EFFECT OF TAX ACCOUNTING ON TAX COMPLIANCE. THE CASE STUDY RWANDA REVENUE AUTHORITY (RRA) (2018-2021)

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EFFECT OF TAX ACCOUNTING ON TAX COMPLIANCE. THE CASE STUDY RWANDA REVENUE AUTHORITY (RRA) (2018-2021)

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ABSTRACT

Tax payment is a civic duty and an imposed contribution by the government to contribute to the principal source of revenue to provide public goods and services to its citizenry. It is a compulsory unrequited payment to the Government. The general objective of the study was to identify the effect of tax accounting on tax compliance. The case study Rwanda Revenue Authority (RRA) (2018-2021). Specific objectives were to: assess the impact of preparing profit and loss accounts to tax compliance, examine the contribution of preparation of tax returns to tax compliance and evaluate the effect of accounting for business expenses on tax compliance. The study adopted across sectional research design. The target population of this study was 400 respondents made up of 100 RRA employees and 300 taxpayers in Kigali city conducting tax accounting. A sample of 200 respondents was selected out of the total population of 400. Stratified Sampling was used to group the respondents and formations into strata. The study relied on primary data and secondary data informed by RRA investigated cases, related materials published by government authorities, work of other researchers and authors in the form of journals, books, bulletins and newspapers articles as well as sources from the internet. The researcher used quantitative methods to quantify the problem by way of generating numerical data. A regression analysis was used to identify the effect of tax accounting on tax compliance. From the findings there is a strong positive relationship between tax accounting on tax compliance in Rwanda at RRA at a Pearson correlation coefficient r=0.984. The results revealed that there were strong positive and significant effects of preparation of profit and loss statement on Tax compliance (β = .444; t = 1.815; p < 0.05). And registered of relevant taxes (β = 1.075; t = 1.815; p < 0.05). There were positive effects of preparation of tax return on Tax compliance (β = .230; t =. 850; p > 0.05). However, there was weak but significant effects of accounting for business on Tax compliance (β = 1.231; t = 3.616; p < 0.05.). The study concluded that failure to prepare profit and loss accounts (tax accounting) is a very serious social menace and it can cause a major setback on Rwanda economic development. From all indications it was clear that if government engages in overhauling the tax administrative machineries, the problems of tax evasion and avoidance will be reduced to the barest minimum. The study recommended that Rwandans at all spheres should be educated on their civic responsibility to pay tax. Coupled with this, governments should make an overall review of tax laws especially, the personal income tax laws, and then the personal allowances which are no longer in tune with economic realities. Future research could be conducted via a longitudinal study in *which a comparison of more years and might provide different results from this 'point in time' study. For example a study into how changes in levels of tax knowledge, taxpayers' financial situations and changes to tax laws and regulations potentially affect compliance decisions could be beneficial. Using data from the tax administration and comparing this with data from questionnaires should also be beneficial as a further data sources for a compliance study of this kind, although the chances of accessing data from the tax authority are very limited.*

Keywords: *Profit and Loss Accounts, Tax Returns, Accounting for Business Expenses, Tax Compliance*

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INTRODUCTION

The business community has admitted that the accounting is "the language of business". They are using the accounting to communicate the existence and the evolution of the financial situation and also of the performance for economical to entities. Financial information is a form of language and if the language of financial information is to be put to use, investment and credit decisions can more readily be taken, it should not only be intelligible, it should also be comparable. Therefore, every organization needs accounting systems in order to generate and present its financial information which may lead to tax compliance (Heitzman, 2020).

The common basis of accounting and taxation, as well as their joint expansion, produced a mutual development of the normalizations which govern the way financial information is organized and presented to make it useful to all the stakeholders. Tax accounting was adopted by many countries in an attempt to make sure that governments do not over tax the taxpayers and the taxpayers do pay the right taxes they are supposed to pay basing on the law which establishes a certain tax (Mckerchar, 2017).

Tax accounting is the means of accounting for tax purposes. It applies to everyone individuals, businesses, corporations, and other entities. Tax accounting focuses solely on those transactions that affect an entity's tax burden, and how those items relate to proper tax calculation and tax document preparation. Tax accounting is regulated by the Internal Revenue Service (IRS) to ensure that all associated tax laws are adhered to by tax accounting professionals and individual taxpayers. The IRS also requires the use of specific documents and forms to properly submit tax information as required by law (Ahangar, 2019).

Tax accounting enables businesses to stay up-to-date with annual taxation processes. A productive and efficient tax accounting includes advising and tips for the company to avoid certain tax burdens while understanding tax decisions in order to avoid unnecessary fines and penalties which may affect the business negatively (Budak, 2018).

Regarding to the UK, tax accounting as a tool to stimulate tax compliance was emphasized in the introduction of the income tax occurred between the late eighteenth century and the beginning of the nineteenth century, by the British Prime Minister, William Pitt, when he was mobilizing funds to finance the war of England against the Napoleonic invasion since then tax accounting and tax compliance have maintained a high level of interdependence (Brautigam, 2018).

USA is also among one of the countries in the world that first saw value of tax accounting as a tool to normalize taxes and to create fairness between the government and taxpayers so that the governments do not over tax taxpayers and on the other hand taxpayers do not under pay taxes. Australia being the Australian Commonwealth, also saw importance in tax accounting as a tool to bring tax compliance which by then it only charged customs duties and special taxes on consumption and it is charging variety of taxes (Alley, 2016).

Academic studies explored the relationship between tax accounting and tax compliance focusing on realities, for example the Anglo-Saxon countries conclude that there is a strong link between tax accounting and tax compliance however which was not clarified is extent of negative and positive consequences on both the governments and taxpayers, some authors advise a greater harmonization and dependence of these two regulations, in order to simplify tax obligations and to minimize tax compliance costs of companies, highlighting substantial gains in the area of tax compliance. On the other hand, other authors pointed a greater separation and autonomy of tax and accounting normalizations, due to their different objectives (Marandu & Mbekonze, 2015).

African tax administrations face a number of challenges in collecting enough taxes to finance governments. The client profile of the typical African tax administration is strikingly diverse. On the one side, revenue administrations need to organize themselves, in terms of personnel skills, procedures and organizational ethos, to tax large companies, many of them very large and transnational. This requires appreciable accounting, auditing, investigatory and legal skills and knowledge, and international connections of various kinds. It is the norm in sub-Saharan Africa that the great bulk of the revenues collected by the national tax administration come from a tiny proportion of its taxpayers (Nassuer, 2017).

A study on tax accounting and tax compliance conducted in South Africa found out that there is no relationship between tax accounting and tax compliance, points out many intentional non-compliance, this is evidenced by the tax amnesties put in place by the government. South Africa has instituted a number of tax amnesties over the years. This applied to unregistered persons and registered non-filers, as well as taxpayers who filed with errors in their tax returns (Junpath, 2016).

In Ghana tax accounting has the goal to ensure that every tax system in a country is to be efficient and professional in collecting tax revenue to help government in its fiscal policy (Mbroh & Attom, 2013). This notwithstanding, many developing countries including Ghana have low level of tax compliance and high incidence of tax evasion. The Ghana Revenue Authority classifies tax payers into large, medium and small tax payers. Tax compliance for large tax payers are high as they can hardly avoid being noticed (Amoako, 2013). The research also found out that large taxpayer who practices tax accounting to be more compliant than their counterparts the small and medium taxpayers who hardly do tax accounting (Larnyoh, 2019).

A study conduct in Uganda on tax accounting and tax compliance by Akol, (2015) found out that Tax non-compliance mainly takes place when individuals in the informal sector as they do not keep any records and this makes them easy to underreport their income. The informal sector in Uganda is estimated to account for 52.4 per cent of GDP in Uganda, and yet contributes little in taxes Akol, (2015). In FY2019/2020 the informal sector contributed only USh5.2 billion in direct taxes, out of USh16.7 trillion collected. Many Ugandans believe that taxes are too high, the tax system is unfair and public services are poor, resulting in low tax morale meaning that other factors tax accounting inclusive are given a less percentage in influencing tax compliance.

A study conducted on tax accounting and tax compliance in Kenya by Asingwire, (2020) found out that Kenya is ranked among low-income countries or low compliance countries with hard task of ensuring efficient and effective tax administration in order to ensure tax compliance, hence raising more revenue. It's only the large taxpayers who carry out tax accounting and record keeping which becomes difficult for Kenya Revenue Authority (KRA) collect the taxes from the non-recording

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keeping taxpayers as most of the time they under report their business incomes.

However, the literature findings show this research gap and concluded that the factors such as taxpayer awareness, tax authority services, tax socialization, account representative control, tax collection, and tax audit influence the corporate taxpayer's compliance. Therefore, this study will examine the positive relationships between taxpayer awareness, tax authority services, tax socialization, account representative control, tax collection, and tax audit influence and corporate taxpayer's compliance. Similarly, this study also examines the moderating effect of the tax audit on the compliance of corporate taxpayers (Nguyen & Nguyen, 2012).

The Rwanda Revenue Authority (RRA) is generally believed to be one of the best in Africa. It is remarkable, in particular, for its enthusiastic embrace of digitalization and encouraging tax accounting more especially to large taxpayers as they are required to certify the financial statements (Bahizi, 2013). Unlike most African tax authorities, it is subject to regular, published scrutiny from the Auditor General of State Finances. Indeed, this helps to explain its high level of performance. While far from damning, the Auditor General's reports regularly comment on a range of basic operational failings of the kind that should be rare in a well-run, they include erroneous or absent data on tax arrears, improperly maintained cashbooks, poor record keeping, inability to reconcile revenue collection records with the organizations bank accounts and failure to conduct compliance follow-up studies of cases flagged as risky by its Risk Management and Modernization Department (Chemouni 2020). It is this regard the researcher found it necessary to conduct a research on Tax accounting and tax compliance.

Statement of the Problem

Tax compliance researches have been conducted by a number of researchers including those conducted in Rwanda found out that tax compliance is influenced by factors such as tax system complexity, level of tax information services, withholding and information reporting and tax return preparer responsibilities and penalties. Others include probability of being audited, progressively and actual level of tax rates, penalties for non-compliance, age, gender, education and incomes of taxpayers. Nevertheless, there are still some issues that need of further investigation. For example, researches into the uncertainty effects of tax accounting on tax compliance as the available conclusions are not easy or indeed feasible. Issues on the effectiveness of tax accounting as well as on alternative sanction mechanisms used by the tax authorities in influencing taxpayer reporting decisions remain a research problem till today (Edaward, 2019).

Tax non-compliance is a serious problem because it threatens both the integrity of income tax systems themselves, and more generally, the ability of citizens of a country to democratically determine what goods and services they wish to provide one another collectively through their government (Asingwire, 2020)

Rwanda Revenue Authority is faced with challenges in stimulating tax compliance among taxpayers including: poor taxpayer perception, delay in tax declarations, starting businesses without trading licenses, taxpayers' culture to evade and avoid taxes, social disapproval among taxpayers against tax offences and the shift from the traditional mode of declaration and payment of due taxes on the side of the taxpayers (Rwanda Revenue Authority, 2018).

The issue of tax compliance has gained more stress by researchers in the recent couple of decades because of increasing levels of tax noncompliance and its consequence on the capacity of the government to raise revenue. Taxpayer non-compliance is a continual and growing worldwide issue that is not readily addressed (Auditor General of Rwanda. (2015).

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Intentional non-compliance which is due to low levels of accounting capabilities that causes threat to the government in terms of revenue collection targets and the projected government expenditure. It remains unclear whether taxpayers comply due to high level of tax accounting skills or due fines and penalties administered by RRA to taxpayers who are non-complying. It is from this regard that the researcher found it necessary to conduct a research on the effect of tax accounting on tax compliance in Rwanda using RRA and taxpayers conducting tax accounting as a case study.

Research Hypotheses

The study was based on the following hypotheses;

- H_O: There is no significant relation between tax accounting on tax compliance in Rwanda.
- H_1: There is a significant relation between tax accounting on tax compliance in Rwanda.

LITERATURE REVIEW

Tax morale theory

This theory was first advanced by German scholars centered on Gunter Schmolders known as the Cologne School of Tax Psychology (Alasfour, et al., 2016). Tax morale can be termed as the individual factors that motivates a person to comply with his or her tax obligations. As a determinant of tax behavior, tax morale, aims to explain, how and why a taxpayer's morale influences his or her tax behavior. Many studies have found out that tax evasion can be attributed to the tax morale theory (Lisi, 2015).

Taxpayers are more likely to comply with tax obligation if their friends, relatives and acquaintances comply with these obligations (Torgler, 2012). In addition, taxpayers will evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society tolerates tax evasion, such a society would encourage tax evasion (Bilgin, 2014). Religious beliefs are a variable in tax evasion as studies have shown that tax payers who have strong religious commitments or beliefs would likely be tax compliant even if they feel that the tax rate is high (Luttmer & Singhal, 2014).

In some instances, taxpayers can feel justified in evading taxes if they feel that the quality and quantity of essential goods and services offered by the government is not sufficient in comparison to the expected revenue collections. On the other hand, if the services are sufficient, the taxpayers will feel obliged to pay taxes due and payable of them without necessarily being coerced by the tax authorities (Halla, 2012). In economies where the provision of public goods and services is satisfactory, the evasion rates are low. Taxpayers will tend to comply with their tax obligation if they feel that their government is honest, democratic and participatory and if the taxpayers feel they play a meaningful role in governance (Cummings et al., 2009).

Recent studies in this area suggest that individuals' tax morale may provide the "missing link" that makes it possible to bridge the gap between theory and data and finally contribute to solve the so called "puzzle of compliance". The rationale behind the relationship between tax morale and tax compliance is that the level of compliance will turn out to be higher, all other things being equal (Hallsworth, 2014).

The tax moral theory indicates tax morale which is an individual factor that motivates a person to comply with his or her tax obligations. Many studies have found out that tax evasion can be attributed to tax morale. This theory further stated that taxpayers are more likely to comply with tax obligations if their friends, relatives and acquaintances comply with these obligations. Also, taxpayers will evade taxes if they feel that other people are getting away with tax evasion. That means if a society concentrates on tax evasion, such a society would encourage tax evasion.

Conceptual Framework

The conceptual framework components comprise of dependent and independent variables.

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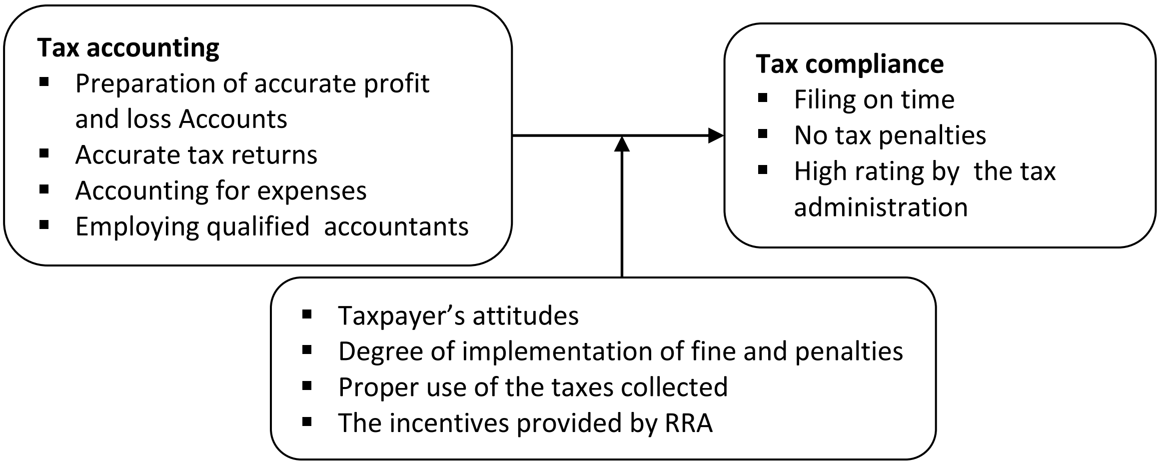

Independent Variable **Intervening Variable** **Dependent Variable**

Figure 1: Conceptual Framework

Source: Researcher 2022

Tax compliance is measured in terms of the revenue collection efficiency of Rwanda revenue authority and is dependent on the payments made by registered and active taxpayers. This is achieved by the presence and proper functioning of tax accounting such as making accurate record to reduce errors and decrease the effort of tax authorities in sorting and analyzing the tax files, and administrating the system, besides the potential reduction in corruption and the informal interactions between taxpayers and tax officials and directly helping firms reduce compliance costs. Preparation of tax accounts which can be based on to file real tax basing on the activities done by taxpayer and avoid penalties. Training of the accounting staff is essential because it equip them with the skills necessary in raising their attitude of voluntarily complying with taxation systems.

The intervening variables which may interfere with the projected relationship between the independent and dependent variables are: the compliance may be as a result of taxpayer sensitization and Trainings on the importance of tax and the role each registered business has to play. Compliance may also be due tax law enforcement Strictness which creates fear among taxpayers for being punished by revenue authorities for not complying with tax obligations. Proper and purposeful usage of revenue tax collected by the government may also make taxpayers to be compliant as they get motivated of what the tax they pay does not necessary because of tax accounting.

METHODOLOGY

A cross sectional research design was used that was quantitative in nature The target population of this study is 400 respondents made up of 100 RRA employees and 300 taxpayers in Kigali city conducting tax accounting. Stratified Sampling was used to group the respondents and formations into strata. Stratification was used because the population was structured into various non-homogenous units, hence the need for sample diversity. The study relied on primary data. Questionnaires were the main tools for collecting the primary data. Structured questionnaires were used as the tool to collect data in order determine the effects of tax evasion on value added tax collection in Rwanda. Interview was also used to capture variables that cannot be directly observed such as views, opinions, perceptions and feelings of the respondents which are best collected by this technique. The pre-test questionnaires were distributed randomly to 10 selected taxpayers. The study collected and analyze primary data which was keyed into an excel table, before subjected to meaningful analysis through SPSS Version 21. The process involved the identification and correcting of errors in the data (data cleaning), coding the data and storing it in excel form.

RESULTS AND DISCUSSIONS

Impact of preparing profit and loss accounts to tax compliance

The first objective was to the impact of preparing profit and loss accounts to tax compliance. The study requested the respondents to indicate the various impacts of preparing the profit and loss accounts to tax compliance in Rwanda. To address this objective, the study respondents were presented with various statements measuring the extent to which profit and loss accounts impacts tax compliance. They were asked to indicate their level of agreement or disagreement on a five-point Likert scale ranging from 1(Strongly disagree) to 5 (Strongly agree). The findings of this analysis were presented below.

Table 1: Distribution of responses on the impact of impact of preparing profit and loss accounts to tax compliance

Statements	1	2	3	4	5
Preparing profit and loss accounts is essential for decision making and business adjustments on tax compliance	5.8%	7.5%	15.0%	22.5%	49.2%
Preparing profit and loss accounts reduces operating costs, improvesefficiency and productivity hence tax compliance	0.0%	2.5%	5%	36.7%	55.8%
Accounting records support business audit and research improving on tax compliance	0.0%	1.7%	5%	33.3%	60%
Complete accounting records are essential for preparation of financial statements hence tax compliance	2.5%	1.7%	2.5%	36.7%	56.7%
Accounting records assist in resource allocation and performance planning without tax evasion	2.5%	2.5%	5%	10%	80%
Preparing profit and loss accounts increase the chances of the business operating and achieving tax compliance	5.8%	15.0%	7.5%	49.2%	22.5%
Preparing profit and loss accounts provide information to enable the control of cash in the business hence tax compliance	0.0%	2.5%	5%	36.7%	55.8%
Preparing profit and loss accounts help in detecting thefts within the business itself.	0.0%	1.7%	5%	33.3%	60%

Source: Primary data, 2022.

From table 1 above, 49.2% of the respondents strongly agree that preparing profit and loss accounts is essential for decision making and business adjustments on tax compliance, 22.5% agree, 15% were not sure, 7.5% disagree, and 5.8% strongly disagree. This indicates that preparing profit and loss accounts is essential for decision making and business adjustment. Appropriate decisions was made about expansion or not or incur costs or not all these decisions are based on complete records.

Also, 55.8% of the respondents strongly agree that preparing profit and loss accounts reduces operating costs, improvesefficiency and productivity hence tax compliance, 36.7% agree, 5% were not sure, 2.5% disagree and none strongly disagree. This indicates that preparing profit and loss accounts reduces operating costs, improves efficiency and productivity hence tax compliance.

Furthermore, 60% of the respondents strongly agree that accounting records support business audit and research, 33.3% agree, 5% not sure, a 1.7% disagree and none strongly disagreed. This indicates that accounting records support business audit and research implying that most of the respondents carried out business audit.

However, 56.7% of the respondents strongly agree that complete accounting records are essential for preparation of financial statements hence tax compliance, 36.7% agree, 5% were not sure, 1.7% disagree. This implies that most of the respondents did not prepare financial statements since they were not sure whether complete accounting records are essential for preparation of financial statements.

More so, 80% of the respondents strongly agree that accounting records assist in resource allocation and performance planning without tax evasion, 10% agree, 5% were not sure and 2.5% disagree. This implies that accounting records assist in resource allocation and performance planning. Resource allocation does not depend only on record keeping but it also involves appraising the viability of the business to be undertaken through capital rationing to effectively allocate the resources.

Moreover, 49.5% of the respondents strongly agree that Preparing profit and loss accounts increase the chances of the business operating and achieving tax compliance, 22.5% agree, 3% were not sure, 7.5% disagree, and 5.8% strongly disagree. This indicates that Accounting records keeping increase the chances of the business operating and achieving success.

In addition, 55.8% of the respondents strongly agree that Preparing profit and loss accounts provide information to enable the control of cash in the business hence tax compliance, 36.7% agree, 5% were not sure, 2.5% disagree, and none strongly disagree. This indicates that records keeping provide information to enable the control of cash in the business. Lastly, 60% of the respondents strongly agree that preparing profit and loss accounts help in detecting thefts within the business itself, 33.3% agree, 5% were not sure, 1.7% disagree, and none strongly disagree. This indicates that Records keeping help in detecting thefts within the business.

In addition, the respondents were asked on a scale of 1-5 (1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree) to indicate level of acceptance with the following statements relating to regulatory tax strategies in preparation of profit and loss statement. Results are shown in table 2.

Table 2: Regulatory tax strategies in preparing the profit and loss statement

Statements	5	4	3	2	1
Command regulation (non-discretionary; use full force of the law)	25%	41.7%	10%	17.5%	5.8%
Command regulation (discretionary; deter by detection	6.7%	7.5%	8.3%	62.5%	15%
Enforced self-regulation (help to comply)	2.5%	5.8%	5.8%	54.2%	31.7%
Self-regulation (make compliance easy)	1.7%	5.0%	2.5%	2.5%	1.7%

Source: Primary data, 2022.

As shown in table 2 most respondents at 25% and 41.7% strongly agreed and agreed respectively to the use of command regulation (non-discretionary; use full force of the law); majority 62.5% and 15% disagreed and strongly disagreed to deterring by detection with 85.9% in disagreement with helping to comply. In addition, most respondents 62.5% and 15% disagreed and strongly disagreed with command regulations (make compliance easy). From the results, it appears that a good number of

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businesses not doing tax accounting are not tax compliant especially in relation to VAT taxes, income tax and withholding tax. This could be linked to some of the reasons why some taxpayers do not pay taxes. In relation to optimal tax theory, taxes should be set in order to minimize the distortion in economic choices which does occur and the compliance or non-compliance can only be determined basing on the information at hand for this case provided by tax accounting (Bordignon et al., 2001). For tax compliance to increase, both the tax authorities and taxpayers should have accurate information regarding the business activities done in a given fiscal year for compliance determination (Emanuele, 2012).

Contribution of preparation of tax returns to tax compliance

The second objective was to examine the contribution of preparation of tax returns to tax compliance. From this the study focused on measures to be used to curb tax noncompliance. They were asked to what extent they agree that tax officials should use the following measures to curb tax non-compliance on a scale of 1-5 where 1=Strongly disagree; 2=Disagree; 3=Undecided; 4=Agree and 5=Strongly agree. The results are shown in table 3.

Table 3: Measures to be used to curb tax non-compliance

	Measures	1	2	3	4	5
Valid	Tax penalty and fines	4.2%	42.5%	9.2%	36.7%	7.5%
	Tax audit	2.5%	17.5%	55.0%	17.5%	7.5%
	Imprisonment	5.8%	28.3%	11.7%	45.8%	8.3%

Source: Primary data, 2022.

Table 3 shows the proposed measures to be used to curb tax non-compliance and majority of the respondents out of the 128 who responded were of the opinion that or agreed and strongly agreed that imprisonment be used at 45.8% and 8.3% respectively followed by tax penalty and fines at a total of 44.2% in agreement. Tax audits could be used to foster accurate tax returns with 17.5% and 7.5% agree and strongly agree. The study of Eissa and Jack (2010) also found no significant variations in the various tax compliance measures on VAT revenue for large and small firms in Kenya. They also found that penalties for none or under-payment of taxes are defined by law, and interest of 2 percent per month is charged on tax arrears, calculated starting from the date the tax was due. While it is standard practice to punish non-compliance starting on the date the tax was due, long delays between the submissions of a return and auditing tend to increase interest payments by those who are found to have underpaid. The implication of this finding is that tax accounting can lead to filing the returns on time to avoid penalties thus considering a taxpayer who do the filling on time containing the actual results of the activities done in a given tax period as a compliant taxpayer unlike a taxpayer who do not file the return on time and not containing the actual information of the businesses activities done in a given tax period as a non-compliant taxpayer. The enforcement measure of tax audit on filed declarations was as expected, found to have a significant positive relationship with tax compliance. This is in line with both the tax compliance theory and majority of prior studies on the variable. These findings are consistent with Mansour and Keen (2009) research that looked at the current challenges in revenue mobilization; Improving tax compliance.

In addition, the respondents were asked on a scale of 1-5 (1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree) to indicate level of acceptance with the following statements regarding accurate tax returns on tax compliance. Results are shown in table 4.

Table 4: Effects of tax returns on tax compliance

Statements	1	2	3	4	5
Compliance with tax laws	0.0%	1.7%	5%	33.3%	60%
General business management	2.5%	1.7%	2.5%	36.7%	56.7%
Profit and loss information	2.5%	2.5%	5%	10%	80%
Tracking debtors and creditors	5.8%	15.0%	7.5%	49.2%	22.5%
Bank Requirement	0.0%	2.5%	5%	36.7%	55.8%

Table 4 depicts that, 48 respondents representing 64.9 percent opted for General business management as the most important reason for keeping records. This was followed by compliance with tax laws, with 15 (20.3%) respondents, responding as their most important reason for keeping records. Record-keeping for profitability information rated lowly with 11 respondents at 14.8 percent. The emphasis that respondents placed on the value of record-keeping for general management was interesting, as it appeared to be quite significantly consistent with earlier research in related areas by Evans et al (2005). However, profit and loss information being the second most important reason for keeping records is in contrast with Evans et al (2005) who asserted that compliance with tax laws is the second most important reason for keeping records

Effect of accounting for business expenses on tax compliance

The third objective was to evaluate the effect of accounting for business expenses on tax compliance. Respondents were asked to indicate if effect of accounting for business expenses on tax compliance more especially when it comes to separate between the business expenses and owner's expenses for tax purposes. Table 5 below show the responses.

Table 5: Responses on whether accounting for business expenses affects tax compliance

		Frequency	Percent
Valid	Yes	128	100.0

As shown in table 5, out of the respondents (100.0%) indicated that the accounting for business expenses as a significant impact on tax compliance more especially where there is a clear separation between business expenses and business owner's expenses, the business is charged the actual expenses to reflect the tax to be paid, when this is a higher taxes are paid compared to where the owner's expense are also considered as business expenses. This implies that there is a need to encourage tax accounting more especially to the big and medium taxpayers who normal do business in a professional way compared to their counterparts who do business in an informal way.

Separation between business expenses and business owner's expenses

The study investigated effect of accounting for business expenses on tax compliance. This is important because tax compliance is associated with low revenue collection. The respondents were requested to indicate extent to which effect of accounting for business expenses on tax compliance caused low revenue collection. Figure 3 summarizes their responses.

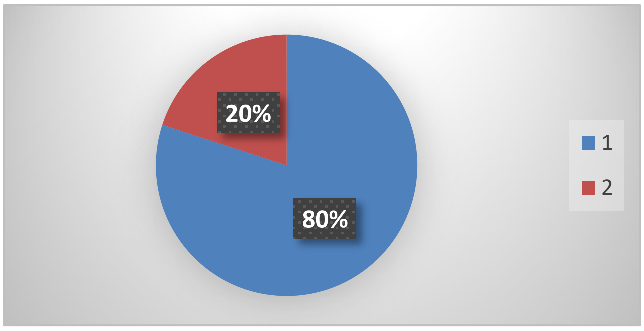

Figure 2: Inadequate revenue collection guide

Figure 2 shows that the proper accounting for business expenses can lead to higher revenue collection in Rwanda. Respondents (80%) indicated that many taxpayers doing real tax regime do not properly account for business expenses that is clearly separating business expenses from the owner's expenses for tax purposes leading to low revenue collection in Kigali. However, respondents (20%) indicated that taxpayers doing real regime system account properly the business expenses so this not cause low revenue collection. The results of this particular responses show a strong relationship between tax accounting for business expenses on the tax compliance in terms of the tax collected. This is in line with Kiabel and Nwokah (2009) whose findings conclude that tax evasion and avoidance have adverse effect on government revenue, whereby tax avoidance generates investment distortion in the form of the purchase of assets exempted from tax or under-valued for tax purposes. As observed by Fuest and Riedel (2009) the taxpayer indulges in evasion by resorting to various practices.

Measures of tax compliance

Respondents were asked how they agreed with the statements regarding measures of tax compliance on a scale of 1-5 (1 = Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree). Their views are recorded in Table 6.

Table 6: Tax Compliance Level

Statements	1	2	3	4	5	Mean
The business files its tax returns on time	2.5%	1.7%	2.5%	36.7%	56.7%	2.90
The business pays the right amount of taxes on time	2.5%	2.5%	5%	10%	80%	2.71
Rate the cost of filing a tax return	5.8%	15.0%	7.5%	49.2%	22.5%	2.95
Rate the cost of hiring a tax agent	2.5%	1.7%	2.5%	36.7%	56.7%	2.87
Cost of travelling in order to file a return	2.5%	2.5%	5%	10%	80%	3.06

The results in table 6 reveal that most of real estate owners do not file their tax returns on time (mean = 2.9). They also do not pay the right amount of taxes on time (mean = 2.71). These results indicate low levels of tax compliance among the real estate investors. From the above findings, monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks or tax consultants involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments. Such measures require establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a "low compliance to a high compliance environment" (Masinde & Makau , 2010).

CONCLUSION AND RECOMMENDATIONS

The study concluded that failure to do tax accounting is a very serious social menace and it can lead to a major setback on Rwanda economic development. From all indications it is now clear that if government engages in overhauling the tax administrative machineries, the problems of tax evasion and avoidance can be reduced to the barest minimum when all businesses prepare profit and loss accounts more especially big and medium taxpayers.

Tax enforcement measures are a very important component of tax compliance because they directly affect the amount of revenue a country collects within a certain period of time. Therefore, steps should be taken to ensure strict enforcement of these measures as a means of attaining this goal.

The study therefore concludes that basing on the positive impact of tax accounting to tax compliance there is a need of the Rwanda government to encourage taxpayers more especially the big and medium taxpayer to do tax accounting. It therefore requires RRA to employ the most efficient enforcement measures such as conducting audits and imposing penalties on non-compliant taxpayers in order to increase the tax compliance.

The income statement provides taxpayers with information about the profit and loss made in a given tax period. This is because it gives a clear picture on the financial position of the business on a particular date. It is also important for the government to put in place stiff penalty for corrupt tax officials and make frantic efforts aimed at putting in place adequate enforcement for defaulters. Such penalties and enforcement may help generate more revenue.

Preparation of accurate returns basing on the accounts records has a significate impact on tax compliance more especially on VAT tax Income tax, pay as you earn and other taxes which base on the level of activities in other word which are not fixed with time period.

Proper accounting for business expenses has a significant influence on tax compliance, that is to say when there is a clear separation between business expenses from owner's expenses, it makes the business to have the actual share of the expenses leading to paying a fair tax which is also part of tax compliance in the actual sense.

Based on the findings of this study, the researcher came up with various recommendations to encourage tax compliance among taxpayers in Rwanda. These include; there is need to continuously train technical staff to keep abreast with the tax law and any other changes therein. This way, the officers impart proper and correct advice to taxpayers during the time of audits and customer care lessons should form an integral part of this training.

Rwandans at all spheres should be educated on their civic responsibility to pay tax. Coupled with this, governments should make an overall review of tax laws especially, the personal income tax laws, and then the personal allowances which are no longer in tune with economic realities. In addition, existing tax laws with unnecessary technicalities in the assessment and collection procedures should be reviewed to make them have human face and to encourage voluntary compliance.

Taxpayers more especially the big and medium taxpayers should be encouraged to conduct tax accounting basing on the advantages it has on both the taxpayers and the tax authority as for as tax compliance and tax collection is concerned.

In relation to accounting for business expenses, there is a need to clearly train the taxpayers and tax advisers on the law regarding the separation between the businesses from owner's expenses to enhance collections of taxes. The study findings reveal that when expenses are clearly separated and treated separately from the business and owner expenses, this increases compliance but only marginally as other factors are equally important in determining the tax compliance of taxpayers.

Furthermore, the tax returns ought to be simplified and accompanying notes reconstructed into plain language that can be understood by all taxpayers and should also be clear and brief but complete in detail to enable the taxpayers file the returns on time.

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