



THE EFFECTIVENESS OF TAX AMNESTIES IN ENHANCING REVENUE GENERATION

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Abstract

The relationship between tax amnesty and compliance levels of taxpayers depends on the objective in which the tax authority grants the tax amnesty. The purpose of this desktop study investigation was to determine the effectiveness of tax amnesties in enhancing revenue generation. We have located the research of this paper within a qualitative approach (Gay 1992; Babbie 1998; Leedy & Ormrod 2013). This decision was informed by the fact that this paper is not interested in the quantification of data, but its main interest lies in the painting of qualitatively rich picture of the phenomena being studied within the context of limited respondents (Hall 2007; Maserumule 2011; Baugh & Guion 2016). To this end, the problem of this study is explained descriptively and theoretically for generating a crispy understanding of the effectiveness of tax amnesties in enhancing revenue generation. In terms of data collection, the authors sourced and reviewed literature on the topic. Among others, these sources included journal articles, books, magazines and newspapers. The study revealed that factors such as high compliance cost, tax audits and tax rates affect tax compliance with amnesties. More so, tax education, the use of IT and simplification of tax laws and procedures within a tax system can be measures that can be implemented to motivate tax compliance other than tax amnesty. Studies reviewed showed that the relationship between tax amnesty and tax compliance depends on the objective tax amnesty is granted for.

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1. Introduction

This article focuses on reviewing the literature, which is significant to this research study around the world. Different scholars and researches were evaluated and analysed to explore the purpose of this research study. It went on to provide a systematic analysis of the empirical and theoretical evidence relating to the evaluation of the impact of

the impact of tax amnesties in enhancing revenue generation and ensuring future tax compliance of Lion Match Private Limited in Harare Urban. The study also reviewed the relationship between tax amnesty and level of tax compliance in order to identify measures ZIMRA can adopt to motivate compliance levels. The article also examined the factors affecting levels of complying with tax amnesties and



identified best practices and measures that can be adopted in order to promote tax compliance and revenue generation.

2. Research Methodology

We have located the research of this paper within a qualitative approach (Gay 1992; Babbie 1998; Leedy & Ormrod 2013). This decision was informed by the fact that this paper is not interested in the quantification of data. But its main interest lies in the painting of qualitatively rich picture of the phenomena being studied within the context of limited respondents (Hall 2007; Maserumule 2011; Baugh & Guion 2016). To this end, the problem of this study is explained descriptively and theoretically for generating a crispy understanding of the impact of tax amnesties in enhancing revenue generation and ensuring future tax compliance. In terms of data collection, the authors sourced and reviewed literature on the topic. Among others, this sources included journal articles, books, magazines and newspapers in the area under study.

3. Literature Review analysis and Discussion

3.1. Theoretical Framework

This section of the article provided a description of the theories that support the study.

3.1.1. Economic Deterrence Theory

The economic deterrence theory was proposed by (Allingham and Sandmo, 1972) based on the project of Becker (1968) on the economics of crime model (Widianto, 2015). This theory is based on the concept that, if the consequence of committing a crime outweighs the benefit of the crime itself, the individual will be deterred from committing the crime. The economic deterrence theory states that

taxpayers' behaviour is influenced by factors determining the benefits and cost of evasion, such as the tax rate, the probability of detection and penalties for fraud (Ali, Fjeldstad & Sjursen, 2014). The theory emphasizes the benefits that can accrue to individuals who comply with the law. Therefore, according to the theory, in order to improve compliance, penalties for non-compliance should be increased. Thus, there is a generally negative relationship between tax amnesty and tax compliance. Increase in tax amnesty would lead to a decrease in tax compliance and vice versa (Oladipupo & Obazee, 2016). The economic deterrence theories hold that taxpayers are a moral utility maximizes. Economic motives such as profit maximization influence them. Therefore, they analyse alternative compliance paths for instance whether or not to evade tax (Thananga, Wanyoike & Wagoki, 2013).

3.1.2. Fiscal Exchange Theory

The fiscal exchange theory suggests that the presence of tax amnesty introduced by the government may motivate compliance and this increases compliance by providing an opportunity for people who owe back taxes to pay some or all of what they owe, often with some penalties and interest waived. (Ali, Fjeldstad & Sjursen, 2014). According to the theory, although most taxpayers cannot assess the exact value of what they receive in return for taxes paid, it can be argued that they have general impressions and attitudes concerning their own and others' terms of trade with the government (Oladipupo & Obazee, 2016). The fiscal exchange theory presupposes that it is reasonable to assume that taxpayers' behaviour is affected by their satisfaction or lack of satisfaction with

their terms of trade with the government. Thus, if the system of taxes is perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the taxpayers to adjust their terms of trade with the government (Musau, 2015). Therefore, the theory posits that individuals may pay taxes because they value the goods provided by the government, and they recognize that their payments are necessary both to help finance the goods and services and to get others to contribute. The existence of positive benefits may increase the probability that taxpayers will comply voluntarily without the introduction of tax amnesty (Ali, Fjeldstad & Sjursen, 2014).

3.1.3. Social Influence Theory

According to the social influence theory, compliance behaviour and attitudes towards the tax system are thought to be affected by the behaviour and social norms of an individual's reference group. It is reasonable to assume that human behaviour in the area of taxation is influenced by social interactions much in the same way as other forms of behaviour. Tax behaviour and attitudes may, therefore, be affected by the behaviour of an individual's reference group such as relatives, neighbours, and friends (Ali, Fjeldstad & Sjursen, 2014). The social influence theory posits that taxpayers are influenced to comply with their tax obligations by psychological factors. The Theory focuses on the taxpayers' morals and ethics and suggests that a taxpayer may comply even when the probability of detection is low (Atawodi & Ojeka, 2012).

3.2. Relationship between tax amnesty and levels of tax compliance

The relationship between tax amnesty and compliance levels of taxpayers depends on the objective in which the tax

authority grants the tax amnesty. The main objective the government can provide a tax amnesty is to broaden tax base, short term revenue generation and stimulate compliance levels.

3.2.1 Broadening tax base

Government can grant tax amnesty provision with the main aim of broadening tax base through allowing all unregistered business operators to come forth and register with respective tax authority (Young et al, 2013). (Kara,2014) states that there is a positive relationship between amnesty and compliance when government introduces amnesty with an objective of widening tax base in the sense that new taxpayers especially Lion Match Private Limited that is operating under shadow economy participate in the amnesty. (Kinsey and Smith,2012) reiterated that, government flagship program, tax amnesty is not merely to bring undeclared assets back to government but also to increase the country's tax base thereby resulting in a positive relationship between tax amnesty and compliance levels of tax payers. Marchese (2014) discovered that tax amnesty and compliance have a positive relationship if government introduces amnesty program with the view to widen tax base of the nation in the view that if strict measures are adopted such as regular tax audits and inspections, positive results on compliance are yielded. However, (Kircheler et al, 2015) brought a different approach on the relationship between tax amnesty and level of compliance when amnesty's objective is to widen tax base. Arguments were outlined that expectations of an amnesty significantly reduce tax compliance thereby providing evidence of an inverse relationship. The negative relationship between amnesty and compliance exists

when the objective of the amnesty is to widen the nation tax base, because taxpayers that are unregistered business operators are unwilling to participate if honest taxpayers resent the special treatment of tax evaders, then their willingness to comply may decline (Luitel, 2016). In addition, if individuals come to believe that the amnesty is not simply a one-time opportunity, then they may reduce their current compliance in anticipations of another future amnesty thereby a decline in the level of taxpayer participation (Aktan, 2012).

3.2.2 Short-term Revenue generation

The relationship between compliance and tax amnesty is influenced by the government 's objective to rise short-term revenue generation. (Fisher at el, 2015) pointed out that tax amnesties are a controversial revenue-raising tool as individuals takes advantage of the grace period to settle outstanding tax obligation. According to (Wilde and Durbin,2013), when government introduces amnesty with an objective to raise short term revenue, a positive relationship with compliance levels of taxpayer exists due to successful government collecting money from both underground domestic economy and capital held abroad. The most evident potential benefit is windfall revenue gain that accrues to the government from the collection from past debts thereby providing evidence of positive relationship between compliance and tax amnesty since taxpayers will be settling their tax liabilities (Feld and Frey, 2013). Further evidence on relationship between amnesty compliance on objective to raise short term revenue in order to quench liquidity problems was reviewed by (Cowell,2012), that the amnesty is both labour and money saving since the

taxpayer submits to voluntary disclosure and therefore and some economic reasons for complying thereby increasing the taxpayer compliance rate.

3.3 Measures ZIMRA can adopt to motivate compliance levels

The revenue collected is used for the provision of improved public services which in turn boosts taxpayer compliance. In a bid to enhance revenue collections, the state should build an atmosphere or environment that improves awareness and willingness among taxpayers towards satisfying their tax obligations voluntarily (Malima 2013). It is the responsibility of the tax authority to come up with ways to urge taxpayers to have the capacity to take an interest in the satisfaction of their tax obligations (Mukhlis, Utomo and Soesetyo 2014). Enhancing tax compliance requires long term changes, starting with reinforcing the association and administration of the tax office and implementing sound collection systems (Russell 2015). Khaflan (2012) suggested that voluntary compliance can be improved through tax education, an improved self-assessment system and provision of tax incentives among others.

3.3.1 Tax deduction

Tax authorities should make available tax education and assistance programs as they help Lion Match Private Limited and their advisers understand their obligations and entitlements (Rusell ,2015). This is usually done through public awareness campaigns. A research carried out by (Mukhlis, Utomo and Soesetyo, 2014) suggested that it is important for taxpayers understand well how the tax system in that country operates. Pulis and Mostafa (2015) found out that tax knowledge and understanding can significantly affect the consistence of

taxpayers in meeting their tax obligations. With reasonable understanding of the tax law and tax system in the country, taxpayers are willing to abide and consequently they are more compliant to pay taxes than evade them, which bring about a mutual relationship between the government and the taxpayers (Palil, Akir and Ahmad, 2013). Tax authorities should employ information dissemination activities such as public meeting with small to medium enterprises owners and their advisers from time to time. In order to increase level of tax compliance, (Kirchler et. al, 2012). Hence, people should be equipped with the tax education so that everyone has a sufficient knowledge towards competent taxpayers. Tax education is one of the effective tools to induce taxpayers to comply more (Park & Hyun, 2003). If the taxpayer has a better understanding of taxation, it will give better ramifications on tax fairness felt as argued by (Nyamwezi et al, 2014) emphasized the need for ZIMRA to employ effective means of communication as results of a study carried out in Harare showed that the use of the internet had little impact in improving communication with Lion Match Private Limited as argued by (Okello, 2014).

3.3.2 An improved self-assessment system

Tax authorities will only have to check for arithmetical accuracy and inspect of the necessary detail has been captured on the tax return form. In a bid to improve the self-assessment system ZIMRA introduced an e-filing for self-assessed income tax returns to enable its clients to submit their tax returns electronically 18 (www.zimra.co.zw). In a study carried out among 10 Sub Saharan African countries

by the International Monetary Fund (2014), it was noted that take up of the electronic filing of the tax returns was low, long queues at tax administration offices was still evident, the information on brochures and pamphlets was at times outdated and very few brochures were available to taxpayers (Russell 2014). In addition, (Sharghall,2012) noted that the website and emails were at most of the time outdated, there was on platform for airing out taxpayer questions online regarding tax procedures and crucial forms, circulars and information was unavailable on the website.

3.3.3 Simplifying laws, policies and procedures

Taxpayers are more compliant if the tax regulation authorities enact simple laws and procedures in their tax administration system. It is difficult for taxpayers to be compliant if it is too difficult for them to understand the tax system and when the procedures are difficult and expensive to comply with (Russel, 2014). Tax authorities should make an effort to pay attention to new businesses clearly advising them of the tax obligations and the necessary procedures involved in full filing them at the commencement of their business operations (OECD, 2012). This initiative has the potential of cultivating a culture of voluntary compliance in businesses which in turn saves time and costs to the taxpayer. The introduction of electronic services can simplify the procedures taken by taxpayers in satisfying their tax obligations and they are convenient to the taxpayer. In a bid to improve tax compliance the United State revenue body introduced the Office of Taxpayer Burden Reduction (OTBR) which focuses on simplifying forms and publications, streamlining internal policies and procedures and implementing

taxpayer burden reduction processes (OECD,2012).

3.3.4 Use of information technology

The use of information technology in the tax system is one of the effective ways of improving taxpayer compliance. Taxpayer education can be enhanced by digitization of the tax system and the use of the internet (Mungaya et al, 2012). Information technology provides the appropriate media channels for which vital information can be conveyed between taxpayer and the tax authority. In addition, tax authorities should improve taxpayer assistance programs and education so as to achieve the desired level of compliance and tax revenue (Saxena, 2013). An online filing and counselling platform is necessary for convenience and easy interaction between the taxpayer and tax officials. Televising and radioing adverts, announcements and notices can improve compliance as these mediums of communication tend to have a wider coverage (Sarker, 2012).

3.4 Factors affecting tax amnesties

Tax amnesty has a number of adverse effects companies, mainly the negative effects are the one that are even more common to the research. In this study the factors affecting tax amnesty are economic factors, tax audits, tax rates, source and level of income, compliance cost, physiological factors, social norms, tax morale, government accountability and fairness and equity.

3.4.1 Economic Factors

In the tradition of tax compliance research, a number of factors have been considered important for explaining tax compliance. Complexity of the tax system, penalties for noncompliance, probability

of tax audit, taxpayer income generation levels and the responsibility of preparer on penalties are economic factors that significantly affect the compliance levels of SME's (Jackson and Milliron, 2012).

3.4.2 Tax Audits

Tax audit have a positive effect on tax compliance as mentioned by (Dubin, 2012). These results suggest that tax audits can play a significant role to increase voluntary compliance in the self-assessment systems. In addition to the above, (Witte and Butter,2016) pointed out in their research that tax audits have a pivotal role in tax compliance. On the other hand, tax audits influence negative compliance behaviour to positive behaviour. Furthermore, in the studies carried out in Angola found that tax audits on manufacturing sector such as Lion Match Private Limited have a direct impact on tax compliance.

3.4.3 Tax rates

Lion Match Private Limited's compliance rate is affected by the level of tax rate as tax payers assesses the pros of non-compliant with tax evasion costs such as penalties, prosecution and fines. When the tax evasion costs are less than tax compliance costs consequently Lion Match Private Limited avoids paying taxes. Favourable tax rates attract Lion Match Private Limited to settle down their tax obligation other than amnesty provision (Sakunda, 2015). Furthermore, identified tax rates as major causes of tax evasion (Chepata, 2012). In addition, (Ritsema,2013) pointed out that the more the tax rate the higher the taxpayers burden thereby reducing business disposable income hence the higher chances of evading tax.

3.4.4 Source and Level of income

The level of income that is earned by Lion Match Private Limited with regards to tax obligations to be settled by tax payers is a factor that directly affects participation rate in the tax amnesty thereby resulting in low-income earners being non-complying as compared to high to medium income earners since they have to settle more obligations other than tax liabilities. In addition, the factors of having insufficient financial resources to comply with tax laws affects the compliance levels Lion Match Private Limited especially in developing countries (Richardson, 2016). However, a different aspect of the income source, if income was earned by hard work or an effortless job has been studied in experiments by (Kirchler, Muehlbacher and Hölz, 2012). Participants was less compliant when they reported income earned by low effort than when they reported hard earned income. It seems that taxpayers are reluctant to lose their hard-earned money by gambling with tax authorities (Kirchler et al, 2014).

3.4.5 Compliance cost

The expenditure (both monetary and time) that taxpayer incur in order to comply with government regulations with respect to taxation affects the compliance rate of taxpayers (Coolidge, 2012). Lion Match Private Limited's compliance cost relates all cost that includes obeying the law, administration and planning in addition to direct expenditure and time spent filling papers. ZIMRA recently introduced the filling procedures that resulted in most Lion Match Private Limited's incurring more compliance cost than before (www.zimra.co.zw). In a survey that was conducted in the Republic in Yemen, Angola and Nigeria that measured compliance reviewed that the cost greater the compliance cost the

lesser the compliance rate on Lion Match Private Limited. However, it is quite conceivable that non-compliance might be driven by simple incapacity to comply or even ignorance of what to do thereby rejecting compliance cost as a factor that affect compliance of taxpayers (Ogundele,2014).

3.5 Psychological factors

In the tradition of tax compliance research, a number of psychological factors have been considered important for explaining tax compliance (Ahmed, 2013). In addition, the factors such as tax morale, social norms, fairness and equity and perception of political/government accountability. These factors shall be discussed below:

3.5.1 Social Norms

The social factors that relate to individual mind-sets influence tax compliance in dealing with tax issues (Ogundele, 2014). Social factors arise from tax payer's interaction the community they operate in social values, structure and beliefs shared. As a result, the above mentioned factor plays a significant role in determining tax payer's decision to comply. Furthermore, (Sagareth and Burgoyne, 2013) state that social norms are one of the most important predictors of tax compliance. Past researchers discovered that tax payers who do not anticipate shame and guilt in case of violation are more compliant than taxpayers with strong values for cooperation. The public with a high sense of social norms within the society comply with tax laws because of their genuine motivation, and not because they are forced by sanctions and audits thus economic factors (Martze and Bryan, 2015).

3.5.2 Tax morale

The attitude of a group or the entire population of taxpayers is the question of accomplishment ignorance of their tax duties. In addition, (Scholders,2012) pointed out that tax moral is a significant psychological factor that influence compliance levels of taxpayers in that the individuals are not solely motivated by maximization of their own well-being but also by their feeling of responsibility towards the society. Furthermore, past researchers are of the view that tax morale is directly linked to the motivational concept of civic duty (Hudson, 2013).

3.5.3 Perception of Political/Government Accountability

This is one of the psychological factors that influence compliance level of tax payers. Past researchers' state that political stability of the ruling party of the government in a country may play a significant role in determining tax compliance behaviour (Bradley, 2014). In addition, other researchers support the above statement and further exemplify, if an individual favour the current ruling government party, firms might choose to be compliant because he believes that the government is trusted, efficient and equitable (Feld and Frey,2012). The taxpayers, especially who pay high amounts of tax, will be sensitive to what government spends their money on thus taxpayer believes that the government is misusing funds, it will be resulting in the reduction level of compliance.in the next tax period (Spicer,2015). In addition, other specialist concluded that political party affiliation has a significant impact on taxpayer compliance, identified the tax provision to a specific part, the more favourable it will be received by the members of that party relative to

taxpayers with other political affiliations (Haseldine and Hite.2016). Furthermore, the utilization of governments funds in administering quality of public services affect the compliance levels Haseldine and (Hite, 2016). On the other hand, the positive correction between the compliance and tax payer's perceptions in Malaysia government spending with tax policy in Malaysia. If government fails to meet the expectations of a tax payer, it will result in repulsive behaviour in line with compliance and less participation in tax regulations introduced by government.

3.5.4 Fairness and Equity

Fairness and equity are another factor that affects compliance level. New Zealand government for example has continuously placed great emphasis on this criterion and outlined that the fairness and equity of a tax system also impacts upon compliance levels (Andreon, 2014). In addition, there is a significant association between fairness of tax system and compliance levels as discovered by (Ross,2012). A study conducted in Hong Kong by (Jackson and Milliron, 2014) had a positive relationship with a link between taxpayer's perception of fairness and tax compliance behaviour. If tax authority is perceived as supportive, tax compliance increases giving evidence that fairness is a factor that affect tax compliance (Kirchler, 2012). Fairness and equity are a factor that affects the tax compliance of a tax payer (Windler, 2016).

3.6 Best practices and measures in order to promote tax compliance and revenue generation

In order to improve and retain maximum compliance, tax authorities ought to adopt the most appropriate practices. These practices tend to cultivate a culture

of mutual understanding and voluntary compliance among taxpayers. These practices are in the form of tax compliance programs and tax education.

3.6.1 Tax compliance Program

An effective way of ensuring maximum revenue collections for the government is for the tax authorities to come up with a sound and balanced compliance program as mentioned by (OECD, 2012). Tax compliance program as a high-level operative detailing how the tax authority intends to respond or combat the most significant risks identified in its tax system as contended by (Russell, 2015). In addition, tax compliance program does not deal with the revenue authority's activities but focuses on way to improve compliance among large, medium, small and individual businesses. Furthermore, successful compliance programs are dependent upon an appropriate balance of taxpayer education, simple tax law and procedures and risk-based verification programs. Tax compliance program enables people and business to understand the issues under scrutiny and helps them and their advisors manage their tax affairs more effectively, resulting in better overall compliance (Downs, 2014).

3.6.2 Taxpayer incentives

Providing incentives is one of the effective ways to improve taxpayer compliance as mentioned by (OECD, 2012). A survey was carried out in the United Kingdom in which an incentive scheme was introduced to improve compliance among businesses that failed to register for VAT (Wegner, 2012). An estimate of over 3000 businesses made use of the incentive and the publicity connected with the scheme increased awareness among taxpayers with regard to VAT registration. In

addition, past researchers suggested that, tax authorities should sweeten the benefits of cooperation as this tends to build inner confidence in the taxpayer of the revenue collecting body (Holmes, 2015). Furthermore, the tax authorities should provide more exemptions and tax incentives as these tend to increase voluntary compliance among taxpayers as argued by (Ojeka, 2015). In addition, also taxpayers evade taxes when they are aware of the benefits accruing from being tax compliant as argued by (Wegner, 2012).

3.6.3 Tax awareness program

Tax awareness is the principle of knowing what tax, tax law and principles is all about and what is applicable to an individual taxpayer. The government to have an effective and efficient tax administration system there should be also an effective and efficient tax awareness program as contended by (Ngwenya, 2014). The ability to access and process information differs among individuals and this has an effect on compliance (Alstadsaeter and Jacob, 2013). The mere design of the tax return can lead to individual evading taxes if he/she is facing challenges in understanding that tax return form. On the other hand, (Hove et al, 2013) recommended that the tax authority should provide tax education throughout the country frequently as this can increase voluntary compliance and consequently the tax revenue collected by the state. This is also supported by (Utaumire et al, 2013) who suggested that taxpayer education should be made available to existing and potential taxpayers. In addition, for self-assessment system to fully realise its potential, taxpayers should have the necessary know how and be able to fully understand the tax laws (Hastitu,

2014). However, (Alsadsaeter and Jacob, 2013) noted that, there is a positive core relationship between tax knowledge and tax compliance. This is supported by an investigation carried out by (Palil, 2014) in Malaysia in which it was found out that the tax knowledge has a significant impact on the level of compliance although there are other factors such as their probability of being audited and perceptions of being prosecuted among others. Conclusions drawn by (Alstadsaeter and Jacob, 2013) were that lack of awareness of the tax law and principles is a major contribution of tax evasion. Knowledge about the tax system and laws can be obtained through various instruments such as self-learning, taking formal education, attending tax seminars and workshops.

4. Conclusion

This study covered relevant literature from various articles, journals and publications. The literature reviewed looked at the factors affecting tax compliance with the tax amnesty and the effect the amnesty had on companies. The impact of the tax amnesty on the companies' revenue collection was also looked at. The various ways in which compliance among taxpayers could be improved was dealt with including recommendations on the best practices that can be employed by the tax authority. It was discovered that rate of tax audits, high tax rates, source and level of income of tax payer and compliance cost at large are factors that play a pivotal role on affecting compliance of taxpayer. High compliance costs pose a threat to companies in adhering with tax regulations thereby reducing tax compliance levels. The relationship between tax amnesty and compliance levels of taxpayers depends on the objective in which the tax authority grants

the tax amnesty. It was discovered that a positive relationship exists between tax amnesty and tax compliance if the objective to grant amnesty is to widen tax base. An inverse relationship when the aim is to generate short term revenue.

5. Recommendations

Relating to the research findings the authors suggest the following to improve on the compliance and performance of future amnesties.

5.1 Publicizing post amnesty consequences

An amnesty provision should be publicized with stern warnings of strict enforcements and tightened detection methods as well as stiff punishment in the post amnesty period. This strategy is effective as it discourages possible future tax evasion by former delinquents and tax compliant taxpayers. When post amnesty enforcement strategies are strictly adhered to compliance levels are likely to increase, (Murali 2012).

5.2 Consultations before the enactment of an amnesty

For an amnesty program to improve compliance, defaulters must be strongly convinced that the amnesty is a good initiative for them and that they will now have a chance of operating as recognized businesses. Before an amnesty program is rolled out the government should make sure it has won the confidence of the defaulters through use of consultations, (Kapeza, 2015). Educating these defaulters about the amnesty itself and the benefit of taking advantage of this opportunity through various forms of media is another form to convince them to participate in the amnesty provision.

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