

**FACTORS AFFECTING TAX COMPLIANCE: CASE OF SMALL AND MEDIUM
ENTERPRISES IN NAIROBI**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,
ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF THE POSTGRADUATE DIPLOMA
IN TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF
AGRICULTURE AND TECHNOLOGY.**

2020

DECLARATION

This research project is my original work and has not been presented for a postgraduate diploma or any other degree in any other academic institution for any award.

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This project has been submitted for examination with my approval as the Supervisor.



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ACKNOWLEDGEMENT

I acknowledge the consistent guidance from my supervisor Dr.Tabitha Nasieku throughout this project.

DEDICATION

I dedicate this work to my family and friends who supported me all the way.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGMENT	iii
DEDICATION.....	iv
LIST OF FIGURES	viii
LIST OF TABLES	ix
ABBREVIATION AND ACRONYMS	x
OPERATIONAL DEFINITION OF TERMS.....	xi
ABSTRACT.....	xii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background to the study	1
1.1.1 Global Perspective of Tax Audit and Tax Compliance by SMEs	1
1.1.2 Regional Perspective of Tax Audit and Tax Compliance by SMEs.....	3
1.1.3 Tax Audit and Tax Compliance by SME in Kenya	5
1.2 Statement of the problem	8
1.3 Objectives of the study.....	9
1.4 Research questions.....	10
1.5 Justification of the Study	10
1.6 Scope of the study.....	10
1.7 Limitations of the study	11
CHAPTER TWO: LITERATURE REVIEW.....	12
2.1 Introduction.....	12
2.2 Theoretical Review	12

2.2.1 The Policeman Theory	13
2.2.2 Agency Theory.....	13
2.2.3 Classical Theory of Tax Compliance.....	14
2.3 Empirical Review.....	15
2.3.1 Tax Audit and Tax Compliance by SMEs	15
2.3.2 Taxpayer Audit Awareness and Tax Compliance by SMEs.....	16
2.3.3 Employees Competence and Tax Compliance by SMEs.....	18
2.4 Conceptual Framework.....	20
2.5 Critique of Existing Literature	21
2.6 Summary of Literature	23
2.7 Research Gaps.....	24
CHAPTER THREE: RESEARCH METHODOLOGY	26
3.1 Introduction.....	26
3.2 Research Design.....	26
3.3 Target Population.....	27
3.4 Sampling Frame	27
3.5 Sample Size and Sampling Techniques	27
3.6 Data Collection Instruments	28
3.7 Pilot Testing	28
3.8 Data Collection Procedures.....	30
3.9 Data Analysis	30
3.10 Ethical Considerations	31
3.11 Model Specification Test	32

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS.....	33
4.1 Introduction.....	33
4.2 Respondents’ Background Information	33
4.2.1 Gender of the Respondents	34
4.2.2 Age of the Respondents	35
4.2.3 Level of Education of the Respondents	36
4.2.4 Respondents’ Work Experience.....	37
4.3 Tax Compliance by SMEs	38
4.3.1 Tax Audit and Tax Compliance by SMES	41
4.3.2 Tax Audit Awareness and Tax Compliance by SMES.....	43
4.3.3 Employee Competence and Tax Compliance by SMES.....	44
4.4 Inferential Analysis.....	47
4.4.1 Multicollinearity Test.....	48
4.4.2 Correlation between Independent and Dependent Variables.....	49
4.4.3 Model Summary.....	50
4.4.4 Analysis of Variance.....	52
4.4.5 Regression Coefficients	52
CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS.....	55
5.1 Introduction.....	55
5.2 Summary of the Findings.....	55
5.3 Conclusions.....	56
5.4 Recommendations.....	57
5.5 Suggestions for Further Studies	57

REFERENCES.....	58
APPENDICES	61
Appendix 1: Introduction letter.....	61
Appendix II: Questionnaire.....	62

LIST OF FIGURES

Figure 2.1: Conceptual Framework	21
Figure 4.1: Gender of Respondents.....	35
Figure 4.2: Age of Respondents.....	36
Figure 4.3: Respondents's Education Level	37

LIST OF TABLES

Table 4.1 Response Rate	34
Table 4.2 Respondents' Work Experience.....	38
Table 4.3 Effect of Tax Audit on SMEs' Tax Compliance.....	39
Table 4.4 Influence of Tax Audit on SMEs' Tax Compliance	41
Table 4.5 Influence of Tax Audit Awareness on SMEs' Tax Compliance.....	43
Table 4.6 Influence of Employee Competence on SMEs' Tax Compliance	45
Table 4.7 Multicollinearity Test.....	48
Table 4.8 Multiple Correlations	49
Table 4.9 Normality Test Results for Dependent Variable	51
Table 4.10 Coefficient of Correlation and the Coefficient of Determination R Square	51
Table 4.11 ANOVA	52
Table 4.12 Multiple Regression Analysis	53

ABBREVIATIONS AND ACRONYMS

KRA	Kenya Revenue Authority
IRS	Internal Revenue Service
USA	United States of America
NTSA	National Transport and Safety Authority
OECD	Organization of Economic Cooperation and Development
SMEs	Small and Medium Enterprises
DTO	Domestic Tax Operations

OPERATIONAL DEFINITION OF TERMS

Tax Revenue: this is revenue collected from levies charged on income and profits, goods and services that help the government to run its fiscal affairs (Walsh, 2012).

Tax audit: this describes an independent examination of an individual/company's tax return to ascertain the accuracy (OECD, 2012).

Tax avoidance: this defines the legal utilization of the prevailing tax regime to your advantage in reducing the amount of tax liability but by means of the law within the law. This practice may be accomplished by claiming allowable deductions and credits (OECD, 2012)

Tax compliance: this is a general description that imply the willingness of taxpayers to comply completely to the law necessitating them to pay tax (Mittone, 2006).

Tax evasion: this is the illegal misrepresentation and concealment of the true state of their affairs to the tax authorities in view of lowering the taxes due (Walsh, 2012).

Taxpayer audit: this involves a close examination of tax returns with the view of the examiner pointing out mistakes where they may be detected (Mutua, 2011).

ABSTRACT

Taxpayer audit plays a huge role in raising tax administration and taxpayer compliance by influencing the behavior of the taxpayer. This study intended to establish the effect of tax audit on tax compliance by SMEs in Nairobi. The study was guided by the Policeman Theory, Agency Theory, and Classical Theory of Tax Compliance. The study adopted descriptive research design, and targeted small and medium enterprises (SMEs) in Nairobi Central Business District in Nairobi County. Stratified and systematic random sampling technique was used to select 50 respondents. Data was collected using a semi-structured questionnaire, and thereafter analyzed for final report writing. Quantitative data was analyzed using descriptive and inferential data analysis techniques. The results indicated that the SMEs sector was dominated by young people who had good education. It clearly emerged that tax audit, taxpayer awareness and employee competence, all had significant influence on the level of tax compliance by SMEs in Nairobi. Statistics indicated that 59% of the respondents agreed that tax audit had influence on tax compliance of small and medium businesses. Furthermore, 53% of the respondents agreed that level of tax audit often determined level of tax compliance by SMEs. There was also a positive relationship between level of tax audit awareness and tax compliance by SMEs, with 85% of the respondents holding this view. It also was also evident that employee competence played a key role in influencing tax compliance by SMEs in Nairobi. An overwhelming majority seemed to agree that employee competence positively affected tax compliance by SMEs. The research generally concluded that each one of the three independent variables (predictors) had a significant influence on the level of tax compliance by SMEs. It clearly emerged out that tax audit dictated the understanding of small and medium enterprise owners on the need to be tax compliant. Taxpayer awareness was equally critical in determining the level of tax compliance by SMEs. This ensured that small and medium business owners acquired requisite knowledge regarding the need to pay their tax as required by law. Similarly, employee competence impacted positively on the general tax compliance by SMEs, as this further encouraged professionalism in firms and greatly helped them in meeting their corporate objectives. The study recommended that the government, through KRA, should liaise with the larger business sector to expand tax auditing to the SMEs sector to encourage all the players to always be tax compliant. It is also important for the government to enhance taxpayer awareness through effective platforms such as seminars, media adverts or roadshow campaigns for all business owners to understand the need for being tax compliant. Also, as has been evidenced through SMEs in Nairobi that employee competence was critical in tax compliance; the government should encourage all businesses in the SMEs sector to emphasize on investing on their staff for optimum performance.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Globally, small and medium businesses remain popular when it comes to tax noncompliance. These kind of businesses are viewed as more likely to evade taxes owing to the nature of their ownership where majority are owned by family members or close friends who tend to exercise high level of laxity when it comes to bookkeeping and paying attention to strict business requirements and the best practices (Friedman, Kaufmann & Zoido-Lobaton, 2000). Studies have indicated that many SMEs are bound to underreport on their incomes hence the likelihood that their taxes will not reflect a true picture. Universally, economies do not grow with insufficient resources needed for infrastructural growth, power and public utilities provisions (Musgrave, 2011). Growth and development in any country rely on the revenue earned and applied by the state in its different sectors of the economy.

1.1.1 Global Perspective of Tax Audit and Tax Compliance by SMEs

The taxes and tax systems are important components that are meant to build the nation, develop it and enhance effective service delivery to the public. Taxes tend to guarantee the capacity of the government to achieve its objectives by forming key arenas needed in the conduct of state versus society relations (James and Michael, 2011). These elements would shape up the kind of balance needed for accumulating and redistributing wealth in line with the country's needs and its social obligations. According to (Eldon, Lawrence and Charles, 2011), taxes allow capacity building because of the security offered in meeting the basic needs and fostering economic growth of its

citizens. Such kinds of legitimacy and consent would assist in the creation of consensual, accountable and even representative state between the public and the state.

According to Surrey (2004), tax audit is a process of verifying how correctly the taxpayers have reported their tax liabilities and properly accounted for their tax obligations. This detailed and extensive exercise gives an opportunity for critically examining the books of accounts of taxpayers to ensure that they do not defraud the government through misreporting their figures, either intentionally or unintentionally. The role of audit program, especially in the modern tax administration process, has extended to a level of verifying taxpayers' compliance to their tax obligations. It further calls for detecting discrepancies, the declaration of taxpayers and their supporting documentations (Badara, 2012). Tax audit is critical for helping the government in collecting tax revenues effectively, for meeting its financial budgetary obligations, maintaining financial stability and ensuring that all taxpayers submit their tax returns in a satisfactory manner. Badara (2012) further states that through tax audit, tax avoidance is minimized and tax laws are strictly complied with. In essence, tax audit enhances the level of voluntary tax compliance where tax revenue collection is viewed as a collective responsibility of every taxpayer.

In a study by Niu (2010) to understand the relationship between audit and tax compliance in the state of New York in the United States of America, it emerged that after audit there were cases of heightened compliance of tax payment. In another study by Casanegra and Bird (2012) carried out in Korea to evaluate the determinant of tax culture, the findings indicated that tax audit had a positive influence on compliance. According to Badara (2012), there are three types of audit, namely random tax audit, cut-off tax audit, and conditional tax audit. Badara (2012) further argues that through the random tax audit process, each income report stands equal chances of

being picked for auditing. Concerning cut-off audit scheme, audit resources are used to cross-check taxpayers' financial reports that fall in the lowest income level categories. On the other hand, conditional audit scheme demands that in addition to the reported income, there should be information speculating on the taxpayer's future earnings (Badara, 2012).

In the study by Badara (2012) where questionnaires were distributed to 48 respondents and later the data analyzed using descriptive statistics, the results indicated mixed reactions. Tax audit was employed to achieve target revenue, while at the same time reducing the problem of tax evasion. On the other hand, it emerged that taxpayers did not readily cooperate with tax auditors during the exercise. This therefore is a pointer to the controversies shrouding tax audit as a strategy to improve on tax compliance.

1.1.2 Regional Perspective of Tax Audit and Tax Compliance by SMEs

In the regional front, tax audit is associated with tax compliance in the SMEs business subsector. In a study by Palil (2011) on factors influencing tax compliance among small and medium enterprises in Malaysia, it was established that owners of small and medium businesses were likely to submit their taxes to the government if they knew that their businesses was going to be audited. Another study was carried out by Helhel and Ahmed (2014) on factors determining tax compliance by small and medium business owners in Yemen. The study revealed that apart from individual attitudes which was sometimes influenced by the groups around particular taxpayers, the thought of their businesses being audited made a number of them file their taxes as required of the government. Using a structured questionnaire which was designed to use a 5-point likert scale, the study further established that high tax rates affected some taxpayers in the informal business sector when it came to submitting their taxes since they could not afford to pay taxes and at the

same time be able to keep their businesses afloat. In the absence of sufficient tax audits, deterrent measures and high penalties for tax defaulters, many small and medium business people also decided to default on their taxes.

Another study was conducted by Mukhlis et al (2015) in Indonesia to understand the relationship between formal education of business owners in the small and medium business sector and tax compliance. The study established that majority of the traders in SMEs sector did not have formal education hence affecting their understanding of the need for tax compliance. Furthermore, given their low level of formal education, majority of the traders in this sector did not understand the issues surrounding tax audit. However, for those who understood tax audits, majority of them were ready to pay their taxes promptly for fear that if they were found not to have complied with tax requirements their businesses were likely to be shut down. Hence, tax audits were imperative in encouraging tax compliance among SMEs business holders.

Further, in a study by Atawodi et al (2012) to understand factors affecting tax compliance among small and medium enterprises in North Central Nigeria, it was found out that several factors affected tax compliance not only in Nigeria but also in many developing countries. Some of these factors included insufficient knowledge and education on taxation, which meant that naturally taxpayers in this group did not also understand the intricacies underlying tax audits. However, the study recommended there was need for reinforcement and enhancing of knowledge and education on taxation. This was particularly important given that the SMEs sector was very instrumental in running the economy in almost all countries especially in developing countries. In their very basic nature, businesses in the SMEs sector did not require big capital, and registration was easy hence making them popular among many people. That translated to the SMEs occupying a bigger

percentage of most countries' economy. On the other hand, in terms of taxation, the subsector presented enormous challenges for governments, especially due to difficulties of tracing some of them.

If properly managed then, Mukhlis et al (2013) argue that the SMEs can significantly contribute to the economies of several countries. This called for proper sensitization and education of taxpayers in the SMEs sector on the need to pay their taxes promptly so that the government can be able to get enough revenues to finance its operations including providing essential services to the people. Furthermore, there was need for tax audits to ensure that taxpayers in the SMEs business subsector also understand that if they do not remit their taxes then their businesses stood the risk of being shut down by the government. Despite evident on how to enhance tax compliance by SMEs, there were still several challenges facing tax compliance in this sector hence calling for this study.

1.1.3 Tax Audit and Tax Compliance by SMEs in Kenya

According to the Kenya Revenue Authority (KRA), tax becomes a burden that all citizens must bear if the government is to undertake particular functions beneficial to its citizens (KRA, 2018). Hence, an effective tax system is the right mechanism for the state to collect revenues necessary for the government to discharge its obligations to the citizenry (KRA, 2018). The Kenyan government has many ways of financing its public expenditure and pursuing its fiscal policy. Primarily however, the government imposes taxes on people and companies so that it can raise revenues to meet its civic obligations for the citizens. Other sources would include non-tax revenues, service fees, money prints, property income, and investment income and grants; both local and foreign.

Other kind of taxes that come along include the collections from customs which is rendered very significant in sourcing revenues for the nourishment of the government (Bringham, 2012). In essence, the right amount of tax ought to be collected by the Authority on a timely manner to allow for successful improvement and maintenance of strong economic progress for the nation. Enforcement powers have then been left at the disposal of tax administration platform. Some of these powers include tax audits that must be done and accomplished judiciously and in a fair manner. Tax audit has increased the tax revenue elements where assessment and additional taxes would be quite indirect while improving the compliance of the taxpayer in line with the laws and regulations. For the sake of taxation, there have a lot of effective kind of achievements that would be needed for shorter and longer term objectives within the economy and their tax compliance levels necessary for improving efficient tax administration (Weru & Kamaara, 2013).

Tax audit is an important tool needed for improving different levels of tax compliance. Tax audit assists in improving the element of voluntary compliance through detection and consideration of the right amounts of tax payment. It has been regarded as an effective policy for preventing tax evasion behavioral patterns. The intention of this study is to conduct an analysis on the impact of tax audit on tax compliance in Kenya. The reports from KRA have attempted to ascertain the different compliance in line with the right tax laws and regulations of the state. Through the process of tax audit, all the underlying books of accounts and records are examined critically in line with the tax returns that have been filed. This exercise is significant given the kind of support that the government requires in terms of collecting the right tax revenue deemed important for budgeting purposes. According to (Wawire, 2017), tax revenues assist in maintaining economic order, financial stability and in ensuring satisfaction in the returns submitted by taxpayers. Additionally, this audit assists in organizing the tax avoidance degrees and enhancing strict

compliance with the prevailing laws on the taxpayers. Voluntary compliance levels is yet another aim deemed necessary by taxpayers to ensure that all the amount collected is remitted to the state (Wawire, 2017).

Effective tax audit calls for the establishment of viable and proper tax administration which can effectively tackle the changes in the economy. They can also assist in laying strategies to the different orders necessary for resolving tax disputes with the authority and liable taxpayers. However, given the nature of operations of SMEs, ensuring tax compliance in this subsector often becomes difficult for the government. There is therefore need for maintaining stronger mechanisms needed for handling tax avoidance techniques present to all the taxpayers in SMEs industry who might be susceptible to tax abuse. This process further offers those defaulting taxpayers to the level of tax authorities through proving completeness, accuracy and timely filing of returns. Such programs are important in the current tax administration because of the reported obligations and detection of variances from the filed reports with the supporting documents.

Several taxpayers in the SMEs sector are thought to have misrepresented their taxes to the government. Upon the detection of such non-complinat cases, heavy penalties are then impacted on these taxpayers. Therefore, an increase in the tax audit results have further raised tax revenues by directly assessing their additional taxes and discouraging their element of underreporting liabilities. According to Murigu (2017), tax audit attempts to find out the element of evasion of taxes and enhance compliance in line with the prevailing laws and regulations. Audit plays a huge role in raising tax administration and the entire taxpayer compliance through impacting on their behavior. Through the process of increasing revenue from audit actions, selection of high risk

cases, efficient detection of non-compliant taxpayers and the application of right sanctions help in boosting the levels of tax compliance.

The Authority has the ability of publicizing the results from their audit whether generally or specifically where taxpayers find the right message necessary for avoiding tax. (Murigu, 2017) propagates that tax audit offer the best way of tax administration which is powerful enough across the entire community and deemed key in impacting on the taxpayers chosen for audit purposes and for collecting their tax given that they even paid initially. This research relates directly to the study in terms of findings. This study is informed by the fact that tax audit attempts to find a win-win solution where the taxpayer selected for audit would in turn correspond to the kind of losses when a reverse report is given. Amongst the elements that are prone to occur include penalties and interests which would impact on the taxpayer financially. According to Kipkemboi (2015), despite the presence of audit, some taxpayers in the SMEs sector tend to become gullible and give wrong information hence presenting tax audit as inconsequential in enhancing tax compliance among the SMEs.

1.2 Statement of the Problem

Tax auditing has been popularly viewed to be a critical element in tax administration that helps to streamline this process. Despite this view by many tax experts, reports by the KRA indicate that many SMEs do not pay much attention to tax audit hence missing out on this argument. Furthermore, it is not clear how tax auditing has helped KRA to improve tax compliance among SMEs to enhance tax revenue collection base. Over time, it has emerged that KRA misses its annual revenue tax collection targets hence defeating the argument that tax audit enhances tax compliance among SMEs (KRA, 2018). This underperformance in tax collection often further

puts to serious questions the Authority's austerity measures in place to guarantee near 100% tax compliance among SMEs.

It is a common belief that an effective audit system should be able to detect anomalies in tax administration processes hence suggest ways of rectifying the anomalies. Yet, several cases are often reported about tax noncompliance in the SMEs sector, which denies the government the opportunity to serve its people effectively through enough tax revenue collection. It has variously been argued that without tax audit, the KRA would not be able to verify the discrepancy between the reported tax and the declarations of the taxpayer and real occurrence having supporting documentation on the ground (Wasao, 2014). However, even with audit exercises, the Authority has on several occasions demonstrated its inability to streamline tax revenue collection based on the existing audit policy regulations. Hence, this study aimed to establish the effect of tax audit on tax compliance by SMEs in Nairobi.

1.3 Objectives of the Study

The general objective of this study was to examine factors affecting tax compliance: case of small and medium enterprises (SMEs) in Nairobi.

Based on the general objective, the following were specific objectives of the study:

- i. To examine the influence of tax audit on tax compliance by SMEs in Nairobi.
- ii. To establish the influence of taxpayer awareness on tax compliance by SMEs in Nairobi.
- iii. To determine the effect of competence of employees on tax compliance by SMEs in Nairobi.

1.4 Research questions

The research study was guided by the following questions:

- i. What is the influence of tax audit on tax compliance by SMEs in Nairobi?
- ii. What is the influence of taxpayer awareness on tax compliance by SMEs in Nairobi?
- iii. What is the effect of competence of employees on tax compliance by SMEs in Nairobi?

1.5 Justification

This study was critical for informing on the influence of tax audit on tax compliance by small and medium businesses in Nairobi and Kenya in general. The study will be important in providing information to KRA so that it can encourage auditing of SMEs so as to establish if there are those which decide to underreport or misreport their tax obligations to the Authority. The findings may also be useful in encouraging all the SMEs to ensure that their taxes are up to date hence allowing them to file correct taxes. The research is geared towards improving the efficiency of the audit process within the SMEs sector hence increasing KRA's revenue collection base.

1.6 Scope of the study

This study looked into different companies within Nairobi County. It particularly examined the impacts of tax audits on their tax compliance levels. The study covered 5 years of audit, implying that each company was tracked to determine its compliance before and after audit within 5 years. This was informed by the notion that a period of 5 years of expected filing of returns was sufficient to inform on the trend and level of tax compliance. Finally, this would cut across different companies no matter their areas of specialization and the principal activities that they engaged in (Owigar & Omwenga, 2016).

1.7 Limitations of the study

Some of the respondents were not committed to answering the questions appropriately, given they were busy tending to their businesses. Additionally, there were respondents who at first thought the interviews were meant to reprimand them for not being tax compliant. To manage this limitation, the researcher did proper introduction and explained the real intention of the research thus convincing them to participate in the study. Clear and proper introduction created more confidence among the respondents and this made it easier for them to give credible information for the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Tax compliance has been regarded as the ability and also the willingness of individuals and non-individuals to comply with the prevailing taxation rules through filing and paying their taxes. Tax compliance calls for a reporting structure of the entire income, expenses and their income which in the end fulfills the provisions present in law, regulations and judgments of the court. Additionally, tax compliance has been defined as the act of filing tax returns by declaring the taxable income in an accurate manner. This process further assists in the disbursement of taxes through the given time period even without waiting for any follow-up from the Authority. According to the literature that I considered relevant and workable, the elements of tax compliance are possible and acceptable across the country. However, in the event of adhering to the obligations that have been imposed on a taxpayer by the law, most taxpayers tend to become non-compliant. Despite consistent audits on many companies' books of accounts, many cases are still reported on tax noncompliance.

2.2 Theoretical Review

This study was founded on the Policeman Theory, Agency Theory and Classical Theory of Tax Compliance. Each of these theories is further discussed in this section.

2.2.1 The Policeman Theory

Formulated by Awe (2008), the policeman theory of auditing was founded on the assumptions that the moment monitoring is conducted on a system without prior warning, that is similar to a policeman who pounces on criminals without giving them information in advance that they are coming. This is intended to catch any mischief, and this would work well if the target is not given any prior information regarding any impending action.

The theory further makes an assumption that auditing is basically done based on the mathematical accuracy so as to detect or prevent any fraud. Based on the provisions of this theory, it means that the auditor will have the chance to detect any queries and prevent any likely fraudulent acts so as to enable the concerned company to operate within stipulated financial rules and regulations, including the rule requiring all legal firms to promptly pay their tax. This theory introduces the aspect of monitoring in the auditing process.

2.2.2 Agency Theory

Propagated by Hayes et al (1999), agency theory reflects the association between conflicting interests of the stakeholders and the management of organizations. The theory presumes that the less informed party in the arrangement is likely to demand for information that will help to monitor the behaviour of the better informed leader (Akinbuli, 2010). This theory attempts to explain the supply side of the audit market where it is assumed that the contribution of an audit to third parties is basically determined by the probability that the auditor will detect errors in the financial statements and that the auditor has the willingness to report these errors. The most critical part of this theory is the fact that independence is emphasized in auditing process where

the auditor is given ample time and space to do his or her work without any undue external influence.

2.2.3 Classical Theory of Tax Compliance

Initially formulated by Toggler (1970), the classical theory of tax compliance, which is also known as the A-S model, is based on the principle of deterrence of crime. According to Sandmo (2005), theory postulates that the taxpayer is presumed to maximize the expected utilities of the tax evasion gamble, balancing the benefits of successful tax evasion or avoidance against the risky prospect of being caught and punished by tax authorities. Alabede et al (2011) asserted that the deterrence theory depends largely on tax audit and penalty. This implies that taxpayers would be deterred from tax noncompliance if they know that the risks are dire. Based on this theory, it therefore basically means that taxpayers shun tax noncompliance due to fear and existing sanctions.

According to Trivedi and Shehata (2005), this theory, like other deterrence theories, suggests that taxpayers sometimes tend to 'play tax audit lottery' by trying to weigh tax evasion consequences against compliance alternatives. They will therefore make a decision depending on what they think would work in their favour. Verboon and Dijke (2007) stated that the essence of the deterrence model of tax compliance is to chiefly examine the interaction between probability of detection and sanction severity that should affect non-compliance. Brook (2001) says that classical theory is only based on economic analysis but social and psychological variables are equally important in understanding the issue of noncompliance to tax. Essentially, the most significant variable in explaining compliance would be non-compliant because the levels of

deterrence are low. The theory has contributed to the line of thought that revenue authorities should seek audited statements or perform audits to ascertain tax compliance.

2.3 Empirical Review

This section assists in assessing the kind of examination that taxpayers would include in their tax returns through engaging relevant taxation authority and in ascertaining compliance with the applicable tax laws and state regulations. This process calls for the applicable tax laws and regulations which enhances the state of tax compliance.

2.3.1 Tax Audit and Tax Compliance by SMEs

According to KRA (2018), the Authority has made tremendous progress in its quest to reduce tax evasion. This has been done basically by improving compliance control process by embracing the principle of best practices in all operations. For instance, the Authority has adopted ICT; has reorganized enforcement functions around taxpayers' needs; has come up with risk-based audit strategies and techniques; and has used industrial benchmarks among other strategies (Waweru, 2007). According to (Walsh, 2012), the restructuring operations is thought to have led to significant growth in tax revenue collections.

Regarding ICT, the Authority has modernized most of its operations, with technology being significantly applied to support audit and tax compliance. Through adoption of ICT strategy, automation is viewed as an enabler to the revenue administration reform and modernization program. This strategy is meant to effectively leverage on enterprise-wide information management and enabling technology for effective and efficient service delivery. Since most business firms have also embraced technology for running of their businesses, auditing process

has been made a little more effective where there is integration of information platforms for easier flow of information. Full utilization of integrated ICT programs has led to positive outcomes especially with regard to Domestic Tax Operations (DTO). An integrated tax management system has replaced the manual system hence providing effective and efficient service to the taxpayers. This makes it easier to share information across KRA and other relevant parties for cross-matching data for the purposes of detecting noncompliance and enforcing rules to enhance compliance.

According to Waweru (2007), it is the conviction of KRA that ICT is the future of the institution as a support tool not only for tax audit, but also for the entire administration process of the organization across departments and third parties. Enhanced ICT is critical for providing a common link between stakeholders, service providers, and government agencies so that together they can achieve better results. The emerging web-based technology has become a vital tool for allowing customers to work with KRA freely in order to access important information and solve pressing issues. For instance, taxpayers are able to receive refunds, make payments, and make important inquiries without having to make appointments or queueing to be served. Furthermore, through technology many companies have been linked to KRA and other key government agencies such as the immigration department and national Registration Bureau among others, to detect any cases of tax noncompliance. Ultimately, this information is very critical in achieving tax compliance by all taxpayers.

2.3.2 Taxpayer Audit Awareness and Tax Compliance by SMEs

In many countries where there is separation between tax policy and tax administration the role of a tax administrator is clearly spelt out as dealing with both compliance and customer service

(Simiyu, 2001). This therefore means that in an ideal environment, taxpayers should be properly enlightened on issues of tax audit and compliance, and the likely consequences for a person who defaults from remitting his or her taxes. According to (Manzo, 2011), properly informed taxpayers tend to pay their taxes voluntarily, based on self-assessment. In this sense, there is a likelihood that taxpayers' behaviours will be influenced by their level of understanding of the need to be tax compliant.

The commitment by tax administration can be reflected across various realms. For instance, according to OECD (2012), there are several factors that could influence the level of tax compliance of individuals or organizations. These include but are not limited to poor record keeping, use of tax agents – which can be prove to be an added cost to the taxpayers hence limiting them, and wrong attitudes. However, it is expected that an informed taxpayer is likely not to be substantially affected by such issues. According to Walsh (2012), the principles of standard taxation regime usually demands proper keeping of books and records. Yet, many taxpayers may be lacking the knowledge or awareness of keeping in line with these requirements. Worse still, complying with these demands may be too costly to the taxpayer.

Walsh (2012) further contends that noncompliance with obligatory bookkeeping and other important requirements, even if it is inadvertent, can severely hurt the taxpayer. This has been witnessed especially in the small and medium enterprises (SMEs) sector, where studies have indicated that there is a direct correlation between limited tax awareness and little knowledge in bookkeeping, and a tax audit. Once a business is selected for audit, those with poor recordkeeping systems and processes are more likely to have their assessments amended adversely (Walsh, 2012), which could end up distorting the whole picture of the actual status.

2.3.3 Employees Competence and Tax Compliance by SMEs

Different strategies are applied to accomplish the task. However, according to OECD (2012), the tax authority should be able to identify, interrogate and design effective audit approaches which can generally significantly resolve tax administration problems. For instance, all taxpayers should be able to know about tax administration laws, where for instance proper guidelines should be created to support tax agents. Similarly, appropriate strategies should be created that involve all taxpayers so that they can know what is expected of them when it comes to tax filing. Furthermore, according to Masinde (2012), since small businesses have comparative advantage over bigger enterprises in the event of tax noncompliance, tax administrators should be able to clearly demonstrate where there needs to be created a convergent point so that all business can feel that they are equally treated with the tax authority, regardless of their sizes.

According to Mutua (2011), the attitudes and risks of tax noncompliance in small business taxpayer are essentially different from those experienced in bigger business enterprises. In case of larger businesses, the core risk for the tax system is the recourse to tax avoidance strategies. Smaller businesses are more likely to engage in tax evasion practices and either operate completely outside the tax net or hide a certain part of their business transactions from the tax inspector. The risk of detection of such tax evasion practices can be rather modest in countries with weak tax administration enforcement capacity or a high level of corruption in the tax administration (Mutua, 2011). Pearce and Robinson (2012) argue that the major types of turnaround strategies are contraction and consolidation. These strategies are utilized where the problems facing an institution are not so pervasive. Different nations have called for tax audit which entails the examination of different taxpayers which report liability and other obligations.

Tax audit calls for tax returns to be selected in line with audit kind of services by focusing on the selection criteria. The harvesting strategy calls for strategically managing or reducing investments in a product line or division with a view of cutting costs or improving efficiency. In line with this study, iTax has been rolled out by KRA as the only platform for tax administration passing out any manual documentation. In return this online platform has since sold its goodwill year after year.

KRA has the responsibility of educating the public about tax issues, including the need to always be tax compliant. Through workshops or online sensitization platforms, taxpayers are supposed to be informed about their obligations, and how to meet these obligations. Such engagements are usually conducted under what may be referred to as stakeholder strategies, with the main objective of improving taxpayers' understanding needs and concerns. However, this undertaking cannot be successful without properly skilled employees who understand their role and are clearly aware of the needs of their customer (Mutua, 2011). Views of the taxpayers need to be collated and analyzed to inform the Authority on how to transform itself and institute mechanisms in place to forestall tax noncompliance.

In addition, taxpayers need to be sensitized so that they can clearly understand their roles and how to fulfil them. According to KRA (2018), it is the responsibility of the Authority to impart the right knowledge on to the taxpayer to understand the administrative process of the Authority. This must be done through clear communication about the outcomes or benefits of interventions and innovations by KRA that reduce transaction cost and time wastage. Ultimately, capable staff is required for an effective audit and compliance programs. Furthermore, effective audit requires flexible ICT system as well as positive tax paying culture. Hence, every tax administration should

endeavour to develop staff capacity building through regular trainings and exposure to best practice and institute a stronger taxpayer education program to pass relevant skills to the taxpayer.

According to KRA (2018), Kenya Revenue Authority has done a lot to strengthen its administration. However, there are still challenges, especially of skill gaps among its technical staff and ICT infrastructure which place the Authority below best practice standards as well as low compliance levels among taxpayers. Masinde (2012) argues that Effective and targeted training to enhance skill capacity, improving on information technology and aggressive taxpayer education will allow the tax administration to make more efficient use of its financial and human resources with the goal of improving collection and compliance results, as well as, more effective audit operation program from a risk and investment perspective. All these efforts should be seen as trying to make it easier for taxpayer compliance hence portraying skilled staffs as a critical element here.

2.4 Conceptual Framework

This study focuses on the effect of taxpayer audit on tax compliance. Specifically, the research scope of the study is limited to the effect of taxpayer audit approach on tax compliance, the effect of taxpayer employee skills on tax compliance, the influence of taxpayer tax audit awareness on tax compliance, and the influence of taxpayer tax audit support tools on tax compliance. Figure 2.1 is a relational representation of the independent variables and the dependent variable, which is tax compliance.

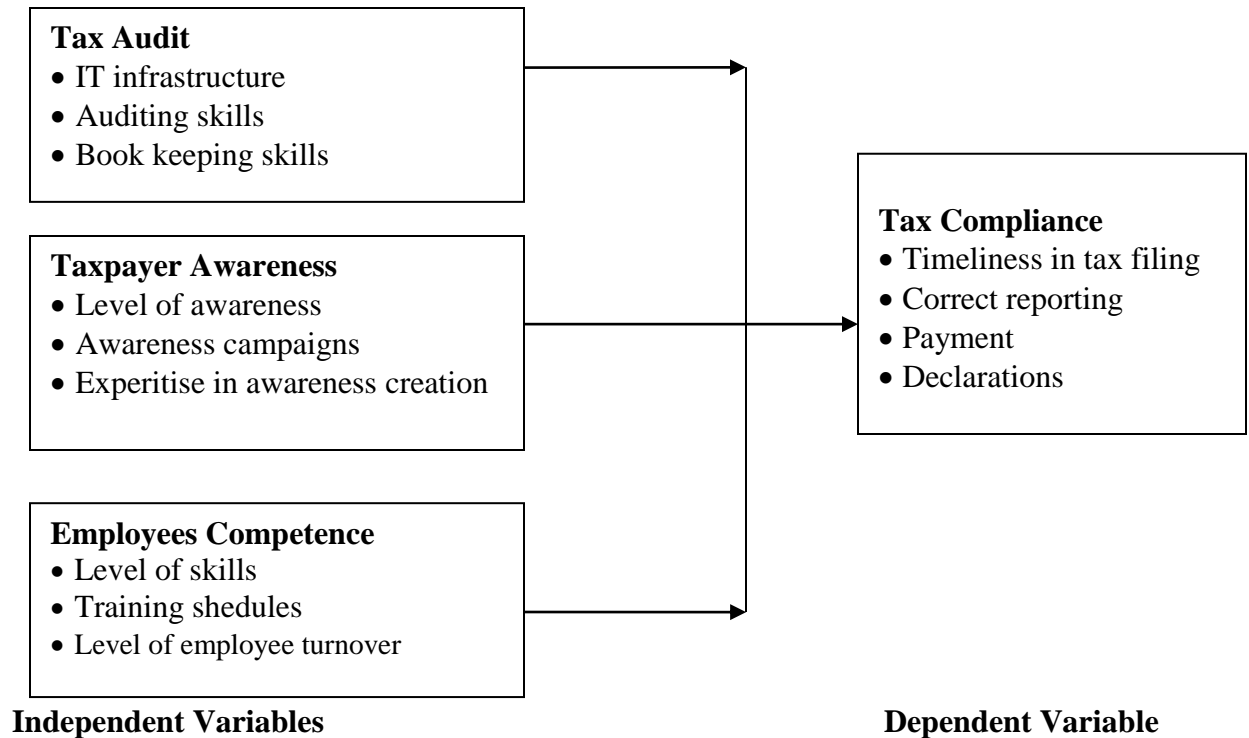


Figure 2.1 Conceptual Framework

2.5 Critique of the Existing Literature

In a study conducted by Cyrlje (2015) to understand the relationship between taxpayer audit and taxpayers' compliance, several conclusions emerged. The study showed that there are several taxpayers who would often want to take advantage of the existing loopholes in tax administration systems and also the ambiguities inherent in taxation law. In order to address these problems, the study suggested that there must be strong mechanisms through which to address the question of tax administration in a holistic manner. Cyrlje (2015) further analyzed the entire multiplicity of components especially on reporting tax compliance and also audit strategies. The study showed the element of taxpayer compliance and taxpayer behavior showed by tax authority such as their strategies meant for multidimensional reporting of income tax. Additionally, the reporting

component have different impacts that arose from misstating the tax liability. From this study it was concluded that multiple factors were responsible for misreporting or misrepresentation of audit information. Therefore there was need to come up with a clear way of ensuring that the process of auditing was effective. Despite these revelations, this study did not address tax audit awareness as one of the functions of tax compliance. This proposed study will focus on this aspect among other variables.

A study conducted by Gitau (2017) to explore taxpayer behaviour as an influencer of tax compliance, the findings indicated that there were various components of tax administration that affected compliance. This study sought to model the strategic reporting and detection system of tax where taxpayers showed various components of income. It further emerged that the impact of multicomponent needed for particular taxpayer was critical for the tax evasion opportunity setting. This study further showed taxpayers can easily come across several components that would minimize the direct and indirect impacts of detection. If there are multiple reasons for the taxpayers to evade tax, the evasion can be minimized by pursuing every contributing factor to tax noncompliance as aggressively as in the multi-component kind of models. Auditing reports show the presence of multiple misstatements through which the tax authority may benefit from different efficiencies in cost, positive correlation seen through true values and the sequencing strategy of audit necessary for updating the expectations of evasion. However, this study did not address the question of skilled labour as a possible influencer of tax noncompliance.

In another study by Mittone (2006) to investigate the relationship between early audits and tax compliance, the study noted that early audits in taxpayer's life is a more effective way of enhancing compliance than late audits. The study further indicated that although the effectiveness

of audits and fines cannot conclusively be ascertained in an early audit, early audit in taxpayer's life have a positive correlation with tax compliance. However, this study failed to address the impact of audit support tools on the state of tax compliance. This proposed study will focus on this aspect, among other variables to make it possible to arrive at a more conclusive conclusion.

Manzo (2011) did another study which examined corporate taxation compliance in Italy in 1997-2004. The study established that the growth of small business is more sensitive to change in tax rate than in larger corporate organizations. This fact was related to the difficulty attributed to smaller businesses for accessing credit facilities for the expansion of their operations. Further it was established that user cost of capital affects negatively the investment undertaken by the old and medium firms. This meant that young and upcoming firms are less profitable than older ones and therefore less affected by the corporate tax adjusted user cost of capital. Despite these revelations, the study was limited in its scope hence propagating a narrow view of what would affect tax compliance in firms. This proposed study intends to widen the scope of research by focusing on, among other variables, the influence of tax audit tools. This is presumed to be a critical aspect especially given the current widespread use of technology in almost all aspects of business transactions.

2.6 Summary

In summary, several taxpayers can voluntarily disclose even their views because of the absence of knowledge, absence of awareness and several other reasons that bring about the exclusion of other impacts. For such reasons, tax compliance has been multi-faceted as a measure which is theoretically defined as a consideration of different types of compliance like payment compliance, filing compliance and reporting compliance. These types involve making timely payments of all

obligations, accurately reporting the incomes and tax liabilities and finally reporting on the accuracy of tax liability in that order. However, additional research must be conducted to examine the various levels which would impact on the tax audit with huge effectiveness in terms of tax compliance in all the potential avenues.

2.7 Research Gaps

There are several empirical studies that examine the style of tax administration for developed and developing nations especially in terms of their tax audit programs. This section presents the different studies that have been adopted and also modified from several previous authors. Babawale (2013) did a study on statistical sampling on tax audits across the USA. The author tried to review if statistical sampling in tax audit programs was an adequate basis for finding the unpaid liability of taxpayers unlike in reviewing each and every transaction necessary for determining the exact amount of tax owed. The research related to this proposed study in that it utilized case studies which relied in other cases to find data needed for consuming taxes such as sales in different agencies.

The study however failed to show if through the presence of improved economies across the utilization of government resources, tax administration was even more efficient, fairer than and not as intrusive as it is presently. According to (Ngigi & Collins, 2015), technology has raised the ability of economies to utilize government resources through tax administration identification and measurement of tax deficiencies. This research related to this study in the sense that the expansion in technology was a critical factor in tax compliance, hence worth investigating further.

Barako (2015) did a study about the impact of tax audit schemes that faced the labor and reporting decision of the taxpayer. In relation to the current study, the previous research work attempted to look into the options of tax rates and the penalty standards especially on the earned income and those that have been underreported. Experimental results in this study showed that tax audit failed to incorporate several preliminary data that was sent to the taxpayer especially if there was a need for effective rates of tax with lower penalty levels. Reported income against the actual income varied to a large extent given the time elected for underreporting and earning the actual income by the taxpayer. The study failed to show if auditors have a tendency of including the holding firm within their strategic choice. It was important however to conduct a study in the Kenyan context to understand if there were any similarities or variations in terms of the influencers of tax compliance in relation to auditing.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter sought to depict the methodology that was utilized for justifying the details of data collection and analysis in a view to get the research findings. This chapter looked into the research design, the population of study, sizes of the sample, and instruments for collecting data amongst other important areas.

3.2 Research Design

This section shows how different steps were undertaken in finding solutions towards the research objectives. This design served as a blueprint that would enable the researcher to get the right description and presentation of the research findings for answering the research questions. This study adopted descriptive research design since this was suitable for answering the ‘how’ and ‘why’ questions.

According to Levin & Widell (2014), descriptive research design is appropriate for obtaining a detailed way of describing and analyzing collected data for addressing the research questions. This further helped in explaining the deductions and causal kind of relationships occurring between independent and dependent variables. Deductive reasoning enhanced the generalization of findings in line with the study objectives. The right approach led to correctly gathering data towards practical issues necessary for precise investigations.

3.3 Target Population

The study was conducted in River Road area in Nairobi CBD, and targeted about 800 registered small and medium enterprises (SMEs) so as to establish the relationship between auditing of the firms and their tax compliance. These were relied upon for primary data which were elicited based on the specific objectives of the study. Since not all SMEs strictly conduct auditing of their businesses, the study strictly involved registered businesses to understand how auditing may be influencing their tax compliance.

3.4 Sampling Frame

The sampling frame for the study comprised of about 800 registered SMEs in River Road in CBD Nairobi and these served as the population from where to draw a sample for the study. All items of the population were considered before picking a sample through stratified random sampling. These units would make it possible to represent the entire SMEs population objectively using a subset of the entire population.

The sample size was an estimate of fifty small and medium companies operating in Nairobi Central Business District in River Road area which were involved in various businesses. The references on all these firms within the study area relied on factors such as their accessibility and objective ability to offer a representative data for answering the research questions.

3.5 Sample Size and Sampling Technique

The sampling method was in tandem with the research design. This process allowed the researcher to estimate all the unknown features of the population and allow generalization of the

findings to other similar populations. Sampling was done at two levels, using stratified and systematic random sampling methods. Through stratified random sampling, the participants were grouped into two broad non-overlapping categories of trade and service organizations. After grouping the organizations into the two broad categories, systematic random sampling was employed to arrive at the final sample. Systematic random sampling involves selection of every k^{th} element so as to give the sample a fair representation. This meant that using stratified sampling technique, 50 of the businesses formed the final sample.

3.6 Data Collection Instruments

A semi-structured questionnaire was used for collection of primary data. Both close-ended and open-ended questions were used in the questionnaire to elicit responses in line with the study objectives. The first part of the questionnaire contained general information of the respondents whereas the second part contained detailed information based on the specific study objectives. A 5-point Likert scale close-ended questions was applied. The questionnaire was subjected to validity and reliability tests so that they could be improved, where necessary, before being applied in the actual data collection process. In this case, the academic supervisor was extensively consulted for her input to ensure that the questionnaire is reliable for collection of consistent information.

3.7 Pilot Testing

Pilot study was conducted on 5 respondents (which is 10% of the sample) in Ngara area in Nairobi so as to enable the researcher to improve on the consistence of the questionnaire. In order to avoid any possible bias, the respondents used in the pilot study were excluded from

participating in the actual study. Using the pilot study information, the questionnaire was adjusted accordingly so that it could be more reliable in collecting correct and objective data for effective answering of the research questions. Additionally, data from the pilot study was used to ensure that all questions in the questionnaire were properly phrased so that they could be understood uniformly by all the respondents.

3.7.1 Validity of Research Instruments

Validity of a research instrument is the degree to which the instrument measures what it intends to measure and performs as it is designed to perform (Saunders et al, 2013). It is a measure of relevance and correctness of the instrument and it an indication of how sound the instrument is. To raise the validity for the research tool, the questionnaire was pretested to allow for acceptability, answerability and understandability of the questions. Furthermore, all vague phrases were rephrased so as to create a common understanding of the questionnaire by all the respondents.

3.7.2 Reliability of Research Instruments

Reliability is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It contributes to standardization of the research instrument which in turn enables the results of a study to be generalizable to the larger population. Repetitive tests were utilized to enhance reliability of the questionnaire. Through reliability analysis, the alpha coefficient present in the values of 0 and 1 showed the factors of reliability being extracted from multiple questionnaires formatted differently. The rating scale was chosen to be at a level of 1 to 5 being poor and excellent respectively. The more the score the more reliable the results were as per the scale (Malonza, 2016).

3.8 Data Collection Procedure

Sufficient copies of the questionnaire were produced prior to actual collection of data and commencing of fieldwork. The researcher personally administered the data collection process through face-to-face interviews where questionnaires were administered to willing respondents. All efforts were made to ensure that there was high response rate. The respondents were expected to fill the questionnaires objectively without being coerced or hurried by the researcher. Completed questionnaires were later checked for completion before they were subjected to coding and analysis.

Secondary data was accessed from KRA websites to complement the primary data. This information assisted in corroborating the primary data collected from the business organizations. During data collection exercise, high level of confidentiality was observed since this would ensure the confidence of correspondents and encourage them to participate in the study hence raising the rate of response.

3.9 Data Analysis

After fieldwork, completed questionnaires were assessed for completeness, coded and serialized before data entry was done where summarized information was keyed into excel worksheets for analysis. Quantitative data was analyzed using descriptive techniques with the help of Statistical Package for Social Sciences (SPSS) IBM Version 21 software program and Excel worksheets. Summary of the results was presented using frequency and percentages distribution tables.

Qualitative data was analyzed using coding, pattern and content thematic analysis technique. Content analysis technique was used in making inferences by objectively and systematically

identifying specified characteristics of the collected data. An analytical model-regression analysis was done to establish the relationship among variables. Regression analysis was used to understand how the independent variables were related to the dependent variable, and to explore the kind of relationships that existed between the variables. Analyzed qualitative data was presented using narrations which were embedded on the main text. The following regression model was established to understand the relationship between the independent variables and the dependent variable.

$$Y = \beta_0 X_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Where Y = Tax Compliance

$\beta_0 X_0$ = Beta Coefficient

X_1 = Tax audit

X_2 = Taxpayer awareness

X_3 = Employees competence

ϵ = Error term

3.10 Ethical Considerations

Ethical considerations involve informed consent, confidentiality and anonymity of data where the respondents are supposed to be respected throughout the research process. During fieldwork, an introduction letter was attached to every questionnaire, clearly explaining the purpose of this study and the expectations from the respondents. The research participants were informed about the need for them to participate in the study voluntarily and were assured that their information would be treated confidentially. Except their designation, no personal information such as names

was required to be written on the questionnaire. Furthermore, respondents were not coerced to participate in the study and they had the freedom to stop the interview midway as they deemed fit.

3.11 Model Specification Test

This test assumes: (a) A normal distribution for the populations of the random errors, (b) there is no significant difference between the standard deviations of both population samples. The two means and the corresponding standard deviations were calculated by using the following equations (n_A and n_B are the number of measurements in data set A and data set B, respectively). t_{exp} value was compared with the critical (theoretical) t_{th} value corresponding to the given degree of freedom N and the confidence level chosen. If $t_{exp} > t_{th}$ then H_0 is rejected else H_0 is retained.

The sample means for the respective variables (random, cutoff and conditional) were formulated as follows;

X_a This represented mean before audit

X_c This represented mean during audit

X_b This represented mean after audit

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

The study aimed to examine factors affecting tax compliance, with case study of small and medium enterprises (SMEs) in Nairobi. Specific objectives included: to examine the influence of tax audit on tax compliance by SMEs in Nairobi, to establish the influence of taxpayer awareness on tax compliance by SMEs in Nairobi, and to determine the effect of competence of employees on tax compliance by SMEs in Nairobi. This chapter presents and discusses the findings of the study based on the specific objectives of the research. Analyzed data is presented using tables, charts and graphs.

4.2 Respondents' Background Information

The study involved small and medium traders in Nairobi who were doing business in trade and service business sectors. Regarding their background information, the respondents were interviewed based on gender, age, academic qualification, and their level of experience with their current employer or personal business at the time of the study. The respondents' personal information was important in helping to interpret the traders' understanding of the subject matter of the study, which is the relationship between business audit and tax compliance by SMEs. These dynamics also provided the researcher with the opportunity to get varied views from different categories of the respondents for the purposes of enriching the data hence making it sufficient for answering the research questions. A summary of these responses is provided in table 4.1.

Table 4.1 Response Rate

Categories of Participants	Sample Size		Response Rate	
	Frequency (n)	Percentage (%)	Frequency (n)	Percentage (%)
Trade	27	54	20	74
Services	23	46	19	83
Total	50	100	39	78

As illustrated in table 4.1, the study used a sample size of 50 respondents. However, due to unavailability of some of the respondents based on different circumstances during data collection, 39 of the respondents managed to successfully participate in the study. This translated to 78% response rate. Follow-ups were made by the researcher to ensure that as many respondents as possible completed the interviews hence leading to an impressive response rate. According to Mugenda and Mugenda (2003), a response rate of 70% and above is very good for an objective analysis hence 78% response rate in this study was excellent. Strict ethical considerations were observed during fieldwork where all the respondents were duly informed about their need to participate in the study and give credible information. The respondents were grouped into two major groups of trade and services, and each of them had between 74% and 83% response rate, which made an average response rate of 78%.

4.2.1 Gender of the Respondents

The respondents were asked to state their gender, and the responses are summarized in figure 4.1.

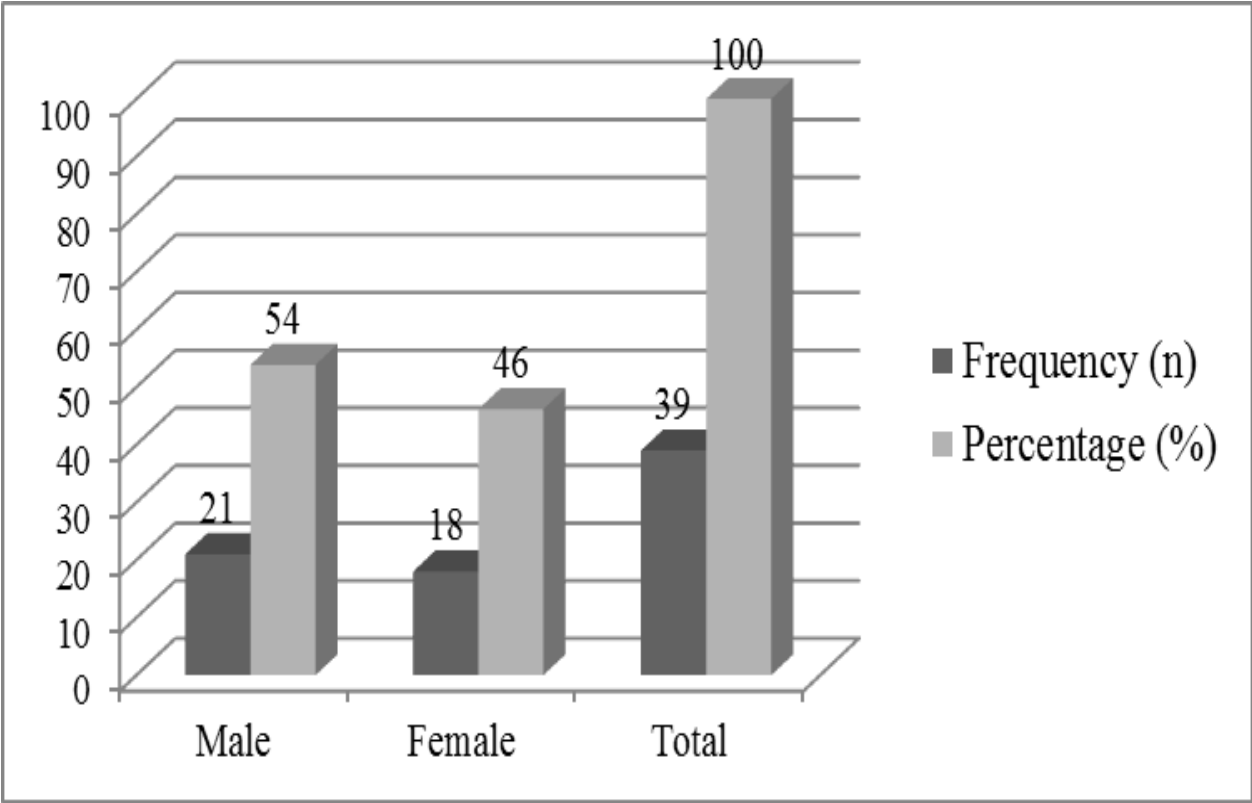


Figure 4.1 Gender of the Respondents

Gender distribution of the respondents indicates that 21 (54%) were male while 18 (46%) were female. The disparity in terms of gender distribution may imply that more male than female traders were involved in small and medium businesses in Nairobi. Regardless, the distribution was representative enough to get varied views from the respondents regarding factors that influenced tax compliance by SMEs in Nairobi.

4.2.2 Age of the Respondents

The respondents were asked to state their age bracket, and these responses are illustrated in figure 4.2.

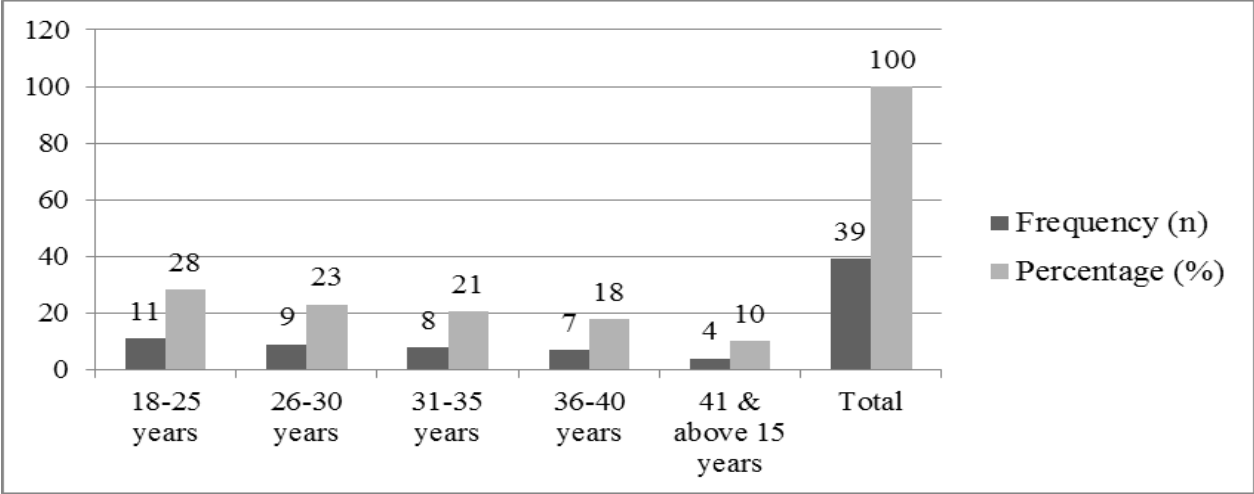


Figure 4.2 Age of the Respondents

The age of the respondents was very critical in helping to determine the traders’ views with regard to factors influencing tax compliance by small and medium traders in Nairobi. The findings indicated that majority of the respondents were aged 11-25 years, which accounted for 11 (28%) of the total of those who were interviewed. These were followed by those aged 26-30 years, who were 9 (23%) out of the 39 who participated in the study. The traders who were aged 31-35 years were 8 (21%) of the total respondents while those aged 36-40 years were 7 (18%). Those aged 41 & above were 4 (10%) of the total. Despite the disparity in terms of the number of traders who responded in each age category, the difference informed was informative for the researcher to address the research questions in an objective manner.

4.2.3 Level of Education of the Respondents

The respondents were asked about their education qualification, and the responses are presented in figure 4.3.

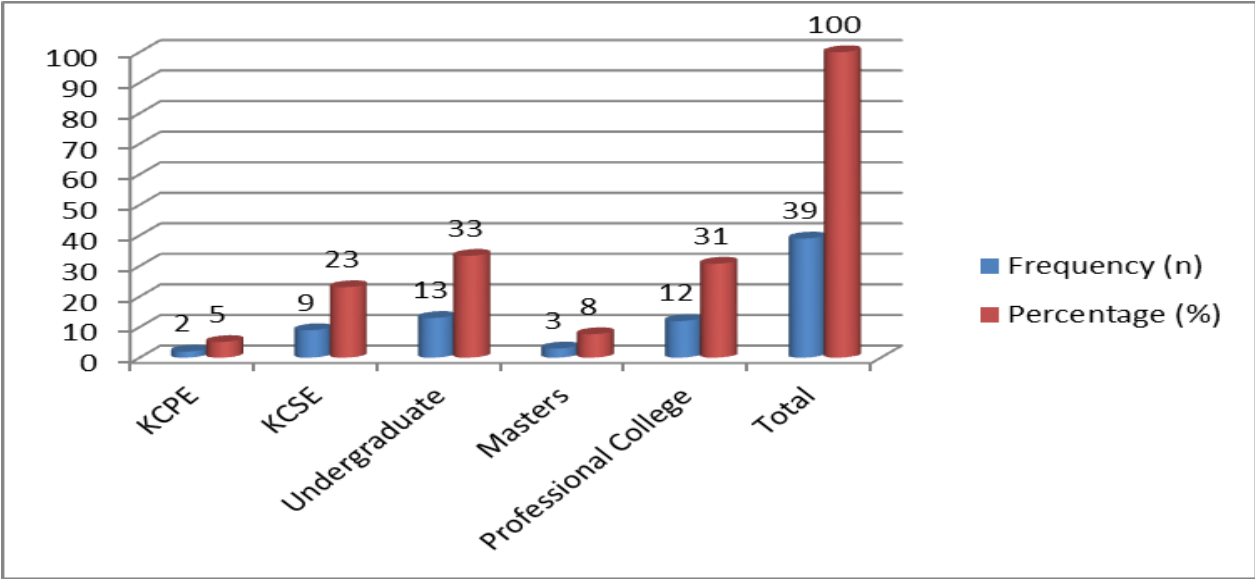


Figure 4.3 Respondents' Education Level

The respondents' education qualifications were categorized in terms KCPE, KCSE, undergraduate, masters, and professional college. The findings revealed that 13 (33%) were undergraduates, 12 (31%) had professional college qualifications, and 9 (23%) had completed form four (KCSE). Furthermore, 3 (8%) of the respondents had a masters degree and 2 (5%) had completed their KCPE. From this analysis, it can be inferred that a number of traders involved in small and medium businesses were well-educated people, with 28 (78%) having at least a college level education qualification. Coupled up with the fact that majority of the traders were relatively young people (in their 20s and 30s), this may further imply that many people turned to SMEs as their only best available livelihood opportunities.

4.2.4 Respondents' Work Experience

The respondents were asked about their years of experience with their respective companies. The responses are presented in table 4.2.

Table 4.2 Respondents' Work Experience

Years of Work Experience	Frequency (n)	Percentage (%)
Less than year	0	0
1 – 3 years	13	33
4 - 6 years	11	28
7 – 10 years	10	26
11 years & above	5	13
Total	39	100

Regarding the duration the respondents had served in their respective business companies, 13 (33%) of them had been in business for 1-3 years, 11 (28%) for 4-6 years, 10 (26%) for 7-10 years, 5 (13%) for 11 years and above while 0 (0%) said they had been in business for less than one year. From this analysis, cumulatively majority of the traders had been in business for 1-10 years, accounting for 34 (87%). This reflection appeared consistent with the fact that majority of the respondents were young people with good education who had probably decided to venture into business due to lack of formal employment or white collar jobs.

4.3 Tax Compliance by SMEs

The respondents were asked if tax audit had any influence on tax compliance in the SMEs sector, and the responses are presented in table 4.3.

Table 4.3 Effect of Tax Audit on SMEs' Tax Compliance

Taxpayer Audit on Tax Compliance	Frequency (n)	Percentage (%)
Yes	23	59
No	16	41
Total	39	100

Based on the analysis in table 4.3, 23 (59%) of the respondents agreed that tax audit had influence on tax compliance of small and medium businesses. On the other hand, 16 (41%) of the traders disagreed that tax audit had any effect on tax compliance by businesses in the SME sector. These responses may be reflective of the fact that a number of businesses in the SMEs sector may not be undergoing auditing hence difficult for the respondents to tell if there was any influence of tax audit on their companies' tax compliance.

For the respondents who expressed their approval of tax audit as a factor influencing tax compliance, they were asked to explain the kind of effect there was likely to be experienced. Based on the responses, tax audit helped the SME owners to understand the need to pay taxes on time for the sake of continuity of their businesses. Paying taxes promptly meant that the business owners operated their enterprises without fear of indictment by the government for failure to honour their tax obligations. This confidence further enabled them be keen on making profits in their businesses with hope of expanding their operations. Having clear records in terms of tax compliance encouraged other business people to expand their businesses.

The findings of the study were a reflection of some of the existing empirical literatures which indicated that there was a relationship between tax audit and tax compliance by SMEs. For instance, in a study by Cyrlje (2015) to understand the relationship between taxpayer audit and

taxpayers' compliance, the study showed that there are several taxpayers who would often want to take advantage of the existing loopholes in tax administration systems and also the ambiguities inherent in taxation law so as to avoid paying tax. However, with clearly spelt out auditing processes of the SMEs, all taxpayers appreciated the need to honour their tax obligations as required by law. Furthermore, the author noted that in order to address tax problems, there must be strong mechanisms through which to address the question of tax administration in a holistic manner. Cyrlje (2015) further analyzed the entire multiplicity of components especially on reporting tax compliance and also audit strategies.

In another study conducted by Gitau (2017) to explore taxpayer behaviour as an influencer of tax compliance, the findings indicated that there were various components of tax administration that affected compliance. Some of these had to do with tax administration systems where it further emerged that the impact of multicomponent needed for particular taxpayer was critical for the tax evasion opportunity setting. If there are multiple reasons for the taxpayers to evade tax, the evasion can be minimized by pursuing every contributing factor to tax noncompliance as aggressively as possible; including an emphasis on tax audits. These sentiments were also captured in the findings of this study, with 59% of the respondents affirming that tax audit was very critical in influencing tax compliance by small and medium businesses. The study further revealed that tax audit helped the SME owners to understand the need to pay taxes on time for the sake of continuity of their businesses. Paying taxes promptly meant that the business owners operated their enterprises without fear of indictment by the government for failure to honour their tax obligations. This confidence further enabled them be keen on making profits in their businesses with the hope of expanding their operations. Having clear records in terms of tax compliance

encouraged other business people to expand their businesses thus increasing their chances of taxes to the government in future.

4.3.1 Tax Audit and Tax Compliance by SMEs

Objective 1 of the study was to examine the influence of tax audit on tax compliance by SMEs in Nairobi. On a 5-point Likert scale, a number of propositions were fielded to the respondents in relation to this variables. The responses are presented in table 4.4.

Table 4.4 Influence of Tax Audit on SMEs' Tax Compliance

Influence of Tax Audit	<i>1=</i>	<i>2=</i>	<i>3= not</i>	<i>4=</i>	<i>5=</i>	<i>Total</i>
	<i>strongly disagree</i>	<i>disagree</i>	<i>sure</i>	<i>agree</i>	<i>strongly agree</i>	
	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>
Level of tax audit often determines level of tax compliance by SMEs	9 (23)	7 (18)	10 (26)	7 (18)	6 (15)	39 (100)
Frequency of tax audit enhances tax compliance by SMEs	4 (10)	5 (13)	9 (23)	10 (26)	11 (28)	39 (100)
Effective tax audit support tools enhance tax compliance	1 (3)	2 (5)	6 (15)	16 (41)	14 (36)	39 (100)
ICT infrastructure has	0 (0)	3 (8)	4 (10)	19 (49)	13 (33)	39 (100)

improved tax audits hence
increasing tax compliance
by SMEs

Based on the analysis in table 4.4, 13 (33%) of the respondents agreed while 16 (41%) disagreed that level of tax audit often determines level of tax compliance by SMEs. On the other hand, 10 (26%) of the respondents were neutral in their responses. Also, 21 (54%) of the respondents agreed, 9 (23%) disagreed while 9 (23%) neither agreed nor disagreed that frequency of tax audit enhances tax compliance by SMEs. Furthermore, 30 (77%) of those interviewed agreed, 3 (8%) disagreed while 6 (15%) were not sure that effective tax audit support tools enhance tax compliance. Similarly, 32 (92%) of the respondents agreed, 4 (10%) were not sure while 3 (8%) disagreed that ICT infrastructure has improved tax audits hence increasing tax compliance by SMEs.

The statistical distribution in table 4.4 may further indicate that the respondents expressed mixed reactions with regard to the influence of tax audit on tax compliance by SMEs. Generally however, those who agreed that tax audit had influence on tax compliance were more than those who disagreed. There were also a considerable number of respondents who were generally not sure if tax audit influenced tax compliance by SMEs or not. This may be informed by the complex nature of tax issues in the small and medium businesses sector where most of the traders did not have in-depth knowledge regarding the same. Hence, it was possible for a good number of people to authoritatively say whether tax audit influenced tax compliance. Regarding compliance on the respondents' specific companies with regard to tax audit, a number of them did not see a direct connection between tax audit and tax compliance by their firms.

4.3.2 Tax Audit Awareness and Tax Compliance by SMEs

The second objective of the study was to establish the influence of taxpayer awareness on tax compliance by SMEs in Nairobi. Based on a 5-point Likert scale, the respondents were asked questions on four various propositions regarding the influence of tax audit awareness on tax compliance by SMEs. These responses are illustrated in table 4.5.

Table 4.5 Influence of Tax Audit Awareness on SMEs' Tax Compliance

Influence of Tax Audit Awareness	<i>1=</i>	<i>2=</i>	<i>3= not</i>	<i>4= agree</i>	<i>5=</i>	<i>Total</i>
	<i>strongly disagree</i>	<i>disagree</i>	<i>sure</i>	<i>agree</i>	<i>strongly agree</i>	
	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>
Level of tax audit awareness						
often determines level of compliance by SMEs	0 (0)	2 (5)	4 (10)	17 (44)	16 (41)	39 (100)
Our organization undergoes regular tax audit awareness	14 (36)	16 (41)	4 (10)	3 (8)	2 (5)	39 (100)
Our organization often engages external service for audit awareness creation	9 (23)	11 (28)	5 (13)	9 (23)	5 (13)	39 (100)
Regular tax audit of our firm is enshrined in our company policy	11 (28)	13 (33)	3 (8)	9 (23)	3 (8)	39 (100)

Based on the analysis in table 4.5, 33 (85%) of the respondents agreed, 2 (5%) disagreed while 4 (10%) were not sure that level of tax audit awareness often determines level of compliance by SMEs. On the other hand, 30 (77%) disagreed, 5 (13%) agreed while 4 (10%) said that they were not sure that respective organization undergo regular tax audit awareness. Regarding whether various respective organizations often engaged external service for audit awareness creation, 20 (51%) disagreed, 14 (36%) agreed while 5 (13%) were not sure. Concerning whether regular tax audit of various firms was enshrined in companies' policies, 24 (61%) disagreed, 12 (31%) agreed while 3 (8%) said they were not sure.

From the respondents' reactions, it generally came out that many SMEs did not undertake tax audit awareness regularly. Similarly, many small and medium businesses did not engage external services for tax audit awareness creation. Also, not many organizations had tax audit awareness creation enshrined in their company policies. Overall, it can be surmised that many companies in the SMEs sector did not take seriously the question of tax audit awareness creation. On the general opinion concerning the influence of tax audit awareness on the firms' tax compliance, there was an indication that a lot needed to be done to sensitize SMEs on the need to understand the implications tax audit awareness creation.

4.3.3 Employee Competence and Tax Compliance by SMEs

The third objective of the study was to determine the effect of competence of employees on tax compliance by SMEs in Nairobi. Based on a 5-point Likert scale, the respondents were asked questions on four various propositions regarding the influence of employee competence on tax compliance by SMEs. These responses are summarized in table 4.6.

Table 4.6 Influence of Employee Competence on SMEs' Tax Compliance

Influence of Employee Competence	<i>1=</i>	<i>2=</i>	<i>3= not</i>	<i>4= agree</i>	<i>5=</i>	<i>Total</i>
	<i>strongly disagree</i>	<i>disagree</i>	<i>sure</i>	<i>agree</i>	<i>strongly agree</i>	
	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>	<i>f (%)</i>
Level of skills of employees often determines level of tax compliance by SMEs	0 (0)	4 (10)	5 (13)	16 (41)	14 (36)	39 (100)
Our organization has highly skilled employees on tax audit	5 (13)	7 (18)	2 (5)	13 (33)	12 (31)	39 (100)
Our organization conducts regular tax training on its staffs	11 (28)	12 (31)	1 (3)	9 (23)	6 (15)	39 (100)
The rate of compliance is increasing with the rise in tax audits in our firm	1 (3)	3 (8)	2 (5)	19 (49)	14 (36)	39 (100)

Based on the analysis in table 4.6, 30 (77%) of the respondents agreed, 4 (10%) disagreed while 5 (13%) were not sure that level of skills of employees often determines level of tax compliance by SMEs. Also, 25 (64%) agreed, 12 (31%) disagreed while 2 (5%) said that they were not sure that their respective organizations had highly skilled employees on tax audit. Regarding whether various respective organizations conducted regular tax training on its staffs, 23 (59%) disagreed, 15 (38%) agreed while 1 (3%) were not sure. Concerning whether the rate of compliance is

increasing with the rise in tax audits in various firms, 33 (85%) agreed, 4 (11%) disagreed while 3 (8%) said they were not sure.

From the respondents' reactions, it generally came out that level of skills of employees often was critical for determining level of tax compliance by SMEs. Similarly, many small and medium businesses had employees who understood the issues tax audit. However, many SMEs did not conduct regular tax training on their staffs. Despite the limitations SMEs faced regarding employee competence as factor influencing tax compliance by SMEs, the rate of compliance was increasing with the rise in tax audits in their respective firms. Overall, it can be inferred that many companies in the SMEs sector did not take seriously the question of employee competence in relation to tax compliance. On the general opinion concerning the influence of employee competence on the firms' tax compliance, there was an indication that a lot needed to be done to sensitize SMEs on the need to understand the implications employee competence.

Previous studies have also focused on the relationship between employee competence and tax compliance by SMEs, with some of the findings agreeing with these findings. For instance, according to OECD (2012), the tax authority should be able to identify, interrogate and design effective audit approaches which can generally significantly factor in the question of employee skills to help their employers to understand the need for tax compliance. This study further noted that all taxpayers should be able to know about tax administration laws, where for instance proper guidelines are created to support tax agents. Similarly, appropriate strategies should be created that involve all taxpayers so that they can know what is expected of them when it comes to tax filing. Furthermore, according to Masinde (2012), since small businesses have comparative advantage over bigger enterprises in the event of tax noncompliance, tax administrators should be

able to clearly demonstrate where there needs to be created a convergent point so that all business can feel that they are equally treated with the tax authority, regardless of their sizes.

Mutua (2011) had also noted that the attitudes and risks of tax noncompliance in small business taxpayer are essentially different from those experienced in bigger business enterprises since most of them do not have tax competent staffs. For the case of larger businesses, the core risk for the tax system is the recourse to tax avoidance strategies. Smaller businesses are more likely to engage in tax evasion practices and either operate completely outside the tax net or hide a certain part of their business transactions from the tax inspector. The risk of detection of such tax evasion practices can be rather modest in countries with weak tax administration enforcement capacity or a high level of corruption in the tax administration (Mutua, 2011). Pearce and Robinson (2012) established that the major types of turnaround strategies are contraction and consolidation. These strategies are utilized where the problems facing an institution are not so pervasive. Different nations have called for tax audit which entails the examination of different taxpayers which report liability and other obligations. Tax audit calls for tax returns to be selected in line with audit kind of services by focusing on the selection criteria. The harvesting strategy calls for strategically managing or reducing investments in a product line or division with a view of cutting costs or improving efficiency. In line with this study, iTax has been rolled out by KRA as the only platform for tax administration passing out any manual documentation. In return this online platform has since sold its goodwill year after year.

4.4 Inferential Analysis

In addition to descriptive data analysis, inferential analysis was performed to establish the correlation between independent variables and the dependent variable, which is the outcome of

the study. So as to understand how reliable the data was, multicollinearity of independent variables and Normality Test Results of the Dependent Variable were done.

4.4.1 Multicollinearity Test

If the relational effect amongst independent variables is not thoroughly checked before regression is performed, this may affect the outcome of the measurement of the fundamental correlation between independent and dependent variables, thus producing prejudiced or ambiguous results. So as to avoid this scenario, it was imperative to subject the independent variables to multicollinearity test. This process helped to determine if there was any collinearity between the independent variables. Variance of Inflation Factor (VIF) and Tolerance tests were therefore used to perform this test.

According to Sasa-Escudero et al (2009), when there is multicollinearity between the variables, the model tends to have a VIF of more than 10 or a tolerance level of less than 0.2. But, as indicated on table 4.7, all the VIF did not exceed 10 and the tolerance levels for all the independent variables were less than 0.2. This meant that there was no Multicollinearity in the dataset and the independent variables did not have any effect on each other. These results therefore meant that the data was ultimately suitable for regression modeling.

Table 4.7 Multicollinearity Test

Constant	Collinearity Statistics	
	Tolerance	VIF
Tax audit	0.149	7.213
Taxpayer awareness	0.131	7.634
Competence of employees	0.102	6.981

a. Dependent Variable: Tax Compliance

4.4.2 Correlation between Independent and Dependent Variables

A correlation analysis was performed so as to understand how independent variables i.e. tax audit (X_1), taxpayer awareness (X_2), and employee competence (X_3) influenced tax compliance, which was the dependent variable. Subsequently, multiple regression analysis was performed so as to determine the correlation between independent variables and the dependent variable. The correlation matrix in Table 4.8 exemplifies the association among independent variables and the dependent variable.

Table 4.8 Multiple Correlations

		Tax audit (X_1)	Taxpayer awareness (X_2)	Employee competence (X_3)
Tax audit (X_1)	Pearson Correlation	1	.262*	-.002
	Sig. (1-tailed)		.010	.493
	N	39	39	39
Taxpayer awareness (X_2)	Pearson Correlation	.272*	1	.268**
	Sig. (1-tailed)	.010		.009
	N	39	39	39
Employee competence (X_3)	Pearson Correlation	-.002	.268**	1
	Sig. (1-tailed)	.493	.009	
	N	39	39	39

*. Correlation is significant at the 0.05 level (1-tailed).

**. Correlation is significant at the 0.01 level (1-tailed).

Correlation values that are not close to 1 or -1 show that the factors are adequately different measures of separate variables (Farndale, Hope, Haily & Killiher, 2010). It's also an indication that variables are not autocorrelated hence allowing the study to utilize all the independent variables. From the correlation matrix in Table 4.8, there was no correlation among independent variables. Conversely, detection of Tolerance and Variance Inflation Factor (VIF) statistics in Table 4.7 indicates that there was no presence of multicollinearity hence allowing the study to utilize all the independent variables (Pallant, 2010). Therefore, tax audits, taxpayer awareness, and employee competence, all played a significant role in influencing tax compliance. This means that the process of tax audits created the urge in SMEs business owners to pay taxes lest they are detected by the government thereby possibly closing their businesses. Also, taxpayer awareness meant that there was a clear understanding of the need to pay taxes, as an obligation rather than as a forceful act by the authorities. Employee skills were also critical in giving the best in their services hence encouraging tax compliance at the end of it all.

4.4.3 Model Summary

Testing the normality of the dependent variable was important for establishing the kinds of inferential tests to be performed. In order to test the normality or regularity of tax compliance as the dependent variable, Kolmogorov-Smirnova and Shapiro-Wilk tests were conducted to ensure that the assumptions of a normal distribution of the data were not violated (Math-Statistics-Tutor, 2010). The Kolmogorov-Smirnova and Shapiro-Wilk tests were performed to identify all the possible departures from normalcy of the data. According to Sharpiro and Wilk (2012), the Kolmogorov-Smirnova and Shapiro-Wilk tests negate the assumption of normality whenever the p-value is greater than or equal to 0.05

Table 4.9 shows that the Kolmogorov-Smirnova and Shapiro-Wilk statistics were 0.119 and 0.877 respectively. The associated p-value was .003 and 0.116 for Kolmogorov-Smirnova and Shapiro-Wilk statistics respectively. Given that the p-values exceeded the significance score (0.05) (not significant if $p < .05$), this implies that the variables were normally distributed.

Table 4.9 Normality Test Results for Dependent Variable

Factors	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistics	df	Sig	Statistics	df	P-value
Tax compliance	.119	101	.003	.877	121	.116

a. Lilliefors Significance Correction

The findings of the coefficient of correlation R and the coefficient of determination R square are presented in table 4.10.

Table 4.10 Coefficient of Correlation and the Coefficient of Determination R Square

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.944 ^a	.899	.871	.85321

a. Predictors: tax audit, taxpayer awareness, employee competence

Based on the summary in Table 4.10, the coefficient of correlation R is .944, implying that a strong correlation exists between independent (predictors) and dependent variables (outcome). The coefficient of determination R square is 0.899, indicating that 89.9% change in tax compliance in SMEs in Nairobi is explained by the independent variables i.e. tax audit, taxpayer awareness, and employee competence. These statistics imply that there are other factors, apart from the three variables considered in this study, that affect tax compliance in SMEs in Nairobi,

by 10.1%. It would therefore mean that since these other factors fall outside the domain of this study, future studies may focus their attention here.

4.4.4 Analysis of Variance (ANOVA)

ANOVA was carried out in order to determine the correlation between the predictor (independent) variables and the dependent variable. As illustrated in table 4.11, the value of F calculated was 10.78. The value of F critical (5, 33) at 95% level of significance = 2.41, which was less than F calculated. Based on these revelations, it can therefore be inferred that the model used in the study was significant in predicting how the predictors (independent variables) influenced tax compliance as the dependent variable (outcome).

Table 4.11 ANOVA

Source	Sum of squares	Degree of Freedom (df)	Mean Square	F calculated	Sig.
Model Regression	852.18	5	151.21	10.78	.000 ^b
Residual Error	152.62	33	6.77		
Corrected Total	1004.80	38			

a. Tax Compliance

b. Predictors (Constant): tax audit, taxpayer awareness, employee competence

4.4.5 Regression Coefficients

A multiple regression analysis was performed to establish the strength of the association between independent variables and the dependent variable. The regression coefficients with p values of individual variables used in the study are illustrated in table 4.12.

Table 4.12 Multiple Regression Analysis

Predictor	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	β	Std. Error	Beta		
Constant	3.231	1.011		3.321	0.001
X ₁ (Tax audit)	0.109	0.055	0.087	3.613	0.010
X ₂ (Taxpayer awareness)	0.122	0.032	0.036	3.012	0.013
X ₃ (Employee competence)	0.125	0.221	0.381	3.113	0.011

a. Tax Compliance

Based on the statistics in table 4.12, the following model was established: $Y = 3.231 + 0.109X_1 + 0.122X_2 + 0.125X_3$, where X_1 represents tax audit, X_2 represents taxpayer awareness, and X_3 represents employee competence. A further interpretation of these findings would mean that taking all factors into consideration and at zero, the constant was 3.231 and this indicated the level of tax compliance in SMEs in Nairobi. Therefore, a unit increases in tax audit other factors held constant would lead to a 0.109 increase in tax compliance by SMEs in Nairobi. A unit increase in taxpayer awareness other factors held constant would lead to a 0.122 increase in tax compliance by SMEs in Nairobi. Further, a unit increase in employee competence other factors held constant would lead to a 0.125 increase in tax compliance by SMEs in Nairobi

From the foregoing results, the study confirmed what other previous studies have established with regard to the influence of tax audit and employee competence on tax compliance by SMEs. For instance Masinde (2012) established that effective and targeted training of employees was critical for enhancing skill capacity and improving on information technology to help organizations in small and medium business sector to meet their tax obligations effectively. Furthermore, KRA (2018) noted that effective taxpayer education will allow the tax administration staff to make more efficient use of its financial and human resources with the goal of improving collection and

compliance results, as well as, more effective audit operation program from a risk and investment perspective. All these efforts should be seen as trying to make it easier for taxpayer compliance hence portraying skilled staffs as a critical element here.

In summary, based on the objectives of the study, these statistics imply that 1% increase in the amount of tax audit, taxpayer awareness, and employee competence would respectively lead to 10.9%, 12.2%, and 12.5% improvement in tax compliance by SMEs in Nairobi. Furthermore, at significance level of 5%, the study can surmise that tax audit ($p=0.010<0.05$), taxpayer awareness ($p=0.013<0.05$), and employee competence, all had significant influence on tax compliance by SMEs in Nairobi.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the research by outlining conclusions and recommendations. In addition, the chapter presents suggestions on future research on tax compliance by SMEs. The presentation is based on three specific objectives of the study, which included the influence of tax audit on tax compliance by SMEs, the influence of taxpayer awareness on tax compliance by SMEs, and the effect of competence of employees on tax compliance by SMEs in Nairobi.

5.2 Summary of Findings

The general objective was to examine factors affecting tax compliance: case of small and medium enterprises (SMEs) in Nairobi. Specifically, the research focused on: to examine the influence of tax audit on tax compliance by SMEs in Nairobi, to establish the influence of taxpayer awareness on tax compliance by SMEs in Nairobi, and to determine the effect of competence of employees on tax compliance by SMEs in Nairobi.

5.2.1 Tax Audit and Tax Compliance

The findings indicated that a greater percentage of those interviewed indicated that tax audit considerably improved the level of tax compliance by SMEs in Nairobi. In the testing the correlation between tax audit and tax compliance by SMEs, inferential statistics indicated that tax audit influenced the level of SMEs' tax compliance. At ($\beta = 0.109$, $p = 0.05$), it implied that there was a significant relationship between the two variables.

5.2.2 Taxpayer Awareness and Tax Compliance

As in the case of tax audit, taxpayer awareness had a very significant influence on SMEs' tax compliance. Majority of the respondents agreed that taxpayer awareness influenced SMEs' tax compliance in a positive way. Also, results from multiple regressions indicated that there was a strong association between the independent and the dependent variables. At ($\beta = 0.122$, $p = 0.05$), this indicated that there was a significant relationship between these two variables.

5.2.3 Employee Competence and Tax Compliance

It also emerged that employee competence played a key role in influencing tax compliance by SMEs in Nairobi. An overwhelming majority seemed to agree that employee competence positively affected tax compliance by SMEs. Multiple regression analysis attested further to these revelations. At ($\beta = 0.125$, $p = 0.05$), this was indicative of a strong association between employee competence and tax compliance by SMEs in Nairobi.

5.3 Conclusions

The research generally concluded that each one of the three independent variables (predictors) had a significant influence on the level of tax compliance by SMEs. It clearly emerged out that tax audit dictated the understanding of small and medium enterprise owners on the need to be tax compliant. Taxpayer awareness was equally critical in determining the level of tax compliance by SMEs. This ensured that small and medium business owners acquired requisite knowledge regarding the need to pay their tax as required by law. Similarly, employee competence impacted positively on the generally tax compliance by SMEs. This was in line with the principle of human

capacity as a critical factor in company performance. This notion further encouraged professionalism in firms, which greatly helped in meeting corporate objectives.

5.4 Recommendations

The study gave several recommendations, including the fact that the government, through KRA, should liaise with the larger business sectors to expand tax auditing to the SMEs sector to encourage all the players to always be tax compliant. It is also important for the government to enhance taxpayer awareness through effective platforms such as seminars, media adverts or roadshow campaigns for all business owners to understand the need for being tax compliant. Also, as has been evidenced through SMEs in Nairobi that employee competence was critical in tax compliance; the government should encourage all businesses in the SMEs sector.

5.5 Suggestions for Further Studies

Future studies can focus on a comparative assessment of factors influencing tax compliance by various business subsectors; and how to enhance accountability in tax compliance by SMEs across urban regions in Kenya.

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APPENDICES

Appendix I: Introduction Letter

MOSES MWANZIA

P. O BOX 4911-00100

NAIROBI

Date.....

Dear Respondent,

RE: Involvement in Research

I am a student pursuing Postgraduate Diploma in Tax Administration in Kenya School of Revenue Administration (KESRA). As a requirement for this course, I am conducting a research on effect of taxpayer's audit in taxpayers' compliance in Kenya.

Kindly participate in this study by filling in this questionnaire. I assure you that all information given will be kept confidential and will only be used for the purpose of this study. Please answer all questions freely and in openness. Thanking you in advance.

Yours Sincerely,

Sign.....

MOSES MWANZIA

Appendix II: Questionnaire

PART A: BACKGROUND INFORMATION OF RESPONDENT

(Please tick where appropriate)

1. Gender : Male [] Female []
2. Age:
 18 – 25 [], 26 – 30 [] 31 – 35 [],
 36 – 40 [] 41 and above []
3. What is your present academic qualification?
 KCPE [] KCSE [] Undergraduate [] Masters [] Other (specify).....[]
4. Years of experience with your company:
 Less than 1year [] 1 – 3years [] 4 - 6 years []
 7 – 10 years [] 11 - above []

PART B: TAX COMPLIANCE BY SMEs

(Please tick where appropriate)

5. Do you think taxpayer audit has any effect on tax compliance in the SMEs sector?
 Yes []
 No []
6. If yes in the above, briefly explain the kind of effect that may exist.....

SECTION I: TAX AUDIT

7. On a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree, what is your opinion regarding the influence of tax audit on tax compliance by SMEs?

INFLUENCE OF TAX AUDIT ON TAX COMPLIANCE	1	2	3	4	5
i. Level of tax audit often determines level of tax compliance by SMEs					
ii. Frequency of tax audit enhances tax compliance by SMEs					
iii. Effective tax audit support tools enhance tax compliance					

iv. ICT infrastructure has improved tax audits hence increasing tax compliance by SMEs					
v. Give a general opinion concerning the influence of tax audit on your firm's tax compliance.....					

SECTION II: TAXPAYER TAX AUDIT AWARENESS

8. On a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree, what is your opinion regarding the influence of organizational tax audit awareness on tax compliance by SMEs?

ORGANIZATION'S TAX AUDIT AWARENESS & TAX COMPLIANCE	1	2	3	4	5
i. Level of tax audit awareness often determines level of compliance by SMEs					
ii. Our organization undergoes regular tax audit awareness					
iii. Our organization often engages external service for audit awareness creation.					
iv. Regular tax audit of our firm is enshrined in our company policy					
v. Give a general opinion concerning the influence of tax audit awareness on your firm's tax compliance.....					

SECTION III: EMPLOYEES COMPETENCE

9. On a scale of 1-5 where 1=strongly disagree, 2=disagree, 3=neutral, 4=agree and 5=strongly agree, what is your opinion regarding the effect of employee competence on tax compliance by SMEs?

EMPLOYEES COMPETENCE & TAX COMPLIANCE	1	2	3	4	5
i. Level of skills of employees often determines level of tax compliance by SMEs					
ii. Our organization has highly skilled employees on tax audit					
iii. Our organization conducts regular tax training on its staffs					

iv. The rate of compliance is increasing with the rise in tax audits in our firm					
v. Give a general opinion concerning the effect of employees competence on your firm's tax compliance.....					

.....END.....

Thank you very much for your time and assistance.

Appendix III: Budget

#	Item	Amount
1	Transport	5000
2	Field work	15000
3	Stationery	5000
4	Printing and binding	3000
5	Miscellaneous	5000
	Total	33000

Appendix IV: Work Plan

Activity	2019					
	April	May	June	July	August	Sep
Proposal (writing and approval)						
Data collection and data analysis						
Presentation and data compiling						
Corrections and submissions of final copies						