

**FACTORS INFLUENCING TAX COMPLIANCE AMONG
SMALL AND MEDIUM ENTERPRISES IN GARISSA TOWN**

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DECLARATION

This is my original work and has not been presented for award of a degree in any other university or any other institution of higher learning for examination

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DEDICATION

I dedicate this project to my family's relentless encouragement as I pursued this course, my wife and son; I would have not made it this far without your moral support, understanding and perseverance during my study.

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Thank you all.

ABBREVIATIONS AND ACRONYMS:

EAC East Africa Cooperation

CGT Capital Gain Tax

GOK Government of Kenya

GDP Gross Domestic Product

IEA Institute of Economic Affairs

KRA Kenya Revenue Authority

ERP Enterprise Resource Planning

PAYE Pay as you earn

PIN Personal Identification Number

SME Small Medium Enterprises

TMP Tax Modernization Program

TOT Turnover Tax

USD USA Dollar

VAT Value Added Tax

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ABSTRACT

Tax is an important stream of revenue for government's development projects and therefore a lot of efforts must be made by government agencies to ensure that it is accurately and efficiently collected so as to facilitate the government's operations. In an effort to maximize collection of revenue and efficiency in tax administration, key changes to tax policy evolving around ensuring equity, further widening of the tax base, promoting increased investment and in so doing, reducing the tax compliance burden, have in the recent past been and continuously being made by the governments of Kenya, in both county and national levels. This study sought to identify the factors that influence tax compliance in Kenya, specifically focusing on SMEs operating within Garissa Town. The researcher influenced by Tax Morale besides Allingham and Sandmo Theories outlined a detailed literature review and identified the variables for this research to be tax rate, availability of tax information, tax cost and attitude of SME's towards tax payment. The research used a descriptive survey. Considering a remarkable number of registered taxpayers in Gaissa Town, a sample size of 140 was picked using Krejcie & Morgan table as representative, to be the focus of this study. To ensure that various diverse categories of taxpayers and business entities were included in the survey, stratified sampling technique was adopted. Primary and Secondary data was collected using self-administered questionnaires and an interview guide. The collected data was consequently analyzed using Statistical Package for Social Scientist (SPSS) software and the findings of the research presented using tables. The findings of the study revealed that with regard to tax rate as a factor influencing SMEs compliance, most of them were of the opinion that Kenya's tax rates are high with several different tax heads and this consequently hinders their level of compliance. The lack of readily available information relating to tax matters accounted for a great percentage as a reason for non-compliance. Lack of information contributed to the inability of the taxpayers to correctly compute the taxes payable; another form of non-compliance. The SMEs view that if more information would be availed to them in form of tax seminars and literature, this would demystify the complex concept of tax and greatly motivate them to be compliant. The findings of this study further revealed that most of the SMEs interviewed incur more than Kshs. 50,000 monthly, as costs of tax compliance. Some of these costs include bookkeeping, installation of software and internet costs, additional cost of hiring professional staff such as auditors and tax experts, accounting for the largest proportion of

these costs. With regard to SMEs attitude as a factor affecting tax compliance, the respondents agreed and felt that they barely have access to public utilities which are made available by the taxes paid to the government; hence they hardly enjoy benefits of the taxes they pay. These organizations do value the payment of taxes to the government to a great extent, which affects their level of tax compliance. The findings of the study further revealed that the respondents do feel that their counterparts, fellow SMEs from other regions, also value the payment of taxes to the government to some extent. However, the taxpayers do feel and strongly agree that the taxation system in Kenya is in great need of improvement. By gaining an in depth understanding of these underlying factors, KRA and the government of Kenya will be able to make changes that will greatly improve taxpayers' tax compliance level, with the end result being increased government revenues, allowing the tax authority to give quality service to taxpayers and the government as a whole providing more and improved utilities to the public. From the analysis of the findings, a recommendation for the adjustment of tax rates and penalties downwards was made, digitization of tax return forms, intensification of taxpayer education, continuous training of the technical staffs, increased audit sessions and KRA should strive to provide improved services to the taxpayers. The study also suggested that similar studies should be done on other areas since the relationship adduced does not conform to the rule of the thumb this is because different regions and sectors provide different operational environments.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Tax Compliance is the degree to which a taxpayer complies, or fails to comply with the tax rules of his/her country, for instance by declaring income, filing a return, and paying the tax due in a timely manner, while Tax evasion can be defined as the failure by a person or a business entity to comply with the tax obligations. It is a serious challenge to tax authorities in both developed and developing countries. It diminishes the mobilization of resources that governments need to invest in critical areas of social and corporate developments including health, education and infrastructure development (Cummings, 2007).

In Europe tax evasion constitutes about 7.9% of the GDP of economies in the region. In North and South America, tax evasion costs economies about 2% and 10% of their GDP respectively. Even in the most advanced economies in the world, tax evasion undermines revenue collection substantially (Rile, 2011).

Like other countries around the world, tax compliance in Sub-Saharan Africa is based on the SA Principles. According to survey of 15 African countries covering –Benin, Botswana, Burundi, Ethiopia, Ghana, Zambia, Malawi, Mauritius, Rwanda, Senegal, Sierra Leone, South Africa, Tanzania, Uganda and Kenya showed that with the exception of South Africa all other countries issue Tax Identification Number, and all personal and corporate income taxes are based on SA principle (Carter & Cebreiro, 2011). However, despite the fact that sub-Saharan African countries followed the global trend in implementing SA system, their tax revenue as a percentage of GDP which is a good measure of tax compliance remains low.

Taxation is the key source of revenue that the government of Kenya uses to provide public services to its citizenry. Over the last decade tax performance in Kenya has significantly improved in nominal terms averaging about 24% of the size of the economy. This had enabled the government to finance about 60% of the budget. Due to its importance, tax policy debates and decision making becomes a critical issue to the public, to businesses and the economy at large owing to the varied impact that it will have on each of the entities. (Waweru M.G., 2004).

Therefore, the design and performance of the tax system has implications for inequality and as such it is the role of the government to ensure that it pursues a fair tax system for equitable distribution of income and welfare of the citizens. The other important benchmarks for assessing the tax system include simplicity, adequacy and neutrality. The tax systems would hitherto be passing the new Constitution of Kenya 2010 reflects a two tier system of government comprising the national and 47 county governments. According to the Constitution, the national government retained the powers to impose taxes, direct taxes including income taxes and indirect taxes namely; value added tax, excise duty and customs or import duty. On the other hand, the county governments' powers to impose tax would be confined to property taxes, entertainment taxes and other taxes that are feasible at this jurisdiction. Of the total tax revenue collected by the government over the last decade, the largest contributors are income tax, about 40% followed by VAT at 28 %. (Alabede et al, 2011). However, it is important to note that the burden on income tax and in particular pay as you earn is felt by about 20% of the total productive labor force raising fairness concerns despite income tax being the most progressive tax.

Besides the use of tax credits and deductions such as a tax relief, to ensure fairness and that income tax is more progressive government reforms towards income tax should consider widening the tax brackets by applying high marginal tax rate for high income earners as well as adjusting income tax bands to ensure that salary increases that are commensurate to inflation rates do not artificially push income taxpayers to a higher tax rate. Unlike personal income tax that follows a graduated rate structure; corporate income tax is charged on profits from registered business entities at a flat rate of 30% for resident companies. However, a number of businesses especially in the informal sector are not taxed again raising equity questions. (Programme, A.P., 2012)

The government has responded by introducing turnover tax which has not been performing well. Further the question on whether it is time to review the tax incentives regime with regard to meeting the key objective of attracting investment vis a vis the revenue loss incurred by the government has been posed.

Governments in both developed and developing countries collect taxes to fund public services. Marina *et al.* (2002) argue that, "taxation is the only known practical manner for collecting

resources in order to finance public expenditure for goods and services consumed by any citizenry". However, this is not strictly true, as developing countries; in particular, get revenue from other sources besides taxation, including non-tax revenue such as user-fees and licenses charged for services rendered by ministries, department and agencies, as well as income from sale of government assets and privatization. Moreover, many developing countries are dependent on foreign aid as an external source of revenue (Barnett and Grown, 2004)

Kenya's dependency on foreign aid and borrowing declined over the period of early 2010s, averaging about 11% of the total budget relative to the East Africa Community member states, whose budgets were financed to the tune of 30-40% by development partners. However, currently Kenya's rising debt is projected to hit 60 percent of Gross Domestic Product by June 2018 according to Global rating agency, Moody's Investors Service. In their latest report, the agency says Kenya's debt to GDP has gone up to 56.4 percent from 40.5 percent in 2012. Moody attributes the projected rise to high primary deficits and borrowing costs. However, according to latest development in infrastructure this is likely to go further.

According to Barnett and Grown (2004), tax policy is at the heart of the political debate on the level of public services that should be provided and who should pay for them because taxes are the principal source of recurring revenue under government control. Besides, taxes are used to assist in the redistribution of wealth and incomes and to regulate economic activities.

To this end, tax policy decisions have different impacts on different individuals, businesses and the economy at large. Germany and Britain signed an agreement with Switzerland about recovering some tax revenue from accounts held by their citizens in Swiss banks. South America has the world's largest shadow economy compared with its G.D.P. followed by Africa and Europe, where income hidden from the tax authorities' amounts to about 20.5 percent of G.D.P. That compares with 10.9 percent in North America (Association, 1998). Of the three East African countries of Kenya, Uganda, and Tanzania, tax evasion as a function of GDP is high. Uganda loses the least amount in tax evasion: In 2011, it lost 856 million USD, followed by Tanzania at 1.9 billion USD, and Kenya loses slightly over 2 billion USD. In 2011, the informal economy constituted 32.8% of the GDP in Kenya and represented 7% of total government expenditure. The tax burden in Kenya would thus be high, standing at about 21%. If the Kenya

government is to increase its social expenditure, then it needs to reduce tax evasion in the informal economy (Griffiths, 2005).

Taxpayers' behavior towards tax systems has evoked great attention among many Revenue Authorities in the World especially in Developed Countries. It is debatable on what has been done towards the study of taxpayers' behavior towards tax systems in developing countries as they concentrate more in studies which would increase their budgets bottom-line in terms of huge revenue collection and enforcement efforts at the expense of studies on taxpayers behavior which would increase in this tax revenue to be realized and enforcement efforts work. It appears the less developed countries are not to blame as they run on budget deficits hence, scarce resources to facilitate such studies which are perceived as adding no direct value to revenue collection. Tangible evidence on the ground shows that there has been hostility between the taxpayers and tax collectors on issues relating to tax compliance (Porcano, 2011).

It is important to note that most large companies have their roots in Small and Medium Enterprises suggesting that the future large corporations are the SMEs of today and that they must be nurtured to ensure their growth. SMEs are perceived to be the seedbed for indigenous entrepreneurship and generate all the small investments, which would otherwise not have taken place (Aryeetey & Ahene, 2004). Therefore, developing economies like Nigeria and Kenya need to further the development of their private sector by creating an environment favorable to the growth of SMEs, strengthening the factors that lead to business success and addressing the problems threatening the existence and advancement of SMEs (Chu, Kara & Benzing, 2008), so they can adequately play the role expected of them in economic transformation. The roles include mobilization of domestic savings for investment, appreciable contribution to gross domestic product, increased harnessing of local raw materials, employment generation, and significant contribution to poverty reduction efforts through sustainable livelihoods and enhancement in personnel income, technological development and export diversification.

Due to the importance of this sector to a country's economy, it is important that strategies of tax administration that are implemented enhance the SME taxpayers' attitude and compliance towards paying taxes. It has been observed, however, from previous taxation studies that several SMEs in developing economies are non-tax compliant in spite of major reforms, since they cannot easily be located by tax administrations, yet they pay less tax than their fair share of tax.

The importance of tax systems as a major revenue source in any country is undeniable, statistics have evidenced that tax revenues are one of the main income source for many governments throughout the world but to maximize tax collection and minimize tax evasion among SME taxpayers is a very difficult practice to achieve. Moreover, tax compliance is widely acknowledged, as a universal phenomenon that prevails in all economies and societies' systems in developed and developing countries. Questions about tax compliance are as old as taxes themselves and tend to remain an area of discovery as long as taxes exist.

History has shown that there has always been a reluctance to pay taxes, a major reason for this attitude is that the taxpayer does not always perceive that he receives any direct benefits from parting with the hard earned cash. Most citizens, however, realize that the state expenditure for the purpose of creating or maintaining national infrastructure is a necessity. But citizens object to having to finance unnecessary state expenditure. In this regard, everyone has own understanding of what is necessary. Most taxpayers feel that whatever is contributed by way of tax is mostly squandered away and the social responsibilities the government is expected to discharge get neglected.

The government bears bad image because of its failure to discharge functions is a great disincentive for paying taxes. Most SME taxpayers feel that tax is a burden and should be avoided, they feel that they are being treated harshly and the punitive provisions in the tax laws are applied ruthlessly against them. Hence it is better to disassociate mutual engagements with the tax departments and the number of non-filers of tax returns increasing.

Tax policies introduced under the TMP (Tax Modernization Program) (1986 to 2002) thrust under the TMP (1986 to 1996) was to raise and maintain revenue as ratio of GDP at about 24% by 1999/2000; expand the tax base; rationalize the tax structure to make it more equitable; reduce and rationalize tax rates and tariffs; reduce trade taxes and increase them on consumption to support investment; and seal leakage loopholes (Moyi and Ronge, 2006).

Government launched the VAT in 1990 to increase revenue through the expansion of the tax base. Tax policies introduced during the third phase: 2003/04 to 2008/09 Key changes to tax policy made by the NARC government (2003-2008) and coalition government (2008-2009) has so far evolved around ensuring equity, further widening the tax base, promoting increased

investment and reducing the tax compliance burden. To promote equity GoK widened income tax bands by 5% in 2004/05. Tax bands had remained unchanged since 2002. In the same year, GoK also increased personal relief by 10%. From 16 June 2006, GoK increased the threshold turnover for VAT from KShs 3 million p.a. to KShs 5 million p.a. with a view to reducing the compliance burden for three quarters of registered taxpayers who either file nil returns, or whose turnover is not substantial (ADB, 2010).

Since the inception of KRA, revenue collection has continued to grow while professionalism in revenue administration has been enhanced. However, some processes still remain manual and KRA is working hard to operate as a fully integrated organization. Thus the KRA Second Corporate Plan while acknowledging these challenges recommended appropriate strategies to address the same. This actuated the Revenue Administration Reform and Modernization Program (RARMP) which commenced in 2004/05 with the objective of transforming KRA into a modern, fully integrated and client-focused organization (KRA, 2011).

The RARMP process has adopted project management and business analysis techniques in accordance with international best practice with the creation of the Programme Management and Business Analysis Office (PMBO) under the Office of the Commissioner General. This has led to the development of an institutionalized administrative framework for the RARMP making it easier to track progress in the reform initiatives and enhance project ownership besides acceptance to change from both internal and external stakeholders.

The RARMP entered its Second Phase which ran until 2008/09 and oversaw the reforms entrenched at the operational levels to achieve operational efficiencies and enhance service delivery. This was achieved through the implementation of the following key projects; Customs Reforms & Modernization Project, Human Resource Revitalization Project, Domestic Taxes Reform & Modernization Project, Investigation & Enforcement Reform & Modernization Project, Infrastructure Development Project and KRA Business Automation Project, (KRA, 2011).

It is quite remarkable that since then, KRA has vigorously embarked on technology modernization strategy by the introduction of iTax, Custom single window system the latest being ERP for the support sector, besides the current transformation agenda 2017/2018.

1.2 Statement of the Problem

The role played by Tax is very important in the growth of any economy and therefore tax evasion is harmful to the economy. Tax evasion hampers government revenue collection thus inefficiency in Government spending because it diminishes the capacity of the state to mobilize domestic revenues, resources that are needed for investments. In 2010, for example the amount lost to tax evasion represented about twice the amount the country spent on health care. Tax evasion also damages the country's growth capacity by discouraging both local and foreign investors. The high tax rate and burden in Kenya, which is related to the high levels of tax evasion, is the leading disincentive to business activity (Karingi, 2005)

An increasing trend of disparity between the levels of submitted annual income tax returns, reported tax assessments and voluntarily paid tax liabilities, among SMEs, on the one hand, and the trend of business coming-up and growth, on the other hand, has been a cause of worry to the government of Kenya. This resulted in the government offer of an olive branch to taxpayers through the tax amnesty announced by the Minister for Finance in Kenya in 2004 (GOK, 2004). Most SMEs have been continuously expanding and have the potential to increase the revenue flows but which have been otherwise left out of the tax bracket.

Generally, if the informal sector remains untaxed, and as more people transition in to the sector, the government is likely to continue losing billions of shillings since it has not been able to collect all the required taxes from the targeted taxpayers. Such a scenario will impact on government's ability to achieve its revenue targets and consequently its development agenda. The question as to why some people pay tax while others do not has raised a lot of concern among economists, governments and tax administrators alike. Tax revenues have, for quite some time, remained low relative to the number of both registered and non-registered firms and individuals who are legally qualified to pay tax. This is a great loss of revenues meant for public expenditure.

It is for this reason that research needed to be undertaken to identify the causes for low tax compliance among small and medium enterprises in Garissa town. It is also instructive to note that there is little research that has been done in this area. In this context SMEs in this locality exhibit low tax compliance levels and this requires an understanding on the factors influencing

tax Compliance to enable the National government to improve on its tax collection among the SMEs.

1.3 Purpose of the study

The purpose of this study is to evaluate the factors that influence tax compliance among Small and Medium Enterprises in Garissa Town, Garissa County, Kenya.

1.4 Objectives of the Study

The overall objective of this research was to determine the factors that influence tax compliance among SMEs within Garissa town.

This study is guided by the following specific objectives:

- i. To find out the effect of tax rates on tax compliance among SMEs in Garissa town
- ii. To find out the effect of tax information on tax compliance among SMEs in Garissa town.
- iii. To determine how tax costs affect tax compliance behavior of SMEs in Garissa town.
- iv. To determine how SMEs attitude on tax influence their tax compliance level within Garissa town.

1.5 Research Questions

- i. What is the effect of tax rates on tax compliance among SMEs?
- ii. What is the effect of tax information on tax compliance among SMEs?
- iii. How do tax costs affect tax compliance among SMEs?
- iv. How do SMEs' attitude on tax influence tax compliance?

1.6 Significance of the study

The government is not able to collect all the required taxes from the targeted tax payers. From the SME point of view, tax evasion is driven generally by a perception that the tax burden is too high. This poses a number of problems to tax systems, raising difficult questions over how tax policies and tax administration may influence tax compliance incentives and behavior. The compliance tax burden on the Informal Sector may be high relative to that of large companies

(higher unit cost in relation to turnover). Further, the cost of complying with a given set of tax rules and regulations is generally high.

This study focused on how social, cultural and personal factors influence tax compliance. It was anticipated that the results of this study would provide concepts and grounds on which to develop a framework with regard to Tax compliance level by SMEs. The knowledge accruing from this study is likely to benefit the Government of Kenya through its revenue collection body, Kenya Revenue authority, in its effort to design suitable tax policies for SMEs. This study provided concepts which would help to develop a framework to explore tax compliance behavior among SMEs. It opened the underlying factors that promote tax compliance. The research would also be useful to the business community and organizations' management teams for purposes of knowing the tax compliance environmental factors and how the conditions can be improved or dealt with. Finally, the research was of interest to scholars and researchers who may require developing and/or advancing their knowledge in the field of tax compliance and administration.

1.7 Scope of the Study

This study focused on determining the factors that influence tax compliance among SMEs within Garissa town, Kenya. Garissa town is one of the fastest growing towns in northern Kenya with a significant number of informal sector especially in commercial and jua kali sectors. As a result, the town provided adequate and sufficient ground for determination of the taxpayers' compliance behaviors towards tax systems. The study targeted small and medium business income earners currently paying taxes in Garissa town. A representative sample of the SMEs was selected for the study and the study was conducted during the months of February, March and April, 2018.

1.8 Basic assumptions of the study

It was assumed that the respondents would be willing to participate in the study, be co-operative, sincere and provide accurate information when responding to research questions.

1.9 Definitions of significant terms used in the study

Tax: A compulsory financial contribution imposed by a government to raise revenue, levied on the income or property of persons or organizations, on the production costs or sales prices of goods and services.

Tax Information: The knowledge or facts provided about taxes

Tax Cost: It refers to the expenditure of time or money in conforming to government requirements such as legislation or regulation

Tax Compliance: The Degree to which a taxpayer complies (or fails to comply) with the tax rules of his/her country, for instance by declaring income, filing a return, and paying the tax due in a timely manner.

Tax Evasion: It refers to the conscious or unconscious action and behavior of a person who is liable to pay tax but who fails to fulfill this duty by either under reporting his tax liability or failing to account for his income generating activities altogether. Tax evasion also refers to the reduction or minimization of tax liability by illegal methods.

Tax Attitude: The way of thinking or feeling about matters pertaining to taxes.

Tax Rate: The tax rate is the tax imposed by the federal government based on an individual's taxable income or a corporation's earnings. Kenya uses a progressive tax rate system, where the percentage of tax increases as taxable income. It can also be defined as the percent of income paid as tax.

Tax Obligation: Responsibilities pertaining to tax payment and declaring of tax returns which a person duly registered and having a PIN is required to observe

Tax Administration: It refers to the procedures attached to tax compliance including accountability, registration and filling of returns.

Small and Medium Enterprises: Those entities with full-time employees not exceeding 100 or annual sales turnover not exceeding Kshs. 150 million.

Small Enterprises: An enterprise with less than 50 Employees

Medium Enterprises: An enterprise with 50 -100 Employees

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter outlined the various schools of thought revolving around tax compliance and evasion. This Chapter identified the various theories put across by various scholars in relation to tax compliance. Researcher highlighted the findings of some authors, on the factors influencing tax compliance among SMEs under various avenues.

2.2 Theoretical Framework

This study borrowed heavily from existing research activities that are highly increasing. It has been influenced by the following two theories which have been put across by various scholars with regard to adoption of technology in society:

2.2.1 The Tax Morale Theory

The tax morale theory was first advanced by German scholars centered on Gunter Schmolders known as Cologne school of tax psychology. Tax morale can be described as the individual factor that motivates a person to comply with his or her tax obligations. As a determinant of tax behavior, tax morals aim to explain how and why a tax payer's morality influences his or her tax behavior. Many studies have found out that tax evasion can be attributed to the tax morale (Mocetti, Vol 18 No. 6).

The question of why citizens pay their taxes has attracted increased attention in the tax compliance literature of late. Benno Torgler, in his book considers evidence suggesting that enforcement efforts cannot fully explain the high degree of tax non-compliance within the society. In attempts to resolve the puzzle, numerous researchers have argued that citizens' attitudes towards paying taxes (Tax morale) help to explain the compliance level. Tax morale related studies; surveys and experiments argue that the term 'Tax Morale' was coined by Schmolders back in 1960 who defined it as, 'the attitude of a group or the whole population of tax payers regarding the question of accomplishment or neglect of their tax duties; it is anchored in citizens' tax mentality and in their consciousness to be citizens, which is the base of their inner acceptance of tax duties and acknowledgement of the sovereignty of the state (Schmolders

960:97-98). Various opinions about tax morale are understandable in the light that morale poses a problem for economic analysis; it cannot be observed directly, therefore it can be assessed only by looking at its effects (Pommerehne et al 1994).

Tax payers would be inclined to evade tax when the communities in which they live or operate disapprove of tax evasion; they are more likely to comply with tax obligation if their friends, relatives and acquaintances comply with these obligations. Besides, tax payers will evade taxes if they feel that other people are getting away with tax evasion. In other words, if a society tolerates tax evasion, such a society would encourage tax evasion (Waweru, 2004).

Religious beliefs are variable in tax evasion as studies have shown that tax payers who have strong religious commitments or beliefs would most likely be tax compliant even if they feel that the tax rate is high (Gee, 2006). In some instances, tax payers can feel morally justified in evading taxes if they feel that the quality of public services and goods are unsatisfactory. The opposite also tends to be true, in economies where the provision of public goods and services is satisfactory the evasion rates are extremely low. Tax payers would tend to be compliant with their tax obligations if they feel that their government is honest and participatory besides the feeling that they play a significant and meaningful role in governance (Cummings, 2007). Therefore, tax payers' attitude are important predictors of tax evasion and thus the study aims to interpret the tax attitudes of SMEs and how it contributes to tax compliance level.

2.2.2 The Allingham and Sandmo Theory (AS Theory)

This theory was put across by Allingham and Sandmo. According to (Sandmo, 1972) The AS theory holds that the government deters tax evasion through a sanction arrangement and audits.

A tax payer will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing would be unlikely to be detected or audited. Tax payers would also evade tax when perceives the cost of compliance is high. Tax systems and procedures involved are cumbersome tend to encourage tax evasion. Tax payers who feel that tax rate is high and punitive will evade tax. There is a negative correlation between tax evasion, the probability of detection, the degree of punishment and high transactional costs associated with tax laws. Income tax evasion was pioneered by Allingham and Sandmo (1972),

where a rational and a moral taxpayer maximize expected utility, which solely depends on income. When caught, the agent must pay penalties, imposed on the amount of evaded income.

Most SMEs are prone to tax evasion as they face difficulties in complying with tax laws. They are expected to comply with strict deadlines, keep proper books of accounts. This kind of environment in most circumstances leads to tax evasion.

2.3 Review of Empirical Studies

According to the records in the Bible, taxation dates back from the times of Jesus Christ, defiance of tax laws also dates back to the same time. Most People have always had a hostile attitude towards tax ever since the introduction of tax. “During the Roman Empire, in 60A.D, Boadecia queen of East Anglia led a revolt that can be attributed to corrupt taxation. In Great Britain, the 100 years” war (1337-1453) between England and France was renewed in 1369 by among other key factors, the rebellion of the nobles of Aquitaine over the oppressive tax policies of Edward, The Black Prince and in Post-Revolution America; Tax Act of 1864 was challenged several times” (Director, Tax world Organization, 1999).

In the 1970’s, small businesses in Kenya were perceived as marginal to main stream activity. They were typically cast as habitual avoiders and evaders. However, in the 1980’s the service sector took off and represented a higher and growing proportion of GDP in many countries including Kenya. Small businesses accounted for much of this growth, creating employment and efficiently utilizing capital in the process. The taxation of a sector accounting for such a significant percentage of GDP (average 41%) could not be ignored.

However, the task is particularly difficult in developing economies in that the Micro and Small Business are not generally compliant (through ignorance as well as intent) nor are they easily located by the tax administration (Moyi and Njiraini, 2005). In South Africa, studies conducted by economy watch dog on tax burdens on SMEs revealed that tax requirements procedures acted as stumbling blocks to tax compliance. This is because complying with taxes tended to swallow up the resources that the SMEs could devote to more economical running of these businesses. A majority of SMEs experience their tax liability as an increasing burden since they lack enough skilled staff to handle tax compliance issues and are therefore forced to incur extra tax costs.

Most SMEs do not even recognize tax incentives and services available to them. The study also noted that changes in tax policies sometimes result in an even more complex tax system. A clear finding was that elaborate tax incentive schemes which require sophisticated systems and skilled staff would often result in increasing compliance costs rather than provide real tax relief. As a result, small businesses (and probably other taxpayers as well) would prefer simple cuts in tax rates and penalties.

According to Kiraithe (2009), tax gaps still exist in the Kenyan context because there is a difference between the total amount of revenue the government expects to collect from the taxpayers, and the amount it actually collects. This scenario is usually attributed to the tax compliance costs. Compliance costs are expenditures incurred by taxpayers in meeting the tax requirements imposed by the law and the revenue authorities, over and above the actual payment of tax and any distortion costs inherent in the nature of the tax. They include: labor costs (owner salary, bookkeeping costs, and the unpaid help), external and internal labor costs, postage and telephone, forms and stationery, travelling costs, instructional literature and seminars, and so on. Tax planning is also included as an inherent part of tax compliance costs. In addition, there are technological costs that relate to tax compliance either directly or indirectly, as soon as a taxpayer becomes tax compliant. Electronic Tax Register (ETR) costs are an example, because they bring with them electricity costs, maintenance costs, and so on. Therefore, as opposed to the substantive costs imposed by legislation like the amount of tax to be paid, compliance costs also include the administrative and time costs of complying with legislation. As these costs increase, the chances of tax avoidance increase as well. In a study carried out in Kenya on activities such as record keeping, the respondents were asked whether they keep up to date transaction records and books of accounts such as journals, ledgers, cash receipts, cash books, trial balances, profit and loss accounts, and balance sheet. The respondents indicated that in terms of keeping up to date records and books of accounts, they had partially complied. This was attributed to the fact that about 40% of them kept vital accounting records such as Cash receipts, Cashbook, Balance sheet, Invoices, and Profit and Loss accounts (Lumumba et al., 2010). However, other records that are requirements for tax compliance such as the trial balance, Journals and Ledgers were not up to date. Furnharn, (1983) noted that the taxpayers' behavior may be influenced by many

factors, which are brought about by their attitudes. These factors are many and differ from one individual to the other and from one county to the other. They include:

cost of compliance, the general taxpayers perceptions of the tax system, motivation such as reward, perceived behavioral control and Protestant work ethics, taxpayers' understanding of a tax system/tax laws, ethics/morality of the taxpayer and tax collector, enforcement efforts such as audit, demographic factors such as sex, age, education, use of informants, and equity of the tax systems. A study on attitude as a factor affecting tax compliance in Kenya revealed that most taxpayers view the Kenyan tax system as unfair. Most respondents said that the tax laws are complex and not easy to understand. They found it difficult to calculate the tax required from them. In order to make business out of their operations, they were forced to underreport profits and operate illegal businesses. The study also established that the taxpayers are given rewards, and that there is use of informants by KRA to report tax evaders. Generally, taxpayers are indifferent to the paying of tax fines and penalties. KRA tries to enforce tax compliance by carrying out tax enforcement efforts such as carrying out tax audits and ensuring prosecutions of tax evaders. However, there is still a very high degree of undetected tax offenders, fear of tax audits and prosecution notwithstanding. For this reason, more people are beginning to believe in corruption and that tax is not an obligation. Over time, some SMEs are generally indifferent with the KRA harassments (Lumumba et al, 2010).

2.3.1 Tax Compliance by SME's

Tax plays an important role in the growth of Small and Medium Enterprises (SMEs) in low income countries like Kenya. The role of SMEs is critical in pushing the socio-economic development agenda of the country further. Therefore, alignment of the tax system to the environment specific SME growth needs can be considered an important agenda for the policy makers. (Mika Mungaya, IJMBS Vol. 2, Issue 3, July - Sept 2012).

SMEs ensure important force for economic development and industrialization in poor and developing countries. It is increasingly recognized that these enterprises contribute substantially to job creation, economic growth and poverty alleviation. The 2005 World Development Report suggested that creating "sustainable jobs and opportunities for micro entrepreneurs are the key pathways of poverty alleviation for poor people" (World Bank, 2004). Like any other developing

countries, Kenya has taken a number of measures to promote the growth of private sector and Small and Medium Enterprises (SMEs). SMEs were estimated to account for a significant share of Gross Domestic Product (GDP). The government formulates and implements various policies aimed at increasing job opportunities, development of infrastructure as well as income generation through the creation of new SMEs and improving the performance and competitiveness of existing ones, the revenue collected from taxes represents the major funding source for governmental expenditures (Baurer, 2005). If the tax structure is not adequately designed to the specific environmental conditions, it may create a greater burden to the tax-paying organizations and eventually affecting the final consumer due to the shifter ability of tax. SMEs in developing countries often face difficulties when dealing with tax matters. It would be rare indeed not to hear complaints about the complexity and or ambiguity of the tax laws, high tax rates, and lack of an integrated fiscal strategy that takes social taxes, and local taxes and fees into account when determining the overall tax burden placed on the business community (Baurer, 2005).

This implies that as a policy maker and regulator, Government must consider the factors that could affect the competitiveness of the enterprises. Assessing the impact of tax systems on SMEs is not simply a matter of looking at tax rates. Tax systems play an important role in encouraging growth, investment and innovation and facilitating international trade and mobility. For SMEs key considerations are to minimize administrative burden while ensuring compliance, including considering the drivers and impacts of operating in the informal economy, (Kolstad, 2006) indicated that taxes are perceived to be a major problem for both young and old firms. Therefore, taxation has shown a way towards impacting small and medium enterprise. The GoK has attempted to mobilize revenue by bringing more SMEs to the tax bracket through the introduction of Turnover Tax (TOT). There are four broad categories of obligations identified as Registration in the system, Timely filling or lodging of the required information, reporting of complete and accurate information and payment of taxes in/on time.

The definitions of SMEs differ from country to country, region to region and there is no universal definition. Small and Medium Enterprises (SMEs) play an important economic role in many countries. In Kenya, for example the SME sector contributed over 50 percent of new jobs created in 2005 but despite their significance, most SMEs evade tax. Nevertheless, the factors

that attribute to the tax evasion among SMEs are not well understood. Hostility towards tax compliance dates back to history of taxation. Taxes are considered a problem by everyone, not surprising, taxation problem date back to the earliest recorded history (World Tax Organization, April 7 1999)

Kenya is ranked among low income and compliance countries, further faced with the difficult task of ensuring efficient and effective tax administration. According to a research conducted in Kenya by African Research review, the problem of tax non - compliance among business firms constrains the realization of revenue collection targets by Kenya Revenue Authority (K.R.A). The research aimed at investigating the relationship between the size of taxpayer's income, inspection by the tax authorities, use of tax registers and VAT compliance. A sample of 233 registered firms was selected and data collected using self-administered questionnaires to personnel in finance department of the selected firms. The data was analyzed by descriptive and correlation analysis.

Tax compliance is low among SMEs as a result of several factors such as poor management and internal control practices as many of the enterprises are merely trying to make ends meet. Another contributory factor to low tax compliance among SME's is the informal approach to establishment, operation and dissolution which creates an ease of mobility, consequently making it difficult for the tax administration to keep pace with them. Cash-based economies have also had inadequate accounting records and audit trails in practice. Tax compliance is low among SMEs also because compliance costs for the SMEs are much higher relative to larger business operations that they are competing against. In addition, small businesses have limited resources and technical capacity. Often, the priority of a tax administration is to focus on large taxpayers because of the high delinquency rate and low revenue yields associated with small businesses, with very little enforcement action. This ultimately encourages non-compliance (Masinde, 2010)

From the perspective of tax administration, the major obstacle which hinders government in ensuring that the SME is incorporated in the taxation bracket is the nature of their businesses. The small sizes of the businesses make it easier for them to remain outside the taxation bracket. Mistrust and weak structural dialogue between informal sector and government is another factor that hinders taxing of the informal sector. There is a general mistrust between tax agents and

taxpayers, with agents perceiving the SME as tax evaders, unwilling and unable to pay their taxes. The operators too are wary of government agencies' high-handedness in collection of taxes. There is lack of structured dialogue between the SME and the government as well as other law enforcing authorities. This has led to mistrust and prevents the sector from engaging constructively with the government in reform processes (Programme Issue No. 29 September 2012).

Spicer and Lundstedt (1976) pointed out that SMEs have more possibilities to avoid taxes than larger taxpayers. They also have more opportunities for tax evasion and opportunities might further increase with the number of different income sources. Hence, in compliance decisions the level of income might interact with its source. The importance of how one's economic status is perceived was demonstrated by (Vogel, 1974) taxpayers who reported improvements of their economic status were less compliant than others who reported deterioration of their financial well-being. A positive relation of SMEs income and tax compliance also found empirical support. Other studies found no relation of income level and tax compliance. Self-reported compliance behavior was not related to income among Swedish taxpayers

In an experimental study, (Feld, 2002) found that tax compliance is higher on average in an endogenous fine treatment in which subjects are allowed to approve or reject the proposal of a fine as compared to an exogenous fine treatment where the fine is imposed by the experimenter. The main explanation why people show higher tax morale if they are allowed to vote on a fine is legitimacy. Compliance rates are higher if the fine is accepted than in the case the fine is rejected. Subjects who reject the proposal of the fine show a higher compliance rate than subjects in the exogenous fine treatment even if they know that the dominant strategy under the existence of the low fine is non-compliance. Combining econometrics and surveys methods, (Spicer, 1976) sought to investigate impact of attitude and social norms in the evasion decision; the data were collected from a 1974 survey in USA. Econometric results revealed that the propensity to evade taxation was reduced by increased probability of detection. Surprisingly, an increase in income reduced the propensity to comply. With respect to attitude variables, an increase in both inequity of taxation and the number of taxpayers who evade taxes known to a taxpayer made evasion more likely. This study also revealed that the experience of taxpayer of previous audits by the income department influences the compliance rates.

According to (Feldstein, 2002) Tax avoidance and evasion are pervasive in all countries, and tax structures are undoubtedly skewed by this reality. Standard models of taxation and their conclusions must reflect these realities. This study first presents theoretical models that integrate avoidance and evasion into the overall decision problem faced by individuals. If the cost of evasion and avoidance depends on other aspects of behavior, the choice of consumption basket and avoidance become intertwined. The study then relates the behavior predicted by the model to what is known empirically about the extent of evasion and avoidance, and how it responds to tax enforcement policy. There are a variety of policy instruments that can affect the magnitude and nature of avoidance and evasion response, the elasticity of behavioral response is itself a policy instrument, to be chosen optimally. The study reviews that is known about these issues, and introduces a general theory of optimal tax systems, in which tax rates and bases are chosen simultaneously with the administrative and enforcement regimes. To summarize, most empirical studies on the impact of tax rates support the assumption that high tax burdens have a negative impact on compliance

2.3.2 Tax Rate

It is generally believed that a high tax rate is the main cause of tax evasion. Incentives to evade tax depend on the marginal rates of taxation because these govern the gains from evasion as a sum of the sum evaded (Kaldor, 1956) One major tax evasion is the high personal income tax rates which tend to lead tax payers to evade tax. Too many and complicated rules and regulations imposed by the government tend to lead to tax evasion. Businesses find it generally difficult often not profitable to do business legally. The heavy taxation is also a subject of worry not only in developed countries like USA but also in Kenya and other less industrialized countries in Africa and Latin America. For instance, taxes in Kenya confront the large manufacturing sector in different shapes and shades for instance; import duties, export & excise duties, sales and VAT, withholdings and income taxes, and PAYE etc. (KRA, 2011).

The high levels of taxation of SMEs in Africa and in Kenya in particular, warrants attention on accelerated research areas aimed at addressing the overall effects of taxation on SMEs (Osambo, 2009) By studying taxation behavior in five different countries (USA, Gambia, Nigeria, South Africa and Kenya), Derwent (2000) concluded that increased tax burden is a major threat to SMEs growth and compliance. The results showed that the increase in tax rates leads to higher

production, distribution and selling costs which lead to higher prices and as a result consumers change their buying behavior. People react to the higher prices by buying less of the product. When sales fall, some manufacturers cut back on production and some workers may lose their jobs. The productive resources i.e. land, capital, labor and entrepreneurship are allocated to other industries or go unused. For instance, when the government increase taxes on items such as beer and cigarettes for the purpose of realizing revenue and discouraging their consumption people tend to buy local brews. Whenever prices increase due to increase in tax rates; prices of goods and service increase and there is a drop in the consumption rate and a decrease in sales volumes which leads to retarded growth of SMEs. Tax payment is among the outflows of cash from the business which reduce the purchasing power of an enterprise. This is due to the fact that a large amount of cash collected is used to pay taxes rather than to expand the business. The study showed that the purchasing power of an enterprise drops immediately an organization pays taxes (Mika Mungaya, IJMBS Vol. 2, Issue 3, July - Sept 2012)

Some studies suggest that high tax rates foster evasion. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer (Chipeta, 2002) However, the level of the tax rate may not be the only factor influencing people's decision about paying taxes. In fact, the structure of the overall tax system has an impact as well. If, for example, the tax rate on corporate profits is relatively low, but individuals are facing a high tax rate on their personal income, they may perceive their personal tax burden as unfair and choose to declare only a part of their income. Similarly, large companies can often more easily take advantage of tax loopholes, thereby contributing to the perceived unfairness of the system. Tax rates and the overall structure of the tax system, therefore, have a significant effect on the disposition to evade and avoid taxes.

2.3.3 Tax Information

Standard models assume that tax payers are fully informed of all the aspects that cover the tax reporting processes. However, this is a strong assumption and not the case. (Andreoni J. Errard, 1998) Tax research has shown that the degree of information is an important factor on the behavior of SMEs and tax payers and how it influences their level of tax compliance. Less educated tax payers are less exposed to tax compliance information and are less informed about

relevant tax compliance information and thus are more prone to tax evasion. Some SMEs and taxpayers find the complexity of tax information more difficult to understand than others. This complexity may lead to unintentional non-compliance if tax payers have problems maybe in filling of tax returns.

In 1992, Kenya adopted the self-assessment system of paying taxes. The responsibility of declaring and paying the correct taxes is vested on the tax payer. A tax payer is required by law to file a self-assessment return by the end of the six month after year end. After filing the returns, Kenya Revenue Authority (KRA) reviews them and if it has reason to believe that a tax payer did not disclose the correct taxes, it is empowered under the law to carry out an in-depth tax audit to verify the information disclosed by the tax payer. This is where problems start! The tax payer then goes through the rigorous process that is both time consuming and costly for errors or omissions that would have been avoided had advance tax rulings been in place (Muiru, 2012) Further, businesses including SMEs contemplating significant transactions are often faced with the problem of not knowing, with some degree of certainty, what the tax outcome of those transactions would be. This uncertainty could sometimes mean a deal is aborted because an adverse tax treatment could make it commercially non-viable. The situation is further complicated by the complexity of our tax laws and the fact that they are not static but subject to change from time to time.

The way business is conducted has also become more sophisticated due to the geographical spread of enterprises. We have recently witnessed many multinational companies set up operations in Kenya in keeping pace with the wave of globalization. The world has become a global village but it is unfortunate that our tax laws have not kept pace with this trend. For instance, it is not a wonder to find a company producing goods in one country and selling in another country to benefit from tax advantages in low tax jurisdictions. The complexity of business transactions makes the application of intricate tax laws that have generally not kept pace particularly problematic. Tax payers often find themselves in difficult situations while making important business decisions as tax laws may not be clear as to the treatment of complex business transactions. Our tax legislation does not provide for advance tax rulings though in practice, tax payers seek the Commissioner's interpretation of various tax laws or tax

implications of certain business transactions. Sometimes this is done on a no-name basis in order to retain confidentiality (Muiru, 2012).

Kenya has a complex tax system that makes it expensive for SMEs and other taxpayers to comply with an increased cost of doing business. It is costly to implement occasioning losses to Kenya's economy. The more complex a tax system is the costlier is its administration and the more expensive it is for people to comply with it. Taxes administered in Kenya include corporate income tax, personal income tax, Value Added Tax (VAT) and withholding tax. Corporate income tax rate is 30 percent, personal income tax rate ranges between 10 percent and 30 percent, VAT rate is 16 percent and while withholding tax rates begin from 3 percent and depend on income source and whether one is a Kenyan or not (Government of Republic of Kenya, 2012).

2.3.4 Tax Cost

A compliance cost is expenditure of time and/or money in conforming with government requirements such as legislation or regulation. For example, people or organizations registered for value added tax have the extra burden of having to keep detailed records of all input tax and output tax to facilitate the completion of VAT returns. This may necessitate them having to employ someone skilled in this field, which would be regarded a compliance cost. Compliance costs normally include all costs associated with obeying the law, including planning and administration, in addition to the direct time and money spent filing paperwork. Businesses especially Small and Medium Enterprises often face heavy costs in the process of preparing, filing, and paying taxes in addition to the burden of tax payments. These compliance costs, added to fines, penalties, and the risks of inspections and demands for bribes, often deter business creation and growth in developing and transition countries. A tax compliance cost survey can provide useful information for the design of reforms to reduce compliance costs and risks for small businesses. This note highlights key findings of tax compliance cost surveys conducted in the Republic of Yemen, Ukraine, and South Africa that measured the burdens on business. These surveys helped fine-tune the design of reforms to lower costs for businesses and improve their competitiveness (Coolidge, 2010)

High compliance costs can result in tax avoidance, tax fraud, and inhibit investment growth by way of diminishing competitiveness of the country in terms of taxation attractiveness (Ojeka, 2012). The full cost of a tax system is more than simply the amount of tax paid. It also includes the cost of tax planning and paperwork. Economists call these "tax compliance" costs, and the IRS purports that Americans spend quite a number of hours per year filling out tax forms. In a study carried out on tax compliance and simplifications (OECD, 2004) established that compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns and the number of levels of government involved in levying and collecting taxes. Taxes introduce complexities and costs not relevant to SMEs and the complexities may increase where more than one level of government is involved for example the devolved government in Kenya. This results to SMEs avoiding the paying of taxes as it affects the business performance.

2.3.5 Taxpayers' Attitude

Tax payer's attitude maybe influenced by many factors which eventually influence taxpayer's behavior (Ambrecht, 1998). Some of these factors which influence tax compliance behavior are many and are different from one country to another and from one individual to another. They include taxpayers' perception of the tax system and revenue authority; peer attitude; tax payers understanding of tax system and tax laws; Motivation such as rewards and punitive measures in form of penalties; Cost of compliance; enforcement efforts such as audit; probability of detection; difference across culture; Equity of the tax systems and demographic factors such as sex, age and size of income. There is a very strong relationship between the taxpayers' attitudes and tax compliance in Kenya, in that taxpayer's attitudes encourages tax compliance in and all that influence the taxpayers' attitudes equally affect the taxpayers' compliance with the tax requirements. In a research conducted in Kenya (Wanjohi, 2010) the following conclusions were arrived at: First, most taxpayers view the Kenyan tax system as unfair. This was because most respondents differed that they are paying a fair share of tax than their neighbors or friends, the tax laws are not easy to understand such as calculation of tax filing and paying dates. Secondly, some of the factors for tax non-compliance were found to be: the inability to understand tax laws, for example, rates of

tax, filing and paying dates, a feeling that they are not paying a fair share of tax, negative peer attitude, and a belief that their neighbors are not reporting and paying tax honestly, and non-rewarding taxpayers.

The attitude issues from the various studies rotate around the tax fairness; improper use of revenue collected by government and pure intent to evade payment of tax for the collective good vis-à-vis the individual interest. Attitudes represent the positive and negative evaluations that an individual holds of objects. It is assumed that attitudes encourage individuals to act according to them. Thus, a taxpayer with positive attitudes towards tax evasion is expected to be less compliant than a taxpayer with negative attitudes. Attitudes towards tax evasion are often found to be quite positive (Kirchler, 2001). Many studies on tax evasion found significant, but weak relationships between attitudes and self-reported tax evasion (Trivedi, 2005).

A model of tax evasion behavior developed by Weigel, Hessing considers social and psychological conditions, including attitudes and moral beliefs about tax evasion's propriety, as antecedents of tax compliance. Data collected from fined tax evaders and honest taxpayers showed that attitudes explain in part self-reported tax evasion, but are insignificant predictors of actual behavior. However, the correlations between self-reported tax non-compliance and attitudes are significant but fairly weak. These findings suggest a rather complicated relationship between tax evasion and attitudes, nevertheless we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase (Lewis, 2005). The attitudes are important for both the power and the trust dimension. On the one hand, favorable attitudes will contribute to trust in authorities and consequently will enhance voluntary tax compliance by SMEs and other taxpayers. On the other hand, attitudes towards the authorities will be relevant for the interpretation of the use of power as benevolent or malicious. Tax attitudes in general also depend on the perceived use of the money collected and therefore are connected to knowledge (Kirchler, 2001)

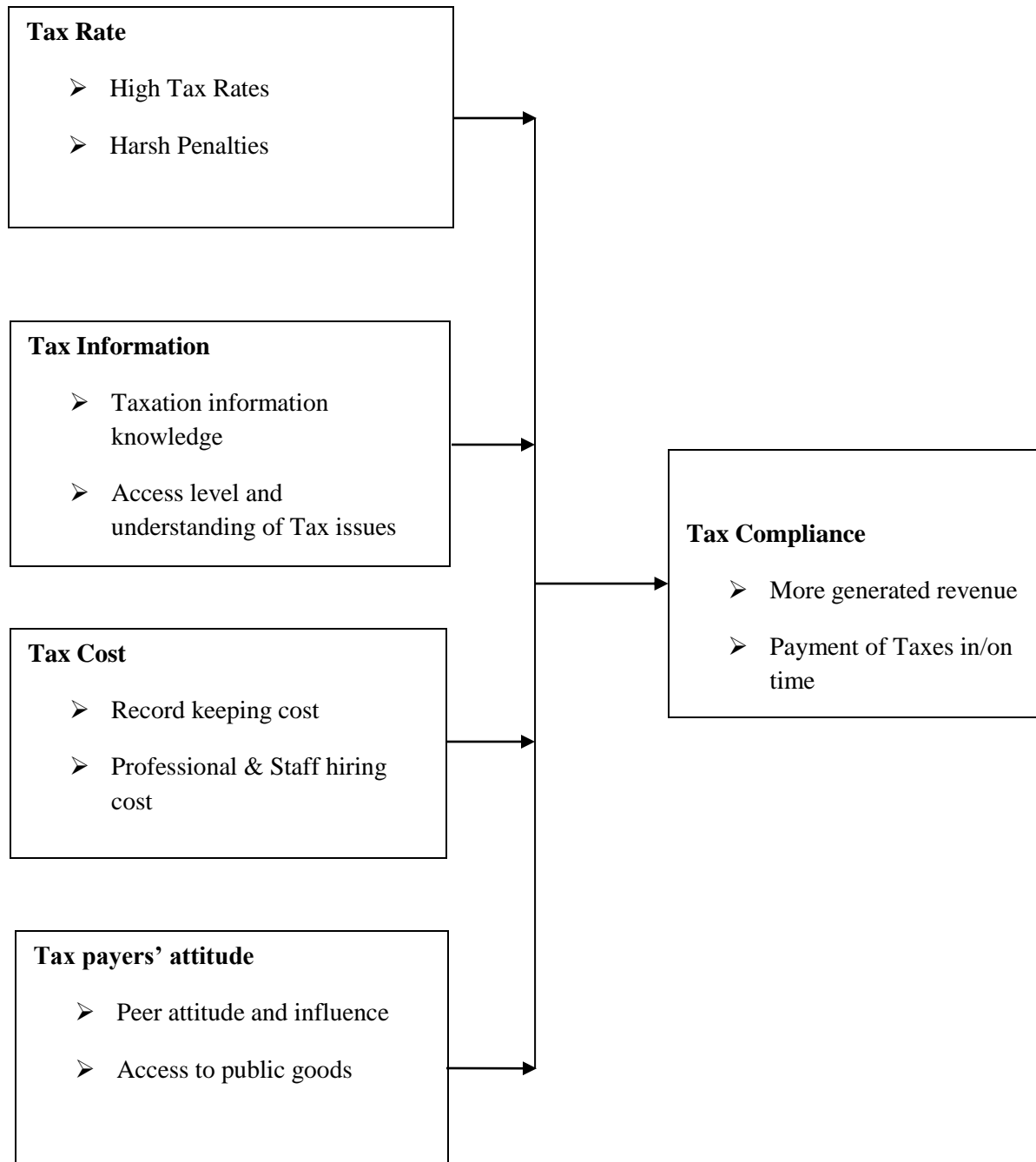
2.4 Conceptual Framework

It is an assumption that the factors discussed hereby have a direct influence on tax compliance among SMEs in Garissa town, Kenya. The relationship between the dependent and the independent variables is illustrated in the conceptual framework presented in figure 1 below;

Figure 1. Conceptual Framework.

Independent Variable

Dependent Variable



This study assumed that the factors under discussion have a direct influence on tax compliance among SMEs in Garissa town. The relationship between the dependent and the independent variables is illustrated in the conceptual framework presented in the figure above.

2.5 Summary of literature review

From the above literature there is a wealth of knowledge in the area of tax compliance and its impact on revenue generation. It can be observed that the general trend is that tax rates, complexity of taxes, collection methods, enforcement mechanisms, government transparency and the structure of the economy all tend to have a positive impact on the level of tax compliance. This lends credence to the observation made by Brown and Mazur (2003) that tax compliance is a multifaceted aspect which involves economic, psychological and social factors.

However, other than Lumumba et al (2010) and Simiyu (2003) with the former being mostly localized to SMEs in Kirinyaga county and the latter being a book on taxation policy in Kenya, there has been no study on record over the factors influencing tax compliance among SMEs in Garissa town, however, in the developing world, the most relevant published paper Alm et al (1990) mostly based its research on the area of tax structure in Jamaica concluded that reduced tax rates coupled with bigger payroll benefits leads to higher compliance while there would be low compliance if severe penalties are imposed or if detection through audit and investigation mechanisms becomes more certain. The paper only reviewed personal income taxes mostly PAYE rather than the whole range of taxes.

It can also be deduced from the literature review that taxpayer compliance is generally correlated with revenue generation, it was therefore imperative that the factors influencing tax compliance have been studied and reviewed. However, from all the studies reviewed above, it was clear that past research had tried to study the area but from a shallow perspective and no one on record has actually done a similar research in Garissa town hence the research seeks solutions to the problem statement.

2.6 Research Gap

Several studies have examined the factors that influence tax compliance among SMEs by various organizations including SMEs around the globe and in some parts of Kenya. Most of the reviewed studies have established that tax evasion and avoidance are common among SMEs and

tax compliance has been an issue for policy makers all over the world. In addition, most of the studies have revealed that the level of tax evasion and non-compliance among SMEs is relatively high and there are different factors that influence tax compliance in different countries and regions. A study carried out among SMEs in Kerugoya, Kenya, on the attitudes of taxpayers and their tax compliance established that the attitudes of taxpayers (SMEs) do not encourage tax compliance (Lumumba *et al.*, 2010). Most of them felt that they were paying a fair share of tax, yet they were not getting the right services from the Government, as a result, they concluded that the tax system in Kenya was unfair and thus the factors which influence taxpayers' compliance among SMEs need to be well evaluated to help correct this economic vice.

More importantly, however, research efforts need to recognize that a theory of SMEs compliance should really consist of a "full house" of theories each explaining the factors determining compliance of different individuals at different times. Any tax administration strategy should recognize that it has to address this full house in devising policies to ensure compliance. Consequently, a government compliance strategy based only on detection and punishment may equally be a reasonable starting point for tax administration but not an excellent ending point. Instead, what is needed is a multifaceted approach that would emphasize enforcement with an equivalent broader range of actual motivation with an outstanding justification and explanation as to why people besides SMEs pay taxes.

Notwithstanding, no study on record has been carried out on the factors that determine tax compliance among SMEs in Garissa Town. As such, though numerous studies have been done on tax compliance in other regions, the problem of non-compliance among SMEs still exists in Garissa town and hence, there is need of determining the factors that influence tax compliance among SMEs in Garissa town, Garissa county Kenya so as to design appropriate policies that can increase tax performance not only in Garissa town but in Kenya as a nation.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined the research methodology as the method of achieving the purpose of the study. This includes the research design, target population, sampling for the study, data collection instruments and data analysis.

3.2 Research design

This study was conducted using the descriptive survey design. This design was preferred because the subject is being observed in a completely natural and unchanged natural environment. A descriptive study describes phenomenon of how things are in the population (Saunders *et al.*, 2007). Research design involves developing a blue print for fulfilling objectives and answering questions for the study (Saunders *et al.*, 2007). Kothari (2004) indicated that descriptive research is important because it acts as a pre-cursor to quantitative research designs and the general overview gives some valuable pointers as to what variables are worth testing quantitatively. It constitutes the blue print (guide) for the collection, measurement and analysis of data. This design was preferred because it helped to produce data that was holistic, contextual, descriptive, in-depth and rich in details.

3.3 Target population

The research targeted SMEs operating their business in Garissa Town. The units of analysis for the study were the SMEs registered by the Kenya Revenue Authority. The researcher had interest in examining the tax behavior of the SMEs as illustrated in table 3.1

Table 3.1 Target population in Garissa Town

Type of Enterprise	Target Population
Small Scale Enterprises	140
Medium Scale Enterprises	80
Total	220

3.4 Sampling size and procedures

The researcher ensured a high degree of correspondence between the sampling frame and the sample population as the accuracy of the sample depends mostly on the sampling frame.

The sample size being an important feature of any empirical study in which the goal is to make inferences about a population from a sample. In most circumstances, the sample size used in a study is determined based on the expense of data collection and the need to have sufficient statistical power, it is primarily important because of its effect on statistical analysis. For instance, the probability that a statistical test will indicate a significant difference when there truly is one. (Morgan, 2001).

In this regard, the researcher has used Krejcie and Morgan table to determine the ideal sample size for this study. For a population of 220 registered tax payers, 140 would be an ideal sample size and therefore the researcher applied the same.

The study adopted a systematic sampling technique, selecting sample unit using systematic stratified random sampling to ensure fairness and equal representation, and 140 respondents were taken into consideration.

Table 3.2 Sampling Frame and Sample Size

Type of Enterprise	Target Population	Sample Size
Small Scale Enterprises	140	100
Medium Scale Enterprises	80	40
Total	220	140

3.5 Data collection methods

The study employed both primary and secondary data collection methods. The data were collected through a self-administered questionnaire. The questionnaire adopted structured open ended as well as closed questions. The responses in the questionnaires helped in gaining an in-

depth understanding of the factors influencing tax compliance among SMEs within Garissa Town.

The research instruments used in this study was a questionnaire and in depth interviews. A questionnaire gathered statistically meaningful data on the perspectives of respondents on an issue of interest based on a set of predetermined questions.

The researcher administered the questionnaires assisted by three (3) hired research assistants from the locals and this greatly facilitated mutual understanding between the targeted business enterprises and the research team, however, the researcher supervised and inducted them. The researcher also endeavored to win the trust of the respondents and allowed the respondents to tell their stories freely to maximize on their self-disclosure since tax related issues is a very sensitive topic in Kenya. During the interview section the researcher targeted selected Business owners, managing directors, Finance officers and accountants who have a lot of knowledge in taxation matters. In developing the questionnaire items, the fixed choice and open ended formats were used, at the same time quite a number of items adopted a Likert scale.

In depth interviews belong in philosophical terms to the constructivist or interpretive tradition. These kinds of interviews are functional in collating narratives of subjective realities or experiences. These interviews contain detailed expressions of the meanings and effect that the phenomenon have on respondent. In depth interviews seek to explore the social and human phenomenon by asking the why question (Silverman, 2006). For the interviews, the researcher had predetermined questions grouped together to address particular objectives of the study.

Some of the questions were unstructured, so as to enable the researcher gather as much information as possible in regards to the factors influencing tax compliance among SMEs in Garissa Town. Using interview method of data collection ensured that the questions were understood by the respondents thus minimizing the risk of collecting incomplete and wrong information as it is with questionnaires particularly when people are unable to understand the questions properly. This data collection method was considered by the researcher as appropriate in providing safe basis for generalization, consistency and high accuracy.

3.5.1 Validity of Research Instrument

Validity is the degree to which an instrument measures what it is supposed to measure, (Kothari, 2004). Therefore, it refers to the extent to which an instrument asks the right questions in terms of accuracy and consistency. The content validity of the research instrument for this study was determined through piloting, where the responses of the subjects were checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated. The researcher performed the pilot test with randomly selected samples of five SMEs in Garissa Town. Content validity of the instrument was also tested using a research expert's opinion, who was the research supervisor. The research expert independently judged the validity of the items in the questionnaire in relation to research objectives.

3.5.2 Reliability of Research Instrument

Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Cooper, 2003). To test the reliability of the questionnaire as a research instrument, a test-retest technique was employed in which questionnaires were administered to a group of SMEs with similar characteristics as the actual sample size but not included in the final study. The test was repeated after a fortnight. This was to establish the extent to which the questionnaire elicited the same responses every time it is administered. The findings were found to be consistent and therefore the questionnaire proved to be a reliable research instrument, the scores from the tests were correlated using Cronbach's Alpha coefficient and the results produced reliability coefficient of 0.75 hence considered reliable.

3.6 Data collection procedure

Actual data collection began upon verdict declaration after proposal defense. An introduction letter was issued to the sampled entities for consent to collect data from the respondents. The questionnaires were administered to the respondents directly by the researcher with the help of three research assistants in order to save on time. For those respondents who were not available for a sit-in filling of the questionnaire, it was e-mailed to them. The interviews were conducted at

a time and place convenient to the respondents to provide an environment in which they would feel free for their full participation since tax is a very sensitive issue within the locality.

3.7 Data Analysis

The filled-in questionnaires were edited for consistency. The data generated was qualitative and quantitative, and therefore descriptive analysis techniques were used consistent with the research design.

Data was analyzed using both descriptive and inferential statistics. Quantitative data was analyzed through coding using Package for Social Science (SPSS) data editor where inferences were drawn and descriptive statistics like frequencies of the responses were used to give the results of the analysis. Nominal and ordinal scales were used in measuring variables. Strength of the relationship between dependent and independent variables were analyzed using correlation coefficient (r). Descriptive statistics such as frequencies, percentages, mean and standard deviation was used mainly to summarize the data.

Likert scale was used ranking factors in accordance with their weighted means. Tables were used in presenting the analyzed data. Quantitative data was analyzed using content analysis, that is, the data was categorized into themes and analysis, thereof, based on the prevalence of the themes and subthemes in addition to their relevance to the topic. This enhanced the descriptive analysis.

Multiple linear regression analysis was used and the regression analysis was of the form;

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where; Y - Tax Compliance

α - Constant

β_1 , β_2 , β_3 and β_4 – Coefficient indicating rate of change of tax compliance as tax rate, tax information, tax cost and tax payers' attitude changes.

X₁ - tax rate

X₂ - tax information

X₃ - tax cost

X₄ - tax payers' attitude

ε_i - error term.

3.8 Data Management and Ethical Considerations

Data management was carried out accurately ensuring high integrity standard and at the same time ensured maintenance of proper work ethics. Authorization was sought from the university and the taxpayers who provided the data. Taxpayers were informed and assured that the information they gave out was purely for the purpose of the study and if they so wish, they could formerly request for a copy of the project on its completion.

3.9 Operationalization of variables

The measurement of variables in the study and relationship between the variables and the survey questions are illustrated in table 3.3.

Table 3.3: Operationalization of variables

Objective	Variable	Indicator	Measurement Scale	Tools of Analysis	Type of Analysis
To find out the effect of tax rates on tax compliance behavior	Independent	<ul style="list-style-type: none"> The high tax rate. Stiff tax penalties 	Nominal	Mean Percentages Frequencies	Descriptive Statistics Inferential statistics
To find out the effect tax information on tax compliance by SME's.	Independent	<ul style="list-style-type: none"> Level of access Knowledge understanding of Taxation by SME's 	Nominal	Mean Percentages Frequencies	Descriptive Statistics Inferential Statistics
To determine the effect of tax cost on tax compliance Among SMEs	Independent	<ul style="list-style-type: none"> Cost of hiring staff Cost of record keeping. 	Ordinal	Mean Percentages Frequencies	Descriptive statistics
To determine how SMEs' attitude on tax influence tax compliance	Independent	<ul style="list-style-type: none"> Access to public goods Peer Attitude and motivation 	Ordinal	Percentages Mean	Descriptive Statistics

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter presented the data analysis, presentation and interpretation of findings on the data collected from registered SMEs in Garissa Town, based on the factors influencing tax compliance. The main objective of the study was to evaluate the factors that influence the tax compliance among SMEs in Garissa Town, Kenya. The study sought to answer the research questions: To what effect do tax rates have on tax compliance among SMEs, the effect of tax information on tax compliance among SMEs, the effect of tax costs on tax compliance among SMEs and How do SMEs attitude on tax influence tax compliance? The study sampled 140 registered taxpayers operating within Garissa Town. The data was interpreted as per the research questions.

4.2 Response Rate

Table 4.1: Response Rate

Respondents	Questionnaires Administered	Questionnaires Filled and Returned	Percentage, %
Total	140	120	85.7

The study targeted 140 respondents in collecting data with regard to the factors that influence tax compliance among Small and medium enterprises in Garissa Town. Out of the 140 questionnaires issued, 120 were returned, giving an 85% response rate, as shown in Table 4.1. This was commendable given the prejudices which taxpayers normally harbor towards questions relating to their tax affairs. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% is rated very good. This also concurs with (Kothari, 2004) assertion that a response rate of 50% is adequate, while a response rate greater than 70% is very good. Based on these assertions, this implies that the response rate for this study at 85% is categorized as very good.

4.3 Data Reliability

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS for reliability analysis. The value of the alpha coefficient ranges from 0-1 and can be used to describe the reliability of factors deduced at 0.5 significance level from dichotomous and/or multi-point formatted questionnaires and/or scales.

Table 4.2: Reliability Coefficient

Scale	Cronbach's Alpha	Number of Items
Tax Compliance	0.753	5
Tax Rates	0.756	5
Tax information	0.841	5
Tax Cost	0.714	5
Taxpayers' Attitude	0.803	5

A higher value indicates a more reliable generated scale. Schindler and Cooper (2008) had indicated 0.7 to be an acceptable reliability coefficient. Table 4.2 above shows that Tax information had the highest reliability ($\alpha = 0.841$) followed by Taxpayers' attitude ($\alpha = 0.803$), Tax rates ($\alpha = 0.756$), Tax compliance at ($\alpha = 0.753$) and Tax cost ($\alpha = 0.714$). This is a clear illustration that all the five scales were reliable as their reliability values exceeded the predetermined threshold of 0.7 (Mugenda and Mugenda, 2008).

4.4 Demographic information

Responses by the owners, managers and employees of the SMEs in Garissa town were analyzed on the basis of their background information. This section focuses on age of the company, type of business involved in, pin number registration and the number of employees.

Table 4.3: Background information

Information	Frequency	Percentage,%
Age of the Organization		
Less than one year	10	8.00
1-5	84	70.00
6-10	18	15.00
Above 10 years	8	7.00
Type of business activity		
Manufacturing	4	3.30
Service	28	23.30
Commercial	82	68.30
Others	6	5.10
Pin Number		
Have Pin Number	120	100.00
Don't have Pin Number	0	0.00
Number of Employees		
Below 20	78	65.00
Between 21 and 50	20	16.70
Between 51 and 60	12	10.00
Between 61 and 80	8	6.70
Between 81 and 100	2	1.60
Total	120	100.00

The data analysis was as follows; majority of the businesses have been in existence for five years and below with 70% a clear indication that still stabilizing their strength and weaknesses in the respective field of operation. Most enterprises are in commercial activities with 68.3% while all the business enterprises have Pin Numbers and when asked the number of employees, most of the enterprises had less than twenty employees, 65% of the respondents.

4.5 Determinants of Tax Compliance

Table 4.4: Determinants of Tax Compliance

Determinants of Tax Compliance	Mean	Standard Deviation
The number of government bodies involved in collection of tax	4.17	0.474
KRA is to blame for non-tax compliance by SMEs	4.41	0.762
The number of returns required to be submitted by an organization	4.13	0.515
Number of tax obligations an organization is subjected to	4.13	0.325

The data analysis indicated that majority of the respondents were of the opinion that the following factors influence their decision to be tax compliant or not; the number of government bodies involved in collection of tax with a mean of 4.17 and a standard deviation of 0.474; KRA to bear the blame on non-tax compliance by SMEs with a mean of 4.41 and a standard deviation of 0.762 while the number of tax obligations an organization is subjected to with a mean grade of 4.13 and a standard deviation of 0.325 as shown in the table above, 4.4.

4.6 Tax Rates

Table 4.5: Tax Rates

Tax Rates	Mean	Standard Deviation
Fines and penalties for non-compliance are very high	2.16	0.948
Tax rates are too high	4.502	0.878

Under declaration of taxes increase profit realization	4.343	0.819
Tax regulations and laws are complicated	4.512	0.949

The analysis indicated that most of the respondents were of the following opinion; fines and penalties for non-compliance are very high with a mean of 2.16 and a standard deviation of 0.948; tax rates are too high with a mean of 4.502 and a standard deviation of 0.878; under declaration of taxes increase profit realization with a mean of 4.343 and a standard deviation of 0.819.

4.7 Tax Costs

Tax costs related to compliance tends to increase with the number of taxes that an organization is subjected to, the frequency of submitting tax returns, the number of levels of government involved in collecting taxes and the complex nature of tax rules (OECD, 2004).

Table 4.6: Tax costs

Tax related costs	Mean	Standard Deviation
Professional hire and Labor force	4.431	0.957
Stationery and/or other office costs	4.069	0.478
Costs related to tax seminars	4.519	0.879
Legal proceedings related costs	4.501	0.778

The analysis indicated the extent of respondents rating on the following matters; Professional and labor force hire increases compliance costs with a mean of 4.431 and a standard deviation of 0.957; stationery and other office costs with a mean of 4.069 and a standard deviation of 0.478; costs related to tax seminars with a mean of 4.519 and a standard deviation of 0.879 as shown in the table above.

Tax compliance related costs are therefore the time and administrative costs of complying with legislation in contrast to the substantive costs impose by legislation, for instance the amount of tax to be paid. This particular category of cost tends to lead to avoidance of tax compliance.

4.8 Tax Obligation

Table 4.7: Tax Obligation

Tax Obligation	Mean	Standard Deviation
Timely filing of tax returns	4.019	0.462
Registration as taxpayer in the KRA system	2.948	0.486
Payment of taxes due in/on time	4.137	0.458

The analysis indicated that most of the respondents were of the opinion that the following factors increased compliance level; Timely filing of tax returns with a mean of 4.019 and a standard deviation of 0.462; Payment of tax due in time with a mean of 4.137 and a standard deviation of 0.458, however, the respondents disagreed about the level of compliance increases because of the registration as a taxpayer in the KRA system with a mean of 2.948 and a standard deviation of 0.486 as shown above.

4.9 Descriptive Statistics

Table 4.8: Summarized Descriptive Statistics Results.

Variable	Tax		Tax		Taxpayers' Attitude
	Compliance	Tax Rates	Information	Tax Cost	
Mean	2.514	3.514	1.782	3.564	1.250
Median	6.950	8.210	48.773	14.396	2.679
Standard Deviation	0.0194	0.189	0.536	0.0134	0.360

The descriptive statistics considered for the analysis was mean and standard deviation. Tax compliance showed a mean of 2.514 with a standard deviation of 0.0194. This implies that participants/dealers barely met tax compliance threshold. Tax rates had a mean of 3.514 with a

standard deviation of 0.189 indicating that tax rates are considered high by the SMEs. Tax information had a mean of 1.782 with a standard deviation of 0.536 a clear indication that the SMEs barely have enough information regarding tax compliance.

A mean of 3.564 with a standard deviation of 0.0134 shows that the SMEs agreed that the costs of being tax compliant are very high while a mean of 1.250 for taxpayers' attitude and a standard deviation of 0.360 barely influence the tax compliance level of SMEs.

4.10 Strategies of Tax improvements

Table 4.9: Strategies that can improve tax Compliance among SMEs in Kenya

Strategies	Mean	Std. Deviation
There are strategies that can be employed to improve tax compliance by SMEs in Kenya	3.31	1.106
There is need to improve the Kenya's tax system	4.47	0.750
Government to seek input of SMEs on tax related matters	4.01	0.719
Complexity of tax laws and regulations results to inaccurate tax return fillings	3.27	1.710
Introduction of appropriate tax systems	3.72	0.710
Lowered cost of Tax Compliance	3.75	0.720
KRA is to blame for the non-tax compliance by SMEs	2.41	1.070

The analysis indicated that most of the respondents suggested that the government should take into consideration the following to improve tax compliance in Kenya; seek input of SMEs on tax related matters mean 4.01 and a standard deviation of 0.719, improve the Kenya's tax system with a mean of 4.47 and a standard deviation of 0.750, however, the respondents disagreed that KRA is to blame for the non-tax compliance with a mean of 2.41 and a standard deviation of 1.070.

Taxation among organizations for Economic Development Countries had been geared towards efficiency, increased tax revenue and enforceability, (Lopez and Kadar, 2001). Having stated some of the functions of government to the citizens while applying taxation as a tool, the main

objective of taxation can therefore be concluded as raising revenue to finance the government expenditure, wealth distribution and income to promote equality and welfare of the citizens, regulation of the economy thereby creating an enabling environment for business prosperity besides coming up with strategies for tax compliance improvement.

4.11 Correlation Analysis

The study sought to determine the relationship between the various factors and the level of tax compliance among SMEs in Garissa Town. Pearson correlation analysis was used to achieve this at 95% confidence levels. The correlation analysis enabled the testing of the study that the Tax information has a very significant effect/influence on tax compliance.

4.11.1 Correlation Matrix

Table 4.10: Correlation between availability of tax information and ability to correctly calculate tax and SMEs tax compliance

			Information Relating to tax matters is readily available.	Ability to calculate the tax due and payable correctly.	Tax compliance level
Information about tax Correlation matters is readily tailed) available.	Pearson Sig. (2- tailed) N		1 120	.730** 120	.648** 120
Ability to correctly Correlation calculate tax due and tailed) payable.	Pearson Sig. (2- tailed) N		.730** 120	1 120	.353** 120
Level of tax compliance. Correlation	Pearson Sig. (2-tailed) N		.648** 120	.353** 120	1 120

Analysis of correlation shows that ready availability of information about tax matters is positively related to the taxpayers' ability to correctly calculate the tax due and payable with a correlation coefficient of 0.730. The correlation coefficient is within the acceptable range of between -1 and 1. It can therefore be deduced with confidence that there is a genuine relationship between the ready availability of information on tax, the ability to correctly calculate tax payable

and the level of tax compliance; the more access an SME has to information on tax, the more likely it is that they will be able to correctly calculate tax due from them and consequently, the more likely it is that their level of compliance will be high.

Table 4.11: Correlation between SMEs access to public utilities, value payment of taxes and level of Compliance

		Access to public utilities.	Value payment of taxes to the government.	Level of compliance.
	Pearson Correlation	1	.647**	.791**
Access to public utilities	Sig. (2-tailed)		.000	.000
	N	120	120	120
	Pearson Correlation	.647**	1	.738**
Value payment of taxes to the government.	Sig. (2-tailed)	.000		.000
	N	120	120	120
	Pearson Correlation	.791**	.738**	1
Level of compliance.	Sig. (2-tailed)	.000	.000	
	N	120	120	120

Analysis of correlation shows that taxpayer have access to public utilities offered as a result of collection of taxes is positively related to the value the SME places on payment of taxes to the government, with a correlation coefficient of 0.647. The access to public utilities by the SME is positively related to their level of compliance with a correlation coefficient of 0.791. The correlation coefficients are within the acceptable range of between -1 and 1. It can therefore be deduced with confidence that there is a genuine relationship between an SMEs access to public utilities and level of tax compliance; the more an SME has access to public utilities made

available by collection of taxes, the higher the value they will place on paying of taxes to the government and consequently, the higher their level of compliance.

Table 4.12: Correlation analysis

		Tax			Taxpayers'
		Tax Rates	Information	Tax Cost	Attitude
Tax	Pearson Correlation	.447**	.738**	.443**	.649**
Compliance	Sig. (2-tailed)	.002	.000	.003	.001
	N	120	120	120	120

There is a strong positive relationship between tax compliance and the independent variables as shown by the coefficient correlation which is quite significant as indicated by the P-value at 95% confidence level.

The correlation coefficients are within the acceptable range of between -1 and 1. It can therefore be deduced with confidence that there is a genuine relationship between the independent factors and the level of tax compliance.

4.12 Regression Coefficients

Table 4.13: Coefficients

Model	Unstandardized Coefficient		Standardized	T	P-Value
	B	Std. Error	Coefficient		
(Constant)	0.263	0.597	Beta	0.348	0.662
Tax Rate	0.122	0.178	0.231	0.741	0.004
Tax Information	1.724	0.278	2.388	6.182	0.001
Tax Cost	0.132	0.177	0.232	0.747	0.003
Taxpayers' Attitude	0.543	0.179	0.379	3.015	0.000

The multiple regression analysis was conducted as depicted by the equation;

$$TC = 0.263 + 0.231TR + 2.388TI + 0.232TC + 0.379TA.$$

The coefficients indicates how much the dependent variable is expected to increase (since all are positive figures) when the independent variable increases by one, holding all other independent variables constant at a time.

The beta coefficients can be negative or positive, and have a t-value and significance of the t-value associated with each. It signifies the degree of change in the outcome variable for every one-unit of change in the predictor variable. The t-test assesses whether the beta coefficient is significantly different from zero. If the beta coefficient is not statistically significant i.e. the t-value is not significant, then the variable doesn't significantly predict the outcome. If the beta coefficient is significant, consider examining the sign of the beta, if positive like in the case above, the interpretation is that for every one-unit increase in the predictor variable, the outcome variable will increase by the beta coefficient value and if negative, for every one-unit increase in the predictor variable, the outcome variable will decrease by the beta coefficient value.

The Standard Errors are the basic errors of the coefficients, can be for hypothesis testing and constructing confidence intervals. The Standard coefficients (Beta) are what the regression coefficients would be if the model were fitted to standardized data i.e. if from each observation sample mean is subtracted and then divided by the sample SD. While t statistic tests the hypothesis that a population regression coefficient β is 0, i.e. $H_0: \beta = 0$. It is the ratio of the sample regression coefficient B to the standard error. The statistic has the form (estimate - hypothesized value)/SE. P values or observed significance levels for the t statistics, the p value for the independent variable tells whether the independent variable has statistically significant predictive capability or not.

Findings of the Multiple Regression Analysis;

The study objective sought to find out the factors that influence tax compliance among SMEs in Garissa town. The study findings established that the study variables, Tax rate, Tax information, Tax cost and Taxpayers' attitude influence the level of tax compliance among SMEs in Garissa town. These findings are in line with (Sandford and Godwin, 1989).

Their findings established that Tax compliance costs as the cost incurred by taxpayers in meeting the requirements laid on them by the tax laws and the revenue authorities is that high tax rates and complex tax legislations can induce malpractices and fraud. This finding concludes that firms will create a kind of resentment against authorities that impose very high tax levies and too complex tax systems to comply with. This is likely to legalize tax avoiding systems because of the high financial advantages and the minimized condemnation rates. Besides, because of the complexity of the tax system, most companies often need to rely on the services of external professionals who by means of sophisticated tax avoidance engineering mechanisms will minimize tax payments.

The study findings established that influence of tax information (2.388) on compliance level among SMEs has been assessed as one of the factors in compliance related to the taxpayers' ability to understand taxation laws and their willingness to comply. The aspect of tax information that relates to compliance is the general availability of information pertaining to the opportunity to evade tax and tax regulations. The study found out that tax information is necessary to increase public awareness especially in areas concerning taxation laws, taxation role in national development and exclusive explanation on how besides where the money collected is spent by the government. The study findings also established that attitude towards tax compliance can be improved through the enhancement of information available to the taxpayers, and when a taxpayer has a positive attitude towards tax, this is likely to reduce her/his inclination to evade tax payment.

It was found out that by understanding self-assessment system (SAS) and iTax system, the taxpayers will have to calculate by themselves the amount of tax they need to pay and make the necessary payments. These findings are in line with studies done by Mohani, (2001) which affirms that taxpayers will readily accept any new system introduced, like iTax recently introduced by KRA, if they have very ample valid information and knowledge to understand the system.

Therefore, taxpayers' education programs organized by the tax authority to enhance taxpayers' ability to understand iTax, SAS and to improve their confidence in fulfilling their mandate as taxpayers. It was established that intensive education is directly linked to a likelihood of compliance. Well informed taxpayers may be aware of non-compliance opportunities, but their

potentially better understanding of the tax system promotes a more favorable taxpayer attitude and therefore greater level of compliance.

Findings on the effect of high tax rates, penalty and fines (0.231) established that they tend to substitute each other as a result of their multiplicative linkages as long as neither of them is at zero (0). Higher fines simply make evading taxes more hazardous for taxpayers and should deter them from evasion. However, empirically, the deterrent effect of fines couldn't be supported always. The effects observed were weaker than expected and some studies even suggest that an increase of penalties can have undesirable effect and result in high rates of tax avoidance. Alm et al. (1992) supports the evidence that fines do affect tax compliance even though the impact was virtually zero (0).

As a behavior problem, tax compliance depends on the corporation of the public and the tax agencies since there are greater gains in assisting compliant taxpayers meet their fiscal obligations rather than spending more resources pursuing the minority non-compliers. Assisting taxpayers by improving the flow and quality of information and/or education, for instance through TV campaigns in becoming more responsible citizens has the potential to yield more revenue than if it were spent on enforcement activities. The higher the rates, penalties and the potential audit probability the greater discouragement for the potential tax evasion.

The significant of the Tax Rate in the relationship, depicts a p-value of 0.004 which explains that the regression coefficient corresponding to information is statistically significant in analyzing the compliance level of SMEs. Since the P-value is low (<0.05) is a clear indication that tax rate has a great influence on the level of tax compliance by SMEs. A regression coefficient of 0.122 represents the mean change in the response of tax rates for one unit of change while holding other predictors in the model constant. This particular statistical control that regression provides is quite important since it isolates the role of one variable (independent) from all others in the model and therefore this implies that unit information to tax ratings on SMEs increases/decreases the compliance level of SMEs by 12.2%. However, a larger (insignificant) p-value, like the case of constant above (0.662) implies that changes in the predictor are not associated with the changes in the response, and the same analysis scenario is applicable to the other variables, tax

information (0.001), and tax cost (0.003) and taxpayers' attitude (0.00012) with the respective coefficient values as indicated in the table 4.13 above.

In conclusion, the P- value for each term tests the null hypothesis that the coefficient is equal to zero (no effect). A low p-value, less than 0.05 indicates that one can reject the null hypothesis, in other words, a predictor like tax rate that has a low p-value is likely to be a meaningful addition to the model since changes in the predictor's value at 0.004, is related to the changes in the responsible variable.

The T statistic (0.741, 6.182, 0.747 and 3.015) is the coefficient divided by its standard error. The standard error is an estimate of the standard deviation of the coefficient, the amount it varies across cases. It is a measure of the precision with which the regression coefficient is measured. If a coefficient is large compared to its standard error, then it is probably different from zero (0).

At 95% of a t-distribution when it is closer to the mean than the T-value on the coefficient under consideration, would have a P value of 5%. This is also referred to a significance level of 5%. The P-value is the probability of seeing a result as extreme as the one being got in a collection of random data in which the variable had no effect. A P of 5% or less is the generally accepted point at which to reject the null hypothesis. With a P value of 5% (or .05) there is only a 5% chance that results being seen would have come up in a random distribution, so researcher does say with a 95% probability of being correct that the variable is having some effect, considering that the model under consideration is specified correctly.

The 95% confidence interval for the coefficients shown by the regression package gave the same information and therefore became 95% confident that the real, underlying value of the coefficient that were being estimated falls somewhere in that 95% confidence interval, so if the interval does not contain 0, the P value will be .05 or less as indicated above (Table 4.130). However, the size of the P-value for a coefficient says nothing about the size of the effect that variable is having on the dependent variable, it is possible to have a highly significant result (very small P-value) for a minuscule effect, like the scenario above.

Table 4.14: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig.
1	.983 ^a	.965	.964	1.364	.965	356.48	5	132	.000

a. Predictors: (Constant), Tax rate, Tax information, Tax costs, Taxpayer attitude

b. Dependent Variable: Tax compliance

X₁ = Tax rate

X₂ = Tax information

X₃ = Tax costs

X₄ = Taxpayer attitude

The Adjusted R Square for all values indicates that the model accounts for 96.5% of variance in the tax compliance by SMEs. 96.5% of the variations in the tax compliance by SMEs is explained by the identified independent variables; tax rate, tax information, tax costs and the taxpayer's attitude. This implies that these factors are very significant (since the p-value (.00012) < 0.05) and therefore should be considered in any effort to boost the level of tax compliance initiatives by the KRA. According to Hair *et al* (2006) if the coefficient of the independent variables are not all zero then the F-ratio should be significantly greater than 1.00 which according to this finding, F-ratio = 356.49 with P-value < 0.05.

The Model, SPSS enables the specification of multiple models in a single regression command and therefore signifies the number of the model being reported.

R(.983) is the square root of R-Squared and is the correlation between the observed and the predicted values of the dependent variable, R-Square(.965) is the proportion of variance in the dependent variable which can be explained by the independent variables (Tax rate, Tax information, Tax costs and Taxpayers' attitude). This is an overall measure of the strength of association and doesn't reflect the extent to which any particular independent variable is associated with the dependent variable while the Adjusted R-Squared (.964) is always smaller than the R-squared, but the difference is usually very small.

Generally it is better to look at Adjusted R-Squared rather than R-Squared and to look at the standard error of the regression rather than the standard deviation of the errors. These are unbiased estimators that correct for the sample size and numbers of coefficient estimated.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter the research findings were summarized, then conclusion and recommendations to the study are drawn then research limitations and delimitations are identified for future studies as the study aimed at determining factors influencing tax compliance among SMEs in Garissa Town, Kenya.

5.2 Summary of findings

From the study findings, it was shown that the various factors that influence tax compliance among SMEs were significant. It should thus be pointed out that tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise' (James and Alley, 2004). The difficulty attributed to tax compliance is steeped in various factors considered independently and also jointly. In conclusion the study revealed that most of the SMEs in Garissa town have been in existence for less than five years, most of them are involved in commercial activities and have less than twenty employees. However, it was realized that all the business enterprises operating in Garissa town had pin numbers.

5.2.1 Effects of Tax Rates on Tax Compliance.

The study revealed that most SMEs feel that tax rates for the already several tax heads, that is, corporate tax, VAT and PAYE are either high or very high. A high tax rate erodes taxpayers' earnings and disposable incomes thus will have a negative impact on consumption and investments. It is also likely to encourage tax avoidance and evasion as the opportunity cost to evade is high. This may be an expected reaction from taxpayers since very few can rate a tax rate as 'low'. There is also the problem of defining the line between 'high', 'low' and 'fair'. The findings of this study do therefore agree with those of other researchers as discussed in the literature review. As interest rates go higher, the opportunity cost to evade becomes higher and thus taxpayers get tempted to evade. (Friedland, 1978). Kenya's tax rates compare favorably with those of her neighbors, Uganda and Tanzania that charge the same rates for corporate tax, withholding tax and VAT. However, given the large percentage of respondents who feel that

they are high, there is need to revise the rates and make them more attractive to them. This will enhance tax collection by reducing evasion and enhance investments. For PAYE, a revision of tax bands as recently done should be pursued in addition to reducing tax rates which will also reduce the poverty level.

The respondents rate the current penalties as ‘very high’ or ‘high’. This is true for VAT and income tax. The respondents observe that the present 2% and 10,000 per month interest and penalty are extremely high and punitive to allow any organization to effect payments. Sometimes penalties and interest alone get higher than the principal tax. Penalties and interest arise out of late filing of returns and non-payment of taxes and non-disclosure of taxable income which is discovered during audit.

Given the self-assessment system, audits can only be done after returns have been submitted. Hence there is some lapse of time from the time a return is submitted and the time when audit is carried out. Interest starts accruing from due date of the tax until the time an audit is complete. The penalty and interest rates are specified in the respective Acts. Since these are legislative requirements, KRA can only act to reduce interest by carrying out audits more frequently and at regular intervals. The other option is to change law and thus lower rates. Studies already done showed that high penalties increase compliance but marginally (Alm, 2001).

5.2.2 The relationship between tax information and Tax Compliance

The findings of the study revealed that most of the respondents have a challenge in accessing information about taxes. Less educated taxpayers are less expose to tax related information and are less informed about relevant tax information and thus are more prone to tax evasion. Some taxpayers find the complexity of tax information more difficult to understand, hence may lead to unintentional non-compliance. The study population generally found the information given by KRA to be fairly inadequate to enable SMEs complete their tax obligations expected from them. Some taxpayers found the process to be complicated; requiring too much information thus a waste of their time and resources, it is therefore clear that there is a very strong case for improvement of the information available to taxpayers.

5.2.3 Effect of Tax Costs on Tax Compliance

High compliance costs can lead to tax non-compliance, tax fraud and inhibit investment by way of diminishing competitiveness of a country in terms of taxation attractiveness, (Ojeka, 2012). The study concluded that tax costs, in the form of fees charged by tax consultants, professional hire and other costs are positively correlated with non-compliance behavior and thus negatively correlated with tax compliance tendency.

Most respondents felt that consultancy charges and the cost of hiring professional staff are very expensive. With regard to book keeping, it was realized that many SMEs resorted to engaging professional tax consultants to enable them accomplish the statutory requirements to accompany annual returns with audited accounts while at the same time a good number of organizations have computerized their accounting system to go around the requirements. All these cost related efforts do amount to some costs finally born by the taxpayer. The tax authority should endeavor to improve compliance by promoting sound accounting practices as this would greatly reduce the cost of hiring professional services.

5.2.4 The relationship between Taxpayers Attitude and tax compliance

In terms of attitude of taxpayers towards payment of taxes to the government the study revealed that majority of the companies had at least some access to the public utilities financed by taxes while at the same time valued the payment of taxes to the government of Kenya. This factor can be exploited to improve income tax compliance. With regards to perceptions of bureaucracy and corruption by tax administrators and government spending, those who engage in tax evasion often justify such behavior by suggesting that the government wastes tax revenue and spends unwisely; such arguments can decrease voluntary compliance in the long run (Braithwaite, 2009).

It is, however, expected that if the government spends taxpayers' money wisely, for example on basic facilities like education, health and safety and public transportation, it is assumed that voluntary compliance will increase since taxpayers will realize immediate benefits of paying taxes. In contrast, if taxpayers perceive that the government spends too much on non-value addition avenues, taxpayers might feel betrayed and attempt to evade. In judging their own behavior, people tend to believe the cause is due to external attributes and cannot be tax

compliant. Therefore, the government should spend taxpayers' money wisely so that tax compliance will increase, hence tax collection will also improve.

5.3 Limitations of the study

Authentication of the information provided, taking into consideration the national government's effort to ensure compliance with equity in taxation in the country might have made some respondents apprehensive of the intentions of the study. Therefore, some were likely to have concealed the true information about their businesses and level of their compliance. This might have compromised to some extent the validity of the information provided and the findings.

Time constraint was a limiting factor because the study was to be concluded within a specific period of time, researcher had to combine the project process and work, therefore only data for the study period was used. Even though all the data collected was used in the analysis, the limited period of time could potentially affect the process and interpretation of the findings.

Availability of funds was also a limiting factor to the study since the researcher was self-sponsored.

5.4 Delimitations of the study

The study area, Garissa town, in Garissa County has a high concentration of taxpayers falling under the SMEs category, and a wide variety of business activities due to the fact that it is the Garissa County headquarter. It is also within the convenience of the researcher, this made the process of data collection easy, affordable and less tedious. The taxpayers' fear of full participation was overcome by extensive explanation to them the intent of the study, how the findings would be used and issuing them the supervisor's contact for verification purposes. The respondents were also assured of confidentiality of the information provided.

5.5 Conclusions

Findings from the study revealed that all the identified factors have a direct influence on the tax compliance among SMEs in Garissa town. The tax compliance factors examined included tax rates, availability of tax information, tax compliance cost, and attitude of taxpayers toward payment of taxes.

The study confirmed why KRA uses both voluntary tax compliance strategies alongside the deterrent measures strategy. Most of the respondents felt the tax rates should be reviewed, thus the government should relook at the tax rates currently charged to SMEs. On availability of tax information, information received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements. KRA should address the complexities of annual tax returns, periodic variations in the tax laws, and levels of penalties and fines. They should improve on passing this information regularly to SMEs via various channels like tax Seminars, Booklets and Media Channels besides they should find a way of disseminating the same in local dialects. This will greatly improve the SMEs level of compliance as the great complexity associated with tax matters will be demystified.

On tax compliance cost, the companies confirmed to be engaging the services of tax agents and professional staff to handle accounting issues. This cost is normally a burden to the SMEs. SMES should be encouraged to improve their bookkeeping by offering incentives, such as application of a lower presumptive tax rate for small businesses meeting certain recordkeeping standards. The government should also engage the small holders in sensitization forums on how to reduce the cost associated with tax compliance.

Regarding the attitude of taxpayers' attitude towards payment of taxes to the government, KRA should ensure that taxpayers are always motivated. This is possible by changing the SMEs' perception through involvement in key decisions making process because already they feel that tax rates are not fair and that business makes high profits by operating illegal business at the same time reporting under profits. They should also make tax laws which are easy to understand, reward outstanding taxpayers on regular basis and not yearly one-time event while at the same time penalizing the tax defaulters.

5.6 Recommendations of the study

Based on the findings of this study, the researcher came up with several recommendations to encourage tax compliance among SMEs. These include;

i. Tax rates and penalty rates

Consider lowering the tax rates to enhance collections. Lower tax rates make it less attractive to evade taxes as opposed to high rates. High penalty rates will increase compliance but only marginally. Penalty rates should be kept at an optimum level not to

discourage taxpayers. KRA should champion its literacy campaigns to improve the taxpayers' ability to understand tax laws and regulations i.e. tax rates, filing and paying dates.

ii. **Digitized Tax Return forms**

The digitized return forms ought to be simplified and accompanying notes reconstructed into plain languages that can be understood by all taxpayers. They should also be clear and brief but complete in detail to enable the taxpayers fill the return. In addition, where possible, simple computed examples should be incorporated in the notes for reference purposes. Returns should also be made readily accessible to both manual and computerized taxpayers. This will mean making available return forms in the KRA web site for downloading by the taxpayers with computerized systems and those in remote areas like the environs of Garissa town and county to use manual forms.

iii. **Taxpayer education**

To enhance compliance there is need to intensify taxpayer education in terms of increasing the number of sessions and broadening coverage to include tax consultants. This will enlighten the taxpayers on existing laws and any other tax liability. This will also provide a forum for taxpayers to air their complaints and or compliments. KRA should also make taxpayer feel and understand that they are not paying unfair share of tax, more efforts should be made to improve peer attitude i.e a belief that neighbors are reporting and paying tax honestly, and even rewarding taxpayers.

iv. **Training**

There is need to continuously train technical staff to keep abreast with the tax laws and any other changes therein. This way, the officers will impart proper and correct pieces of advice to taxpayers during the time of audits. Customer care lessons/interactions should form an integral part of this training. Recruitment of new taxpayers by the authority should be intensified and enhanced. This will broaden the tax base and reduce pressure on the complying taxpayer

v. **Audits**

Increased sessions of audits that seek to reduce the time between audits will improve compliance, as taxpayers will fear the risk of being audited and penalized. The audits should also be broadened to cover a wider area with a possibility of conducting joint

income tax and VAT audits based on modern audit tools. These measures are expected to result in enhanced tax collection improved sharing of information and time saving both to the authority and to the taxpayers.

The criteria for selection of files for audits should be based on information given in returns and not random or subjective selection. This will make audits more productive and informative leading to improvement in compliance.

vi. **Improved Services**

The Kenya Revenue Authority should strive to give taxpayers high quality services as stipulated in their corporate plan. Most of the services provided by the authority like refunds, remissions and dispute resolutions were rated poor and thus there is every reason to improve and possibly automate them. Where possible, officers should endeavor to adhere to the taxpayers' charter in terms of service provision to taxpayers.

'Help' counters manned by technical and knowledgeable staff should be improved and enhanced throughout the authority's offices country-wide and possibly major Government offices to bring services closer to the taxpayers. This will also improve communication between the taxpayers and the authority. Other services worth enhancement include improved modalities of VAT payment directly into the banks and other financial institutions.

5.7 Suggestions for further research

The study suggests that similar studies should be done on other areas as the relationship adduced does not conform to the rule of thumb since different regions and sectors have different operational environments.

In future, researchers should replicate this study to cover most parts of the country. A study on the self-assessment system should also be carried out to determine its effectiveness on enhancing tax compliance level among SMEs in Kenya. The study should also consider the influence of economic conditions on tax compliance.

Similar studies should also be carried out on the concepts of taxpayers' attitude towards tax systems, the factors which influence taxpayers' attitudes and the relationship between attitudes and tax compliance behavior among SMEs business income earners in other regions of the country to improve on compliance hence more revenue collection.

Finally, future research should attempt to collect data from SMEs in other tax divisions within Kenya and find out whether the effect of tax compliance by SMEs is the same as in Garissa town, with concentration on the relationship between voluntary tax compliance strategy and the deterrence strategy besides the factors that motivate SMEs to be tax compliant.

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APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

George A. Mitimbo

P.O Box 4117-70100

Garissa, Kenya.

garokaandother@yahoo.com

Dear Respondent,

I am a student of JKUAT/KESRA pursuing a Post Graduate Diploma in Tax Administration. I am conducting academic research on the factors affecting/influencing tax compliance among SME's in Garissa Town. Am inviting you to participate in the research by filling in the questionnaire.

My research project focuses on tax rate, tax information, tax compliance costs and taxpayers' attitude. The questionnaire should take about 40 minutes to complete. Your participation is entirely voluntary and the questionnaire is completely anonymous.

I wish to assure you that the information you will provide shall be treated with utmost and exclusive confidentiality. Your ability to answer all the questions comprehensively and to the best of your knowledge will be highly appreciated.

Looking forward to your honest and sincere support.

Thank you.

Yours Faithfully,

George Mitimbo.

Tel: 0723-817-372.

APPENDIX II: QUESTIONNAIRE

Instructions

This questionnaire is designed to collect information on the factors affecting tax compliance in SMEs in Garissa Town, Garissa County Kenya. The information obtained will only be used for academic purposes and shall be treated with utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate answers are required. Kindly use the space at the back of this questionnaire in case you need more space for your responses.

SECTION A: GENERAL INFORMATION

1. Name of SME (*Optional*).....

2. Position of respondent in the organization

- Business Owner ()
- Managing Directors ()
- Finance Managers ()
- Accountant ()
- Others (Specify).....

3. How long has the organization been in existence?

- Less than One year ()
- 1-5 Years ()
- 6-10 Years ()
- More than 10 Years ()

4. What is the Nature of your Business activity?

- Manufacturing ()
- Service ()

- Commercial ()
- Others (Specify) ()

.....

5. Does your business have a Personal Identification Number (PIN)?

- Yes ()
- No ()

6. Number of employees in the business

- Below 20 ()
- Between 21 and 40 ()
- Between 41 and 50 ()
- Above 50 ()

SECTION B: TAX COMPLIANCE LEVEL

Tick Appropriately	Strongly disagree (1) Disagree (2) Not certain (3) Agree (4) Strongly agree (5)				
	1	2	3	4	5
The business files its returns on/in time					
There are quite a number of tax obligations an entrepreneur is subjected to					
Tax computation and compilation is a complicated process.					
There are many government bodies involved in tax collection.					

SECTION C: FACTORS INFLUENCING TAX COMPLIANCE AMONG SMEs

I. Tax Rates;

(Please tick or circle where appropriate)

1. Do you think there are too many different forms of taxes to conform with in Kenya?

Yes [] No []

2. Does the amount payable in terms of taxes influence your tax compliance?

Yes [] No []

3. On a five-point likely scale where [1] = To a very large extent [2] = To a large extent [3] = To some extent [4] = To a small extent [5] = To no extent at all, indicate the extent to which you agree to the following aspects of tax rates

Aspects of tax rate.	1	2	3	4	5
Fines and penalties for non-compliance are very high					
Tax rates are too high					
Under declaration of taxes increases business profits					

4. Are there other aspects of tax rate that influence your tax compliance level? Kindly state them.....

.....

II. Availability of tax information;

5. On a five-point likely scale where [1] = Strongly Disagree [2] = Disagree [3] = Neutral [4] = Agree [5] = Strongly Agree, indicate the level of your agreement/disagreement with the following aspects of tax information

Tax information	1	2	3	4	5
Do you agree that Information about taxes in Kenya is readily available?					
Do you agree that lack of tax information affect your company's tax compliance?					
As an organization, do you agree that you are able to correctly calculate the tax amount payable based on available information?					

III. Tax Cost

6. On a five-point likely scale where [1] = Very Low [2] = Low [3] = Fair [4] = High [5] = Very High, indicate your opinion with respect to the following aspects of tax costs.

Tick Appropriately	Very Low (1) Low (2) Fair (3) High (4) Very High (5)				
Tax costs	1	2	3	4	5
How do you rate the cost of filling a tax return?					
How do you rate the cost of hiring a professional staff/agent?					
How do you rate the maintenance cost of appropriate records?					

7. Do you have other opinions regarding tax compliance cost? Kindly state them.....

IV. Attitude towards tax;

8. On a five-point likely scale where [1] = not at all [2] = Less extent [3] = Some extent [4] = Great extent [5] = Very great extent, indicate the extent to which each of the following affect your tax compliance levels?

Tick Appropriately	Not at all (1) Less extent (2) Some extent (3) Great extent (4) Very Great extent (5)				
Taxpayer attitude towards tax	1	2	3	4	5
To what extent does your company receive access to public utilities and services funded by the taxes collected for the government by the KRA?					
To what extent, in your opinion, does your company value the payment of taxes to the Kenyan government?					
To what extent do you view other SMEs value the payment of taxes?					

9. Are there other aspect(s) in relation to taxpayers' attitude you may think of that affect the level of tax compliance? Kindly mention them

.....

SECTION D: STRATEGIES THAT CAN IMPROVE TAX COMPLIANCE AMONG SMEs

10. On a five-point likely scale where [1] = Strongly Disagree [2] = Disagree [3] = Neutral [4] = Agree [5] = Strongly Agree, indicate the extent to which you adhere to the following strategies of tax compliance improvement

Strategies	5	4	3	2	1
Do you agree that there are strategies that can be employed to improve tax compliance by SMEs in Kenya?					
There is need to improve the Kenya’s tax system since it is the system to blame for non-tax compliance by SMEs.					
There is need for the Government to seek the input of SMEs’ on tax matters					
The complexity of the current tax system contributes to inaccurate tax return fillings					

11. Are there other strategies you may think of that can improve tax compliance by SMEs in Kenya? If so, kindly list them down

.....

.....

APPENDIX III: EXPENDITURE/BUDGET

Item	Amount (Kshs)
Travelling Expenses	5,000.00
Printing & Photocopier services	8,000.00
Research Assistants wages	30,000.00
Internet services	3,000.00
Stationery	3,000.00
Miscellaneous expenses	1,000.00
Total	50,000.00

APPENDIX IV: KREJCIE AND MORGAN TABLE FOR DETERMINING THE SAMPLE SIZE

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	169	2000	322
55	48	320	175	2200	327
60	52	340	181	2400	331
65	56	360	186	2600	335
70	59	380	191	2800	338
75	63	400	196	3000	341
80	66	420	201	3500	346
85	70	440	205	4000	351
90	73	460	210	4500	354
95	76	480	214	5000	357
100	80	500	217	6000	361
110	86	550	226	7000	364
120	92	600	234	8000	367
130	97	650	242	9000	368
140	103	700	248	10000	370
150	108	750	254	15000	375
160	113	800	260	20000	377
170	118	850	265	30000	379
180	123	900	269	40000	380
190	127	950	274	50000	381
200	132	1000	278	75000	382
210	136	1100	285	100000	384

Note: N is population size. S is sample size.

Source: Krejcie & Morgan, 1970.