (SME) Policy consider medium taxpayers as an engine for economic development (MTI, 2006). Zanzibar also employs simplified ITL to promote tax compliance, but the speculation in tax revenue collection performance necessitated investigation in this area (TRA, 2018). Therefore, the current study examined the influence of ITL simplification of tax compliance among medium taxpayers in Zanzibar.

LITERATURE REVIEW

Theoretical Literature Review

Theory of Planned Behaviour

The current study based on the Theory of Planned Behaviour (Ajzen, 1991). This theory is the most widely used model to explain and predict behaviour (Armitage & Conner, 2001). The application of the Theory of Planned Behaviour (TPB) in taxation is still growing. Literature shows very few studies that employed this theory to predict tax compliance behaviour. Scholars who have applied this theory in their studies include, but not limited to, Achmat (2013); Bobek, Richard, & Hatfield (2003); Godin & Kok (1996); MirzaBin (2016); Trivedi, Shehata & Mestelman (2005); Saad (2014) and Smart (2012). According to TPB a person's behaviour is determined by the intention to perform the behaviour and perceived behavioural control that refers to the perceived ease or difficulty involved in performing the behaviour of interest (Ajzen, 1991; Ajzen, 2010). The intention indicates the individual's readiness to perform certain behaviour. The behavioural intention is a function of an individual attitude towards the behaviour, which is the evaluation of performing the behaviour as favourable or not.

The current study employed TPB to determine the tax compliance among medium taxpayers in Zanzibar. The income taxation in Zanzibar is based on a self-assessment system, where taxpayers are supposed to assess tax, file returns and pay their income tax due without tax officials' intervention. In this situation, the income tax compliance behaviour is highly determined by taxpayer's intention to comply. The taxpayer's intention to comply is also determined by both taxpayer's attitudes on tax compliance and the perceptions of his/her important people on tax compliance. Therefore, TPB was found to be appropriate in predicting the income tax compliance behaviour of medium taxpayers in Zanzibar. TPB was also used to determine the influence of the ITL simplification of tax compliance. This theory contends that behaviour is determined by the individual perceptions of simplicity or difficulty in performance of such behaviour (Ajzen, 1991). This study argues that, high tax compliance can be achieved when taxpayers perceive tax law as

simple, reduces compliance cost and improves tax compliance. Therefore, it was expected that the ITL simplification would promote medium taxpayer's compliance.

Empirical Literature Review

Tax Compliance and Non-Compliance

Literature shows that tax compliance is a complex phenomenon which is determined by many factors (Kirchler, 2007). The complex nature of tax compliance leads to no standard agreed definition of tax compliance. Various tax compliance definitions have been developed. Andreoni, Erard & Feinstein. (1998) point out that tax compliance is a fluid concept that has different meanings from different perspectives. For example, in public finance theories, tax compliance relates to equity and efficiency issues. In organizational theories, it relates to the principal-agent problem, where corporations and their advisors continually provide asymmetrical information about their income and tax liabilities.

The current study adopted James & Alley's (2002) definition that tax compliance means the willingness of individuals and other entities to act within the spirit as well as the letter of tax law and administration without application of enforcement activity. Tax non-compliance means failure to follow the requirements of tax law that results in the delays or failure to pay tax. There are two kinds of tax non-compliance known as tax evasion and tax avoidance. Tax evasion is a deliberate illegal intention to reduce tax liabilities and tax avoidance is the action taken to achieve the legal reductions of tax liabilities (Alm, 1999; Kirchler, 2007; Slemrod, 2007).

The Income Tax Law (ITL) Simplification in Tanzania

In Tanzania, income taxation is governed by the Income Tax Act, 2004. The ITL is the regulatory instrument that governs the income taxation (Forest & Sheffrin, 2002). Income tax is levied on income from employment, income from business and income from investment (URT, 2004). The Income Tax Act, 2004 is a new ITL that came into effect in July 2004 and repealed the previous Income Tax Act, 1973. The Income Tax Act, 1973 was considered to be complex, with many loopholes for tax avoidance. It also failed to cope with modern business practices (Luoga, 2003; Kitillya, 2011; Ongwamuhana, 2011; Osoro, 1995). The complex nature of the Income Tax Act, 1973 has been also associated with the widespread tax non-compliance, corruption and low revenue collections that caused the fiscal crisis in the 1990s (Fjeldstad, 2003; Osoro, 1995).

The ITL simplification was among tax reform strategies undertaken to improve tax compliance and revenue collection so as to restore economic crisis (Hasseldine & Bebbington, 1991; IMF, 2014; Kitillya, 2011; Ongwamuhana, 2011). This process led to the introduction of the new Income Tax Act, 2004. The simplified ITL restructured the income tax system in line with modern requirements (Luoga, 2003; Kitillya, 2011; Ongwamuhana, 2011). The Income Tax Act, 2004 was expected to be simple where users can read, understand and apply properly so as to minimize compliance cost, promote tax compliance and revenue collections (IMF, 2014; Kitillya, 2011; Ongwamuhana, 2011; Palil, 2005; Saad, 2010).

Tax Law Simplification and Tax Compliance

Tax laws are the legal rules and procedures governing how federal, state, and local governments calculate the tax you owe (Forest & Sheffrin, 2002). Tax law is a base for tax compliance. Tax laws provide the tax base, responsibilities of taxpayers, procedures as well as tax rates (Forest & Sheffrin, 2002). Taxpayers become compliant when they follow the requirements of tax laws (Kirchler, 2007). Franzoni (2000) noted that, for a taxpayer to be considered as entirely compliant he/she must fulfil four conditions of tax laws which are: (1) true reporting of the tax base, (2) correct computation of the liability, (3) timely filing of the return, and (4) timely payment of the amounts due. Any deviation from these conditions leads to tax non-compliance. Thus, for taxpayers to be compliant they need not only have the willingness to comply but also have a clear knowledge of

all tax laws, that is, he/she must be able to read, understand, and apply tax laws effectively (Kasipillai, 2000; Palil, 2005; Saad, 2010). Knowledge on tax laws is much needed in self-assessment system where taxpayers are supposed to correctly calculate their own tax dues. The knowledge on tax laws becomes very important in determining tax compliance (Loo, 2006).

The government enacts tax laws with the assumption that all taxpayers have clear knowledge of tax laws and they can comply. However, many people complain on the complexity in tax laws (Carnes & Cuccia, 1996; Loo *et al.*, 2010). The complex nature of tax laws comes from the user's difficulty in reading, understanding, and applying tax laws (Binh, 2000; Mulder *et al.*, 2009; Saad, 2010). Complex tax laws also affect tax compliance (Richardson, 2006). However, there is a contradiction in terms of preference on tax law complexity between users who prefer simple tax laws [many of them being taxpayers] and those who prefer ambiguous tax laws [many of them being tax authorities, lawyers and accountants] (Forest & Sheffrin, 2002). More complex tax laws impede the fairness of the tax system because not all taxpayers are able to take advantage of complex tax laws (Fjeldstad, & Moore, 2008). Moreover, Saad (2010) noted that, high level of complexity in tax law leads to reduction of technical accuracy to both tax administrators and taxpayers. This causes some taxpayers to deploy services of tax professional which increase the cost of compliance. The increased cost of compliance may cause some taxpayers to opt not to comply (Loo *et al.*, 2010; McKerchar, 2003; Mahangila, 2017). Tax non-compliance adversely affects tax administration efficiency and economic development (Brand, 1996; Tanzi, 2000; OECD, 2008).

In addressing the adverse effect of tax laws complexity on economic development, many countries have simplified their tax laws (IMF, 2013). More often simplicity has more considerable advantage over complexity (Hasseldine & Bebbington, 1991). Tax laws simplification was among tax reform strategies undertaken to improve tax compliance and revenue collection to restore economic crisis (Hasseldine & Bebbington, 1991; IMF, 2014; Kitillya, 2011; Ongwamuhana, 2011). Binh (2000) argues that simplification of tax laws is the greatest and critical role of tax administration. Simplicity is a complex, multi-faceted concept that needs a clear definition on its specific applications. Otherwise, one might intend to simplify but result into more complexities. A commonly accepted definition of legal simplicity of taxation is the ease by which a body of tax law can be read, correctly understood and applied to practical situations (Binh, 2000). Therefore, a simple tax law is one that users can read, understand, and apply (Binh, 2000; Mulder *et al.*, 2009; Richardson, 2006; Saad, 2014). Literature shows various forms of tax law simplification like the reduction of number of tax rates, harmonization of definitions, compliance procedure and the introduction of new tax laws (Cox & Eger, 2006). Tax law simplification intends to place simple tax laws that users can read, understand, and correctly apply, particularly in determining accurate tax liabilities. It also aims at minimizing compliance cost by reducing the need for employing tax expert and eventually improving the level of tax compliance and revenue collections (Cox & Eger, 2006; Loo *et al.*, 2010; Palil, 2005; Richardson, 2006; Saad, 2010).

In spite of the various tax laws simplification undertaken around the world little is known on the impact of such simplification on tax compliance. Literature shows a few studies examined the impact of tax law simplification on simplicity of tax laws (Forest & Sheffrin, 2000; Kirchler *et al.*, 2006; Tan & Tower, 1992; Pau *et al.*, 2007; Saw & Sawyer, 2010). These studies assessed the simplicity of tax law in terms of the readability factor only and ignore the understandability and applicability of the tax laws, which are also important variables in assessing the simplicity of tax law. However, these studies showed mixed and contradicting results that calls further investigation in this area. For example, Tan & Tower (1992) employed Flesch Reading Ease Index to measure the readability level of New Zealand tax legislation. The Flesch Reading Ease Index measures the difficulty ranging from zero (most difficult) to 100 (least difficult). They found that the efforts made by the tax authority at that time to simplify the tax law failed. However, Pau *et al.* (2007)

showed conflicting results on the readability of the newly written Income Tax Act of 2004. They used Flesch Reading Ease Index and found a significant improvement in respect of tax simplicity through readability measure. This finding related to the results of Sawyer (2007) who agreed that there have been some improvements in tax simplification. Saw & Sawyer (2010) examined the readability of a sample of the selected sections of the Income Tax Act 2007 in New Zealand using similar measures as in Pau *et al.* (2007) and found significant success in improving readability of such tax law. Laffer, Winegarden & Childs. (2011) also assessed the effect of the simplification of the tax laws on compliance costs in the USA. The study used the annual federal funds rate on 10 years Treasury bond and found that, when taxpayers comprehend the tax laws, the tax compliance cost is greatly reduced. However, these studies did not assess the influence of tax law simplification on tax compliance.

The accessed literature shows very few studies assessed the influence of tax law simplification on tax compliance (Akhand, 2012; Ongwamuhana, 2011). However, the findings of these studies are not consistent and have some limitations which encourage further investigation. For example, Akhand (2012) assessed the contribution of simplified tax laws on tax compliance among large corporate taxpayers registered with the Large Taxpayers Unit (LTU) of Bangladesh. Following an analysis of elite interviews and survey data using logistic regression, Chi-square automatic interaction detector and multilevel logistic regression, the findings suggest that, simplified tax laws do not affect neither, filing compliance, reporting compliance nor payment compliance of large corporate taxpayers. However, simplified tax law was found to play a significant positive role in improving overall tax compliance of large corporate taxpayers in Bangladesh.

Most of these studies have been conducted in developed countries and ignored many developing countries which also simplify their tax laws. So far, it is only Ongwamuhana (2011) who assessed the tax compliance in Tanzania by analysing the law and policy affecting voluntary taxpayer compliance. He employed documentary review and gives a one-person opinion that, despite the reforms undertaken in Tanzania, tax laws do not encourage taxpayers to comply. However, this study did not assess the impact of ITL simplification on tax compliance in Tanzania. In this regard, this paper examines the influence of ITL simplification on tax compliance among medium taxpayers in Zanzibar. It is therefore expected that the ITL simplification introduced the new Income Tax Act, 2004 which is simple, can easily be read, understood and applied effectively and that improves tax compliance. This expectation is reflected in the following hypothesis, which proposes to test the relationship between the ITL simplification and tax compliance.

H1: The ITL simplification positively influences tax compliance among medium taxpayers in Zanzibar.

METHODOLOGY

This study employed Post-positivism deductive approach to understand the influence of ITL simplification on tax compliance among medium taxpayers in Zanzibar. A survey was conducted on 367 medium taxpayers who are registered for Income tax purposes with TRA-Zanzibar. Data were collected using structured questionnaires. The study involved two main variables which are the ITL simplification as an independent variable and tax compliance as a dependent variable. The ITL simplification was measured from the taxpayer's perception of the simplicity in the Income Tax Act, 2004. This variable was measured through the readability, understandability and applicability of the Income Tax Act, 2004. These measures were also used by Laffer *et al.* (2011); Binh (2000); Lawless (2009); Long & Swingen (1987) as well as Saad (2010). Based on the definition of tax compliance by James & Alley (2002), tax compliance is the willingness of taxpayers to follow the requirements of tax laws. Tax compliance in this study was measured as voluntary tax compliance by using voluntary tax compliance indicators developed by Kirchler & Wahl (2010) and Braithwaite, Murphy & Reinhart (2007). These measures were also used by

Alabede, Ariffin & Idris (2011); Kirchler, Hofmann & Gangl (2012) as well as Siahaan (2012). Descriptive analysis and Structural Equation Modelling (SEM) were used to analyse data and test the hypothesis of this study. Out of 367 questionnaires distributed, 308 questionnaires were successfully completed and returned. This forms an 83.9% response rate, which is enough to continue with the study (Finchman, 2008; Hair, Black, Babin & Anderson, 2014; Sekaran & Bougie, 2010). These findings also support the idea of Sapiei, Kassipillai, & Uchenna (2014) that research in the area of taxation is a sensitive issue that makes taxpayers reluctant to respond to the questionnaires.

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

Descriptive Analysis

Descriptive results covering respondents' profiles, respondents' perception on tax compliance, Income tax law simplification and the opinions and perceptions of the Income Tax Act, 2004 simplicity. Table 1 presents the respondents profile. The results show that 260 (84%) of the respondents were male and 48 (16%) were female. The findings correspond to the actual cultural environment in Zanzibar where females are supposed to stay home to look after children and other family matters. However, the 48 (16 %) females in the medium businesses indicate the growth of female businesses in Zanzibar. In the past it was difficult for women in Zanzibar to participate in business activities. The study also found that many of the respondents 126 (40.9%) were aged between 20 -35 years. This indicates that more young people are entering into business. These findings are consistent with the idea that the SME sector is labour intensive and becomes the resort for many school leavers who are not employed by the government (URT, 2003). The findings of this study show that a majority of the medium taxpayers in Zanzibar, i.e. 100 (32.5%) hold a higher degree. There were 68 (22%) diploma holders, 84 (27.3%) had a bachelor's degree, 26 (8.4%) had an advanced level or similar qualification. Regarding the source of tax knowledge, only 91 (29.5%) of participants admitted to getting their tax knowledge from formal tax education. This indicates the capacity of medium taxpayers to read, understand and implement tax laws and requirements. Likewise, this study found that many medium taxpayers (150, 48.7%) are traders. This confirms the history of Zanzibar as the centre for business across eastern and central Africa (ZNCCIA, 2013). This study found that many [132 (42.9%)] of the medium taxpayer's businesses were in existence for between 1 to 10 years. The results conform to the findings of many other studies that majority of SMEs fall between 1 to 10 years (Abaho, Begumis, Aikiriza & Turyasingura, 2017).

Table 1: Respondents' Profile

Variable	Profile	Frequency (n=308)	Percentage (%)
Gender	Male	260	84.4
	Female	48	15.6
Age of respondents	Under 20	13	4.2
	20 – 35	126	40.9
	36 – 45	110	35.7
	46 – 55	52	16.9
	Above 55	7	2.3
Level of education	Secondary (Form 1-4)	30	9.7
	Advance/VETA/Certificate	26	8.4
	Diploma	68	22.1
	Bachelor's degree	84	27.3
	Higher degree	100	32.5
Source of Tax Knowledge	Instructions in tax forms	93	30.2
	Friends	28	9.1
	TRA Officers	67	21.8
	Formal education	91	29.5

Type of business	Other, e.g. Radio, TV, internet	29	9.4
	Trade	150	48.7
	Hotel and Restaurants	52	16.9
	Manufacturing	20	6.5
	Other service	76	24.7
Age of business (Years)	Tax consultant	10	3.2
	01 –10	132	42.9
	11 – 25	91	29.5
	26 – 35	65	21.1
	Above 35	20	6.5

Source: Field data (2016)

Descriptive Analysis for Tax Compliance

Tax compliance was measured from taxpayer's perception on the payment of tax as duty to citizen; Payment of tax to support their country; They their tax even if no tax audit and If everyone pays correct tax they will enjoy better public services (Braithwaite *et al.*, 2007; Kirchler & Wahl, 2010). Table 2 shows the descriptive analysis for medium taxpayer's perception of tax compliance. The findings indicate that all items had a large percent of "agree" with mean scored range between 1.90 and 2.18 and standard deviation range between from 0.90 to 1.00 about the means, indicating enough representation and heterogeneity of data (Field, 2009). The findings show that many respondents agreed with the tax compliance statements, with the range of 77% to 84%. This indicates that tax compliance of medium taxpayers in Zanzibar is high.

Table 2: Descriptive Analysis for Tax Compliance

Question No.	Question	Agree		Undecided		Disagree		Mean	S/D
		F	%	F	%	F	%		
TCQ1	I pay my taxes as required by the law because it is my duty as citizen.	159	84	20	6.5	29	9.4	1.90	0.90
TCQ2	I pay taxes as required by the law to support my country.	248	80	18	5.8	42	13	2.03	0.98
TCQ3	Always I pay my taxes even if tax audit does not exist.	238	77	5	1.6	65	21	2.18	1.00
TCQ4	If everyone paid the correct amount of tax, we would enjoy better public services.	244	79	23	7.5	41	13.3	2.02	1.00

Source: Field data (2016)

Descriptive Analysis of the ITL Simplification

The ITL simplification was measured from the taxpayer's perception of the new Income Tax Act, 2004 simplicity. This variable was measured from three of the items: readability, understandability and applicability of the Income Tax Act, 2004. Table 3 shows the descriptive analysis for medium taxpayer's perception of Income Tax Act, 2004 simplicity. The findings indicate that all items scored low mean values ranging from 2.29 to 3.00 which indicate relatively high agreement on the statements of measures of variable (Field, 2009). The values of standard deviation for the constructs ranged from 1.1 to 1.3 about the means, indicating enough representation as well as heterogeneity of data (Field, 2009). The findings show many respondents (221, 72%) can read the Income Tax Act, 2004. Some 201 (65%) of the respondents understand the Income Tax Act, 2004 and about half of the medium taxpayers (159, 52%) can apply the Income Tax Act, 2004 without assistance from tax experts. This indicates that the medium taxpayers in Zanzibar perceive the Income Tax Act, 2004 as simple.

Table 3: Descriptive Analysis for Simplicity of Income Tax Act, 2004

Variable	Question No.	Question	Agree		Undecided		Disagree		Mean	S/D
			F	%	F	%	F	%		
ITL Simplicity	TL Q5	I can read the income tax laws very well.	221	72	27	8.8	60	19	2.29	1.1
	TL Q6	I understand the tax laws.	201	65	30	9.7	77	25	2.48	1.1
	TL Q7	I can apply the tax laws for my tax issues without assistance from tax experts.	159	52	10	3.2	139	45	3.00	1.3

Source: Field data (2016)

Taxpayers' Opinions and Perceptions of the Income Tax Act, 2004 simplicity

The current study found that medium taxpayers have different opinions concerning the Income Tax Act, 2004 simplicity. Many respondents noted that they can read the ITL. Others claimed difficulty in understanding the tax laws clearly and applying them properly. Yet others claimed that such difficulties forced them to employ tax consultants that also increased their compliance cost. These opinions are related to the findings of the descriptive analysis (Table 3), which shows that many medium taxpayers (221, 72%) in Zanzibar can read the tax laws, whereas 201 (65%) can understand the tax laws. However, about half of the respondents (159, 52%) can apply the tax laws to their tax issues without the assistance of tax experts. It was also recommended that TRA should write the tax laws in both Kiswahili and other languages like English so that many people in Zanzibar can understand them. Also, the respondents recommended that TRA should increase the tax laws' education and not change the tax laws every year, because the frequent changes in the tax laws increase the difficulty of understanding and implementing the tax laws.

Structural Equation Modelling (SEM)

Analysis of the Measurement Model

The measurement model as a part of Structural Equation Modelling (SEM) was used to describe how each latent variable is operationalised via the indicator variables. The researcher also assessed the quality of the measures (reliability and validity) of data for this study. In this study, Confirmatory Factor Analysis (CFA) was conducted with AMOS version 22 to test the fit of measurement model of tax compliance and the simplicity of the Income Tax Act, 2004. The reliability of data was measured by Cronbach's Alpha (α). The Cronbach's Alpha (α) provides a sound under-estimate (conservative, safe estimate) of the reliability of a set of test results (Saunders, Lewis & Thornhill, 2012). The findings show that variables for this study are reliable since all had a Cronbach's Alpha (α) value above 0.70 (Saunders *et al.*, 2012). The validity of data was assessed through Exploratory Factor Analysis (EFA) with Varimax rotation on all perceptual measures to determine factor score and confirm factors falling in common latent variable (Young & Pearce, 2013). This established both discriminant and convergent validity. According to Buvik & Haugland (2005), the individual item with high factor loading loaded onto factor which corresponded to the conceptualized variable, signifying the consistency of measure in capturing the theoretical domain of latent variable thus supporting construct validity. The current study had seven measures in two proposed constructs. EFA shows that all measures have a factor loading between 0.826 to 0.939 which are above the recommended thresholds of 0.32 (Tabachnick & Fidell, 2007; Young & Pearce, 2013). Kaiser-Meyer-Olkin showed the sample adequacy of 0.791 which is above the required value of 0.5. The Bartlett's Test of Sphericity probability value (P) was 0.000 which is below the maximum suggested value of 0.5. The findings also show the Total Variance Explained of 80%

which is above recommended threshold of 50% (Tabachnick & Fidell, 2007; Young & Pearce, 2013). Table 4 shows the findings based on factor loadings, variance and Cronbach's Alpha value of variables. These results permitted further analysis to confirm the model fit.

Table 4: Factor Loading, Variance and Cronbach's Alpha for Variables

Questions	Tax compliance	ITL Simplicity
Q1. I pay my taxes as required by the law because it is my duty as citizen.	0.909	
Q2. I pay taxes as required by the law to support my country.	0.904	
Q3. Always I pay my taxes even if tax audit does not exist.	0.902	
Q4. If everyone paid the correct amount of tax, we would enjoy better public service.	0.826	
Q5. I can read the Income Tax Act, 2004 very well.		0.939
Q6. I understand the Income Tax Act, 2004		0.886
Q7. I can apply the Income Tax Act, 2004 for my tax issues without assistance from tax experts.		0.852
Percentage Variance	53.254	80.992
Cronbach's Alpha	0.92	0.88
KMO measure of Sample adequacy = 0.795		
Bartlett's Test of Spherity - Probability = 0.000		

Source: Field data (2016)

Confirmatory Factor Analysis of Tax compliance

From the literature, the researcher employed four indicators from the tax compliance inventory to load into the tax compliance (Braithwaite *et al.*, 2007; Kirchler & Wahl, 2010). The confirmatory factor analysis yielded the indicator loadings shown in Table 5. All the loadings were greater than 0.4 and were significant at one percent level.

Table 5: Estimates and P-Values of the Tax Compliance

Indicators and Constructs		Estimate	P
Duty as citizens	<---	TC 0.869	***
Support of my country	<---	TC 0.887	***
Pay tax without audit	<---	TC 0.915	***
Pay correct tax	<---	TC 0.744	

Source: Field data (2016)

The model fit test indicates that the model performed extremely well in terms of the suggested level of fit statistics, for example, Chi square (CMIN/DF) of 2.68, Goodness-of-Fit Index (GFI) of 0.990 and Adjusted Goodness-of-Fit Index (AGFI) of 0.950, which deemed acceptable according to Hair *et al.* (2014). Therefore, the indicators were enough to generalize that the indicators related to the construct of tax compliance fit adequately well and further analysis can be done. The fit indices of tax compliance and the standardized requirements are shown in Table 6.

Table 6: Fit Indices of the Tax compliance

Type	Index for default Model	Standard Requirements	Comments
CMIN/DF	2.684	<4	Good
RMR	0.013	< 0.05	Bad
GFI	0.990	> 0.90	Good
AGFI	0.950	> 0.90	Good
NFI	0.993	> 0.90	Good
RFI	0.980	> 0.90	Good

IFI	0.996	> 0.90	Good
TLI	0.987	> 0.90	Good
CFI	0.996	> 0.90	Good
RMSEA	0.078	>0.03 X< 0.08	Good

Source: Hair et al. (2014)

Confirmatory Factor Analysis of the ITL Simplification

The proposed model of the study includes three indicators loaded to assess the ITL Simplification. A confirmatory factor analysis then yielded the indicator loadings shown in Table 7. All loadings were greater than 0.4 and were significant at one percent level.

Table 7: Estimates and P-Values of the ITL Simplification

Indicators and Constructs			Estimate	P
Readability	<---	ITL	0.731	***
Understandability	<---	ITL	0.980	***
Applicability	<---	ITL	0.846	

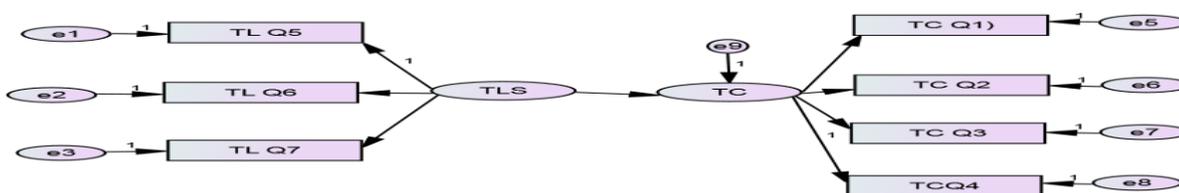
Source: Field data (2016)

The model fit test indicates that the ITLs simplification model performed extremely well in terms of the suggested level of fit statistics, for example, Goodness-of-Fit Index (GFI) of 1, the root mean residual (RMR) is 0.00, Normed Fit Index (NFI) = 1, and the Comparative Fit Index (CFI) = 1 which deemed acceptable according to Hair *et al.* (2014). Therefore, the indicators were sufficient to generalize that the indicators related to the construct of ITL simplicity fit adequately well and further analysis can be done.

Structural Analysis

The structural models (also referred to as the inner models) were intended to determine the significance of the relationship between the construct and the testing of hypothesis under study. The structural model examines the influence of ITL simplification (TLS) on tax compliance (TC) among medium taxpayers in Zanzibar. This analysis is discussed through structural model presented in Figure 1. This model also tested the hypothesis (H1) for this study.

Figure 1: Structural Model



The structure model (Figure 1) shows the good model fit where the Chi square (CMIN/DF) is 3.13, Goodness-of-Fit Index (GFI) is 0.962, the Adjusted GFI is 0.918, and the Root Mean Residual (RMR) is 0.09. The baseline comparison indices also show the good model fit like, the Normed Fit Index (NFI) is 0.916, IFI is 0.969, TLI is 0.902 and CFI is 0.900, which also supported the model

fit (Hair *et al.*, 2014). However, the Root Mean Square Error of the Approximation (RMSEA) is 0.083 slightly greater than 0.08 indicating not acceptable error of approximation (Hair *et al.*, 2014). Moreover, this model was accepted because the model acceptance decision requires only few acceptable indicators of the model and not compulsory all indicators (Hair *et al.*, 2014). For example, Hair *et al.* (2014) stressed that at least one absolute fit index (Chi square (CMIN/DF), RMS, GFI, RMSEA) and one incremental fit index (NFI, TLI, IFI, RFI, CFI) are sufficient to identify the adequacy of any model fit. Since many indicators have the acceptable values, then the model of this study has good fit with data (Hair, *et al.*, 2014). The values are shown in Table 8.

Table 8: Fit Indices of the of the Structural Model

Type	Index for default Model	Standard Requirements	Comments
CMIN/DF	3.131	<4	Good
RMR	0.093	< 0.05	Good
GFI	0.962	> 0.90	Good
AGFI	0.918	> 0.90	Good
NFI	0.906	> 0.90	Good
RFI	0.862	> 0.90	Moderate
IFI	0.902	> 0.90	Good
TLI	0.837	> 0.90	Good
CFI	0.900	> 0.90	Good
RMSEA	0.083	>0.03 X< 0.08	Moderate

Source: Hair *et al.* (2014)

Hypothesis Testing

This current study developed one hypothesis, that ITL simplification positively influences tax compliance among medium taxpayers in Zanzibar. The Structural Equations Modelling Analysis shows that the ITL simplification has a positive and significant influence on tax compliance of medium taxpayers in Zanzibar. The hypothesis was supported with probability value ($p = 0.000$), Estimate value = 0.249 and critical ratio ($CR = 4.175$). These results are within the acceptable value of $p < 0.05$ and $CR > 1.96$ (Awang, 2012). These findings implied that if taxpayers perceive ITLs as simple, it is likely that they are complaints. However, the ITL simplification explains only 25% percent of the variance in tax compliance of medium taxpayers, which indicates that tax law simplification is not the sole determinant of tax compliance. The findings are also shown in Table 9.

Table 9: Results of Hypothesis Testing

The Relationship		Hypothesis	Estimate	C.R.	<i>p</i>
Tax Compliance	<--	H1: The ITL simplification positively influence tax compliance among medium taxpayers in Zanzibar	0.249	4.175	0.000

Source: Field data (2016)

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

The current study examined the influence of the ITL simplification on tax compliance among medium taxpayers in Zanzibar. It was hypothesized that the ITL simplification positively influences tax compliance among medium taxpayers in Zanzibar. The findings show that the ITL simplification has a positive and significant influence on tax compliance. This implies that the ITL simplification produce the new ITL which is perceived to be simple by medium taxpayers and promotes their tax compliance. This finding is supported by the results of the descriptive analysis,

which showed that many medium taxpayers can read, understand and apply the tax laws, which also indicates their tax compliance.

These findings can be explained by the purpose of tax law simplification in reducing both the administration and tax compliance costs (Brondolo, 2009; IMF, 2014; Kitillya, 2011; Morris & Lonsdale, 2004; Ongwamuhana, 2011). This is because the complex tax laws increase the compliance cost which deflects taxpayers from their tax obligations and pushes them towards either tax avoidance or tax evasion (Loo *et al.*, 2010; Saad, 2010). This argument is also justified by this study, as some respondents claimed that the complex tax laws necessitate the employment of tax consultants to assist them to comply with the tax laws. Hence, the finding of this study may imply that tax laws' simplification reduced the compliance costs that encourage and enable many medium taxpayers better to honour their compliance obligations. This finding also supports the philosophy of the Theory of Planned Behaviour, which argues that an individual's decision to conduct behaviour is determined by his/her perception of the ease or difficulty of performing such behaviour, which Ajzen, (1991) called perceived behavioural control. Hence, in this study, taxpayers perceive the tax laws as simple, which promotes their tax compliance.

This finding not only supports the hypothesised relationship in this study; it also corresponds to the findings of previous studies, such as Akhand (2012), who found that simplified tax laws played a significant positive role in improving the overall tax compliance of large corporate taxpayers in Bangladesh. The related findings were portrayed by Laffer *et al.* (2011) who assessed the effect of the simplification of the tax laws on compliance costs in the USA and found that, when taxpayers comprehend the tax laws, tax compliance cost is greatly reduced. The reduction in compliance cost may also indicate the significant influence of tax laws' simplification on tax compliance in the USA. Contrary to these studies, Ongwamuhana (2011) found that the existing tax laws in Tanzania do not encourage taxpayers to comply with taxes voluntarily. However, the author did not assess the influence of the ITL simplification on tax compliance.

The current study concludes that the ITL simplification had positive and significant influence on tax compliance of medium taxpayers in Zanzibar. Unlike the previous accessed literature, this study assessed the ITL simplicity in terms of the readability, understandability and applicability of the tax laws, as no study has employed these measures to assess tax laws' simplicity. Hence, this study confirmed that readability, understandability and applicability are reliable measures of tax law simplicity. Since there is no agreed standard definition and measurement of tax compliance (Kirchler, 2007), this study confirmed the usefulness of Tax Compliance Inventory developed by Kirchler & Wahl (2010) as effective measure of tax compliance.

Theoretically, this study expanded the knowledge on the application of the Theory of Planned Behaviour in tax compliance studies. This study has also confirmed the applicability of this theory in developing countries environment like Zanzibar. This study contributes to the generalization of the Theory of Planned Behaviour. Practically, the findings of this study are very useful to tax administrators in assessing the effect of tax law simplification on tax compliance so as to develop effective tax compliance strategy that ensures long-term medium taxpayers' compliance. The findings of this study are crucial inputs to the development of effective tax policies that fit this prospective group of taxpayers. Moreover, these findings contributed to the influence of ITL simplification on tax compliance among medium taxpayers in Zanzibar to a broader body of knowledge of tax laws, tax compliance, and tax administrations. The findings of this study also contribute to the growth of literature on tax compliance and administration in Sub-Saharan developing countries.

Notwithstanding the above contributions, this study has also limitations that suggested need for further studies. For example, the current study is a cross-sectional design; its findings did not show

the trend of the influence of the ITLs simplification on tax compliance over a given period to establish the real effect of tax law simplification. This study examined the influence of the ITL simplification on tax compliance of medium taxpayers only. The influence of ITL simplification to tax compliance may not be the same to micro, small, medium and large taxpayers. These groups of taxpayers differ in many respects like capital, profit margin, number of sales turnovers, institutional policies, and tax non-compliance risk to tax administration. There is a need for further investigations on related studies to other groups of taxpayers. Tanzania is a union country of two parts; Zanzibar and Tanzania mainland. The current study was conducted in Zanzibar only therefore; the findings for this study cannot be generalized to the whole of Tanzania. There is a need for related studies in Tanzania mainland to ascertain the influence of ITL simplification in Tanzania as a whole.

This study recommends more simplification of ITL to improve understandability, applicability and tax compliance of this tax law and to increase taxpayer education campaigns so as to uplift the level of taxpayer's awareness on various tax laws. It is also recommended that a special unit be established to deal with taxation issues for medium taxpayers only. In addition, the study proposes future studies to examine the influence of ITL simplification on tax compliance of large taxpayers using real office data.

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