



**COLLEGE OF BUSINESS AND ECONOMICS**

**GIKONDO CAMPUS**

**MBA-FINANCE**

**IMPACT OF TAX AUDIT ON TAXPAYER'S COMPLAINT  
IN RWANDA.**

**Case of Rwanda Revenue Authority.**

*Thesis submitted to the College of Business and Economics in partial fulfilment of the requirements for the award of Master's degree in business administration by the University of Rwanda.*

By:

**KAREMERA Fred**

Reg. No: PG 112001288

Tel: 0788312153

**SUPERVISED BY: Dr. Shaik Nagoor Meera, Ph.D**

Tel.:+250788804050

## DECLARATION

I declare that this thesis entitled **Impact of tax audit on taxpayers' compliance** is my original work and has never been presented for a Degree or any other academic award in any University or Institution of Learning.

Fred KAREMERA

---

Name and signature of the candidate

---

Date

## CERTIFICATION

I confirm that the work reported in this thesis was carried out by the candidate under my supervision and has been submitted with my approval.

DR. SHAIK NAGOOR MEERA; Associate Professor- CBE- UR.

---

Name and Signature of Supervisor

---

Date

## **DEDICATION**

I would like to thank my family. To my beautiful wife *Grace KIMEREMBE*, for her continued love and support through the many ups and downs in my studies alongside the work demands and for affording me the most precious gift of all, our two daughters *Precious Sugira Mutagoma* and *Patience Isimbi Mutagoma* you missed my parental care during that hectic period of studies.

## **ACKNOWLEDGEMENTS**

Glory is to God for having helped and guided me to accomplish this work in the scheduled time.

I owe gratitude to my wonderful and loving Mum who has been always able to handle my frustrations yet continues to keep our family so tight which is the foundation of my success.

Her dedication to me, my brothers and Sisters is of immense value. I appreciate your Prayers, understanding and wisdom for creating the perfect environment to grow up in.

To my Lecturers, Teachers and the university staff plus my fellow students, none of this would have been possible without your tremendous support, guidance and assistance; I owe you a lot.

My dedicated Supervisor, Dr.SHAIK NAGOOR MEERA your tireless efforts in this project will always be treasured and remembered.

Last but not least, my late Dad Fredrick RWATIRAHAGA rest in peace, your visionary wisdom to initiate the whole idea of sending me to school from such jungles where nobody believed it could happen, though you left us so early, I could not have done this without you. I did it my Dad; I wish you could still be here to see the fruits of your work.

I will always uphold and Stand for your values.

## ABSTRACT

A tax is a compulsory levy by government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal income such as salaries, business profit, interest, dividend, discount or royalties to obtain revenue, it is the reason this study assesses the effect of Tax audit on tax compliance in Rwanda a case of Rwanda Revenue Authority (RRA). The main objective of this research is to assess the impact of tax audit on tax payers' compliance. Towards the fulfillment of general objectives of the research, the following will be specific objectives. To assess the extent to which tax audit helps the tax officials to identify the tax evasion and other tax malpractices, To find out if tax audit helps in submission of accurate tax returns, To find out whether taxpayers cooperate during tax audit exercise, To examine whether outcome of tax audit help improve taxpayers' compliance.

For this study, the researcher applied descriptive analysis using the fact that a descriptive research design is used to describe the data and characteristic about what is being studied. The population under this research consisted of tax auditors totalling 113. This study incorporated both quantitative and qualitative research approaches. The stratified sampling technique was used to select 88 respondents to be included in the sample. The main finding of the study include among other; revealed that tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise. The Pearson correlation coefficient above reveals that there is a positive moderate relationship between tax audit and tax compliance. Therefore I accept the hypothesis at it is shown by the Pearson correlation of 0.673\*\* tested at 0.01 level of significance. Also the correlation shows a gap of 0.327 that needs to be closed by the auditors of Rwanda revenue Authority.

In conclusion, the results not only have the potential to contribute theoretically to public finance but also to the area of institutional performance. The Author also recommends that; Rwanda Revenue Authority's auditors should make all possible ways that Taxpayers feel comfortable and cooperate during tax auditing exercise and to continue intensify taxpayer education and sensitization programs across the country, it needs to keep strengthening the use of new technologies to ease the work of its partners in business.

## **TABLE OF CONTENTS**

<b>DECLARATION.....</b>	<b>i</b>
<b>CERTIFICATION.....</b>	<b>iii</b>
<b>DEDICATION.....</b>	<b>iv</b>
<b>ABSTRACT.....</b>	<b>vi</b>
<b>ABBREVIATIONS AND ACRONYMS.....</b>	<b>ix</b>
<b>CHAPTER ONE: INTRODUCTION.....</b>	<b>1</b>
<b>1.1. General Introduction.....</b>	<b>1</b>
<b>1.2. Background of the Study.....</b>	<b>1</b>
<b>1.3. Problem statement.....</b>	<b>3</b>
<b>1.5 Hypothesis.....</b>	<b>4</b>
<b>1.6 Research variables.....</b>	<b>4</b>
<b>1.7 Significance of the study.....</b>	<b>4</b>
<b>1.8 Scope of the study.....</b>	<b>5</b>
<b>CHAPTER TWO: LITERATURE REVIEW.....</b>	<b>7</b>
<b>2.1. Introduction.....</b>	<b>7</b>
<b>2.2 Review of Related Studies.....</b>	<b>7</b>
<b>2.3 Meaning of the Key concepts.....</b>	<b>7</b>
<b>2.4 The Purpose of Taxation and Tax Compliance.....</b>	<b>11</b>
<b>2.5 Perceptions of Government Spending and Tax Compliance.....</b>	<b>12</b>
<b>2.7 Taxpayer Compliance Program.....</b>	<b>13</b>
<b>2.8 The distinction of tax audit and tax investigations.....</b>	<b>14</b>
<b>2.9 Categories of Tax Audit.....</b>	<b>14</b>
<b>2.10 Legal Frameworks.....</b>	<b>15</b>
<b>2.12 Need for Tax Audit.....</b>	<b>16</b>
<b>CHAPTER THREE:RESEARCH METHODOLOGY.....</b>	<b>17</b>

<b>3.1 Introduction .....</b>	<b>17</b>
<b>3.2 Target Population.....</b>	<b>17</b>
<b>3.3 Simple size .....</b>	<b>18</b>
<b>3.4 Data collection .....</b>	<b>19</b>
<b>3.5 Research Instrument.....</b>	<b>19</b>
<b>3.6 Sources of Data .....</b>	<b>19</b>
<b>3.7 Validity and Reliability of the Instruments .....</b>	<b>19</b>
<b>3.8 Data processing and Data analysis .....</b>	<b>20</b>
<b>3.9 Data Analysis .....</b>	<b>22</b>
<b>3.10 Ethical considerations .....</b>	<b>24</b>
<b>3.11 Limitation of the study.....</b>	<b>24</b>
<b>CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION .....</b>	<b>25</b>
<b>4.1 Introduction .....</b>	<b>25</b>
<b>4.2 Responses from respondents .....</b>	<b>25</b>
<b>CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS .....</b>	<b>32</b>
<b>.....</b>	<b>32</b>
<b>5.1 Introduction .....</b>	<b>32</b>
<b>5.2 Summary .....</b>	<b>32</b>
<b>5.3 Conclusion.....</b>	<b>33</b>
<b>5.4 Recommendations .....</b>	<b>33</b>
<b>5.5 Suggestion for further research .....</b>	<b>34</b>
<b>REFERENCE.....</b>	<b>35</b>
<b>QUESTIONNAIRE.....</b>	<b>38</b>



## **ABBREVIATIONS AND ACRONYMS**

**AAS : Auditing and Assurance Standard**

**CVI: Content Validity Index**

**IMF: International Monetary Fund**

**OECD : Organisation for Economic Cooperation and Development**

**PAYE : Pay As You Earn**

**RRA: Rwanda Revenue Authority**

**SMEs: Small and Medium Size Enterprises**

**VAT: Value Added Tax**

## **CHAPTER ONE: INTRODUCTION**

### **1.1. General Introduction**

In this chapter the researcher discusses the study based on the following sub-headings: the background of the study, the problem statement, objectives of the study, research questions, scope and significances of study, limitation of study.

### **1.2. Background of the Study**

A tax is a compulsory levy and those who are taxed have to pay the sums irrespective of any direct corresponding return of services or goods by the government. Government needs financial resources to act as a government and play a role that is expected from it by the public (Bhatia, 1976; James, 2000). So what the government gives it must first take away. The economic resources available to society are limited, and so an increase in government expenditure normally means a reduction in private spending. In this regard James (2000) states that taxation is one method of transferring resources from the private to the public sector. The role of taxes as an instrument stabilizes the economy, and reduces private demand when resources are distinguishable released for public sector use. Taxes are not payments for some special privilege granted or services rendered and are, therefore, from various other charges imposed for particular purposes under particular powers or functions of government (Murphy and Higgins, 2001). Taxes are fundamental to the existence of governments, for the tax revenues help to finance the bulk of services that governments provide including education, welfare, public safety, infrastructure and other basic public services. Improved tax compliance amplifies the revenues available for supporting public services without increasing the current tax burden on compliant taxpayers (Bird & Casanegra, 1992). Tax compliance has been an important subject of research in a large number of developed and a number of developing countries. Since each country has its own approach to managing tax compliance levels and each has different tax laws and regulations, the factors impacting tax compliance behaviour appear to vary among countries (Palil, 2010). One measure used to determine a country's tax mobilization (tax compliance) is tax as a percentage of GDP. *According to John Obi Anyaduba PhD (2014)*, All over the world, governments undertake huge public expenditure on behalf of their citizens for the provision of basic amenities and other social services. To meet up with these responsibilities, governments thus require substantial amount of funds. Among the various sources from which governments can generate income, taxes are the most important and most reliable;

contributing much more than any other source. A tax therefore, is a compulsory levy imposed by the government on the income, profit or wealth of an individual, family, community, corporate or unincorporated bodies etc for purposes of financing public expenditures. Taxation is the inherent power of the state, exercised through the legislature, to impose financial burdens upon subjects within its jurisdiction for the purpose of raising revenues to carry out the legitimate duties of government.

It is against this backdrop that we define tax audit as a process in which the tax authority examines certain issues relating to the profits of a company and its other related returns, as it may deem necessary and expedient in accordance with the relevant provisions of the Act. It is usually a routine exercise, although its outcome could lead to a re-assessment or referral for special investigation, especially if tax evasion is suspected. Income taxes are important source of revenue to government in both developing and developed countries (Teera and Hudson 2004). But the amount of revenue to be generated by government from such taxes for its expenditure programme depends among other things, on the willingness of the taxpayers to comply with tax laws of a country (Eshag, 1983). The failure to follow the tax provisions suggests that a taxpayer may be committing an act of noncompliance (Kirchler, 2007). Tax non-compliance occurs through failure to file tax return, misreporting income or misreporting allowable subtractions from taxable income or tax due (Roth et al., 1996; Soos, 1991). Following the increasing cases of tax noncompliance, especially tax evasion and its consequences on the capacity of government to raise public revenue, great amount of attentions have been paid to the issue of tax compliance globally by public policy makers and researchers for the past few decades now. The general conclusion of the theory is that compliance depends largely on tax audit and penalty. However, the theory had been criticized for paying more emphasis on economic factors and ignoring completely social and psychological perspective of tax noncompliance (Fischer, 1993). Scholars suggested that tax noncompliance decision may be affected by factors not considered in the basic model, or may be affected in ways not captured approximately by the theory (Alm, 1999; Spicer and Lundstedt, 1976).

### **1.3. Problem statement.**

According to professor Bwisa 2012 a "Problem Statement" is a description of a difficulty or lack that needs to be solved or at least researched to see whether a solution can be found. It can also be described as either a gap between the real and the desired or a contradiction between principle and practice. (Professor Henry M. Bwisa 2016).The challenge of attitudes towards taxes carries important policy implications, because domestic revenue production has not improved significantly

RRA collected 773.9 billion Rwandan Francs, tax audit contributing 20.2 Billion Rwandan Francs which is 2.6% of the total collections. (RRA Annual report 2013/14)

Again,in the following fiscal year 2014/15,RRA collected 871.4 Billion Rwandan francs, however tax audit had contributed 23.3 billion Rwandan francs which is 2.8% of the fiscal year collections;

(RRA Annual report 2014/15)

Thus, the primary purpose of tax audit is to ascertain the extent to which tax payers may have complied with the relevant statutory obligations of paying taxes as provided in provisions of the tax Acts. The result of this research helps Rwanda Revenue Authority to refocus on its strategies to enhance and eliminate tax evasion and other forms of tax fraud hence improving taxpayer compliance.

### **1.4 Objectives of the Study**

#### **1.4.1. General objective**

The main objective of this research is to assess the impact of tax audit on tax payers' compliance.

#### **1.4.2. Specific Objectives**

Towards the fulfillment of general objectives of the research, the following will be specific objectives.

- i. To assess the extent to which tax audit helps the tax officials to identify the tax evasion and other tax malpractices.

- ii. To find out if tax audit helps in submission of accurate tax returns.
- iii. To find out whether taxpayers cooperate during tax audit exercise.
- iv. To examine whether outcome of tax audit help improve taxpayers' compliance

#### **1.4.3 Research Questions.**

- i. To what extent do tax audit helps the tax officials to identify the tax evasion and other tax malpractices?
- ii. How to find out if tax audit helps in submission of accurate tax returns?
- iii. How to find out whether taxpayers cooperate during tax audit exercise?
- iv. How to examine whether outcome of tax audit help improve taxpayers' compliance?

#### **1.5 Hypothesis**

**H0:** “There is a positive impact of tax audit to the Taxpayers' compliance in Rwanda”

#### **1.6 Research variables**

The independent variable of this research is tax audit and independent variable is tax payer compliance.. There are also sub independent variables which are comprehensive tax audit and desk tax audit. The dependent variable has tree sub variables namely accurate tax returns , tax payer bookkeeping and reporting as well as taxpayer behaviour

#### **1.7 Significance of the study**

##### **To Government**

As a country which has a high dependence on foreign aid, tax audit will help Rwanda to be independent and move forward, it will add value to already developed practices in Rwanda by showcasing the best practices worldwide. In the same direction with the developing Rwanda to apply a modernized tax audit systems and educate its citizens on all relevant and modern tax practices in its own way to cope with these economic challenges.

## **To RRA**

This study helps RRA to identify the gaps cited in this study for future improvements in revenue generation measures in order to enhance revenue collection with a high level of Complying taxpayers.

## **To the taxpayers**

The taxpayers' compliance plays a big role to improve the relationship between taxpayers and tax administration and understand their role to the Government in paying taxes. Their role in building their country is a compliment to their business.

## **To Researcher**

The research helps the researcher to improve knowledge about the impact of Tax audit on taxpayers' compliance in Rwanda, Identify other gaps for future research and help in finalization of his thesis for the award of the master's degree in Business administration.

## **1.8 Scope of the study**

### **1.8.1 Content scope**

This study is oriented specifically on the impact of Tax audit on taxpayers' compliance in Rwanda. All the relevant data analysed and evaluated by using primary and secondary data related to the period ranging from 2014 to 2016 and the results interpreted accordingly.

### **1.8.2 Geographical scope**

This study was conducted locally on the tax auditors from Domestic tax department of Rwanda Revenue authority;

## **1.9 Organization of the Study**

This study consists of five chapters:

**Chapter one** is about introduction that includes background of the study, problem statement, research question, objectives of the study (general objective and specific objectives), scope of the study, and definition of the key concepts and significance of the study.

**Second chapter** is literature review which consists of introduction, conceptual and theoretical perspectives and related case study.

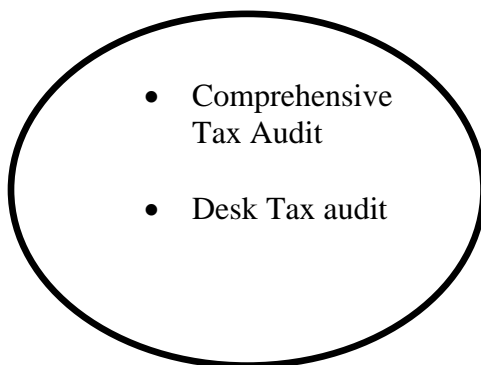
**Chapter three** of this study is about research methodology. Research methodology consists of introduction, research design, data collection methods, population and sampling.

**Chapter four** is analysis and interpretation of research findings.

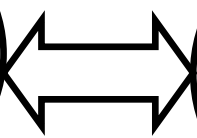
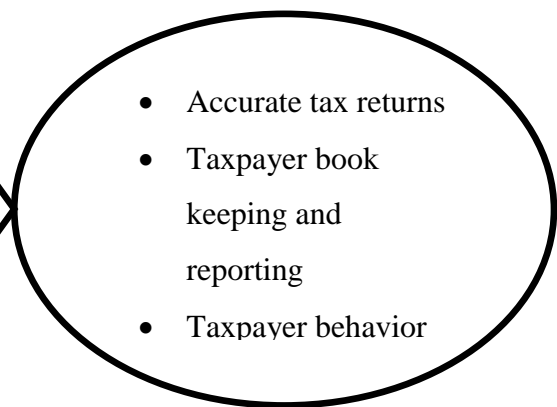
**Chapter five** consist the summary of findings, conclusion and recommendations.

**Figure1 Conceptual framework**

**INDEPENDENT VARIABLE:**  
**Tax Audit**



**DEPENDENT VARIABLE**  
**Tax Compliance**



Source: researcher (2017)

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1. Introduction**

This chapter discusses the theories related to the topic under study. The aim of this chapter is the review of the available literature, both published and unpublished related to the topic. It attempts to define, explain and illustrate the issue related to the topic of research and relate it to within findings for interpretation later on. In this regard, the chapter focuses on the definitions of key terms used in topic. These are tax audit, taxpayers' compliance and others that will be considered important and necessary in impact of tax audit on taxpayers' compliance in Rwanda.

### **2.2 Review of Related Studies**

Nemirovski and Viring (2003) assessed the role of tax institutions in tax compliance using several factors including attitudes, values, beliefs, behaviours, competency, fairness, tax knowledge, satisfaction and lifestyle so as to classify the taxpayers. They also evaluated the role of such institutions in tax compliance through employment of several factors such as taxpayer experience of services provided by the Australian tax authority and how they recognize filling out tax return statement sheets by a tax attorney. The results revealed that a tax attorney plays a major role in offering tax consultation and recommendation

### **2.3 Meaning of the Key concepts**

#### **2.3.1 Meaning of Tax**

Tax has been defined by various authorities and professionals in various ways. Conceptually, tax can be defined or seen as a compulsory transfer of resources from the private to the public sector (Uremadu, 2000). According to Adesola (1998), tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities. And the other scholars Lymer and Oats (2009) tax is defined as 'a compulsory levy, imposed by government or other tax raising body, on income, expenditure, or capital assets, for which the taxpayer receives nothing specific in return'



### **2.3.2 Meaning of audit**

As per Auditing and Assurance standard: Basic Principles governing an Audit (AAS 1) Audit published by the Institute of Chartered Accountants of India, Audit refers to the independent examination of financial information of any entity, whether profit oriented or not, and irrespective of its size or legal form, when such examination is conducted with a view to express an opinion thereon. According to Spicer and Pegler (2008), “Auditing is such an examination of books of accounts and vouchers of business, as will enable the auditors to satisfy himself that the balance sheet is properly drawn up, so as to give a true and fair view of the state of affairs of the business and that the profit and loss account gives true and fair view of the profit/loss for the financial period, according to the best of information and explanation given to him and as shown by the books; and if not, in what respect he is not satisfied”.

### **2.3.3. Meaning of tax audit**

A tax audit is an examination of whether a taxpayer has correctly reported its tax liability and fulfilled other obligations. It is often more detailed and extensive than other types of examination such as general desk checks, compliance visits or document matching programs (OECD 2006).

As Biber(2010),Tax audit is extending beyond verifying a taxpayer’s reported obligations and detection of discrepancies between a taxpayer’s declaration and supporting documentation. Most taxpayer’s report their tax liabilities more accurately if they believe that the tax administration has the capacity to detect any unreported liabilities and that heavy penalty may be applied when they are detected. Barreca and Ramachandran (2004) noted that the purpose of tax audit is to check the evasion of tax and ensure compliance in accordance with the laws and regulations.

### **2.3.4 Meaning of Tax Compliance**

Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though ‘tax laws are not always precise’ (James and Alley 2004: 29). The exact meaning of tax compliance has been defined in various ways. For example, Andreoni, Erard, and Feinstein (1998) claimed that tax compliance should be defined as taxpayers’ willingness to obey tax laws in order to obtain the economy equilibrium of a country.

Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers' willingness to pay their taxes. A wider definition of tax compliance, defined in 1978 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self-assessment and voluntary compliance, tax compliance should be defined as taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pays the right amount of taxes on time (Internal Revenue Service (IRS), 2009; Australia Tax Office (ATO), 2009; Inland Revenue Board of Malaysia (IRB), 2009).

### **2.3.5 Tax audit and Tax Compliance**

Tax audits have been variously discussed in relation to tax compliance. According to Palil and Mustapha (2011), some studies claimed that audits have a positive impact on tax evasion (See Jackson and Jaouen, 1989; Shanmugam, 2003; Dubin, 2004). These findings suggest that in self-assessment systems, tax audits can play an important role and their central role is to increase voluntary compliance. Palil and Mustapha (2011) argued audits rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions.

Butler (1993) cited in Palil and Mustapha (2011), also found that tax audits can change compliance behaviour from negative to positive. These findings complement the Witte and Woodbury (1985) and the Beron, Tauchen and Witte (1988) studies. Witte and Woodbury in their study of small proprietors found that tax audits have a significant role in tax compliance. They did not empirically test individual taxpayers, thus left open room to conduct research in this area. While Butler (1993) and Witte and Woodbury (1985) found significant results, Beron et al. (1988) found a contradictory result. They reported that audits did not significantly correlate with evasion for all groups they studied. Audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income (Beron et al. 1988).

From another point of view, Evans, Carlon and Massey (2005) studied the tax compliance of small and medium size enterprises (SME) in Australia. Their objective was to examine the relationship between record keeping practices of SMEs and the potential exposure to tax compliance problems. The study hypothesized that low tax compliance among SMEs might better encourage the tax authority to increase audits and investigations. This study involved 129 small business owners, 130 tax practitioners and Australian Tax Office (ATO) auditors. Using mail surveys, this study found that audit history, including frequency, audit outcome and the type of audit of small business owners has a significant indirect impact on tax compliance (in terms of record keeping). The result also evidenced that the primary objective of the small business owners doing their record keeping is tax compliance related rather than part of their management of their business. Thus, as the audits investigations increase, many SMEs will make more of an effort at proper record keeping.

From the foregoing, it is observed that previous studies have evidenced that tax audits play an important role in increasing voluntary compliance. Audits rates and the thoroughness of the audits could potentially encourage taxpayers to be more prudent in completing their tax returns.

### **2.3.6 Tax Non-Compliance**

In contrast with tax compliance, tax non-compliance is defined as taxpayer's failure to remit a proper amount of tax, perhaps on account of the complexity or even contradictions in the tax legislation or tax administration procedure (Jackson and Milliron, 1986; Kesselman, 1994; Kasipillai and Jabbar, 2003). Noncompliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler, 2007). Some studies also segmented income tax non-compliance into unintentional and intentional behaviour (e.g. Loo 2006; Mohani, 2001; Kesselman, 1994 and Allingham and Sandmo, 1972). Thus, in conclusion, based on Jackson and Milliron (1986); Kesselman (1994).

### **2.3.7 Tax gap**

Tax gap was defined by different professionals. Adams (1921) defines that the difference between the taxes that the law seeks to collect and those in fact collected. Andreoni (1998) defines tax gap as if there were 100 percent compliance difference between the actual revenue collected and the amount that would be collected though there are some variations. Leads to low revenue collection. Andreoni

(1998) represents tax gap happen by means of both tax avoidance and tax evasion. Similarly, compliance gap is also defined in (FIRA, 2000) as the break between the actual and the potential tax revenue. Tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are conventionally distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. James (2000) describes tax avoidance as the legal manipulation of an individual's affairs in order to reduce tax. However, if taxpayers go to inordinate lengths to reduce their tax liability, this could hardly be considered 'compliance', even if it were within the letter of the law. Since taxation is not always precise, Seldon (1979) in James et al (2003) has also coined the term 'tax Evasion' to describe circumstances where the law might be unclear.

## **2.4 The Purpose of Taxation and Tax Compliance**

A further dimension to this topic is the purpose of tax compliance. There is no real alternative to taxation to pay for the high levels of public expenditure that modern economies demand. It is possible to charge for a few government activities. However, the possibilities are very limited and, if such activities are commercially viable, it could be argued that they can be left to private sector. Governments can also raise resources by borrowing, but the scope is limited and the interest and the principal of these funds must eventually be repaid by revenue generated from taxation. Taxation does not exist in some sort of economic, social and political vacuum. Taxation is a means not an end. It is therefore an advantage if compliance can be achieved willingly and on a genuinely voluntary basis so far as that is possible. It detracts from the whole purpose of raising taxation for the public benefit if compliance can only be achieved under the threat of severe penalties and enforcement action. If the amount of suffering involved in raising the revenue is greater than the benefits from the associated public spending then something is clearly wrong. Yet it appears that some revenue authorities, at least on some occasions, have followed the policy that the most important objective is maximum tax compliance, regardless of other considerations. An early example comes from the work on differences in compliance behaviour of revenue authorities by Schmolders (1970). In 1970 he used survey evidence from five European countries to examine different tax regimes. In the case of Germany he found that tax compliance was satisfactory in the narrow „tax gap“ sense but this involved other disadvantages as a result of a high degree of „confrontation“, which led to general tax resistance.

It has also been alleged that the Internal Revenue Service (IRS) in the USA has used a heavy hand regarding compliance and some examples are given by Payne (1993). In fairness, the IRS has also recognised the gains from voluntary compliance, for example, with its mission based document Compliance 2000 and has made serious attempts to find other ways to promote compliance (Internal Revenue Service, 2000).

## **2.5 Perceptions of Government Spending and Tax Compliance**

### **Improving Tax Compliance.**

According to Barrie Russell (November, 2010), Improving tax compliance requires long-term reform efforts, beginning with strengthening the organization and management of the revenue agency, implementing robust collection systems (e.g., payment and withholding systems) and building capacity in core tax administration functions (registration, filing and payment enforcement, debt collection, audit, taxpayer services, and processing of appeals). Reform of the legal framework and judiciary is also often required to ensure that the necessary powers, penalty regimes, and dispute resolution processes are in place. Increasingly, information and communications technology is playing a critical role in compliance management (e.g., through automatic gathering of third-party information as a by-product of natural business processes; use of electronic invoices to facilitate real-time transaction monitoring and verification; and analysis of revenue risks). Reform priorities to improve tax compliance differ across countries and regions, reflecting variations in stages of development, administrative capacity, and scope of tax abuse. One size does not fit all, so reforms need to be tailored to each country's circumstances. The relatively wider tax gaps and lower revenue productivity of developing and emerging economies generally suggest potential for bigger revenue yields from compliance improvement initiatives.

For these countries, getting the fundamentals of revenue administration in place (especially taxpayer service operations and effective audit and enforcement) should be the first step. For more advanced countries, more sophisticated approaches to compliance management can be taken. In this regard, a number of countries are adopting comprehensive tax compliance strategies (often referred to as "compliance programs"), building on the work undertaken by pioneers in this area (Australia, for example, developed its first comprehensive compliance program in the early 1990s). This technical note outlines a broad approach to developing a compliance program; it is based on international

experience and follows the broad model recommended by the Fiscal Affairs Department (FAD) in delivering revenue administration technical assistance to IMF member countries. At the end of the note, two recent examples of compliance programs are summarized (Brazil and Chile).

## **2.7 Taxpayer Compliance Program.**

According to Barrie Russell (November, 2010) A taxpayer *compliance program* is a high level plan which brings together in a single document

a description of the most significant compliance risks identified in the tax system and sets out the broad detail of how the revenue agency intends to respond to those risks. It does not attempt to cover every aspect of a revenue agency's operational activities. Compliance programs are commonly structured around major taxpayer segments (e.g., large businesses, medium-size enterprises, small and micro enterprises, and individuals) and address compliance risks relevant to these segments.

The great majority of revenue agencies have moved away from administrative assessment systems under which all or most tax returns are subjected to examination prior to the issue of assessments to taxpayers, to a system of self-assessment which relies on most taxpayers *voluntarily* complying with their obligations to register, keep proper records, file correct returns and pay tax on time without the intervention of a tax official. Successful self-assessment systems are underpinned by an administrative approach which recognizes that voluntary compliance will be optimized through an appropriate balance of taxpayer education and assistance, simple laws and procedures, and risk-based verification programs:

- ***Taxpayer education and assistance programs***—help taxpayers and their advisors understand their obligations and entitlements (taxpayers cannot comply if they do not understand the tax laws and procedures).
- ***Simple laws and procedures***—make it easier and less expensive for taxpayers to comply with their obligations and access their entitlements (taxpayers may not voluntarily comply if the tax system itself makes it too difficult or too expensive for them to meet their obligations).

- ***Risk-based verification programs***—create a downside to poor compliance behavior by detecting and deterring noncompliance through use of risk management approaches (taxpayers are more likely to comply if they perceive a strong

## **2.8 The distinction of tax audit and tax investigations**

Tax Audit must be clearly separated from tax investigation. Under tax audit, the tax authorities' personnel will advise the taxpayers of the date and estimation of the duration of the audit. The scope of audit will also be defined so that the taxpayer can adequately prepare the documentation required.

Tax investigation is conducted by surprise. It is also known as a back duty case. The tax authority's personnel will arrive at the taxpayer's premises and take possession of the required documents, books for investigation purposes. If required, additional notice may be served on taxpayers, creditors, and bankers of the taxpayer to obtain new information in order to formulate the best judgment of the tax affairs of the taxpayer.

Additional assessments will be issued to recoup the tax lost, coupled with penalties, which can be up to 100%. In addition, the tax authorities are empowered under the Act to revise the tax computations, taking into account tax lost beyond the 5 years of investigation notwithstanding that the taxpayer may not have records for this period, if fraud, wilful default or negligence is established. In serious cases, or for repeated offenders, the taxpayer may be prosecuted and if he is found guilty, imprisonment up to 2 years can be imposed.

## **2.9 Categories of Tax Audit**

Tax audits can be categorized as 'field audits' or 'office or desk audits'. On this basis, given that audits can vary in terms of their scope and intensity, revenue bodies should have a clear policy on the types (and numbers) of audits to be conducted, and the circumstances in which specific types of audits are to be carried out, so that audit officials (including managers) understand what is expected of them. (OECD October 2006).

## **2.10 Legal Frameworks**

The efficiency and effectiveness of a revenue body's audit activities depends critically on the nature and scope of powers in the underlying legal framework in place, including the provision of adequate powers for obtaining information and an appropriate regime of sanctions to deter and penalize non-compliance.

The efficient and effective conduct of audit activities requires that a revenue body's audit and investigation staff have appropriate powers of access to information held by the taxpayer and other parties so that taxpayers liabilities reported in their returns can be properly verified or, in the absence of returns, be accurately established. There should also be an appropriate regime of sanctions to punish and deter non-compliance.

For these reasons, revenue bodies require a set of powers and sanctions in the legal framework supporting the conduct of tax administration activities that includes the provision of adequate powers for obtaining information and an appropriate regime of sanctions covering the various offences that may arise. In practice, this legal framework may be set out separately in the laws governing each tax administered or, preferably for ease of legislative maintenance, in a single comprehensive law on tax administration that provides a common set of provisions covering all taxes for example law number 25/2005 of 04/12/2005 on code of tax procedures provides set of articles covering corporate tax, VAT, PAYE and other domestic taxes collected by RRA (RRA report March 2008)

### **2.1. Need for legal frameworks.**

A tax audit is one of the most sensitive contacts between the taxpayer and a revenue body. The presence of an auditor in a taxpayer's private dwelling or business premises, coupled with the exploration of private and business issues and the gathering of information from taxpayers' books and records, or just the disruption of day-to-day workflow, represents a burden on the taxpayer and may be seen by some as an unwarranted intrusion into their affairs. Notwithstanding this, tax audits remain the only effective method for ascertaining additional facts or verifying provided information.

Legal frameworks are essential to provide integrity in the way tax administrations carry out audits and to ensure that taxpayers' rights are properly protected. As such, in many jurisdictions the



taxpayer may request a review of any proposed assessments or an explanation of the audits techniques used and adjustments being proposed. This request may be made to the revenue body or an independent third party body.

Key elements of a legal framework as it relates to the audit function are:

- Taxpayers' record-keeping obligations.
- Giving tax officials access to taxpayers' books and records.
- Giving tax officials access to third party information sources.
- Obtaining information from other countries' revenue bodies.
- Powers of revenue bodies to amend returns.
- Sanctions for non-compliance.

## **2.12 Need for Tax Audit.**

The audit programme of a revenue body performs a number of important roles that, effectively carried out, can make a significant contribution to improved administration of the tax system. (OCED October 2006). These roles are described briefly hereunder:

### **2.12.1 Promote voluntary compliance**

The primary role of the audit program is to promote voluntary compliance by taxpayers with the tax laws. RRA for example, seeks to achieve this by reminding taxpayers of the risks of noncompliance and by engendering confidence in the taxpaying community that serious abuses of the tax law will be detected and appropriately penalized. The RRA has an elaborate Tax compliance strategy for 2008 that is aimed at promoting tax payment.

### **Detect non-compliance at the individual taxpayer level**

By concentrating on major areas of risk (e.g. unreported cash income) and those individual taxpayers most likely to be evading their responsibilities, audits may bring to light significant understatements

of tax liabilities, and additional tax revenue collections. In Rwanda, this helps a lot in identifying tax payers who are not declaring their taxes correctly or those who sabotage taxation systems.

## **CHAPTER THREE:RESEARCH METHODOLOGY**

### **3.1 Introduction**

This chapter intends primarily to highlight the methods and techniques used in collecting data for the accomplishment of this research. This chapter presents various ways in which the study is designed and conducted. These include the area of the study, sample size, selection, study population, method of data collection, processing and data analysis. These methods of data collection include: questionnaire, interviews with some of the respondents. Again this same chapter indicates some major problems encountered by the researcher in carrying out the research. It explains why the researcher collected data, from where it is collected, how it is collected and analysed.

### **3.2 Research design**

The research design is a plan, the structure and strategy of investigation so conceived to obtain answers to the research questions. The plan is the complete scheme or program of the research. According to Grinnel and Williams (1990), a research design is careful systematic study or investigation in some field of knowledge, undertaken to establish some facts or principles. For this study, the researcher applied descriptive analysis using the fact that a descriptive research design is used to describe the data and characteristic about what is being studied. Descriptive survey also enables to obtain the current information. It is also used in fact finding studies and helps to formulate certain principles and give solutions to the problems concerning local or national issues. Descriptive survey method focuses on investigating the current status, practice and problem related to the impact of tax audit on taxpayers 'compliance in Rwanda

### **3.2 Target Population**

The study population under this research consisted of tax auditors totaling 113 from RRA. This study incorporated both quantitative and qualitative research approaches (used mixed method) in order to generate the advantage of both approaches like; to address different objectives of the study, which cannot be achieved by a single method and to enable one approach to inform another approach, either

in design or in interpretation. It also helps to triangulate the findings of different approaches (either performed concurrently or sequentially) in an effort to provide greater confidence to the study.

Kerchar (2010) argues that “each strategy has its strength and weaknesses and the drive for mixed method research is to use one strategy to inform, validate, or compensate for the weaknesses of another.” In other words, the combination of both quantitative and qualitative methods is a more pragmatic approach to gain a better understanding of the phenomenon under study.

### 3.3 Simple size

A portion of the population selected for the purpose of researching the characteristics of the whole population is called a sample. A sample was a portion of the population selected to achieve the objectives of the study. The Sloven’s formula is used to determine the minimum sample size of 88 respondents as explained below.

$$n = \frac{N}{1 + Na^2} = 113 / 1 + 113(0.5)^2 = 88$$

Where:

n = sample size

N = Population size

a = level of significance (0.05)

The sample after employing Slovene’s formula comprises of 88 respondents.

### **3.4. Sampling method.**

The Stratified sampling technique was used to select individual respondents to be included in the sample. Domestic tax department specifically tax audit Divisions. The researcher obtained the database of all tax auditors from tax audit Division and assigned the random number to each tax auditor. Finally, these stratified were then used to sort first 88 respondents as the sample size of this study.

### **3.4 Data collection**

To make this research successful, the data collected included both primary data. The primary data was obtained by the use of self-administered questionnaires while the secondary data was obtained from the documented materials.

### **3.5 Research Instrument**

To collect primary data, the researcher used a questionnaire as data collection instrument to obtain the information that relates to the opinions, perceptions, intentions and thoughts of the tax auditors from RRA. For easy administration and securing clear responses, the statistical Package for social sciences (SPSS) was used to analyse the data.

### **3.6 Sources of Data**

#### **i. Primary data**

According to (Bailey 1987), primary data are eyewitness accounts written by people who experienced a particular event or behaviour. The collection of primary data entailed provision of questionnaire.

### **3.7 Validity and Reliability of the Instruments**

#### **3.7.1 Validity of the Instruments**

Before a researcher analyse data, he has first analyse the validity of instrument to make sure that these instruments generated relevant information during the study.

The validity interval is from 0 up to 1. 0 means full of errors whereas 1 means absence of errors.

Validity of above 0.5 is assumed to be valid.

In this research, the content validity index was calculated from the formula below:

$$CVI = n/N$$

Where

CVI: Content Validity Index

N: Total number of items in questionnaire

n: Number of relevant items in the questionnaire

### **3.7.2 Reliability of the Instruments**

The research instrument that the researcher intends to use is questionnaire. The reliability of this instrument shall be established by having it cross examined for approval by a research consultant before going out to carry out the study; this will be done with an aim of improving instruments which will yield the most valid and reliable results of the researcher study.

### **3.8 Data processing and Data analysis**

According to the Nachmias (1978:29) data processing and analysis is defined as the link between data collection and analysis. It is concerned with transformation of the findings collected from the field into the system of the categories. In order to be presented in a more comprehensive form, data collection is not an end itself, unless data can be processed analysed, and converted into information in format that can be helpful to the users.

According to D. J. Casey, (1987:14), data processing refers to the transformation of respondent's views into a meaningful form while processing the data, "it involves the transformation of the observations gathered from the fields into a system of categories and transformation of these categories into codes amenable to qualitative analysis". Relevant information to the objectives of the study was considered and transformed into meaningful information for easy interpretation and

understanding. In processing collected data the following techniques were employed: editing, and tabulating among other techniques.

### **3.8.1 Data processing**

After the collection of the data, the exercise of inspection and editing followed in order to discover items that were misunderstood by the respondents to detect the gaps and other inconveniences in the data.

#### **3.8.1.1 Editing**

Furthermore, editing was done to check whether all applicable questions were answered. Moser and Kalton (1979:411) state "editing of the survey is intended to detect and eliminate errors in the completed questionnaire". Editing thus will be done to ensure that answers are accurate and consistent.

According to Churchill, (1992; 608), the basic purpose of editing is to impose some minimum quality standards on the raw data. Editing involves the inspection and if necessary, correction of each questionnaire or observation form. This process considered data collected by use of questionnaire and interview schedule, to analysis whether all responses given were correct as per the requirements of the questionnaire (questions) answered. The process was daily activity during the research, since every research work was cross-checked after every collection.

#### **3.8.1.2 Coding**

According to Churchill, (1992; 612), coding is the technical procedure by which data are categorized through coding; the raw data are transformed into symbols usually numerals that may be tabulated and counted. The transformation is automatic; however, it involves judgment on the part of the coder. The answers that acquired were coded and tallies used to determine the frequencies of each response. This technique was used to collect all responses and views from the respondents available in the time the research was carried out. In coding, the researcher adopted the use of original data sheet where

the information of every respondent was entered in a special way, marching and comparing the views of the respondents to every question.

This serves to classify the information into meaningful form in order to derive essential patterns in the responses and deduce data or information details to a summary form easy to deal with.

Moser and kalton (1971:414) stipulate that "the purpose of coding is to classify answers to a question into meaningful categories so as to bring out their essential patterns".

Thus this enabled data to be summarized and analysed.

### **3.8.1.3 Tabulation**

According to Churchill, (1992; 623), tabulation consists of simply counting the number of case that fall into varies categories. The edited and coded data was transferred into tables constructed basing mainly on the variables considered understudy. Tabulation involves counting cases falling into each of the classes or response. Tally marks were used to count the responses in order to make frequency distribution.

The data collected from the field were analysed and summarized according to the major themes of objectives. Data was analysed using both quantitative and qualitative technique and the results were presented by using the descriptive methods of data analysis.

## **3.9 Data Analysis**

Data analysis involves the transformation of the observations gathered from the fields into a system of categories and transformation of these categories into codes amenable to qualitative analysis. Relevant information to the objectives of the study was considered and transformed into meaningful information for easy interpretation and understanding. In processing collected data the following techniques were employed: editing, and tabulating among other techniques. The frequency and percentage distribution were used to determine the demographic characteristics of the respondents. The mean and standard deviations was applied. The analysed data were presented in the form of tables, descriptive and correlation was also used. The questionnaires were coded, then the data entered into the SPSS software and therefore analysed. To interpret the responses of the respondents, the following values and interpretation were used.

### Evaluation of mean

Mean	Range
3.26 – 4.00	Very high
2.51 – 3.25	High
1.76 – 2.50	Moderate
1.00 – 1.75	Low

Source: *Sanders H. and Smidt K. (2000:202)*

The tool of correlation analysis has been developed to study and measure the statistical relationship that exists between two or more variables. When three or more variables are considered, the study deals with multiple correlations. Correlation analysis, the purpose was to measure the strength and closeness of the relationship between each independent variable to dependent variable (Morgan & Berrett, 2006).

Standard deviation	Evaluation
$\sigma > 0.5$	Heterogeneity
$\sigma < 0.5$	Homogeneity

Source: *Sanders H. and Smidt K. (2000:202)*

### Evaluation of correlation

Correlation coefficient/positive or negative	Label/positive or negative
$r=1$	Perfect linear correlation
$0.9 < r < 1$	Positive strong correlation
$0.7 < r < 0.9$	Positive high correlation



$0.5 < r < 0.7$	Positive moderate correlation
$0 < r < 0.5$	Weak correlation
$r = 0$	No, relationship

---

Source: *Sanders H. and Smidt K. (2000:202)*

### **3.10 Ethical considerations**

Social research should be ethical in collection of the data in the process of analysis. The data in dissemination of findings. They are accepted to respect right dignity of those who are participating in the research project and avoid any harm to the participating in the arising from their involvement in the research and operate with honesty and integrity.

### **3.11 Limitation of the study**

Some respondents voluntarily refused to respond to some questions fearing that it may have some negative effects on them; however this was minimized by the researcher via cultivating and instilling a sense of trust in the minds of respondents and assuming them confidentiality.

Difficulty in accessing the respondents due to their busy schedules and Work operations; however the researcher used multiple skills like call backs, rearranging appointment and use of extensive coverage.

## CHAPTER FOUR: DATA ANALYSIS, PRESENTATION AND INTERPRETATION

### 4.1 Introduction

This chapter aims at analysing; presenting and interpreting the data collected through primary and secondary data sources administered to the impact of tax audit on taxpayers' compliance. This was done under the guidance of objectives of the study. In this chapter the researcher presented the results and findings from the data collected and analysed,

A discussion is made to provide clarity and comparison in some cases. Both qualitative and quantitative data was determined. The researcher also presented data using the liker scale techniques for determining the degree of agreement or extent of significance of variables that were studied.

### 4.2 Responses from respondents

**Table 1 Level of education**

	Frequency	Percentage
Graduate	81	92
Post Graduate	7	8
Total	88	100

**Source: Primary data (2017)**

The table 1 shows that 92% of total number of respondents are graduates while 8% of total number of respondents has attained post graduate level, The majority of respondents 92% are graduates and therefore RRA employs qualified staff who understands their role as tax auditors;

**Table 2 Auditor's experience in tax audit department.**

Period of work in years	Frequency	Percentage ( %)	Cumulative
Up to 2 years.	22	19.1%	19.1%
From 3to 5 years	31	33.1%	52.2%
Above 5 years	35	47.8%	100%
Total	88	100%	

**Source:** *Primary data, 2016*

The table 2 shows that 19.1% of total number of respondents have been in tax audit department between 0 and 2 years, 33.1% of total number of respondents worked there between 3and 5 years, and 47.8% of total number of respondents have5 years and above working experience in this field of tax audit, implying that majority of the respondents thoroughly understands the tax audit work and are experienced enough for the assignment.

### **What are the types of tax audit conducted in RRA**

52 out of 88 of the respondent answered that are working as comprehensive audit with 70%, this means that day to day there are working on economy, efficiency and effectiveness of organization's activity and resources by combating against fraud and corruption among taxpayers. 36 out of 88 were desk audit with 30 %, the role of this desk audit were to see if the tax payers paid accordingly to the duties they are performing.

### **What triggers you to conduct tax audit on specific taxpayers?**

All respondent said that they combined duties like non-declaration of taxes, tax deductions claimed, and inaccurate tax declarations submitted. These triggers are like a cycle, you cannot perform one and leave other, and for better conduct taxes it is better to tale both.

### **The primary purpose of tax audit is to;**

All 88 respondents from RRA said that their role as tax audit is to achieve tax revenue collection targets set and to improve the general taxpayers' compliance levels.

## Tax audit

To analyze the tax audit, the researcher has formulated two principal variables, the first one was Comprehensive Tax Audit and the second was Desk Tax audit. Each variable was composed by three questions as it is indicated in the tables below.

**Table 3 Comprehensive Tax Audit**

Statements	SD	Comment	Mean	Comment
Tax audit helps to achieve tax collection targets	0.81	Heterogeneity	2.36	High
Tax audit help taxpayers keep accurate financial records for better future tax declarations.	0.42	Homogeneity	3.21	High
Government collects a lot of money from taxpayers	0.26	Homogeneity	3.42	Very high
<b>Over all mean</b>			<b>2.99</b>	

**Source: Researcher (2017)**

The table of comprehensive tax audit had three questions, the first was asked if Tax audit helps to achieve tax collection targets it had a mean of 2.36 which is high while the respondent were 88, and standard deviation of 0.81 which is heterogeneity, this means that tax audit helps to achieve tax collection as indicated by 88 auditors of RRA. The second question was asked on Tax audit help taxpayers keep accurate financial records for better future tax declarations, it had a mean of 3.21 which is high, and standard deviation of 0.42 which is homogeneity, this indicated that when there is an action of audit, tax payers discovers how they declared wrong, this helps them to know how to make a good declaration for future time. The last question asked if Government collects a lot of money from taxpayers, it had a mean of 3.42 which is very high; and standard deviation of 0.26 which is homogeneity, this indicates that the big percentage of money used by the government comes from tax.

**Table 4 Desk Tax audit**

<b>Statements</b>	<b>SD</b>	<b>Comment</b>	<b>Mean</b>	<b>Comment</b>
Outcomes of tax audit can change taxpayers perception towards tax compliance	0.22	Homogeneity	2.65	High
Taxpayers feel comfortable and cooperate during tax auditing exercise.	0.36	Homogeneity	1.22	Low
A clear prediction of tax is difficult to make	0.40	Homogeneity	1.63	Low
<b>Over all mean</b>			<b>1.83</b>	

**Source: Researcher (2017)**

The table above of desk tax audit had three questions, the first one was asked on Outcomes of tax audit can change taxpayers perception towards tax compliance and it had a mean of 2.65 which is high, and standard deviation of 0.22 which is homogeneity, this means that among 88 respondents, the majority of them agree that the results from audit, give a big change to tax payers. Taxpayers feel comfortable and cooperate during tax auditing exercise had a low mean of 1.22, Standard deviation was 0.36 which is Homogeneity, this means that taxpayers are not comfortable during tax auditing action, maybe they think that auditors are coming to discover their frauds. The last question which was a clear prediction of tax is difficult to make had low mean of 1.63, Homogeneity of standard deviation of 0.40, this means that it is very hard to know if the taxpayers will pay tax in a good way.

## **Tax Compliance**

To analyze the dependent variable which is tax compliance, the researcher has formulated three principal variables: Accurate tax returns, Taxpayer book keeping and reporting, and Taxpayer behavior.

**Table 5. Accurate tax returns**

<b>Statements</b>	<b>SD</b>	<b>Comment</b>	<b>Mean</b>	<b>Comment</b>
Tax audit conducted render subsequent submission of accurate tax returns by taxpayers.	0.29	Homogeneity	2.68	High
Taxpayers submit accurate tax returns before audit is conducted	0.47	Homogeneity	3.01	High
Equity and fairness affect your decision in reporting income	0.50	Homogeneity	2.19	Moderate
			<b>2.62</b>	
<b>Over all mean</b>				

**Source: Researcher (2017)**

The table 5 of accurate tax returns had three questions, the first was Tax audit conducted render subsequent submission of accurate tax returns by taxpayers, it had a high mean of 2.68, and SD of 0.9 which is homogeneity, this means that the respondent agree that, some taxpayers submit the accurate information. Taxpayers submit accurate tax returns before audit is conducted had a mean of 3.01 which is high, and SD of 0.47 which is Homogeneity, this means that among 88 respondents, the majority agree that taxpayers are clear in their tax returns. The last question which was Equity and fairness affect your decision in reporting income had a mean of 2.19 which is moderate, and SD of 0.50, which is homogeneity, this shows that in reporting tax, there is justice, all tax payers are equal in tax declaration.

**Table 6. Taxpayer book keeping and reporting**

<b>Statements</b>	<b>SD</b>	<b>Comment</b>	<b>Mean</b>	<b>Comment</b>
We monitor how people view taxpayers business.	0.28	Homogeneity	3.65	Very high
Taxpayer's book shows the proper in formation	0.87	Heterogeneity	2.00	Moderate

Tax payers has legal documents to use in reporting tax	0.33	Homogeneity	3.20	High
			<b>2.95</b>	

**Over all mean**

**Source: Researcher(2017)**

This table of Taxpayer book keeping and reporting had three questions: We monitor how people view taxpayers business had a very high mean of 3.65;SD was 0.28 which is homogeneity, this means that the role of auditors is to keep an eye on how taxpayers pays their taxes. Taxpayer’s book shows the proper in formation had a moderate mean of 2.00, SD was 0.87 which is heterogeneity, this means that not always that all book of taxpayers are right, sometimes it has wrong information. Tax payers has legal documents to use in reporting tax had a high mean of 3.20,SD was 0.33 which is homogeneity ,means that taxpayers pays tax legal because of legal document they have like electronic billing machine, POS, TIN number and other documents.

**Table 7.Taxpayer behavior**

<b>Statements</b>	<b>SD</b>	<b>Comment</b>	<b>Mean</b>	<b>Comment</b>
Few people report all of their income to Revenue as government strategies requires.	0.25	Homogeneity	2.95	High
Taxpayers don’t to pay penalty rate charges because they have Attitudes towards taxes.	0.31	Homogeneity	2.37	High
Tax fraud reduces the amount of personal tax to be paid	0.40	Homogeneity	3.33	Very high
<b>Over all mean</b>			<b>2.88</b>	

**Source: Researcher (2017)**

The table above shows that few people report all of their income to Revenue as government strategies requires had a high mean of 2.95,SD was 0.25 which is homogeneity, this means that some taxpayers are still cheating taxes, they report less than what they have to report.

Taxpayers don’t to pay penalty rate charges because they have Attitudes towards taxes had a high mean of 2.37,SD was 0.32 which is homogeneity, this means that taxpayers pay taxes on due date because their good attitude of paying on time. Tax fraud reduces the amount of personal tax to be

paid had very high mean of 3.33,SD was 0.40 which is homogeneity, this means that the way taxpayers had high fraud, the more cash to be paid reduces, this affect the economy of a country.

**Table 7. Pearson correlation**

		Tax Audit	Tax Compliance	**
Tax Audit	Pearson Correlation	1	.673**	Correlation is significant at the 0.01 level (2-tailed)
	Sig. (2-tailed)		.000	
	N	88	88	
Tax Compliance	Pearson Correlation	.673**	1	
	Sig. (2-tailed)	.000		
	N	88	88	

level (2-tailed)

Pearson correlation is 0.673\*\* at 0.01 level of significance

**Hypothesis testing:**

The hypothesis of this research was “there is a positive impact of tax audit on the taxpayers' compliance in Rwanda”

The Pearson correlation coefficient of 0.673\*\* above reveals that there is a positive moderate relationship between tax audit and tax compliance. Therefore I accept the hypothesis that there is a positive impact of tax audit on taxpayer’s compliance in Rwanda. . In addition, the correlation of coefficient of 0.673 shows a gap of 0.327 that needs to be closed by the auditors of Rwanda revenue Authority.



## **CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter entails to make summary of the major findings of the study,' it further indicates the conclusions and recommendations of the study and suggestions for further research. The summary of findings, conclusion and recommendations are based on objectives which are the following: To assess the extent to which tax audit helps the tax officials to identify the tax evasion and other tax malpractices. To find out if tax audit helps in submission of accurate tax returns. To find out whether taxpayers cooperate during tax audit exercise. To examine whether tax penalties charged help improve the taxpayers' compliance.

### **5.2 Summary**

This study assesses the effect of Tax audit on tax compliance in Rwanda a case of Rwanda Revenue Authority (RRA). The main objective of this research is to assess the impact of tax audit on tax payers' compliance. Towards the fulfillment of general objectives of the research, the following will be specific objectives. To assess the extent to which tax audit helps the tax officials to identify the tax evasion and other tax malpractices, To find out if tax audit helps in submission of accurate tax returns, To find out whether taxpayers cooperate during tax audit exercise, To examine whether outcome of tax audit help improve taxpayers' compliance.

For this study, the researcher applied descriptive analysis using the fact that a descriptive research design is used to describe the data and characteristic about what is being studied. The population under this research consisted of tax auditors totalling 113. This study incorporated both quantitative and qualitative research approaches. The data generated for the study were interpreted using simple percentage. The Stratified sampling technique was used to select 88 respondents to be included in the sample. The main finding of the study include among other; revealed that tax audit towards achieving target revenue, that tax audit reduce the problems of tax evasion, that tax payers do not usually cooperated with tax audit personnel during the exercise. The Pearson correlation coefficient above reveals that there is a positive moderate relationship between tax audit and tax compliance. Therefore I accept the hypothesis at it is shown by the Pearson correlation of 0.673\*\* tested at 0.01 level of

significance. Also the correlation shows a gap of 0.327 that needs to be closed by the auditors of Rwanda revenue Authority.

The paper recommends that; Rwanda Revenue Authority's auditors should make all possible ways that Taxpayers feel comfortable and cooperate during tax auditing exercise because it is where they can be open and give all necessary information needed.

Rwanda Revenue Authority's auditors should have a clear prediction of tax that will be audited. RRA is recommended to continue intensify taxpayer education and sensitization programs across the country, it needs to keep strengthening the use of new technologies to ease the work of its partners in business.

### **5.3 Conclusion**

The researcher examined the impact of tax audit on the taxpayers' compliance in Rwanda and find out that tax audit contributes a lot on taxpayers compliance where there are other several factors that could contribute to taxpayers compliance including taxpayer education mechanisms aligned with the level and understanding of the taxpayer category for example small and medium taxpayers need basic tax trainings on record keeping for tax compliance purposes and this is not the training large and multinational corporations need; how government expenditure is accrued, taxpayer perception of a fair levy system, Knowledge on tax crimes, role of taxpayer family members and relatives, role of tax authority and taxpayer knowledge. The results indicated that tax knowledge leaves a significant effect on taxpayer's compliance. Moreover, taxpayer's compliance is particularly influenced by taxpayers personality attributes; taxpayers expressed income, and tax crime record.

### **5.4 Recommendations**

Rwanda Revenue Authority's auditors should make all possible ways that Taxpayers feel comfortable and cooperate during tax auditing exercise because it is where they can be open and give all necessary information needed.

Rwanda Revenue Authority's auditors should have A clear prediction of tax that will be audited. RRA is recommended to continue intensify taxpayer education and sensitization programs across the

country, it needs to keep strengthening the use of new technologies to ease the work of its partners in business. E-tax system, establishment of mobile tax education team for better taxpayer outreach programmes as business is changing the shape and so ordinary audits will not fit and improve compliance of all business models.

### **5.5 Suggestion for further research**

Lastly, I cannot claim that this research is exhaustive. Several issues, associated with the limitations inherent in this study, require further research considerations.

The similar study could be done to analyse other factors associated with compliance aspects like taxpayer enhanced education systems, impact of severe tax penalties on compliance for better augmentation of the research findings.

## REFERENCE

- Adams (1921) The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical
- Adesola (1998). California's Tax Gap. Sacramento, CA: Legislative Analyst's Office.
- Alm, J. (1999). Tax Evasion. In J. J. Cordes, R. D. Ebel & J. G. Gravelle (Eds.), Encyclopedia of
- Alm, spicer, and lundstedt (1990). The Effect of Audit Rates on the Federal Individual Income Tax, 1977-1986. National Tax Journal, 43(4), 395 - 409.
- Andreon Erard, & Fieinstein (1998). The Impact of IRS Audit on Taxpayer Compliance: A Field Experiment on Specific Deterrence. Paper presented at the Annual Meeting of the Law and Society Association.
- Barr, james & prest, (1977). The Return to Tax Simplification: An Econometric Analysis. Public Finance Quarterly, 17(1), 3-28.
- Barreca & Romachandran (2004). Tax Year 2001 Federal Tax Gap. Jems and Alley (2004). Tax Year 2001 Federal Tax Gap. Retrieved July 13, 2007
- Bhatia, & james (1976). Designing VAT Systems: Some Efficiency Considerations. Review of Economics and Statistics.
- Biber (2010). Department of Revenue Compliance Study.
- Bird & casanegra(1992). The Relationship between State and Federal Tax Audits. In M. Feldstein, Poterba James M. (Ed.), Empirical Foundations of Household Taxation (pp. 235-273). Chicago: The University of Chicago Press.
- Butler (1993). New York State Personal Income Tax Compliance Baseline Study, Tax Year 2002. New York: New York State Department of Taxation and Finance. Office of Tax Policy Analysis
- Carcon & Massey (2005). State Income Taxation. Baltimore: The John Hopkins University Press.
- Churchill(1992). A comprehensive strategy for reducing the tax gap.

- D.J. Casey, (1987). Trends in Compliance Activities Through Fiscal year 2007.
- Eshag, (1983). Why do people pay taxes? *Journal of Public Economics*, 48, 21-38.
- Fischer(2008). Consumer Price Index - All Urban Consumers.
- Forest, A., & Sheffrin, S. M. (2008). Complexity and Compliance: An Empirical Investigation. *National Tax Journal*, LV(1), 75 - 88.
- Grinnel & Williams (1990). Taxpayer Response to an Increased Probability of Audit: Evidence from a Controlled Experiment in Minnesota. *Journal of Public Economics*, 79(3), 455-483.
- Jackson & Milliron (1986). The Determinants of Individual Income Tax Compliance: Estimating the Impacts of Tax Policy, Enforcement, and IRS Responsiveness.
- John obi anyaduba PhD (2014). Estimating the Determinants of Taxpayer Compliance with Experimental Data. *National Tax Journal*, XLV(1), 107- 114.
- Kirchler, (2007). Tax Compliance. *Journal of Economic Literature*, 36, 818 - 860.
- Lymer and eats(2009). The Influence of Tax Audits on Reporting Behavior. In J. Slemrod (Ed.), *Why People Pay Taxes* (pp. 95 - 115). Ann Arbor: The University of Michigan Press.
- Murphy, & Higgins (2001). Income tax evasion: A theoretical analysis. *Journal of Public Economics*.
- Nachmas (1978). National Profile and Enforcement Trends Over Time: Federal Internal Revenue Collections.
- Nemiraski and viring(2003). The Minnesota Income Compliance Experiment: State Tax Results.
- Palil, (2010). Deterrence and Beyond: Toward a Kinder, Gentler IRS. In J. Slemrod (Ed.), *Why People Pay Taxes* (pp. 311- 329). Ann Arbor: The University of Michigan Press.
- Results. Paper presented at the National Tax Association 95th Annual Conference on Taxation, Orlando, Florida.

Roth et al, (1996). The Effects of Audits and Socioeconomic Variables on Compliance. In J. Slemrod (Ed.), *Why People Pay Taxes* (pp. 67 - 90). Ann Arbor: The University of Michigan Press.

See Jackson & Jaouen (2004). *Individual Income Tax Gap: Tax Year 1999*.

Spicer and Peger (1986). *State Personal Income and Sales Taxes, 1977-1983*. In H. S. Rosen (Ed.), *Studies in State and Local Public Finance*. Chicago: The University of Chicago Press.

*Taxation and Tax Policy* (pp. 354-356). Washington, D.C.: The Urban Institute Press.

Teera & Hdson (2004). *Audit Information Dissemination, Taxpayer Communication, and Compliance: An Experimental Approach*. Retrieved October 14, 20015, from <http://www.irs.gov/pub/irs-soi>

Uremadu (2000). *An Empirical Analysis of Federal Income Tax Auditing and Compliance*. *National Tax Journal*, XLI(1), 61 - 73.

## **QUESTIONNAIRE**

**Dear Auditors,**

I am **KAREMERA Fred**, a Masters of Business Administration student at **UR-CBE**, Option of Finance. I am carrying out a research titled “**The Impact of Tax audit on taxpayers’ compliance in Rwanda**” for a partial fulfilment of a Masters’ degree in Business Administration. I humbly request you to fill this questionnaire in order to allow me collect more and adequate information. You have to tick in the boxes provided for the multiple choice questions, and write in the space provided for open questions and this information is only for academic purpose;

Thank you very much for your kind collaboration.

Yours sincerely,

**KAREMERA Fred**

**SECTION A: DEMOGRAPHIC QUESTIONS**

**INSTRUCTIONS:**

A researcher requests you:

- To value the research and provide the right information.
- To opt for the right answers.
- To explain your answer briefly if applicable.

Thank you very much, I appreciate you services for this cause.

**1. Level of education**

- a) Graduate Level.....
- b) Post graduate Level

**2 How long have you been in tax audit division?**

- A) 0-2 Years.....
- B) 3-5 Years.....
- c) Above 5 Years

**3) What are the types of tax audit conducted in RRA?**

- a) Desk audits .....
- b) Comprehensive audits.....
- c) Others please specify.....

**3) What triggers you to conduct tax audit on specific taxpayers?**



- A) non-declaration of taxes
- B) tax deductions claimed
- C) Inaccurate tax declarations submitted.
- D) Others please specify.....

4. The primary purpose of tax audit is to;

- a) To achieve tax revenue collection targets set;
- b) To improve the general taxpayers' compliance levels.
- C) Others please specify.....

## SECTION B: TAX AUDIT

Please tick the response that you think is most appropriate to each question and indicates your response in the space provided. Tick whichever is applicable to you: 1=Agree(A), 2=Disagree (D)

Indicators	A	D
<ul style="list-style-type: none"> <li><b>Comprehensive Tax Audit</b></li> </ul>		
Tax audit helps to achieve tax collection targets	1	2
Tax audit help taxpayers keep accurate financial records for better future tax declarations.	1	2
Government collects a lot of money from taxpayers	1	2
<ul style="list-style-type: none"> <li><b>Desk Tax audit</b></li> </ul>		
Outcomes of tax audit can change taxpayers perception towards tax compliance	1	2
Taxpayers feel comfortable and cooperate during tax auditing exercise.	1	2
A clear prediction of tax is difficult to make	1	2

## SECTION C: TAX COMPLIANCE

Statements	A	D
<ul style="list-style-type: none"> <li><b>Taxpayer book keeping and reporting</b></li> </ul>	1	2
We monitor how people view taxpayers business.	1	2
Taxpayer's book shows the proper information	1	2
Tax payers has legal documents to use in reporting tax		

• <b>Taxpayer behavior</b>	1	2
Few people report all of their income to Revenue as government strategies requires.	1	2
Taxpayers don't to pay penalty rate charges because they have Attitudes towards taxes.	1	2
Tax fraud reduces the amount of personal tax to be paid	1	2
• <b>Taxpayer book keeping and reporting</b>		
We monitor how people view taxpayers business.	1	2
Taxpayer's book shows the proper in formation	1	2
Tax payers has legal documents to use in reporting tax	1	2

*Thank you for your participation!!!!*