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School of Public Administration and Management, Mzumbe University
P.O. Box 2, Mzumbe Morogoro, Tanzania
Tel. +255 023 2604380/1/3/4, Fax +255 023 2604382/2600671
E-mail: cepole@mzumbe.ac.tz; Website: www.mzumbe.ac.tz

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## Editorial Board of the Journal of Policy and Leadership

## Foreword

The Journal of Policy and Leadership is published bi-annually (January and June) to advance the study and practice of leadership, policy and public management through publication of articles written by researchers and academicians well informed on the respected fields.

The main purpose of the journal is to bring together a compendium of papers that draw on the Tanzanian and larger African context to advance the science of leadership, policy and public management. By focusing on theory-guided research, we hope to not only stimulate a great integration of leadership, policy and public management but also to propose constructive alternatives and/or future research agendas to guide works in leadership and policy management in Tanzania and Africa.

## CONTENTS

# The Potentials of Mobile Payment System on Improving Tax Revenue and Compliance in Tanzania[1]

*Honest Prosper Ngowi[2] and John L. Mmasi[3]*

## Abstract

*The study informing this paper examined impacts of mobile payment system on improving tax revenue and compliance in Tanzania, with the specific reference to Dar es Salaam tax regions. Specifically the study was set out to find out the extent to which mobile payment system has helped individuals and companies to pay for their motor vehicles and motorcycles fees, customer compliance level and the improvements made in tax revenue collection. Both primary and secondary sources of data were used. Data were processed by using statistical package for social science (SPSS). Findings from the study show significant increase in tax revenue after introduction of mobile payment system. It is recommended that the use of the system should be enhanced.*

**Keywords:** Mobile payment, tax revenue, tax Compliance

[2] Honest Prosper Ngowi is an associate Professor of Economics, Mzumbe University. He is also currently serving at a capacity of College Principal, Mzumbe University - Dar es Salaam Campus College

[3] John L. Mmasi is an MBA corporate graduate of Mzumbe University in Tanzania, Dar es Salaam Campus College, mentored and supervised by Prof. Honest Prosper Ngowi

## Introduction

Mobile phone is one of the most rapidly growing new technologies in the world (Rebello, 2010). In 2001, cell phone subscriptions were less than one billion worldwide with the majority of the subscriptions from the developed countries (Kelly, 2009). At the end of 2010 however, mobile phone subscriptions from developing countries outnumbered that of the developed countries (Rebello, 2010). Kelly, (2009) argued that, the mobile phone industry continues to grow fast as it was in the past few decades. Mobile technology continues to increase the number of capabilities and services to accommodate the growing needs of today's modern life. In the words of Krolikowski, (2014), the busiest people around the world prefer the easiest way of making their transaction obligations. With the development of industries and intensive technological changes, there occurred intensive revolution particularly in electronic commerce (e-commerce).

According to Tanzania Communications Regulatory Authority (TCRA) statistical report (2007 – 2016), there is rapid increase of mobile money subscribers in Tanzania, from 6,889,207 by July 2007 to 40,044,186 by December 2016. Mobile money services available in Tanzania include Vodacom's M-pesa launched in 2009, Tigo pesa and Zantel Ezy-pesa launched in 2010, and Airtel money launched in 2011. All of these are managed by mobile network operator (MNO) as opposed to a bank. All require a customer to register for a mobile wallet or stored value account (TCRA, 2016).The primary use of mobile money in Tanzania is the ability to send and receive money to and from friends and family, referred to as person-to-person money transfer (P2P) transfers. A variety of additional services have been applied to the product, increasing the use cases for the mobile wallet (USAID, 2013).

Communication industry in Tanzania has deployed mobile phone technology to be used for payment of different goods and services. Several of the corporate entities such as Tanzania electric supply company limited (TANESCO) and Dar es Salaam water and sewerage corporation (DAWASCO) are utilizing this facility for payment of their services (USAID, 2013).

Tanzania Revenue Authority (TRA) started the use mobile payment system for tax payment of motor vehicles in August 2013. In its efforts to improve the quality of services provided to taxpayers, the authority has continued to take a number of measures to improve its automated systems in order to modernize its operations and support the its goal of increasing revenue in a cost effective way (TRA, 2013). Paying bills through mobile phones

may be fast and convenient. But it may also help to cut down corruption. Revenue collection, governance and household financial management can improve through the use of mobile system payment options. (TRA, 2013).

Tax payment through mobile services was introduced by TRA in 2013 with the objective of improving tax revenue collection due to its administration and administrative simplicity. It avails services to tax payers all the time from anywhere, reduces costs of compliance and improves tax compliance. Tax payers have been using this method to remit taxes, particularly that relate to motor vehicles and motorcycles registration fees, road license, fire fee as well as change of ownership and particulars. As a result, a noticeable tax revenue collection has been observed from 2013 to 2016.

However, since it assumed office in late 2015, the fifth-phase Tanzanian government has made significant efforts in tax collection through administrative measures. In this case it is yet clear to what extent the introduction of mobile phone payment system has really increased tax revenue collection in the economy. It is against this background that the study informing this paper was undertaken. The overall objective was to assess impacts of mobile payment system on improving tax revenue payment and compliance in Tanzania with a focus on motor vehicle and motorcycle taxes.

**Literature review**

There is very limited literature on impacts of mobile payment system (Rebello, 2010). Jones (2007) stated that, mobile payment system is a method which enables merchant to obtain payment for a purchase from a customer who uses a mobile communication device to make the purchase, including uploading an application program to the customer's mobile communication device and receiving a request for payment from a merchant terminal. The request for payment includes an identification code of the customer's mobile communication device and a purchase amount. According to Cobham (2010) electronic tax system has been around globally for the last 30 years. Its history began in 1986 as a small test program in which only five tax payers from Cincinnati, Raleigh Durham, and Phoenix agreed to participate. Since then, electronic tax system has grown to become common place, serving millions of taxpayers every year.

According to USAID (2013) mobile payments significantly reduce opportunities for corrupt officials to siphon funds, help to improve bill collection and to create more accurate data collected from bills. The money lost to poor collection and billing is estimated to be about $500,000,000 (ibid) annually. Claire et al,(2012) argued that despite the impressive achievements made by mobile payment system to bank the unbanked, the development of mobile money is in its infancy and the real challenge is how best to encourage effective partnership between businesses, governments (particularly financial regulators) and other key stakeholders to promote financial inclusion.

The problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of tax noncompliance and ultimately finding ways to reduce it, are of obvious importance to nations around the world. (Andreoni et al. 1998). The use of electronic system is among the strategies that aim at increasing voluntary compliance. Electronic revenue collection in developing countries has gained increasing prominence in the policy debate recently. The recent trends in public taxation stress the need of developing a system of tax assessment and collection that involves internet services (Nisar,2013). Governments in developing countries face great challenges in collecting tax revenues, which result in a gap between what they could collect and what they actually collect. One of this challenges is the embracing of emerging technologies and tax payment methods that are more efficient so as they can reduce wastage (Muita,2011).

Mobile phones have drastically reduced communication costs, thereby allowing individuals and firms to send and obtain information quickly and cheaply on a variety of social, political, and economic topics. In addition, almost every mobile phone subscription in developing countries operates on a pay-as-you-go basis rather than through monthly subscriptions (Aker, 2009). The low complexity of cell phones also influences the rate of adoption in Tanzania. Mobile phones are fairly easy to use and they will continue to become easier and easier as they develop through time. Although the technology behind mobile phones is complex, usage of the device is simple, only requiring users to mimic interpersonal talk (Chigona & Licker, 2008). According to Maisiba, (2016), revenue authorities should come up with an easy application that can make tax registration, filing and payment easy for the taxpayers. Deadlines and working hours should also be streamlined to suit the tax payer's schedules in whatever means that the department may think is good for both.

In Tanzania, mobile telephone has been cited as the fastest growing ICT sub-sector. TCRA indicates that the country had 42.878607 million mobile registered subscribers at the end of December 2016 (TCR, 2017). In its monetary policy statement of February 2012, the Bank of Tanzania (BoT) highlights how mobile financial services have contributed significantly towards broadening access to financial services in Tanzania. It highlights that mobile payment system is at the crossroad of mobile communication and financial services, its powers in distribution and marketing disguised under technological façade.

In 2011, the average payment made at a water office was worth 18.29 USD while those made at wireless pay points were worth 13.40 USD. The dominant mobile money service had payments worth 16.16 USD. Previous research has indicated that the monthly billing and payment cycles that dominate water provision around the world are a barrier to accessing officially-provided water services in low-income countries. Higher payment frequencies tend to offset lower payment values for mobile-enabled payment methods (Wireless Water Report, 2012). Wireless Water Report *(ibid.)* found that mobile payments significantly reduced opportunities for corrupt officials to siphon funds, helped to improve bill collection and helped to create more accurate data collected from bills.

Since its introduction in 2000s mobile payment has achieved to reduce corruption and misuse of government fund to a greater extent. This is due to the fact that the application of electronic wired system for paying various services offered to the public do not entail for bureaucracy, what the public need is having either a mobile phone connected with mobile money services or having a credit card or debit card to allow the transfer (Wireless Water Report, 2012). Information Communication Technology (ICT) has strong influence on the performance of tax administrators in collecting tax revenues. Chatama (2013) found that ICT contributes significantly on the tax collections in the large tax payers' department of TRA. ICT has improved processing returns in time, minimizing operational costs and timely access of customers' tax records. Therefore, tax authorities should focus of improving ICT infrastructure in order to easy tax collection mechanisms and boost government revenue.

**Methodology**

A cross-section survey was used to collect information from different tax payers using a structured questionnaire. A total of 100 taxpayers were randomly selected from Dar es Salaam region. The population involved in this study includes individuals and business tax

payers in Dar es- Salaam. Four areas namely TRA head office, Ilala, Kinondoni and Kibaha Pwani tax regions were used to obtain a representative number for the sample size.

## Research findings, analysis and discussion

This section presents and discusses key findings in line with the objectives of the paper.

### Respondents' awareness on the use of mobile payment system

The mobile payment system has been used in the study to mean technology that can enable users to pay for various transaction or services using their mobile phones. There were several users of mobile payment system. These include individual taxpayer, private companies and public companies. The research was interested in two main themes with sub theme as discussed below.

### Reasons for an increased use of mobile payment system

The findings generally show that 81% of respondents agree that mobile payments are helpful and less time consuming method of connecting business. A total of 80% agreed that it is less costly as compared with other methods of payment and 81% agreed that the technology has helped to minimize corruption especially on TRA payment system.

### The way mobile system was used to pay for charges

The mobile payment system is also used for paying TRA motor vehicles and motorcycles charges such as transfer tax, registration fees, annual fees, penalties, change of ownership and change of vehicle particulars. The observation shows that majority are not familiar with TRA motor vehicles or motorcycles payment system using mobile phone. There was serious issue on the use of payment menu from mobile phones especially for TRA tax payment. It was found that TRA uses service providers such Vodacom, Tigo and Airtel. Unlike other services that people use mobile phone to pay for, majority were not familiar with TRA payment system on mobile phone.

> "I don't know how to use my mobile phone to pay for my car's annual licenses fee. I normally ask my clearing agent to pay for me because is the one who knows the procedures. It is too difficult to use as I tried it two years back and found myself entering mobile service providers number where payment reference number was supposed to be" (A respondent)

This argument is strongly supported by other empirical evidence. According to Maisiba, (2016), revenue authorities should come up with an easy application that can make tax registration, filing and payment easy for the taxpayers. Another observation shows that there are some people who go direct to Max Malipo shop or TRA office as it was before for motor vehicles fee payment.

> "I normally go straight to Max Malipo shop to pay for my car annual licenses. After confirmation of payment then I go to TRA for print out. Sometimes I ask my messenger to go direct to TRA office and ask in charge for motorcycles to provide him with payment reference number. After obtaining the number then he goes the back for payment".

**Required changes for improving TRA mobile payment system**

It was observed that there are three entities that make TRA mobile payment system. The entities are TRA central motor vehicles system (CMVRS), Aggregator (Maxcom Africa) and mobile services providers (Vodacom, Tigo and Airtel). The three components depend on each other. Observation from TRA system manager revealed that, in order to increase more the collected revenue through mobile payment system, the authority should think of engaging mobile service providers directly instead of allowing transaction process to pass through Maxmalipo.

**Observed changes in collected revenue after the use of mobile phone payment**

The findings obtained from secondary source revealed that, there is significant increase in tax revenue collected after introduction of mobile payment system as summarized below (motor vehicles transaction before and after introduction mobile payment**).**

**Table 1: Motor vehicles transactions report from July 2012 to June 2014**

| **Motor vehicle taxes** | **July 2012 – June 2013** | **July 2013 – June 2014** | **Change in Tsh** | **Change in %** |
|---|---|---|---|---|
| Motor Vehicle Transfer Tax | 5,334,680,415.04 | 939,197,584.93 | | |
| Motor vehicle registration fees | 34,624,297,958.53 | 36,843,578,092.74 | | |
| Motor vehicle annual fees | 83,141,883,733.66 | 126,584,147,472.77 | | |
| Stamp duty on sale of vehicles | 1,606,062,619.42 | 435,131,830.88 | | |
| Motor vehicle penalties | 2,060,238,298.57 | 348,714,140.40 | | |
| Personalized Plate Numbers | 49,723,574.00 | 23,820,900.00 | | |
| **Total** | **126,816,886,599.21** | **165,174,590,021.72** | | |

**Source**: TRA central accounting report (2012-2014)

Table 1 above shows that the total revenue collected through mobile payment system increased significantly from Tshs. 126,816,886,599.21 before introduction of mobile payment system in 2012/2013 to Tshs. 165,174,590,021.72 in 2013/2014 after introduction of the technology. The overall payment for motor vehicles and motorcycles tax increased by Tshs. 38,357,703,422.51 which is equivalent to 13.14%.

**Table 2: Motor vehicles transactions report from July 2014 to June 2016**

| **Transaction type** | **Value of transaction July 2014 – June 2015** | **Value of transaction July 2015 – June 2016** |
|---|---|---|
| Amend title holder | 174,620,000.00 | 188,200,000.00 |
| Change of ownership | 10,920,698,611.15 | 11,068,658,149.93 |
| Change person details | 2,425,000.00 | 572,500.00 |
| Change vehicle particulars | 566,960,000.00 | - |
| Data correction | 10,000.00 | 550,510,000.00 |
| Deregistration | 74,720,000.00 | 10,000.00 |
| Duplicate license card | 140,990,000.00 | 61,830,000.00 |
| Duplicate registration card | 1,102,620,000.00 | 131,687,500.00 |
| Introduction update | 9,420,000.00 | 428,045,000.00 |
| Motor bike reallocation | 38,309,940,500.00 | 9,970,000.00 |
| Motor vehicle customs paid update | 98,967,500.00 | 34,047,503,000.00 |
| New registration | 30,000.00 | 162,730,000.00 |
| New registration taken | 145,310,000.00 | 2,505,000.00 |
| Personalized number registration | 10,000.00 | 205,410,000.00 |
| Reallocation | 1,091,490,000.00 | 50,000,000.00 |
| Relicensing | 115,099,119,250.00 | 24,322,500.00 |
| Re-registration | 600,000.00 | 137,318,619,760.00 |
| Reprint registration card | 10,000.00 | - |
| **TOTAL** | **167,737,930,861.15** | **184,250,573,409.93** |

**Source**: TRA central accounting report (2014-2016)

Table 2 shows motor vehicles transactions report from July 2014 to June 2016. This is the period after introduction of mobile payment system. Findings in Table 2 demonstrates that total revenue collected through mobile payment system had significant increase from Tshs. 167,737,930,861.15 in 2014/2015 to Tshs. 184,250,573,409.93 in 2015/2016 after introduction of the mobile payment system. The overall payment for motor vehicles and motorcycles tax increased by Tshs. 38,357,703,422.51 which is equivalent to 4.70%.

**Discussion of the findings**

Observation revealed that 62% of respondents agreed that there is an increase use of mobile payment system in today's business as compared to the situation five years back. The findings are in line with TCRA mobile subscribers' report of 2017. In Tanzania, mobile telephone has been cited as the fastest growing ICT sub-sector. The findings indicate that 86% of respondents know how to use a mobile phone to pay for different services or transactions. This implies that majority are aware on how to transact using mobile phone. Only 14% do not know how to use the system. However, findings revealed that only 63% know how to use mobile system to pay for motor vehicles transactions report from July 2014 to June 2016 motor vehicles or motorcycles charges and 35% had never used the system.

According to the interviews conducted, some people use clearing agents to pay for their motor vehicles charges, others go direct to TRA offices for help and last group pay the charges through Maxmalipo without passing through mobile service providers. Another observation revealed that 18% of respondents face difficulty on how to use mobile payment menu to pay for TRA motor vehicles and motorcycles charges. The findings revealed that, the change in collected revenue is due to introduction of mobile payment system. According to TRA findings, there was significant increase in collected motor vehicles and motorcycles tax revenue from 43.43% before adoption of mobile payment system in 2012-2013 to 56.57% to 2013-2014 and 47.65% in (2014-2015) to 52.35% in 2015-2016 after the introduction of mobile payment system. With the cost reduction there occurred revenue increase within the revenue authority. This is due to the fact that new methods of collecting revenue are based on digital technological development. It entails that there is no misuse of the collected revenue because everything is recorded.

**Challenges on the use of mobile payment system**

The study revealed that there were challenges from both TRA and mobile providers' sides. Some 30% of the respondents agreed that there was general network problem that hinder

successful process of payment, 21% revealed that there is delay on feedback after completing payment process through mobile phone. Furthermore 18% stated that payment menu for TRA in the mobile is not friendly. It contains many steps as compared with other services menu like Dawaco, Tanesco and TVs. The findings are in line with the empirical study conducted by other researchers. The study was seeking to find out if the generic technology adoption models are sufficient to explain factors consumers consider when they decide whether or not to adopt new payment services. Dahlberg, et al, (2007) argued that, mobile payment services have failed to entice consumers. An apparent conclusion is that these services have failed to meet consumers' payment needs. Deeper understanding of consumer adoption motivations is thus needed to be able to develop and launch mobile payment system successfully.

**Conclusion**

Based on the findings of the study, it is seen that there are many advantages of using electronic system in revenue collection in general and tax revenues in the context of this paper in particular. Apart from increase in revenue collection after the use of the system, there is reduced cost, increased efficiency and compliance, reduced possibilities of funds misuse and corruption.

**Recommendations**

In order to improve tax revenue collection and compliance a number of recommendations are given. These include the following: TRA as the government revenue collection agent should put more effort on educating tax payers on how to use mobile system for paying different types of motor vehicles and motorcycles taxes. It has to use different approaches or techniques to ensure the message is clearly delivered to taxpayers. Currently, TRA is using televisions, radios, fliers, brochures, social media etc to educate people on different issue related to taxes.

The findings show that, 86% of respondents know how to use mobile phone to pay for other services like TV, DAWASCO and TANESCO but for TRA motor vehicles and motorcycles only 63% can do and majority are found in urban areas. Based on this finding, TRA should put more effort on ensuring that people are also aware on how to pay for tax revenue using mobile system. In today’s world, advertisement through newspaper, printed materials, television and radio are tradition methods. Most of Tanzanian have no habit to read, others have no time to watch television. Therefore, TRA should improve the current

method through agreement with media to provide education at a reasonable time for both working days.

Fliers and any printout should be spread at different locations where people visit or congregate regularly for instance at supermarket, petrol station, some private and public companies, car stations and outdoor advertisement. Apart from improving the existing methods TRA should also think of engaging knowledgeable advertising agencies who are capable of delivering the message in a very simple way that any normal person can understand. The same can be extended to rural areas where broadcast advertisement through radios or and television is a challenge.

TRA should improve both system and network availability in order to provide reliable services to tax payers. Items of system, there should be high availability and load balancing set up. Items of network availability, there should be enough bandwidth that can accommodate pool of transactions that pass through tra network. Also there should backup network providers who can take over in case of down time from primary network link. Refund should not be an issue when there is a mistake in payment. TRA should be smart in handling customer's compliance especially when there is a mistake made during payment process to tra account. There should a dedicated team who are capable enough to assist customers and provide timely response once the issue is on tra side. Mobile service providers should provide reliable network services to customers. This includes use of alternative link rather than depending on TTCL fiber optic network. There should be a knowledgeable person at customers' service desk who can assist tax payers in case of any issue that fall on mobile service providers side.

**Policy implications**

For successful implementation of the above recommendations, political commitment and administrative capacity is required. If the government does not see the importance of investing in technology, it will be difficult for TRA to achieve its objectives. For instance, to improve capacity, reliability and efficiency of TRA system application system cost element is inevitable. To improve compliance through education and use of different advertisement involve some cost. All these depend on the approved government budget that has been allocate to tra for ICT activities. Improving TTCL fiber optic network requires government initiatives. Currently all network services providers are forced to user TTCL fiber optic network but the link is not reliable due to poor infrastructure and capacity. The TCRA policy

should allow the network service providers to use the alternative link sources where necessary in order to ensure smooth operation of their business. On the other hand, improving social services such as health, infrastructures, education, water, electricity and security depend on government revenue. TRA is the government agency for revenue collection. On ensuring effective government revenue collection and compliance, TRA introduced the mobile payment system but compliance level depends on among other things how the government spends the collected revenue on improving the social services.

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