DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG MICRO AND SMALL ENTERPRISES IN GIKOMBA MARKET

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTS AND FINANCE IN THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT FOR THE REQUIREMENTS OF THE AWARD OF THE POST GRADUATE DIPLOMA IN TAX ADMINISTRATION OF JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

2020

DECLARATION

This project is my original work and has not been presented to any other institution for any other award.

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HDB-336-C016-1810/2018

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ACKNOWLEDGMENT

I am grateful to the Almighty for this far. He has been my greatest pillar of strength and good health. Secondly, I acknowledge my supervisor Dr. Bruce Ogaga for his professional and skillful guidance throughout the study. Special thanks also to my friends and course mates for their support throughout the research process. In overall, I am very grateful to anybody who supported me; because without them, this study would not have been accomplished.

DEDICATION

To my brother Justus for his revitalizing strength and mum who will be proud.

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ABBREVIATIONS AND ACRONYMS

GDP: Gross Domestic Product

IMF: International Monetary Fund

IRS: Internal Revenue Service (IRS)

KRA: Kenya Revenue Authority

KPMG: Klynveld Peat Marwick Goerdeler

SME: Small and Micro Enterprise

TOT: Turnover Tax

UK: United Kingdom

US: United States

VAT: Value Added Tax

DEFINITION OF TERMS

Cost of compliance   Cost of compliance defines all the costs that must be incurred by the tax payers in the process of compliance including cost of tax computation, tax remittance and filing of tax returns (Wayan, 2012)

Enforcement measures   Deliberate measures taken by tax authority to enforce compliance among the taxpayers including arrest of tax payers, caveat of assets and agency notice (Lederman, 2018)

Micro enterprises   Micro enterprise means a firm, trade, service, industry or a business activity whose annual turnover does not exceed five hundred thousand shillings and which employs less than ten people (Micro and Small Enterprises Act, 2012).

Small enterprise   Small enterprise means a firm, trade, service, industry or a business activity whose annual turnover ranges between five hundred and five million shillings and which employs between ten and fifty people (Micro and Small Enterprises Act, 2012)

Tax compliance   This is the fulfillment of the legal requirement and procedures of paying taxes (Lignier et al, 2014)

Taxpayers awareness   This is how much tax payers understand the prevailing tax laws, regulations and how they can carry out the procedure and of submitting the tax correctly (Andreas & Savitri, 2015)

Turn Over Tax   Turnover Tax (TOT) is a tax charged on gross sales of a business as (Income Tax Act, 2012)

ABSTRACT

In view of the limited tax contribution of the small and micro enterprises in Kenya, this research endeavors to understand the specific influence of three variables on turnover tax compliance among this group of taxpayers. These variables include taxpayer's awareness, enforcement measures and the cost of compliance. The research seeks to answer three research questions aimed at delivering on three objectives which include understanding the influence of taxpayers' awareness, enforcement measures and the cost of compliance respectively on turnover tax compliance among the small and micro enterprises in Gikomba market. The study was guided by three theories namely: contract theory,Economic deterrence theory of tax compliance and transaction cost economic theory. The study targeted MSEs in Gikomba market and applied random sampling to select 517 respondents and study adopted a descriptive research design. This study used both secondary and primary data. Primary data was acquired using structured questionnaires with closed questions and secondary data was acquired from existing revenue publications and reports. The study analysed the data by the use of both descriptive and inferential statistics. The inferential statistics included the use multiple regression, ANOVA and correlation analysis. Data was analyze with finding that independent variable correlate with dependent variable up to 70.6% (R=0.706) and accounts for a variation of 49.8% (R^2 =0.498). F statistics value of 23.375 with a significance level of 0.000 which was less than 0.05 significance level and it implies independent variables and dependent variable is statistically significant. The Regression equation shows that the independent variables and dependent variable were statistically significant with p-value of 0.000, 0.002 and 0.000 respectively. A unit change in taxpayer awareness, enforcement measures and cost of compliance increase turnover tax compliance by 0.413, 0.348 and 0.292 respectively. The study findings indicated that taxpayer awareness, enforcement measures and cost of compliance signficantly affects turnover tax compliance. The study concluded that there is need for Kenya revenue authority frequently organizes for taxpayers Workshops to educate taxpayers on tax laws related to MSEs. The study recommends that KRA should regularly have Some MSEs KRA PIN Deactivated due to compliance related offenses. Future studies may be conducted on the influence of turnover tax non-compliance among all the registered businesses in Kenya.

1.1 Background of the study

The primary source of revenue for the government is tax. Tax is a compulsory contribution that is made by the citizens of a country to the government for the provision of public utilities. These utilities include transport and communication infrastructure, security, education, health, environmental conservation, market places, defense, disaster management and general regulatory services (Alm, & Finlay, 2013). None of these utilities can be achieved at an individual level due to the associated costs hence taxes essentially pool resources from the society to provide them. The statutory nature of taxes makes it a compulsory burden anchored on a legislated framework. Cobham (2007) explains the various forms of taxes to include toll, import and export duty, Value Added Tax, Turnover tax and many other forms.

The International Monetary Fund (IMF), while acknowledging that different economies define "small businesses" differently, acknowledged that they are highly non-compliant. These businesses are associated with an error rate of more than 40% regardless of whether it is a developing or a developed country (IMF, 2015). Developed countries such as the United States of America rely mainly on the income tax to finance their budgets. The income tax is more difficult to avoid due to the fact that income is taxed at source. Consequently, these countries are in a better position to manage and plan for the projected taxes.

In Africa, South Africa Revenue Service has a comparatively advanced tax collection system which explains the country's position as a leading economy in the continent (Coolidge et al, 2009). On the other hand, the East Africa countries that comprises of

Uganda, Tanzania and Kenya have remained in the list of developing countries despite economic integration and abundance of natural economic resources (IMF, 2015). The region has been beset with tax evasion such that, in Tanzania, the forfeited tax is one-sixth of the annual national budget.

The Kenyan counterpart suffers inequitable distribution of taxes with the income tax being the only tax that is certain. Consequently, there has been a general clarion call for Kenyans to pay taxes in a bid to promote self-reliance, which in the Kenyan case, means reduction in donor dependency. This call is not discriminate hence was meant for both the formal and the informal sector (Gitaru, 2017). Closely related is the call to end corruption, embezzlement and misappropriation of state resources. In addition, the media involvement during parliamentary debates and the announcement of approbation and gazettement of the relevant legislations such as the Finance Bill 2019 heightens public discussions on the revenue Acts (Roedl, 2018). The Key challenge is KRA's continued inability to meet revenue targets despite the publicity that accompany unveiling of new tax policies such as the turnover tax 2007 and 2019.

1.1.1 Turn over tax in Kenya

In Kenya, Turnover tax is applicable to the groups of businesses whose turnover is expected to be less than 5 million Kenya shillings. This tax is having its roots on the Finance Act 2007 in which the provision of the Income Tax Act, Cap 470, under section 12c allows the government to operationalize it. Ouma et al (2007) explained that the turnover tax targets the small traders which comprises of the micro and small businesses. These businesses are largely unregistered and mostly employ labor as the primary means of production i.e. labor-intensive production functions.

In the year 2018, the Finance Act 2018 introduced the Presumptive Tax to replace the 2007 turnover tax. This legislation was to be officially operational on 1st January 2019. Less than a year later, the turnover tax was reintroduced through the Finance Act 2019 in a bid to improve tax compliance among MSEs. Consequently, the government lowered the threshold of the presumptive tax to Ksh. 500,000 while maintaining the turnover tax for any sales exceeding Ksh. 500,000 up to Ksh. 5 million (Karanja, 2018). The turnover tax is a monthly 3% contribution of the gross turnover. The combination of the presumptive tax and the turnover tax is touted as the best step towards tax compliance by the small traders.

As an affirmative action, turnover tax was meant to include the small traders in the national tax regime. However, the expectation has not been met as the target revenue of Ksh. 2.4 billion could not be raised. When this target is compared to the actual revenue of Kshs. 221 million, it raises concerns.

1.1.2 Determinant of turnover tax compliance

Taxpayers awareness is the level of knowledge and sensitivity of the tax payer to tax legislation. In Nigeria, the MSEs do not differentiate county taxes from the national taxes. By paying taxes due to the county council, they assume that they have contributed all the taxes that they have (Oladipupo, 2016). The grey areas in the taxpayer awareness include, the type of tax they should file, the frequency of payment, timelines, the consequences of failure, importance of book keeping and the justification of payment (Ndaka, 2017). This presents a problem for both the tax authority and also the taxpayer. In a situation whereby a taxpayer has registered for the wrong tax, for instance registering for a turnover tax with a turnover of more than Ksh. 5 million, it becomes unpredictable for the tax authority (Onchwati, 2017). This also means a conflict

between the taxpayer and the Kenya Revenue Authority in the event of failure to comply.

A landmark effort at enforcing tax registration is the development of the itax online portal where tax services such as filing of returns, registration et cetera is done closer to the user (Musyoka, 2019). The intensified call for contribution of taxes has also been matched with the development of service centres (Huduma centres) where potential and active taxpayers visit to update their tax compliance status. In addition, the government has enforced the requirement for all students joining colleges to register with the Kenya Revenue Authority though the itax portal in order to benefit from key services like higher education loans (KRA, 2018). Other services such as the last mile electricity connections as well as bank account opening for public and private limited companies require personal KRA Pin Certificates (Musyoka, 2019).

In a bid to loop in the small traders, The Kenya Revenue Authority has attempted to enforce both the presumptive as well as the turnover tax albeit small successes (Roedl, 2018). The authority has been particularly wary of the blatant ETR fraud, lack of taxpayer registration, fictitious input of VAT claims as well as administrative challenges (Wasilwa, 2019). The mere presence of such challenges point to a problem in tax compliance of which it is a reality at the Kenyan tax authority's level. This begs the questions as to what exactly frustrates enforcement of the tax laws in Kenya. Is it the approach, laxity or it is just a universal plague in tax administration?

The cost of compliance involves all the costs that go into the preparation of taxes to actual payment. Taxpayers have the option to do self-assessment and computation of taxes or engage tax experts (Roedl, 2018). For small scale taxpayers, it is easier to trace the sales revenue and pay the requisite tax proportion as well as reading off the value of business permit and taking its percentage as taxes. However, as the business become

more complex and require compliance on its part as well as the involved employees, it calls for the engagement of tax experts (Shome, 2018). These experts will do the computation and present an advice that must match the expectations of the tax authorities should the authority undertake its own independent computation.

Tax compliance becomes an issue when the engaged experts attempt to help the taxpayer evade taxation at a discount. This is particularly common in large businesses that file for turnover taxes when their revenues qualify them for corporate taxes in order to pay the lesser tax (Onchwati, 2017). The cost of restoring compliance will then increase for the tax payer when discovered. If the misrepresentation remains concealed, then it becomes a cost on the part of the revenue authority as forfeited income. Sometimes, failure to comply is as a result of lapse in the tax collection and audit system. For instance, the tax remittances that are associated with professional services that do not attract Pay as You Earn form of tax (Onchwati, 2017). Since the professionals are expected to compute and file returns on quarterly basis, the concerned taxpayer may not faithfully keep an account of all incomes in the subject period.

1.1.3 Compliance of turnover tax in Kenya

Tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance and reporting compliance (Brown and Mazur2003). OECD (2001) advocates dividing compliance into categories in considering definitions of tax compliance. These categories are administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax. Income

tax compliance applies to all salaried categories and it requires that people pay their tax promptly to prevent penalties. To the government should create tax compliance culture through education by creating - for example - pamphlets to familiarize members of the public with the notion of taxation and instill compliance.

While the small traders' inclusion in the tax was considered a shot in the arm, only 31% of the MSEs in Gikomba market had complied by the end of 2011 as a result of inability to compute tax liabilities. This cast an unsatisfactory response in the entire small traders in the republic. A yearly performance shows that in the year 2008/09, the number of registered MSEs for Turnover Tax was 10,605 against a target of 18,347 (Mwangi, Gachoka & Siagi, 2010).

Karanja (2018) explored the challenges that accompany the collection and administration of turnover tax in Kenya. The research unearthed challenges of resources in the administration of the turnover taxes and recommended tougher penalties for non-compliance. Wasilwa (2019) proposed a more indirect method in which the Kenya Revenue Authority could subtly encourage compliance by encouraging registration, prompt settlement of tax due and filing of returns.

1.1.4 Micro and Small Enterprises

According to KNBS (2016), Micro Enterprise means a firm, trade, service, industry or a business activity whose annual turnover does not exceed five hundred thousand shillings and which employs less than ten people. While small enterprise means a firm, trade, service, industry or a business activity whose annual turnover ranges between five hundred and five million shillings and which employs between ten and fifty people

The KNBS (2016) Micro, Small and Medium Establishment (MSME) Survey Basic Report shows that SME contributes 35-50 percent of the global Gross Domestic

Products. MSEs are the dominant and vast majority of firms in many economies in the world, for instance, 90 percent of enterprises in Africa are MSEs, (Venter & Clercq, 2007). MSEs have been identified under the Kenya Vision 2030 as a key driver in the provision of goods and services enhancing competition, fostering innovation, generating employment hence alleviating poverty.

Data from Kenya Revenue Authority (KRA) shows that despite increased collection of revenues across all 47 County Governments in Kenya from MSEs, the amount of revenue collected by KRA from MSEs has not increased proportionately, and therefore there was need to study whether compliance cost could be a hindrance to compliance, leading to non-compliance as the MSEs try to make profits.

1.2 Problem Statement

Taxation has a huge effect on many parts of any country economy, including impacts on the development of micro and small-sized enterprises (MSEs). To develop an environment conducive to MSEs growth while ensuring tax compliance is a big challenge to many countries. Weichenrieder (2012) postulate that taxation of MSEs faces major policy related challenges that include definition and incorporation of MSEs, record keeping, compliance costs and tax evasion by MSEs.

Chilipunde and Shakantu (2010) further posit that most of MSEs" traders have inadequate training as well as business skills hence high prevalence of unethical conduct to manage the business. Among many MSEs, tax compliance is eroded due to lack of skills and information needed to help them comply by filling tax returns. This leads to difficulties in the realization of the incomes from turnover tax.

In Kenya, turnover tax was introduced in 2007, and since then KRA have never met the target. According to KRA Revenue Performance Report of 2017/2018 financial year,

KRA missed its revenue target by 25 billion, managing to raise Ksh. 1.435 trillion against the target of Ksh 1.46 trillion which was attributed to non-compliance by MSEs and decline in economic activities (KRA 2018). Turnover tax declined from 385 million to 277 million in 2017/2018 financial year. This prompted the National Treasury to suspend it during the 2018/19 financial year (KRA, 2018).

A report by Kenya Bankers' Association (2017) shows that MSEs contribution to GDP in form of tax was only 2.5 percent despite been the greatest source of employment to many people. With this low tax compliance by MSEs, despite their contribution in terms of employment, researchers have tried to solve the puzzle by carrying out studies to establish the reasons for low compliance by MSEs. Considering that the total employment by MSEs exceed 80% of the entire working population, it is obvious that majority of MSEs are yet to be brought in to tax or the tax evasion and avoidance is rampant among MSEs

The research by Waweru (2013) indicates that whereas overall collection of tax revenues in Kenya every year is on the rise, the tax revenues from turnover tax collection was getting slimmer. Kiringi et al (2011) agrees that there are challenges related to collection of tax among MSEs in developing countries.

The question that arises is what is causing low compliance of turnover tax collection in Kenya? Therefore, this study answered the questions: what factors influence the collection of turnover tax in Kenya? And what are the recommendation to overcome the challenges? Hence this study investigates determinant of turn turnover tax compliance in Kenya.

1.3 Objectives of the study

1.3.1 General objective

The general objective of the study was to determine factors affecting turnover tax compliance by micro and small enterprises in Gikomba market.

1.3.2 Specific objectives

The study sought to achieve the following objectives;

i. To determine how taxpayers' awareness influence turnover tax compliance by micro and small enterprises in Gikomba market.

ii. To establish how enforcement measures by the Kenya Revenue Authority influence turnover tax compliance by micro and small enterprises in Gikomba market.

iii. To establish how costs of compliance influence turnover tax compliance by micro and small enterprises in Gikomba market.

1.4 Research questions

This research was guided by the following research questions:

i. How do taxpayers' awareness influence turnover tax compliance by micro and small enterprises in Gikomba market?

ii. How does enforcement measures by the Kenya Revenue Authority influence turnover tax compliance by micro and small enterprises in Gikomba market?

iii. How does costs of compliance influence turnover tax compliance by Micro and small enterprises in Gikomba market?

1.5 Justification of the study

The research is significant to three groups namely; the academic community, the taxpayers and policy makers. This study will be of great importance to those groups as it will add to the body of knowledge.

1.5.1 Researchers

The academic community will benefit from new insights into the dynamics surrounding tax enforcement in a real market situation. The recommendations made will form bases for further studies as researchers try to solve some of the problems emanating from the current study.

1.5.2 Policy makers

The policy makers will have an opportunity to formulate a bottom-up taxation policy that captures the concerns of the target tax payers. They will use recommendations of this study to support some of these policies.

1.5.3 Taxpayers

Taxpayers will highly benefit from this study. The understanding on the knowledge of tax compliance will help the tax payers to know their obligations as taxpayers. They will be able to know ways of reducing the tax compliance costs and understanding the laws governing turnover tax.

1.6 Scope of the study

The geographical scope of this study was in Gikomba market in Kenya. The target groups are the MSEs operating the aforementioned market while the research was confined to the factors that influence turnover tax compliance in the small traders. The factors to be studied include taxpayers' awareness, enforcement measures and cost of

compliance. The study used descriptive research design while the population of the study is 517 MSEs in Gikomba market. The time period for the study is financial year 2017/2018.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the existing literature on the factors that influence tax compliance. The chapter begins with a review of the theories underlying tax enforcement and tax compliance will be reviewed and matched with the arguments supporting various methods of ensuring compliance. The next section captures the empirical review of tax payer awareness, enforcement of compliance efforts and the cost of compliance. Subsequently, a conceptual framework is designed to demonstrate the relationship between the factors and the main variable as well as the existing gaps.

2.2 Theoretical review

This section reviews the theories that attempt to explain the factors that influence tax compliance and compliance behavior. The theories include economic deterrence theory, facilitative theory and optimal theory of taxation.

2.2.1 Contract Theory

Thomas Hobbes, John Locke and Jean-Jacques Rousseau are the best known proponents of contract theory (Hobbes et el. 1985). In economics, contract theory studies how economic actors can and do construct contractual arrangements, generally in the presence of asymmetric information. Information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other. This asymmetry creates an imbalance of power in transactions, which can sometimes cause the transactions to go awry, a kind of market failure in the worst case (Wilson 2008).

A study by Schmidt and Keil (2013) has revealed that the presence of private information asymmetry within firms influences normal business activities. Firms that have a more concrete understanding of their resources can use this information to gauge their advantage over competitors. In Ozeml, Reur and Gulati's (2013) study, they found that 'different information' was an additional source of information asymmetry in venture capitalist and alliance networks; when different team members bring diverse, specialized knowledge, values and outlooks towards a common strategic decision making event, the lack of homogenous information distribution among the members leads to inefficient decision making.

Based on this theory, availability of information about the tax system to the taxpayers is paramount. In taxation, the tax authorities tend to have monopoly of knowledge about tax laws and procedures. If these knowledge is not passed to the taxpayers through seminars, adverts and workshops, taxpayers are likely not to be aware of their obligations and rights as taxpayers. In a situation where taxpayers are fully aware of the existing tax laws, they are able to do proper tax planning which in turn will improve compliance among taxpayers.

2.2.2 Economic deterrence theory of tax compliance

According to Abrams, (2012), the deterrence theory is attributed to the early seminal works of classical philosophers including Cesare Beccaria (1738–1794), Jeremy Bentham (1748–1832) and Thomas Hobbes (1588– 1678). The foregoing theorists complained against the legislative policies that were dominant in European thought for over a thousand years, as well as against the spiritualistic accounts of criminal acts on which they were commonly attributed to. Further, in addition to the foregoing complaints, these social philosophers offered the basis for modern deterrence theory in criminology

In its modern versions the economic theory of crime is predicated on 'the deterrence hypothesis' – the assumption that potential and actual offenders respond to both positive and negative incentives, and that the volume of offences in the population is influenced by law enforcement and other means of crime prevention (Ehrlich 2018). According to Ehrlich 2018), proponents of this theory believed that people choose to obey or violate the law after calculating the gains and consequences of their actions. Overall, however, it is difficult to prove the effectiveness of deterrence since only those offenders not deterred come to the notice of law enforcement. Thus, we may never know why others do not offend. less crime occurs when the expected penalties are greater (Levitt and Miles 2018)

There are numerous studies done currently on this theory. The studies and their findings have created controversy and great discussion as to the validity of deterrence as it relates to criminal activity or lack thereof (Sitren and Applegate, 2012). Deterrence happens in two broad forms, that is general and specific deterrence. The former inhibits members of the public from indulging in a given crime from observation of the penalties of the committer's actions (Mohammed, 2015). The latter on the other hand specific discourages the committer from indulging in a comparable crime in the future, by demonstrating to the person the repercussions of their actions. In later research the deterrence model has been criticized for banking on non-compliance level that is lower than is the case in reality. Braithwaite (2003) pointed out that the odds of detection and penalties for non-compliance, according to the model, tended to make cheating the rational option. Thomas (2015) asserts that it is not cost effective to implement the model hence always fall out of favor with politicians and policy makers. According to Thomas, the model is only appropriate to the minority non-compliant who do not comply as a matter of principle.

This is premised founded on the argument that acting rationally, human beings would prefer pleasure as opposed to pain, when it comes to making a determination of whether to commit a certain act or not, the individual would consider the pain that would be consequential related to punishment visa vis the pleasure related to freedom, good repute in the society and financial comfort thus decide not to indulge in the said act (Ronald and Christine, 2010). Deterrence happens in two broad forms, that is general and specific deterrence. The former inhibits members of the public from indulging in a given crime from observation of the penalties of the committer's actions (Mohammed, 2015).

Borrowing from this theory, the tax authority should educate the taxpayers on the need to be tax compliance. The benefits of tax compliance should be made clear to the taxpayers by exposing them to the relevant tax laws. Also, the risks of noncompliance should also be made clear to them. The tax authorities need to come up with strict penalties for those who don't comply. In summary, it should be made clear that cost of non-compliance is more than cost of compliance.

2.2.3 Transaction cost economics theory

The idea that transactions form the basis of an economic thinking was introduced by the institutional economist (Commons, 1931). He said that: These individual actions are really trans-actions instead of either individual behaviour or the "exchange" of commodities. In economics and related disciplines, a transaction cost is a cost in making any economic trade when participating in a market. The concept of the transaction cost was popularised by Oliver Williamson (Pessali , 2006). Douglass North argues that institutions, understood as the set of rules in a society, are key in the determination of transaction costs. In this sense, institutions that facilitate low transaction costs, boost economic growth (North 1992).

Douglass North states that there are four factors that comprise transaction costs– "measurement," "enforcement," "ideological attitudes and perceptions," and "the size of the market." Measurement refers to the calculation of the value of all aspects of the good or service involved in the transaction. Enforcement can be defined as the need for an unbiased third party to ensure that neither party involved in the transaction reneges on their part of the deal. These first two factors appear in the concept of ideological attitudes and perceptions, North's third aspect of transaction costs. Ideological attitudes and perceptions encapsulate each individual's set of values, which influences their interpretation of the world. The final aspect of transaction costs, according to North, is market size, which affects the partiality or impartiality of transactions.

According to Dahlman (1979), transaction costs can be divided into three broad categories: Search and information costs and policing and enforcement costs where search and information costs are costs such as in determining that the required good is available on the market, which has the lowest price, etc. while Policing and enforcement costs are the costs of making sure the other party sticks to the terms of the contract, and taking appropriate action (often through the legal system) if this turns out not to be the case. Other are bargaining and decision costs which are the costs required to come to an acceptable agreement with the other party to the transaction, drawing up an appropriate contract and so on.

According to Williamson, the determinants of transaction costs are frequency, specificity, uncertainty, limited rationality, and opportunistic behavior. Thus small and frequent transactions are costly than large and few transactions since most of transaction costs are fixed costs in nature.

Ricardo and Eros (2017) and Tahar, Soner and Touzi (2015) conducted two different tests whose results showed any taxes made a significant portion of transaction costs

which hindered investors from selling their securities in the security market. Any tax system comes with tax compliance costs. Sandford (2012) defined Tax compliance costs as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. Earlier research (Franzoni, 2013) concluded that companies will create a kind of resentment against authorities who impose too high levies and too complex tax systems. This will incentivize (illegal) tax avoiding systems because of the high financial advantages and the low condemnation rates (Franzoni, 2012). In addition, because of the complexity of the system, the companies often need to rely on external tax professionals who by means of sophisticated tax avoidance engineering will minimize tax payments (Franzoni, 2013).

Generally, if the cost of compliance makes a great proportion of the business expenses, firms will find ways of evading taxes, but when the cost is minimal, most firms are likely to comply. The tax authorities should therefore try as much as possible to ensure that cost of compliance is greatly minimized so as to improve on compliance by taxpayers.

2.3 Empirical Review

This section reviews previous research and debates around the factors that influence tax compliance, mainly focusing on the literature on compliance behaviour. It contains literature on research undertaken within Kenya and the corresponding literature in the rest of the world.

2.3.1 Taxpayers' awareness and turnover tax compliance

According to Muliari and Setiawan (2011) taxpayers' awareness is a condition where a person knows, recognizes, respects and obeys the applicable tax provisions seriously and desires to fulfill his or her tax obligations. Mohd (2010) disaggregated Taxation

knowledge into public awareness of taxation laws, the role of tax in national development, and 'how and where' the money collected is spent by the government. Razak and Adafula (2013) established that there is a strong correlation (R=0.72) between awareness and the decision to comply. The implication of this relationship is that attitude towards tax compliance is directly proportional to enhanced taxation knowledge. A positive tax attitude helps reduce negative perceptions about tax thus increasing taxpayers' tax compliance.

A review was conducted by Mascagni, Santoro and Mukama (2019) on tax compliance drawn from taxpayer education programme in Rwanda. The research was motivated by the fact that taxpayer education is meant to improve tax compliance and remain largely unexplored in literature. It used a survey data from 920 respondents in Kigali with rigorous evaluation of taxpayers' education on tax compliance knowledge and perceptions on tax training. The findings indicated that taxpayers' education result into significant increase in tax knowledge which emanates from low baseline of understanding to well perceived information on compliance. Further, the results showed that training new taxpayers contributes a lot to bringing into the habit of tax filing declarations.

Kwok and Yip (2018) evaluated on the tax education good or evil for boosting tax compliance in Hong Kong. This was to clarify suggestions from many researchers who viewed that tax education foster compliance while others argued that tax knowledge inspires tax evasion. The analysis explored on tax education and whether it improves tax compliance using 600 respondents from Hong Kong. The research model consolidated on the information and findings showed that taxpayers comply if they are able and willing to positively perceive tax system as being fair and morally believe that is right to comply.

2.3.2 Enforcement measures and turnover tax compliance

According to Murphy (2008), revenue authorities can employ either of the two types of enforcement strategies to tax ensure compliance; a deterrence or accommodative approach. Both strategies have a positive effect on tax compliance, even though the accommodative approach has a more significant positive effect than the deterrence approach. Ortega and Sanguinetti (2013) established a causality in a subsequent research on the effectiveness of enforcement and moral suasion in increasing tax compliance. They discovered that enforcement tone in the conveyance of messages has greater effect on tax compliance as compared to a moral suasion tone.

In a bid to resolve the dilemma, Maurer Faculty conducted a survey in the US to determine if enforcement reduce voluntary tax compliance (Lederman, 2018). The Internal Revenue Service (IRS) in principle expect greater compliance when the tax laws are enforced by means of sample auditing and imposition of penalties. It is believed that the federal income tax requirement for taxpayers to self-report income is an incentive to cheat. However, scholars such as Benno Torgler (2006) argue that, "When monitoring and penalties for noncompliance are intensified, individuals notice that extrinsic motivation has increased, which crowds out their intrinsic motivation to comply with taxes." Other scholars argue that enforcement will serve as a demotivator for the tax payers who have consistently been implementing voluntary tax compliance.

Maurer Faculty, in their analysis on the effects of sanctions on tax compliance, attributed an increase in compliance to such enforcement techniques as audit threats. Subsequently the debate shifted to the extent to which crowding out can affect the overall tax-compliance. The conclusion was that enforcement generally has a strong, positive effect on tax compliance and that audits are a very productive tool for a tax collector. While there is some evidence that audits may result in reduced tax payments

by self-employed taxpayers who, on audit, are found not to owe anything, that result is consistent with the deterrence model.

While enforcement of tax compliance is believed to generate optimal compliance, there are exceptional cases that call for moral suasion. These cases involve large corporate taxpayers whose contribution is significant exert risk and complexities to the tax system. Tax authorities across the world have special offices for the large taxpayers that help secure their compliance through persuasive rather than coercive instruments (Akhand, 2011). The treatment of the small and medium taxpayers is often based on a coercive philosophy also called deterrence or stick based approach. In this approach taxpayers are forced to conform to their tax obligations and legally punished for non-compliance (Almunia & Lopez-Rodriguez, 2018).

Karanja (2018) explored the challenges that accompany the collection and administration of turnover tax in Kenya. The research unearthed challenges of resources in the administration of the turnover taxes and recommended tougher penalties for non-compliance. Wasilwa (2019) proposed a more indirect method in which the Kenya Revenue Authority could subtly encourage compliance by encouraging registration, prompt settlement of tax due and filing of returns.

2.3.3 Cost of compliance and turnover tax compliance

The two main types of tax compliance costs are the gross monetary compliance costs and psychological costs. They include actual money incurred and the opportunity cost of resources utilized in compliance as well as stress and anxieties (Evans & Tran-Nam, 2014). The Likert scale is utilized in the estimation of stress and anxieties which is subsequently added up with the net cash paid out to make an estimation of the gross compliance cost.

In their survey of compliance burden on small business tax payers in Australia, Philip et al (2012) sought to delineate the cost of compliance from core accounting activities in order to establish if there are managerial benefits associated with tax compliance. They deduced that tax payers may benefit by reinvesting collected tax before they are due for surrender to the tax authority.

Tax compliance costs can rise for many reasons. Shaw, Slemrod and Whiting (2008), who reviewed the causes of tax compliance costs in the UK, identified one of the reasons as unstable tax regime. The compliance costs rise as the tax payers are forced to deal with the consequences of highly differentiated tax regimes. Shekidele (1999), who studied tax compliance in Tanzania, established that tax compliance costs decreased with a reduction in the number of tax rates, and the harmonization of definitions and compliance procedures.

The report by KMPG (2006) in the UK, and Evans (2003) in the UK and Australia, reported that tax compliance costs decrease with an increase in the stability of tax laws coupled with less frequent introduction of new tax laws. Lignier and Evans (2014) attributed the increase in tax compliance costs of Australia's MSEs to the introduction of sales taxes, which required extensive accounting records. Other facilitative factors include the introduction of a self-assessment tax system and withholding of transfer compliance costs by taxpayers from tax authorities (Slemrod, 2009).

In the US, Arthur working on behalf of the IRS collected businesses' tax compliance cost data on behalf of the Internal Revenue Service (Slemrod and Venkatesh, 2002). The data captured the compliance costs such as the cost of keeping accounting records, preparation of the tax returns, submission of the returns and the required equipment (Slemrod & Venkatesh, 2002). The regressive nature of tax compliance costs indicates that tax compliance costs are fixed, with larger taxpayers enjoying a relative advantage

over others. Nevertheless, the data lacks reliability, because taxpayers might overstate tax compliance cost estimates or might not remember all the tax compliance cost they incurred (Slemrod & Blumenthal, 1996).

In a joint report by Ramboll Management Consulting, the Evaluation Partnership and Europe Economic Research (2013) it was suggested that tax compliance costs should be reduced due to its potential to increase voluntary tax compliance. The report was intended to help the European Union appraise the different methodologies of measuring tax compliance costs. In this regard, it was held that tax systems with high tax compliance costs tended to be procedurally and vertically unfair and leading most taxpayers from MSEs to default on payment of taxes.

According to Slemrod et al (1984) a survey of self-employed taxpayers' tax compliance costs established that these taxpayers spent more time trying to comply than their large counterparts. In addition, the self-employed are more likely to hire tax preparers than larger taxpayers (Slemrod & Sorum, 1984; Blumenthal & Slemrod, 1992). It was further observed that for larger companies, tax compliance costs decreased with an increase in values of assets in the US (Slemrod & Blumenthal, 1996).

The implication is that Arthur D. Little's survey data is generally useful. These findings are supported by other studies which include Sandford and Hasseldine (1992) carried out in New Zealand, Pope (1995) in Australia, James and Wallschutzky (1997) in Australia and the UK, Schoonjans et al. (2011) in Belgium, and Coolidge (2012) in developing countries mainly using World Bank data. Coolidge (2012) quantified the proportion of revenues used up in tax compliance as 1% for large companies, 5% to 15% or more for the MSEs.

The regressive nature of compliance costs was further established through the works of Evans et al (2014). In the study, it was reported that the tax compliance costs of MSEs in Australia, Canada, South Africa and the United Kingdom were not just significant and regressive but were also increasing with time. Evans and Tran-Nam (2014), in their comprehensive review of tax compliance costs in New Zealand, established that it was comparatively higher and regressive than those from other countries. The results of Chittenden in the UK and Poutziouris (2005) and Lignier, Evans and Tran-Nam's (2014) survey of 10,000 SME taxpayers in Australia, indicated that MSEs faced high, regressive and increasing tax compliance costs.

Luca, Richard and Jaime (2012) found a positive correlation between the gaps in Value Added Tax and Value Added Tax compliance cost among the European member states but disputed the causality relationship between tax compliance cost and tax compliance. The data used were sourced from the world bank which matched tax compliance cost with VAT gaps in the European Union. While acknowledging the established association, they argued that data was skewed with regard to VAT and compliance cost among the European Union member states. They urged for further research to test causality with more reliable data (Luca, Richard, & Jaime, 2012).

While the cost of compliance is a factor across the board, Pope et al (2008) in their study of the cost of tax compliance in Malaysia, concluded that it is heavier on medium and small enterprises. In a separate study in Zimbabwe, Maseko (2014), it was revealed that unlike large companies, MSEs face different business conditions, which make them to endure a high tax compliance load. Razak and Adafula (2013) assert that this had an effect on the attitude of taxpayers and subsequently, their compliance citing the relatively high tax rate in Ghana. On the positive side, awareness of how the collected

revenue was utilized tended to impact positively on the decision to comply (Razak & Adafula, 2013).

2.4 Conceptual Framework

The conceptual framework is the researcher's visualization of the relationship between the dependent variables and the explanatory variables. In this research, the dependent variable is tax compliance. The tax compliance was measured in terms of the frequency of filing, registration status and the collected revenue. The explanatory variables broadly are taxpayers' awareness, deterrent measures and the cost of compliance. The independent variables was of taxpayers' awareness, enforcement measures and cost of compliance while the dependent variable was turnover tax compliance. The indicators of level of taxpayers' awareness was level of print/social media, training and seminars/workshops while that of the deterrent measures was deactivation, court suits and Agency notice. For the cost of compliance, the indicators was cost of keeping records, cost of preparing returns and cost of submitting while for turnover tax compliance the indicators was filed returns, new pin registration and tax collected.

Independent variable

```
┌─────────────────────────────┐
│ Taxpayers' awareness        │
│                             │
│  • Training                 │─────────────┐
│  • Workshops                │             │
│  • Print and social media   │             │
└─────────────────────────────┘             │     **Dependent variable**
                                            │
                                            │
                                            │      ┌──────────────────────────┐
┌─────────────────────────────┐             │      │ Turnover tax compliance  │
│ Enforcement measures        │             │      │                          │
│                             │             ▼      │  • Filed returns         │
│  • Court suit               │────────────────────▶  • Tax Collected         │
│  • Deactivations of PINs    │             ▲      │  • New pin registration  │
│  • Agency notice            │             │      └──────────────────────────┘
└─────────────────────────────┘             │
                                            │
                                            │
┌─────────────────────────────┐             │
│ Cost of Compliance          │             │
│                             │             │
│  • Cost of keeping records  │             │
│  • Cost of preparing/filing │─────────────┘
│    returns                  │
│  • Cost of submission       │
└─────────────────────────────┘
```
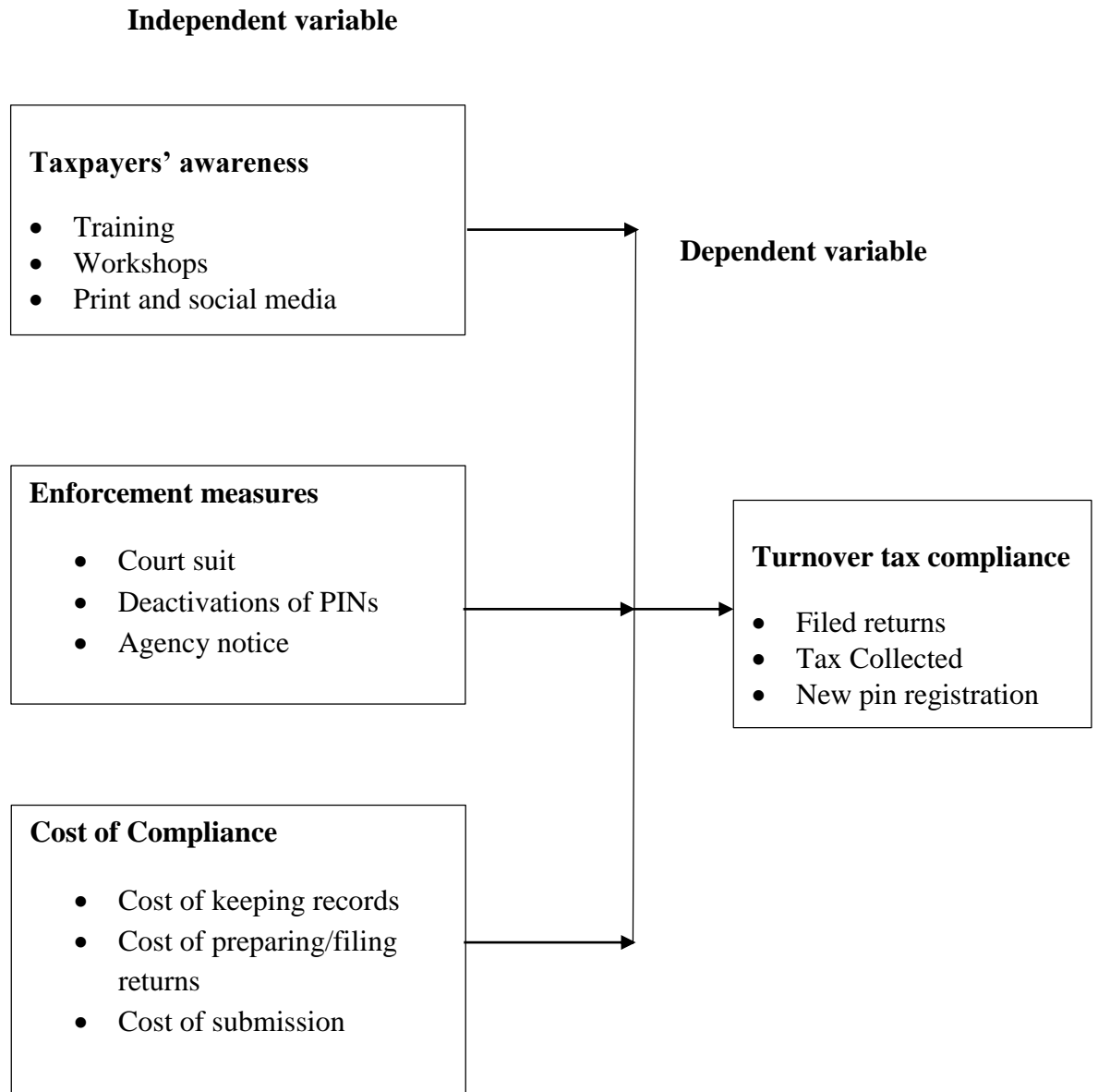
Figure 2.1: Conceptual Framework

2.5 Critique of the literature

The bulk of the literature reviewed classifies taxpayers as a 'micro and small enterprises' based on the definitions in developed economies whereby a 'micro and small enterprises' means a different thing when defined in a developing Country like Kenya. The inferences and comparisons relied on in the review are dominated by surveys conducted by KPMG (2006) and Shaw et al (2008) study in the United Kingdom, Philip et al, (2012) and Lignier and Evans (2014) in Australia, Evans & Tran-Nam (2014) in New Zealand and Lederman (2018) work among the US tax payers. The lack of harmony in the definitions renders inconsistent, the conclusions drawn in Shekidele (1999) study of tax compliance in Tanzania, Razak and Adafulla (2013) study in Ghana and Maseko (2014) study of Zimbabwe's small and medium sized enterprises.

2.6 Summary of the literature review

This chapter has reviewed the theoretical basis of taxation mainly focusing on four theories and the subsequent empirical literature. These theories include contract theory, deterrence theory and transaction cost economics theory. Contract theory was proposed by Thomas Hobbes, John Locke and Jean-Jacques Rousseau (Wilson 2008). In economics, contract theory studies how economic actors can and do construct contractual arrangements, generally in the presence of asymmetric information. information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other. This asymmetry creates an imbalance of power in transactions, which can sometimes cause the transactions to go awry, a kind of market failure in the worst case.

Deterrence theory as proposed by Allingham and Sandmo (1972) and Becker (1974) suggests that tax authorities design the model of taxation in such a manner that a rational tax payer will consider safer to pay taxes than to be caught being non-compliant. Transaction cost economics theory as proposed by John R. Commons (1931) suggests that transactions form the basis of an economic thinking. In economics and related disciplines, a transaction cost is a cost in making any economic trade when participating in a market.

Singh (2003), Eriksen and Fallan (2006), Normala and Obid (2010), Razak and Adafula (2013) concluded that there is a significantly positive relationship between the level of tax education and tax compliance. A strong correlation of (R=0.72) was generated in the correlation analysis undertaken by Razak and Adafulla (2013). Murphy (2008), Ortega and Sanguinetti (2013) (Lederman, 2018) established a causality of enforcement and moral suasion efforts and tax compliance. Almunia & Lopez-Rodriguez (2018) and Wasilwa (2019) decry the fact that Small and medium taxpayers are forced to conform to their tax obligations and legally punished for non-compared to large tax payers. Shekidele (1999) Slemrod and Whiting (2008), KMPG (2006), Philip et al (2012), Lignier and Evans (2014) empirically established the regressive nature of compliance costs and concluded a stable tax regime enhances compliance. The comparative impact was established by Pope et al (2008) inferring that cost of compliance is a stronger factor for medium and small enterprises.

2.7 Research gap

The existing empirical findings and the underlying theories have not captured the factors that influence tax turn over tax compliance specific to Kenya's small-scale traders. The study by Mascagni, Santoro and Mukama (2019) and Kwok and Yip (2018), all of which they tried to establish the effect of taxpayers' awareness on tax compliance were done in foreign countries. Different countries have different definitions and tax treatment for the MSEs. Thus findings from those countries cannot be generalized to the MSEs in Kenya. The current study will bridge that gap by conducting a study on MSEs in Kenya, specifically in Gikomba market to establish the factors affecting adoption of turnover tax.

Other studies, for example, a study by Evans and Tran-Nam (2014) and Razak and Adafula (2013) were dome to establish effect of compliance costs on corporate tax compliance in different firms. It is understood that MSEs face different challenges from more established firms and therefore, the findings from such studies cannot be generalized to the MSEs. The current study seeks to bridge that gap by studying the relationship between compliance cost and turnover tax compliance in Gikomba market, Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research design and method of research that will be used in the execution of the project, the respondents of the study, the data collection technique, the instrument to be used, the validation of the instrument, the administration of the instrument and the statistical treatment of the data gathered.

3.2 Research Design

Research design is defined as the general strategy used in acquiring information particular to the topic of interest. This research, therefore, employed descriptive research design which involves analyzing the characteristics of a sample. According to Kothari (2004), descriptive research is crucial in such a study since it is geared towards the comprehensive interpretation of features that apply to the complex nature of a given problem. Since this study was statistical in nature, a descriptive research method serves right since it captures the specific characteristics of a population. This would, in return, be used to make inferences about the rest of the population.

3.3 Target population

A population element is the subject on which the measurement is being taken and is the unit of study (Donald Cooper 2010). The population of interest for this study comprises of all the turnover taxpayers in the register of the Kenya Revenue Authority currently operating in Nairobi County. The choice of Gikomba market is considered strategic for this research due to the large number of the target respondents operating in the market at any given time. This was considered an advantage when it comes to the maximization of the available resources for research in terms of money and time. In addition, the

assortments of goods and services being offered in Gikomba market is expected to guarantee a representative sample at the sampling stage. The target population was the 517 MSEs in Gikomba market (KRA, 2018).

Table 3.1: Target Population

Item	Target Population
Boutique (Mitumba) traders	350
Groceries Traders	52
Juakali Artisans	60
Hair products traders	20
Furniture traders	35
Total	**517**

3.4 Sampling frame

A sample frame provides evidence that a sample is truly representative of the target population since it specifies the desired characteristics (Kiss & Blomquist, 2009). In order to obtain a sample that has the characteristics desired in this research, the minimum requirement for a respondent is the occupancy of a registered stall in Gikomba Market and a legal age. Registration confirms actual location and activity while age confirms authority, judgement and knowledge of the transactions of the sampled business. In order to improve representation, the sampling frame also stratified respondents according to the type of business they undertake. They include respondents engaged in Second hand clothes, Footwear, Boutiques, Groceries, Cafeterias and salons.

3.5 Sampling Size and Sampling Procedure

Sampling is a means of selecting a part of a group from a population to represent the characteristics of the entire group or the population of interest. Sampling reduces the time needed to complete the study as well as the costs involved. Saunders et al (2000) assert that where a sample is utilized rather than the whole population, there is a possibility of collecting more information on every indicator of interest. (Saunders, Lewis and Thornhill, 2000). The usefulness of the information gathered depends on the specific characteristics of the respondents being relied upon. This is usually achieved by carefully designing the sampling frame. According to Coopers and Schindler (2003), a sampling frame is a list of elements from which the sample is actually drawn and is closely related to the population. By adopting this approach, the researcher ensures that the sampling frame is current, complete and relevant for the attainment of the study objectives.

The proposed study adopted stratified random sampling. Coopers and Schindler (2003) argued that stratified random sampling increases a sample's statistical efficiency and provides adequate data for analyzing the various sub-populations. While maintaining the probabilistic properties of the simple random sampling, this method produces a sample that is more representative than the former. The study, therefore, adopt a stratified random sampling, a probability sampling technique, to ensure the sample selected is representative. For the purpose of sampling, the population was stratified into five mutually exclusive sub-sectors which include retail, boutiques, beauty, repairs and groceries. A stratum is understood to mean a subset of the population that shares at least one common characteristic. This procedure ensures homogeneity within each stratum. Within each of the two strata, stratified sampling and simple random sampling technique will be used to arrive at the desired sample.

The sample size (*n*) was calculated by using the Yamane method:

$$n = \underline{N}$$

$$(1+Ne^2)$$

Where,

n = Sample size, N = population size, and e = Margin of error (MoE), e = 0.05

The sample was then divided into two individual strata; n_1 to n_5 using proportional strata allocation to obtain proportional representation, which formed the focus of the study. The sample size was therefore calculated as follows

$$n = \underline{517}$$

$$1+517(0.05)^2$$

$$n = 225$$

A sample of 225 participants were proportionately using the formula n/N where n is the sample size and N is the target population.

Table 3.2: Sample Size

Item	Total Population	Sample Size
Boutique (Mitumba) traders	350	152
Groceries Traders	52	23
Juakali Artisans	60	26
Hair products traders	20	9
Furniture traders	35	15
Total	**517**	**225**

3.6 Data collection Instrument

The study shall employ primary data collection method via a self-made closed questionnaire. The questionnaire is structured based on the research questions divided into two major sections: the first section seeks to bio data information about the respondents and their businesses. The second section seeks information relating to the factors influencing tax noncompliance or compliance by taxpayers, with particular reference to the variables of this research. The responses in the questionnaires are intended to help exhaustively generate understanding of the relevant factors influencing turnover tax compliance among the taxpayers in Nairobi County.

3.7 Data collection Procedures

Data collection procedures shall begin upon approval of this proposal. The researcher requested for a letter of introduction which should serve the needs of the researcher and any research assistants. The questionnaires were then be administered to the respondents directly by the researcher and the research assistants within the Gikomba market owing to the concentration of the target respondents in the same locality. A revisit note will be issued to the absent respondents or the respondents who are willing to respond but too busy on the day of the survey. The interviews were conducted by the researcher personally or through the research assistants at a time and place convenient to the respondents in order to encourage the respondents' free and objective participation.

3.8 Pilot study

A pilot study also known as pilot test or pilot experiment is a small scale preliminary study conducted before the actual study with an aim evaluating the feasibility, time, cost, adverse effects in order to improve upon the study design prior to the actual research (Hulley 2007). The pilot study was aimed at establishing weather the questioner was reliable and valid to collect the required data before the actual research.

3.8.1 Validity of Research Instrument

According to Kothari (Kothari 2004), validity is the degree to which an instrument measures what it is supposed to measure. Therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. In addition, Crocker and Algina (1986) have pointed to the importance of a theoretical foundation by noting that constructs cannot be defined only in terms of operational definitions but must also have demonstrated relationships to other constructs or observable phenomena. The content validity of the research instrument for this study was determined through consultation with my supervisor and piloting, where the responses of the subjects will be checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated (Winterstein, 2008). The researcher shall perform the pilot test with a randomly selected sample of ten turnover tax payers in industrial area in Machakos town.

3.8.2 Reliability Test

Sekaran (2003) stated that the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the "goodness" of a measure. The reliability analysis was done using Cronbach's Alpha

which is usually interpreted as the mean of all possible split-half coefficients. It is a function of the average inter correlations of items, and the number of items in the scale.

3.8.3 Validity Test

Validity is the accuracy and meaningfulness of inferences, which are based on the research results (Mugenda & Mugenda, 1999). The study used content validity whereby questionnaires included a variety of questions about how tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax Compliance among SMEs. Clear instructions were also given and the questions were formulated in simple language for clarity and ease of understanding. The study also improved validity by matching the assessment measure to the objectives of the study.

3.9 Data analysis

The collected data was cleaned and prepared for analysis using statistical software. The choice software for this research is the student version of the Statistical Software for Social Sciences (IBM SPSS). After organizing the responses according to the various themes and coding them appropriately, a test for errors such as duplications or non-responses were done. Thereafter, the raw data was assembled and tabulated in the form of statistical tables to allow for further analysis as well as factor in detection of errors and omissions. Subsequently, the data was analyzed using descriptive statistics and in particular, using the mean as a measure of central tendency and multiple regression.

3.10 Operationalization and measurement of variables

The variables of concern in the proposed research are the taxpayer awareness, enforcement measures and cost of compliance. These variables cannot be directly measured hence the need to identify measurable indicators to take the place of the

variables. The measurements of the variables were measured by the likert scale points

as shown in table 3.4 below.

Table 3.4: Operationalization and measurement of variables

Variable	Indicator	Data collection tool	Measure	Analysis
Taxpayers' awareness	Training	Questionnaire	5-point likert scale	Multiple regression
	Workshops	Questionnaire	5-point likert scale	Multiple regression
	Printed/social media	Questionnaire	5-point likert scale	Multiple regression
Deterrent measures	Agency notice	Questionnaire	5-point Likert scale	Multiple regression
	Court suite	Questionnaire	5-point Likert scale	Multiple regression
	Deactivation of KRA pin	Questionnaire	5-point Likert scale	Multiple regression
Cost of Compliance	Cost of submission of returns	Questionnaire	5-point Likert scale	Multiple regression
	Cost of keeping books	Questionnaire	5-point Likert scale	Multiple regression
	Cost of filing tax returns	Questionnaire	5-point Likert scale	Multiple regression
Turnover tax compliance	Filed returns	Questionnaire	5-point Likert scale	Multiple regression
	Tax Collected	Questionnaire	5-point Likert scale	Multiple regression
	New pin registration	Questionnaire	5-point Likert scale y	Multiple regression

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION, INTERPRETATION AND DISCUSSION

4.1 Introduction

This chapter describes the actual findings as per the feedback from the respondents and which linked them to the objectives of the study. It encompasses the nature of firm profile, descriptive and inferential statistics of the respondents' perceptions on taxpayer awareness, enforcement measures, cost of compliance and turnover tax compliance among micro &small enterprises in Gikomba market

4.2 Pilot test results

A pilot test was done to ascertain the dependability of the research instrument in in in Machakos town using five landlords as shown.

Table 4.1: Reliability Test

Variable	N	Cronbach Alpha	Conclusion
Taxpayer awareness	4	0.842	Reliable
Enforcement measures	4	0.850	Reliable
Cost of compliance	4	0.793	Reliable
Turnover Tax Compliance	4	0.714	Reliable

Taxpayer awareness had an alpha of 0.842, enforcement measures had an alpha of 0.850, cost of tax compliance had an alpha of 0.793 and lastly Turnover Tax Compliance had an alpha of 0.714. The benchmark value of 0.7 is commonly used for the reliability whereby alpha values above 0.7 are considered acceptable and satisfactory, above 0.8 are considered good and above 0.9 are considered to reflect

exceptional internal consistency (Mohajan, 2017). The Cronbach's alpha coefficient of 0.7 was used as the benchmark for this study, and all variables had met the threshold.

4.3 Analysis of the Response Rate

Questionnaires were used to seek perceptions of the respondents' various businesses located at Gikomba market. The researcher distributed 225 questionnaires out of which 201 were received, 6 questionnaires were rejected due to improper incompletion. Thus 195 questionnaires were accepted as correctly filled.
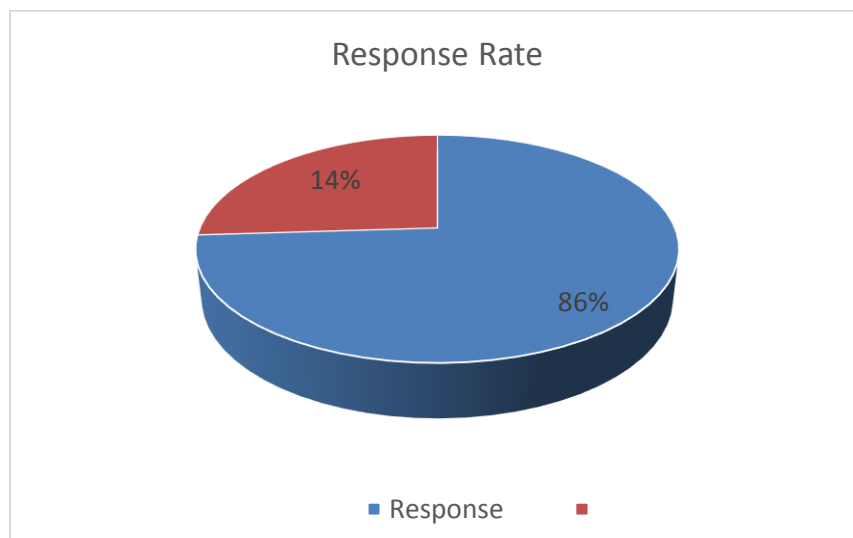
Figure 4.1: Response Rate

Figure 4.1 1bove shows a response rate of 86 %. Patton (2017) suggests that an average response rate of 30% to 40% is reasonable, while recommends that a response rate of approximately 70% for most research should be the goal of researchers. Based on these assertions, this implies that the response rate for this study was adequate, thus to fulfill the main goal of the study.

4.4 Demographic analysis

The study began by analyzing data related to the demographics of the respondents which was in terms of gender, highest education level and number of years one has been in SMEs.

4.4.1 Gender of the Respondents

The study analyzed the gender of the respondents who returned the questionnaires. The findings are presented in table 4.2 below.

Table 4.2: Gender

Gender	Frequency	Percent
Male	113	57.9
Female	82	42
Total	**195**	**100**

As shown in Table 4.2, of the total respondents, 113 were males (57.9%) and 42 were females (42%). The findings imply that most traders are male. The results show that there is good number of ladies who are entering into businesses as opposed to sometimes back. These could be as a result of empowerment programs by the government where women are allowed to access cheap loans as source of capital.

4.4.2 Age Distribution of the Respondents

The respondents were also required to state their ages. The respondents' age was disaggregated base on uniform intervals where 18 years (legally mature age) was taken as the minimum and 56 & above as the maximum.

Table 4.3: Respondents' Age Group

Age Group	Frequency	Percentage
Below-21years	13	6.7
21 – 35years	58	29.7
36 – 45years	50	25.6
46 - 55years	46	23.6
Above 55	28	14.4
Total	**195**	**100**

The findings in table 4.3 shows that majority 29.7% of the respondents were aged between 21–35 years, followed by 25.6% who were aged 36–45 years, 23.6% were aged between 46-55years 14.4% were aged above 55years and 6.7% were below 21 years. From these findings, most of the respondents belong to an age category of 21-35years.This is the most active age group hence they are actively involved tax administration, therefore they had rich experiences, could also appreciate the importance of the study. From these statistics it can be deduced that majority of the people involved in micro small and medium enterprise in Gikomba were relatively young. This could be due to availability of youth empowerment funds by the government where people below 35 years are able to access interest free capital to start businesses.

4.4.3 Highest Level of Education

The respondents were also required to state their highest level of education. The responses given by the 195 respondents who fully filled and returned the questionnaires are as shown

Table 4.4: Education level

Highest Level of education	Frequency	Percent
Certificate	68	34.8
diploma	56	28.7
Bachelor degree	34	17.4
	23	11.7
Masters	14	7.2
Others		
Total	**195**	**100**

The findings in table 4.4 indicated that, majority 34.8% of the total respondents had certificate in education, 28.7% of the respondents had diploma level, and 17.4% had bachelor degree level while 11.7% had master's degree. Lastly 7.2% had other qualifications. These results shows that the majority of people owning SMES have formal education. They are therefore able to read and understand laws related to taxation of SMEs. Also, the results may be an indication that the SME owners are able to manage their businesses well, keeping clear and lean records of all transaction which can be of great boost to TOT compliance.

4.5 Statistical Assumptions

Statistical tests rely upon certain assumptions about the variables used in the analysis. Osborne and Waters (2014), opine that when these assumptions are not met the results may not be valid. They further argue that this may result in a type I or type II error, or over or under-estimation of significance or effect size(s). It is therefore important to pretest for these assumptions for validity of their results. Osborne, Christensen, and Gunter (2001) observed that few articles report having tested assumptions of the statistical tests they rely on for drawing their conclusions.

According to Osborne and Waters (2014), not pretesting for these assumptions has led to a situation where there is rich literature in education and social science, but questions in to the validity of many of these results, conclusions, and assertions still exist. Testing for assumptions is beneficial as it ensures that an analysis meets the associated assumptions and helps avoid type I and II errors (Osborne and Waters, 2014; Owino, 2014). Prior to data analysis, assumptions for normality and multicollinearity were checked.

4.5.1 Normality Test

The normality of data was tested using the Shapiro Wilk test. Thus, on the one hand, if the p value is less than the chosen alpha level, then the null hypothesis is rejected and there is evidence that the data tested are not normally distributed. On the other hand, if the p value is greater than the chosen alpha level, then the null hypothesis that the data came from a normally distributed population cannot be rejected. The null-hypothesis of this test is that the population is normally distributed. Results of the normality test are presented in table 4.5

Table 4.5: Tests of Normality

	Shapiro-Wilk		
	Statistic	**df**	**Sig.**
Taxpayer awareness	.704	195	.81
Enforcement measures	.654	195	.27
Cost of compliance	.823	195	.93
Turnover tax compliance	.968	195	.76

 a. Lilliefors Significance Correction

The normality results showed that taxpayer awareness had p value 0.81>0.05 hence the data is normally distributed. It was also established that the p value for enforcement measurement was 0.21>0.05, cost of compliance had p value 0.93>0.05, While turnover tax compliance had p value 0.76>0.05. The results of the normality test revealed that the data was normally distributed and hence further analysis was conducted.

4.5.2 Multicollinearity Test

Multicollinearity exists when two or more of the predictors in a regression model are moderately or highly correlated thereby limiting the research conclusions to be drawn. According to Zainodin, Noraini, and Yap (2011), multicollinearity refers to the presence of correlations between the predictor variables. In severe cases of perfect correlations between predictor variables, multicollinearity can imply that a unique least squares solution to a regression analysis cannot be computed (Field, 2009). According to Field (2009) VIF values in excess of 10 is an indication of the presence of Multicollinearity. Multicollinearity inflates the standard errors and confidence intervals leading to unstable estimates of the coefficients for individual predictors. Multicollinearity was assessed in this study using the Variance Inflation Factor (VIF) as shown in table 4.6.

Table 4.6: Multicollinearity Test

	Collinearity Statistics	
Variable	**Tolerance**	**VIF**
Taxpayer awareness	0.601	1.587
Enforcement measures	0.921	1.321
Cost of compliance	0.798	1.119

A variance inflation factor test was conducted to test for multicollinearity of the predictors and a value less than 10 is acceptable taxpayer awareness had V.I.F value of

1.587 which is less than 10 implying there is no multicollinearity. Enforcement had a V.I.F value of 1.321 means that there is no multicollinearity since VIF is less than 10. Lastly, cost of compliance had a V.I.F value of 1.119 means that there is no multicollinearity since VIF is less than 10 Regression could thus be conducted to determine factors affecting turnover tax compliance by micro and small enterprises in Gikomba market.

4.6 Descriptive Statistics

The findings are derived from a Likert scale in the questionnaires where the respondents were supposed to indicate their level of agreement or otherwise with a given statement. Descriptive statistics from the responses based on 195 respondents were then given in tabular form.

4.6.1 Taxpayer Awareness

The first objective was to determine the effect of taxpayer awareness on turn over tax compliance. The descriptive statistics from the responses based on 195 respondents. The results show the means and standard deviations about questions on taxpayer awareness.

Table 4.7: Taxpayer Awareness

Statement	Mean	Std. Dev
Kenya revenue authority frequently organizes for taxpayers Workshops to educate taxpayers on tax laws related to MSEs	4.40	0.674
Print and social media are frequently used to create awareness of how TOT is administered for MSEs in the Gikomba market	3.35	.816
KRA organizes training for MSE in Gikomba Market	3.42	.781
Tax knowledge acquired through training and social media to MSEs have helped in TOT compliance.	3.81	.893
Mean	**3.74**	

The respondents agreed that Kenya Revenue Authority frequently organizes for taxpayers' workshops to educate taxpayers on tax laws related to MSEs. This was proven by the mean of 3.35 accompanied by a moderate standard deviation of 0.674. The moderate standard deviation indicates that the respondents agreed among themselves. There was much discrepancy in the responses from the respondents. Also, print and social media are frequently used to create awareness of how TOT is administered for MSEs in the Gikomba market. This was shown by the mean of 3.42 obtained. Also, a high standard deviation of 1.281 was obtained an indication of discrepancy on the responses given by the respondents. The respondents also agreed that the KRA organizes training for MSE in Gikomba Market as shown by the mean of 3.42 accompanied by small standard deviation of 0.893. Lastly, the respondents agreed that tax knowledge acquired through training and social media to MSEs have helped in TOT compliance. This is shown by the mean of 3.81 accompanied by a standard deviation of 0. 893.

On average, taxpayers' knowledge as a variable had a mean of 3.74 meaning that the respondents agree that taxpayers' knowledge play an important role when it comes to

compliance with the existing tax laws. These findings support earlier findings by Razak and Adafula (2013) who established that there is a strong correlation between awareness and the decision to comply. Also, the findings agree with Mascagni, Santoro and Mukama (2019) that taxpayers' education result into significant increase in tax knowledge which emanates from low baseline of understanding to well perceived information on compliance and that training new taxpayers contributes a lot to bringing into the habit of tax filing declarations.

4.6.2 Enforcement Measures

The first second objective was to determine the effect of enforcement measures on turn over tax compliance. The descriptive statistics from the responses based on 195 respondents. The results show the means and standard deviations about questions on enforcement measures.

Table 4.8: Enforcement Measures

Statement	Mean	Std. Dev
Majority MSEs have been supplied with a court suit due to noncompliance related issues	3.51	1.474
Some MSEs KRA PIN have been Deactivated due to compliance related offenses	4.46	1.185
Agency notices are frequently used by KRA officers to enforce compliance by MSEs	3.62	1. 334
Lawsuits due to noncompliance has made many MSEs to be compliant	4.82	1.346
Mean	**4.10**	

The respondents agree that majority MSEs have been supplied with a court suit due to noncompliance related issues as shown by a mean of 3.51. The mean was accompanied by a standard deviation of 1. 474 showing disagreement among the respondents in their

responses. They also agreed that Agency notices are frequently used by KRA officers to enforce compliance by MSEs (mean=3.62, standard deviation= 1. 334) and that Law suits due to noncompliance has made many MSEs to be compliant with a (mean=3.82, standard deviation= 1. 346). However, the respondents were neutral on whether Some MSEs KRA PIN have been Deactivated due to compliance related offenses. This was shown by the mean of 3.46 accompanied by high standard deviation of 1.185. Enforcement measures as a variable had a mean of 4.10 an indication that enforcement is very key when it comes to compliance. KRA should therefore always enforce laws related to TOT compliance. These findings support earlier findings by Karanja (2018) who recommended tougher enforcement for non-compliance.

4.6.3 Cost of Compliance

The third objective was to determine the effect of Cost of Compliance on turn over tax compliance. The descriptive statistics from the responses based on 195 respondents. The results show the means and standard deviations about questions on Cost of Compliance

Table 4.9: Cost of Compliance

Statement	Mean	Std. Dev
High costs of preparing returns is major factor making MSEs not to comply	4.07	.657
Cost of keeping records is too high for the majority of MSEs, a factor that lead to majority not to keep daily sales records	3.43	.928
Submission cost associated with TOT are too high for the MSEs to afford, thus leading to tax evasion	4.09	.691
Cost of acquiring information on tax laws on MSEs is too high for the majority of MSEs to afford it	3.76	.859
Mean	**3.83**	

According to the respondents, high costs of preparing returns is major factor making MSEs not to comply as shown by the mean of 4.07 accompanied by a moderate standard

deviation of 0. 657. The moderate standard deviation shows that the respondents agreed among themselves about that statement. Submission cost associated with TOT are too high for the MSEs to afford, thus leading to tax evasion scored a mean of 4.09 and a standard deviation of 0. 691. Also, they agreed that the cost of acquiring information on tax laws on MSEs is too high for the majority of MSEs to afford as shown by the mean of 3.76 and a standard deviation of 0.859). However, the respondents were neutral on the statement "cost of keeping records is too high for the majority of MSEs. This is shown by the mean of 3.43 and a standard deviation of 0.928.

On average, cost of compliance as a variable had a mean of 3.83, an indication that the variable plays a key role in TOT compliance among MSEs in Gikomba market. These finding support earlier finding by Ramboll Management Consulting on the Evaluation Partnership and Europe Economic Research (2013) that tax systems with high tax compliance costs tended to be procedurally and vertically unfair and leading most taxpayers from MSEs to default on payment of taxes and Pope et al (2008) that cost of tax compliance in Malaysia, concluded that it is heavier on medium and small enterprises.

4.6.4 Turnover Tax Compliance

The dependent variable was turnover tax compliance. The descriptive statistics from the responses based on 195 respondents. The results show the means and standard deviations about questions on turnover tax compliance

Table 4.10: Turnover tax compliance

Statement	Mean	Std. Dev
MSESs in Gikomba file their returns accurately and on time	3.99	.863
There has been general increase in TOT collected for the past five years	3.36	1.150
Majority of MSEs have registered as a taxpayer in the KRA itax system	3.47	1.315.
Most of MSEs in Gikomba market have been remitting the collected taxes to KRA	3.65	.848
Mean		3.61

MSESs in Gikomba file their returns accurately and on time with as indicated by the mean of 3.99 meaning agreement with the statement. The mean was accompanied by a standard deviation 0.863 indicating discrepancy among the responses given by the respondents. The statement that "there has been general increase in TOT collected for the past five years" had a mean of 3.36 and a standard deviation of 1.150 while the statement "majority of MSEs have registered as a taxpayer in the KRA itax system scored a mean of 3.47 and a standard deviation of 1.315. Most of MSEs in Gikomba market have been remitting the collected taxes to KRA had a mean of 3.65 and a standard deviation= 0. 848. On average, the dependent variable had a mean of 3.61 indicating that the level of compliance is good.

4.7 Correlation Analysis

After performing descriptive analysis, correlation analysis was done to determine the association between independent and dependent variables. The correlation coefficients range from -1 for a perfect negative relationship to +1 for perfect positive relationship through zero for no relationship. Table 4.10 below shows the correlation coefficients

between the variables. A correlation coefficient value (r) in the range of 0.1 to 0.29 is considered weak, 0.3 to 0.49 is considered moderate while 0.5 to 1.0 is considered strong extracts (O'Brien, 2007).

Table 4.11: Correlations matrix

	Turnover tax Compliance	Taxpayer Awareness	Enforcement Measures	Cost of Compliance
Turnover tax Compliance	1			
Taxpayer Awareness	0.553*	1		
Enforcement Measures	0.768	0 .338	1	
Cost of Compliance	0.529*	0.306*	0 614*	1

Correlation is significant at the 0.05 level (2-tailed).

Table 4.11 indicate that taxpayer awareness had the highest correlation with turnover tax compliance (r= 0.553). The correlation was significant at 5% alpha level. Also, enforcement measure was positively correlated with turnover tax compliance (r= 0.768) which was also significant. Lastly, the cost of compliance was found to be positively and significantly correlated with turnover tax compliance (r= 0.529).

4.8 Regression Analysis

Regression analysis was done to generate model summary, analysis of variance (ANOVA) and regression coefficients.

4.8.1 The Model Summary

The model summary consists of R. value, R square value, Adjusted R Squared Value, and a standard error of the estimate. The values obtained were recorded in table 4.12 as shown below.

Table 4.12: Model summary

Model	R	R^2	Adjusted R^2	Std. Error	R^2 Change	F Change	df_1	df_2	Sig. F Change
					Change Statistics				
1	.706[a]	.498	.471	.082	.487	23.375	3	191	.000

Predictors: (Constant), taxpayers' knowledge, cost of compliance, enforcement measures

The findings in table 4.12, revealed that taxpayer awareness, enforcement measures and cost of compliance correlate with turnover tax compliance up to 70.6% (R=0.706) and accounts for a variation of 49.8% (R^2 =0.498). This implies that 50.2% of the change in turnover tax compliance was caused by other factors which were not included in the model. The findings further reveal that even if the results adjust, the model would still account for 49.2% (Adjusted R^2, 0.492) variation of turnover tax compliance.

4.8.2 Analysis of variance

The analysis of variance was done to generate the f- statistic which is used to test significance of R. ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The results were as shown in table 4.13 below

Table 4.13 ANOVA

Model		Sum of Squares	df	F	Sig.
1	Regression	28.879	3	23.375	.000[b]
	Residual	14.134	191		
	Total	43.013	194		

Results in table 4.13. Shows F statistics value of 23.375 with a significance level of 0.000 which was less than 0.05 significance level and it implies taxpayer awareness, enforcement measures, cost of compliance and turnover tax compliance is statistically significant. Thus, this shows that the independent variables are good predictors of turnover tax compliance.

4.8.3 Regression coefficients

A regression analyses was done to test combined effect of the independent to the dependent variable. The results were then presented in table 4.14 below.

Table 4.14: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients			
	B	Std.Error	Beta	T		Sig
(Constant)	.116	0.089		1.245		0.006
Taxpayer Awareness	0.413	0.042	0.214	9.833		0.000
Enforcement Measures	0.348	0.056	0.297	6.214		0.002
Cost of compliance	0.292	0.086	0.356	2.395		0.000

Dependent Variable: Turnover tax compliance

Regression equation:

$$Y = 0.116 + 0.413\,X_1 + 0.348\,X_2 + 0.292\,X_3 + \varepsilon$$

The constant term was found to be 0.116 significant at a significant value of 0.006 which was less than significant level of 0.05. The meaning of such findings is that in absence of all the other variables, TOT compliance will be 11.6%.

Taxpayer awareness had a significant coefficient of 0.413. Keeping all the other factors constant, a unit change in taxpayers' knowledge will lead to increase in TOT compliance by 41.3%. Also, enforcement measures had a beta value of 0.348 which was also significant meaning that a unite change in enforcement measures will lead to increase in TOT compliance by 34.8%. Lastly, cost of compliance had a significant positive regression coefficient of 0.292 indicate a unit change in cost of compliance will lead to increase in TOT compliance by 29.2% all the other factors constant.

4.9 Discussion of the Findings

The discussions based on the findings from each of the three objectives is done and comparison with other empirical research done in this area of TOT compliance.

4.9.1 Effect of Taxpayer Awareness on Turnover Tax Compliance

The first objective of the study was to determine how taxpayers' awareness influence turnover tax compliance by micro and small enterprises in Gikomba market which showed a beta coefficient of 0.413. The coefficient of 0.413 shows that a unit change in taxpayer awareness would lead to an increase in turnover tax compliance in Gikomba market by 0.413. The objective had a corresponding question that asked how do taxpayers' awareness influence turnover tax compliance by micro and small enterprises in Gikomba market?

From the findings of the study they pointed out that taxpayer awareness as statistically significant at a p value of 0.000, which is less than 0.05 the convectional probability significance level, p = 0.000< 0.05. Similar to the views of Razak and Adafula (2013) who established that there is a strong correlation (R=0.72) between awareness and the decision to comply. The implication of this relationship is that attitude towards tax compliance is directly proportional to enhanced taxation knowledge. A positive tax attitude helps reduce negative perceptions about tax thus increasing taxpayers' tax compliance.

4.9.2 Effect of Enforcement Measures on Turnover Tax Compliance

The second objective of the study was to establish how enforcement measures by the Kenya Revenue Authority influence turnover tax compliance by micro and small enterprises in Gikomba market, which showed a beta coefficient of 0.348. The coefficient of 0.348 shows that a unit change in enforcement measures would lead to an increase in turnover tax compliance in Gikomba market by 34.8%. The objective had a corresponding question that asked how do enforcement measures by the Kenya Revenue Authority influence turnover tax compliance by micro and small enterprises in Gikomba market.

From the findings of the study they pointed out that enforcement measures as statistically significant at a p value of 0.002, which is less than 0.05 the convectional probability significance level, p = 0.000< 0.05. The study concurs with Sanguinetti (2013) who established a causality in a subsequent research on the effectiveness of enforcement and moral suasion in increasing tax compliance. They discovered that enforcement tone in the conveyance of messages has greater effect on tax compliance as compared to a moral suasion tone.

4.9.3 Effect of Cost of Compliance on Turnover Tax Compliance

The third objective of the study was to establish how costs of compliance influence turnover tax compliance by micro and small enterprises in Gikomba market, which showed a beta coefficient of 0.292. It shows that a unit increase in cost of compliance would lead to an increase in turnover tax compliance in Gikomba market by 29.2%. The objective had a corresponding question that asked how does costs of compliance influence turnover tax compliance by Micro and small enterprises in Gikomba market?

From the findings of the study they pointed out that cost of compliance as statistically significant at a p value of 0.000, which is less than 0.05 the convectional probability significance level, $p = 0.000 < 0.05$. Similar study was done by Shaw, Slemrod and Whiting (2008), who reviewed the causes of tax compliance costs in the UK, identified one of the reasons as unstable tax regime. The compliance costs rise as the tax payers are forced to deal with the consequences of highly differentiated tax regimes. Lignier and Evans (2014) attributed the increase in tax compliance costs of Australia's MSEs to the introduction of sales taxes, which required extensive accounting records. Other facilitative factors include the introduction of a self-assessment tax system and withholding of transfer compliance costs by taxpayers from tax authorities (Slemrod, 2009).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary of the findings in line with the specific objectives of the study, conclusions drawn and recommendations made for the study including suggested areas of further study to enrich relevant knowledge under the study.

5.2 Summary of the Findings

The general objective of this study was to determine factors affecting turnover tax compliance by micro and small enterprises in Gikomba market. The specific objectives were to determine how taxpayers' awareness influences turnover tax compliance by micro and small enterprises in Gikomba market. To establish how enforcement measures by the Kenya Revenue Authority influence turnover tax compliance by micro and small enterprises in Gikomba market. To establish how costs of compliance influence turnover tax compliance by micro and small enterprises in Gikomba market.

5.2.1   Effect of Taxpayer Awareness on Turnover Tax Compliance

The first objective was to determine how taxpayers' awareness influence turnover tax compliance by micro and small enterprises in Gikomba market. Correlation analysis showed that taxpayer awareness and turnover Tax compliance are positively and significantly associated. In addition, the Regression analysis shows there was a positive significant relationship between taxpayer awareness and turnover tax compliance.

5.2.2   Effect of Enforcement Measures on Turnover Tax Compliance

The second objective was to establish how enforcement measures by the Kenya Revenue Authority influence turnover tax compliance by micro and small enterprises

in Gikomba market. Correlation analysis showed that enforcement measures and turnover Tax compliance are positively and significantly associated. In addition, the Regression analysis shows there was a positive significant relationship between enforcement and turnover tax compliance.

5.2.3 Effect of Cost of Compliance on Turnover Tax Compliance

The third objective was to establish how costs of compliance influence turnover tax compliance by micro and small enterprises in Gikomba market. Correlation analysis showed that enforcement measures and turnover Tax compliance are positively and significantly associated. In addition, the Regression analysis shows there was a positive significant relationship between enforcement and turnover tax compliance.

5.3 Conclusions

The study made the conclusion that enhanced tax payers' knowledge, enforcement measures and reduced compliance cost were very instrumental in ensuring turn over tax compliance. In the absence of any of these variables, TOT compliance is likely to experience a serious gap in terms of the amount of tax collected against its set targets.

5.3.1 Effect of Taxpayer Awareness on Turnover Tax Compliance

On taxpayer awareness, taxpayers agreed that Kenya revenue authority frequently organizes for taxpayers Workshops to educate taxpayers on tax laws related to MSEs. Tax knowledge acquired through training and social media to MSEs have helped in TOT compliance. The general conclusion is that Tax awareness improves TOT compliance

5.3.2 Effect of Enforcement Measures on Turnover Tax Compliance

Enforcement measures affects turnover tax compliance on micro and small enterprises in Gikomba market. Law suits should commonly be used to noncompliant tax payers as it has made many MSEs to be compliant. Generally, taxpayers agreed that enforcement measures especially law suits made them to comply.

5.3.3 Effect of Cost of Compliance on Turnover Tax Compliance

 Lastly, from the findings, it is concluded cost of compliance affects turnover tax compliance on micro and small enterprises in Gikomba market. On cost of compliance, taxpayer agreed that Submission cost associated with TOT is too high for the MSEs to afford, thus leading to tax evasion.

5.4 Recommendations

The study provided the following recommendations based on the study variables: the study variables used were taxpayers' knowledge, cost of compliance and enforcement measures.

5.4.1 Taxpayers knowledge

The Kenya Revenue Authority should regularly disseminate information which is relevant to the MSEs through print media, social media, seminars, trainings and workshops so as to equip the taxpayers with relevant compliance requirements. This will greatly improve compliance as suggested by the study findings. Also, on taxpayer's awareness, KRA should put more emphasis on Kenya revenue authority frequently organizing for taxpayers Workshops to educate taxpayers on tax laws related to MSEs

5.4.2 Enforcement Measures

The study findings show that Lawsuits due to noncompliance has made many MSEs to be compliant. KRA should frequently use this as enforcement measure as it seems to produce best result in term of compliance.

5.4.3 Effect of Cost of Compliance on Turnover Tax Compliance

The study findings show that the high costs of preparing and making the returns is major factor making MSEs not to comply. The Kenya Revenue Authority should find ways of making the return filing less expensive so as to reduce the costs associated with TOT compliance.

5.5 Limitations of the Study

The research project had some limitations of attaining 100% response rate. One of the reasons for this is that the taxpayers were reluctant to fill the questionnaire for fear that the responses would be used against them on disputes or the responses revealed to the tax authorities. However, the limitation was mitigated by assuring the respondents that data collected from them will used for academic research only.

5.6 Suggestions for Further Studies.

The study focused only in Gikomba Market, Further studies should be carried on markets of other counties to obtain objective conclusions as different district have different operational environment. In addition, the study focused on three specific objectives taxpayer awareness, enforcement measures and cost of compliance. Therefore, similar study can be conducted using different objectives on turnover tax compliance on micro and small enterprises other markets. The study can also be done in different sector but in the same market. For instance, instead of focusing on micro and small enterprises, the study can focus on medium enterprises.

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<div align="center">**APPENDICES**</div>

Appendix I: Introductory Letter

Dear Respondent,

RE: DATA COLLECTION

I am a Post Graduate Student at JKUAT-KESRA. In partial fulfillment for the degree,
I am currently conducting a research on **"DETERMINANTS OF TURNOVER TAX
COMPLIANCE AMONG SMALL TRADERS IN GIKOMBA MARKET"**

You have been selected to form part of the study. I kindly request you to assist me to
collect data by completing the accompanying questionnaire. The data provided will be
strictly for academic purpose and will be held in strict confidence.   Thank you.

Yours faithfully,

William Ochieng Mugoma

Appendix II: Questionnaire

SECTION A: RESPONDENTS DEMOGRAPHICS

Please fill in the information below by ticking appropriately.

1. Please indicate your gender.

Male   [ ]

Female   [ ]

2. What is your age bracket?

Below 21 years   [ ]

21-35 years   [ ]

36-45 years   [ ]

46-55 years   [ ]

55-above year   [ ]

3. What is your highest level of education?

Certificate   [ ]

Diploma   [ ]

Bachelor's degree   [ ]

Masters   [ ]

Others   [ ]

Other (specify ……………………………………….

4. Years of Work Experience

Less than one year   [ ]

1 – 4 years   [ ]

5 – 9 years   [ ]

10 – 14 years   [ ]

Above 15 years   [ ]

SECTION B: TAX PAYERS AWARENESS AND TOT COMPLIANCE

5. a) Would you agree that tax payers' knowledge influence TOT compliance?

　　　YES   [   ]　　　　　　　　　　　　　　NO　　　　　[   ]

 b) If Yes, how can you rate the relationship between tax payers' knowledge and TOT

compliance?

Very High [   ]　　　　　High [   ]　　　　　Low [   ]　　　　　Very Low [   ]?

c) Kindly tick the most appropriate response in relation with the tax payers'

knowledge**.**

5=strongly agree, 4=agree, 3=Neutral, 2= disagree, 1=strongly disagree

Taxpayers awareness	Rating				
	5	**4**	**3**	**2**	**1**
Kenya revenue authority frequently organizes for taxpayers Workshops to educate taxpayers on tax laws related to MSEs					
Print and social media are frequently used to create awareness of how TOT is administered for MSEs in the Gikomba market					
KRA organizes training for MSE in Gikomba Market.					
Tax knowledge acquired through training and social media to MSEs have helped in TOT compliance.					

SECTION C: ENFORCEMENT MEASURES AND TOT COMPLIANCE

6. a) Would you agree that enforcement measures influence TOT compliance?

YES   [ ]   NO   [ ]

 b) If Yes, how can you rate the relationship between enforcement measures and TOT

compliance?

Very High [   ]   High [   ]   Low [   ]   Very Low [   ]?

c) Kindly tick the most appropriate response in relation with the deterrent measures.

5=strongly agree, 4=agree, 3=Neutral, 2= disagree, 1=strongly disagree

Enforcement measures	**Rating**				
	5	**4**	**3**	**2**	**1**
Majority MSEs have been supplied with a court suit due to noncompliance related issues					
Some MSEs KRA PIN have been Deactivated due to compliance related offenses					
Agency notices are frequently used by KRA officers to enforce compliance by MSEs					
Lawsuits due to noncompliance has made many MSEs to be compliant					

SECTION D: COST OF COMPLIANCE AND TURNOVER TAX COMPLIANCE

7. a) Would you agree that cost of compliance influence TOT compliance?

     YES [ ]   NO   [ ]

 b) If Yes, how can you rate the relationship between cost of compliance and TOT compliance?

Very High [   ]   High [   ]   Low [   ]   Very Low [   ]?

c) Kindly tick the most appropriate response in relation with the cost of compliance.

5=strongly agree, 4=agree, 3=Neutral, 2= disagree, 1=strongly disagree

Cost of compliance	Rating				
	5	4	3	2	1
High costs of preparing returns is major factor making MSEs not to comply					
Cost of keeping records is too high for the majority of MSEs, a factor that lead to majority not to keep daily sales records					
Submission cost associated with TOT are too high for the MSEs to afford, thus leading to tax evasion					
Cost of acquiring information on tax laws on MSEs is too high for the majority of MSEs to afford it					

SECTION E: TAX COMPLIANCE

8.To what extent do you agree with the following statements on tax compliance.

Scale 5= Strongly Agree; 4=Agree; 3=Neutral; 2= Disagree; 1= Strongly Disagree

Turnover tax compliance	1	2	3	4	5
MSESs in Gikomba file their returns accurately and on time					
I always adhere to income tax laws governing monthly rental income					
Majority of MSEs have registered as a taxpayer in the KRA itax system					
Most of MSEs in Gikomba market have been remitting the collected taxes to KRA					

Thank you very much

Appendix III: Budget

Research Item	Cost (Kshs)
Photocopying, Printing and binding	15,000
Travelling Costs	9,000
Internet costs	3,000
Telephone bills	3,000
Contingency	4,500
Data Analysis	43,000
Total	**77,500**

Appendix IV: Work Plan

Task Description	Aug-Sept 2020	Oct 2020	Nov 2020	Nov 2020
Proposal writing	██			
Questionnaire Design	██			
Proposal Defense	██	██		
Data collection			██	
Data Analysis			██	
Findings and Report Writing			██	
Submission of Report				██

Appendix V: List of MSEs at Gikomba Market

.

1	Antony Ochieng Obolla	30	Winnie Ruth Oguwa
2	John Obado Otiato	31	Stephen Kinyanjui
4	David Onyango	32	Beatrice Waithera Wanjiru
5	Svein Ochieng	33	Edith Muthoni Kamau
6	Judith Awuor	34	Cynthia Martha Nzau
7	Lorrine Shiro	35	Eunice Atieno Otieno
8	Nicholas Wafula	36	Duncan Onyango Abuya
9	David Mukasa Lusambili	37	Edith Cherono
10	Rachael Njoki Kirubi	38	John Mwamboje Mwaighonda
11	Caleb Moiro Morang'a	39	Henry Kanyoro
12	Joyce Kitondo Bonzo	40	Maurice Otieno Okoth
13	Ivory Wanza Muli	41	Jesca Aoko Ouma
14	Scholastica Emily A	42	Victor Kizito Osenyi
15	Beatrice Wangui Wairi	43	Fredrick Kiharangwa
16	Rose Kimeu Wandii	44	Zacharia Mbugua Ndun'gu
17	Evans Ommuli	45	Peter Otieno
18	Geoffrey Aura	46	Herman Mwandighi
19	Bridget Wanjiru Mwangi Joan Kahai Omido	47	Beatrice Anyango
20		48	Vincent Ambia
21	Eric Ombese Nyougo	50	Judith Jepchichir
22	Hellen Akinyi Lando	51	Elphas Bulokosi
23	Cynthia Tabitha Amondi	52	Ignitius Afwayi
24	Victor Ochieng	53	Nixon Musaki
25	Nancy Kerebi	54	Vincent Chanzu
26	Kenneth K Kamwenda	55	Victor Murage
27	Gregory Gavihi	56	Claire Khaoya
27	Vivian Awino	57	Elizabeth Ngendo
28	Patrick Owinga	58	Anne Wanjiru

29	Salyne A okeng o		59	Stephanie Koki
30	Jane Mwangi		60	Alex Aluvara
61	kevin kimiti		91	Augustine Nanjala
62	Dorothy Makori		92	Oscar Isaji
63	Kevin Onyango		93	Gloriah Kadesa
64	Fredrick Agoya		94	Zipporah Njeri
65	Denis Mutua		95	Edwin Nziu
66	Benson Mwangi		96	Samwel Sarano
67	Humphery Buluku		96	Brenda Chepkoeck
68	Denis ireri		97	Electine Nasenya
69	David Kinyili Thauthi		98	Mugo Muthami Mambo
70	Mercy Waithera		99	Teresa Wanjiku
71	Cecilia Osiri		100	Regina Wanjiklu
72	Beldina Nyanjira		101	Christine wanjiku
73	Milicent Nyawira		102	Maria Otiato
74	Elizabeth Ndonga		103	Leah Wambui
75	Kenneth Opondo		105	Maria Njoki
76	Alex Alenga		106	Erick otieno oluoch
77	Micheal Shikondi		107	Victor Okindo
78	Nelly Ngugi		108	Musa Matongo
79	Chris Mutiso		109	Habel Omuhaya
80	Eunice Amunyolo		110	Oscar Osoo
81	Samwel Ojiambo		111	Bridgette Natasha Musundi
82	Antoinette Wangari		112	Henry Odhiambo Otieno
83	Maurice Odhiambo		113	Samantha Angelina
84	Phoebe Ochiel		114	Wein Meja Shilaho
85	Osyanju Edd Quin		115	Doris Mitto Padwa
86	Joyce Mwai		116	Stephen Omondi Othira
87	Mary Njeri Wanjohi		117	Roselyne Wanda Aling
88	Caroline Cynthia		118	Ritah Awour Otieno
89	Elizabeth Nyamongo		119	Vincent Obado Otiato
90	Amos Moranga		120	Moses Masiga
121	Deborah Bosibori		151	Esther Nungari Mwaura
122	John Ouma Nyagaya		152	Rose Nangira Obola
123	Felix Womasolo Sammy		153	Yvonne Makheti
124	William Pollycarp		154	Dancan Khadeji
125	Judith Khandenje		155	Bridgit Otieng
126	Nebert Sande Mudanya		156	Erick Ngaruiya
127	Humphrey Esendi Induloji		157	Arnold Kiplagat
128	Julius Juma Congo		158	FEISAL ADINGA BABU
129	Walter Bichanga Lucas		159	Rodgers Manya
130	Shilla Rebecca Lubia		160	Felester Nabwire Otiro
132	Peter Njongi Nguru		161	Denis Obala Otoro
133	Imelda Imoli		162	Winfred Njeri Maina

134	Esther Wanjiru Irungu	163	Lucy nantume Ayieko
135	Frank Tiuwaine Sampayian	164	Edwin Ngosia
136	Yvonne Sarah Atieno	165	Margaret Nyambura
137	Obed Kivindu Mutuku	166	David Muketi Otieno
138	Vivian Adhiambo Raduk	167	Hannah Wangui
139	Justin Nabwire Odongo	168	Daisy Olesia Ngana
140	Jane Mwikali Tito	169	Jacob Obola Nyagwa
141	Allan Ligale	170	Elisha Omondi
142	Benjamin Makau Kioko	171	Jackline Atieno Ouma
143	Nancy Caroline Mueni	172	Jared Otieno Ngeso
144	Esther Nungari Mwaura	173	Brian Odhiambo
145	Rose Nangira Obola	174	Dancun Onyango Munyegenye
146	Yvonne Makheti	175	John Omondi Ogeno
147	Dancan Khadeji	176	Zipporah Mwilhali Ngugi
148	Bridgit Otieng	177	Emma Wambui Mwangi
149	Erick Ngaruiya	178	Joyline Jepkoech
150	Arnold Kiplagat	179	Priscah Jepkirui Korir
		180	David Nalianya Wafula

181	James Wachira Ndungu	202	Ike James Osanya Alali
182	Caroline Awour Onyango	203	Naftal Oliver Ambrose
183	Sylivia Atiyavira	204	Caroline Bii
184	Titus Mwema Mwendwa	205	William Wanjiru
185	Jame Opiyo Magabira	206	Patrick Juma
186	Consolata Muhonja Lumadede	207	Ask Atieno Ooko
187	Isaac Buluma	208	Jessicah Muhavi Omwaka
188	Lilian Sarah	209	Benta Muoka Nduku
189	Paul Nanjala	210	Joan Wanjiru
190	Benedict Owino Onyango	211	Samsom Mutere
191	Ruperts Steven Wanjala	212	Fredrick Owayo
192	Martin Horward Leina Turanta	213	Martha Njoki
193	ANGELINE Sosimo Kanoti	214	Maureen Opiyo
194	Kevin Namaan Onjoro	215	Peter Kirimi
195	Lucas Okumu Were	216	Simon Mwenesi
196	Hillary Digidi Kazegi	217	Joan Oloo
197	Geoffrey Kiprono Torongei	218	Samuel Navaka
198	Irene Anyango Oluoch	219	Grace Omwaka
199	Mathew Murunga	220	William Okomba
200	Albert Njomo Kingati	221	Ruben Omolo
201	Eugine Kagwa	222	Tonida Barasa
		223	Karen Odino
		224	Alice Wajiko
		225	Mary Muthoni