

**EFFECT OF TAX ADMINISTRATION ON COMPLIANCE AMONG SMALL
AND MEDIUM SIZED ENTERPRISES IN KIAMBU COUNTY**

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university or institutions.

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DEDICATION

This research proposal is dedicated to my family for their continuous encouragement and assistance. Thank you for giving me all the support to complete my research.

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ABBREVIATIONS AND ACRONYMS

ETR	Electronic Tax Register
FACT	Factual Accurate Complete Timely
GDP	Gross Domestic Product
ITax	Integrated Tax
ITAS	Integrated System of Tax Administration
ITMS	Integrated Tax Management System
KRA	Kenya Revenue Authority
MLE	Maximum Likelihood Estimation
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
SAR	Self-Assessment Return
SMEs	Small and Medium Enterprises
SSEs	Small Scale Enterprises
SPSS	Statistical Package of Social Sciences
TIN	Identification Number- TIN
ToT	Turnover Tax

DEFINITION OF KEY TERMS

Deterrence Tax Measures:	Compliance strategies employed by the government to boost tax compliance (Chow, 2015).
Electronic Taxation System:	Electronic tax filing refers to various systems that enable individuals and small businesses to file their tax returns and make tax payments through electronic data transfer (Amabali, 2019).
Tax Administration:	Management, conduct, direction and supervision of the execution and application of Government, country or state's taxation laws and related statutes (Amabali, 2019).
Tax Avoidance:	Tax avoidance is about getting round the law to reduce a tax liability to the tax collectors (Livoi, 2017).
Tax Compliance:	The word compliance is used to refer to registration with KRA as taxpayer, keeping of business records, filing of self-assessment returns and payment of taxes when they are due (Anderson, 2017).
Taxpayer Education:	Refers to programs aimed at teaching taxpayers about their tax rights, responsibilities, legal requirements and the whole process of taxation and why they should pay tax (Joulfaian, 2019).
Tax Enforcement:	System by which Authorities act in an organized manner to enforce taxation laws by punishing tax payers who violate the rules and norms regarding taxation (OECD, 2019).

ABSTRACT

Low levels of tax compliance are observed among SMEs thus reducing potential tax collections and increasing the tax administration effort. Many countries address these issues by adopting simplified tax regimes for SMEs and implementing dedicated compliance strategies. The general objective of the study was to determine the effect of tax administration on tax compliance among small and medium sized enterprises in Kiambu County. The study was guided by the following variables; deterrence tax measure, electronic taxation system and tax education. The study was anchored on three theories; The Deterrence Theory of Tax Compliance, Theory of Planned Behavior and Adams Smith Canons of Taxation Theory. The target population comprised of 247 registered businesses in Kiambu County as at 31st December, 2019. This study adopted cross sectional survey design. Stratified random sampling method was used to select relevant respondents. Questionnaires were used to collect primary data from respondents. Secondary data was obtained from related materials in tax management journals. Quantitative data was analyzed using SPSS version 25. Descriptive statistics and multiple regression analysis was used to predict the effect of deterrence tax measures, electronic taxation system and tax education on tax compliance. A pilot study was undertaken on 15 of the respondents to test the reliability and validity of the questionnaire. The study found out that there was a positive and significant relationship between deterrence tax measures and tax compliance. Further, the results revealed that there was a positive and significant relationship between electronic taxation system and tax compliance. Lastly, there was a positive and significant relationship between tax education and tax compliance. Based on the findings, the study concluded that deterrence tax measures, electronic taxation system and electronic taxation system have a positive and significant effect on tax compliance. Based on the findings, the study concluded that deterrence tax measures, electronic taxation system, electronic taxation system have a positive and significant effect on tax compliance. The study recommends that the sanctions and penalties should be levied promptly once a liability has been established; should not be excessive; should, however, be higher than the prevailing market interest rates. KRA should offer continuous training to taxpayers on how to use the various IT platforms like iTax, EGMS, Mobile Apps and Electronic Stamps in their organizations to improve excise duty compliance. Lastly, there should be training of special units within the revenue departments; for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayer.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The administration and management of taxes in nation building is very important. The importance of tax to the smooth running of government cannot be over-emphasized. They are essential ingredients in building a viable economic prosperity. Taxes and tax system are required for state capacity building for meaningful economic development. The main objective of any tax administration is to collect taxes and duties payable according to the laws of the land. Strong tax administration is a requisite for ensuring high compliance and administering tax policies efficiently (Azmi, Sapiei, Mustapha & Abdullah, 2016). According to Chebusit, Namusonge, Biraori and Kipkoech (2015) a good tax administration is premised upon a well-designed tax system and strong technical capacity. Chebusit et al., (2016) further opine that tax is a charge imposed by government authority upon property, individuals, or transactions to raise money for public purposes. Tax is that part of the property and labor of the citizens, taken by the nation, in the exercise of its legitimate rights, for the support of her government in the discharge of its legitimate functions of maintaining peace and order.

According to Christian and Gupta (2015), small and medium-sized enterprises (SMEs) are an important part of the taxpayer population in any country around the globe. Their taxation usually poses a number of challenges. They are numerous but contribute relatively little to the state coffers, while often absorbing a large share of scarce tax administration resources much needed elsewhere in administering the tax system. Moreover, low levels of tax compliance are observed among SMEs, particularly among the self-employed, thus further reducing potential tax collections and increasing the tax administration effort. Clotfelter (2017) assert that many countries address these issues by adopting simplified tax regimes for SMEs and implementing dedicated compliance strategies. While the primary objective of a well-designed simplified tax regime is to improve efficiency of small businesses

taxation, by reducing both compliance costs and tax administration effort, the compliance-enhancing strategies aim at the inclusion and more efficient use of different administrative instruments that allow more taxpayers to be brought into the tax net, encourage existing taxpayers to voluntarily fulfill their tax obligations, and ultimately to create a widespread culture of paying taxes. According to Efunboade (2015), emerging countries, tax administration strategies are implemented to enhance the tax compliance of SMEs for example, in China, tax administration strategies have been designed to encourage the financing of SMEs by providing business tax exemptions for corporations that guarantee loans to SMEs. Robust economies like the United States of America and the United Kingdom trace their development from growth of their SMEs.

Tax compliance among Small and Medium Enterprises (SMEs) is poor and a major problem as many developing countries fail to come up with ways to cut non-compliance. (Organization for Economic Co-operation and Development, 2018). A study by Gidisu, (2018) attested that SMEs cover more than 95% of all firms in Sub-Saharan Africa and their importance cannot be overestimated. According to Ayuba et al., (2016), SMEs in Zimbabwe represent over 95% of enterprises that generate over 50% of private sector employment. In Cameroon, SMEs employ a substantial proportion of the country's labour force and constitute a very important avenue for achieving poverty alleviation and reducing unemployment (Amabali, 2019).

In Nigeria however, there appears to be no clear cut definition or scope for choosing small business enterprise. Efunboade (2015) see small scale enterprises as catalysts for world's economic growth and development which have dominated the industrial sector of both developed and underdeveloped countries. Freire-Seren and Panades (2018) noted that SMEs in Nigeria are usually small, owned by and managed families. However, Muthama (2018) goes on to state that they are mostly sole proprietorships or partnerships although on the surface, they may be registered as Limited Liability Companies as such they are usually not separate legal entities. In addition, Loo, McKerchar and Hansford (2019) opined that, the production processes of SMEs are usually labour intensive and they usually serve as suppliers of input materials for the larger manufacturing companies. SMEs can fall into

different categories such as manufacturing, services; trading, agriculture, transportation business.

In Kenya, the SME sector contributes an estimated 18% of the GDP as well as creating employment for 80% of the workforce population. SMEs being profit generating establishments are also expected to pay taxes. Taxation revenues can be used effectively by government for meeting its public expenditures. As such, taxes are fundamental to the existence of governments, for the tax revenues help to finance the bulk of services that governments provide (Malonza, 2016). Moreover, Livoi, (2017) posit that tax revenue is the source of funds used for development projects. Small Scale Enterprises (SSEs) are small businesses that employ a small number of workers and do not have a high volume of sales. Such enterprises are generally privately owned and operated sole proprietorships, corporations or partnerships. SSEs being profit generating establishments are also expected to pay tax. The individual SSE pays a very small amount of tax compared with what the larger establishment would pay and so tax authorities tend to give the larger corporations more attention. Ayuba et al., (2016) suggests that a good number of SSEs evade taxes that would have otherwise been invested in developmental projects that would have benefitted them (SSEs). Tax compliance is currently a topical issue in developing nations as governments at various levels are seeking ways to improve efficiency in tax revenue collection to finance their budgets.

Small and Medium Enterprises in Kiambu County Microfinance institutions recognize the importance of promoting SMEs as the basis of economic growth. It is estimated that there are about 2751 registered SMEs have between 5 and 50 employees in Kiambu County (Amabali, 2019). It is on this basis that KRA should create a platform for SMEs tax compliance. The growth in SMEs should be encouraged and supported to bring about favorable economic growth and development, alleviate poverty and improve the standards of living at the County (Munyoro, 2017).

Kiambu county government seeks to create an enabling business environment and institutional structures that are conducive to SMEs. The Government is geared to improving the policy framework for the SMEs which is central to Development of Kiambu County

(Kipkemoi, 2015). Kiambu county strives to accord all necessary support to SMEs in order for them to reap maximum profits from their businesses. The County Government demands all departments in the Kiambu County Government to improve, create and sustain conditions that are the conducive environment for SMEs in the County (Gichuki, 2015).

1.2 Statement of the Problem

SMEs accounts for 90 per cent of the registered enterprises global GDP. SMEs tax compliance have emerged as a new challenge to tax systems as their tax contribution hardly goes beyond 5 per cent (OECD, 2019). Kenyan Government enacted tax reforms like turnover tax and KRA tax administration to bring the SMEs sector into taxation into tax bracket. According to Kenya Parliamentary Budget Office (2017), most SMEs and they make up of 98% of all registered businesses in Kenya and they contribute 34.3 per cent to GDP, and with tax potential of Kenya shilling 79 billion but actual collection is less than one billion. The SMEs have continued to be non-compliant (Malonza, 2016).

The tax-to-GDP ratio in Kenya decreased by 0.1 percentage points from 18.3% in 2016 to 18.2% in 2017. In comparison, African countries in Revenue Statistics in Africa 2019 remained at 17.2% over the same period. Over a longer time period, the average for the 26 African countries has increased by 1.5 percentage points, from 15.7% in 2008 to 17.2% in 2017. Over the same period, the tax-to-GDP ratio in Kenya has decreased by 0.7 percentage points, from 18.9% to 18.2%. Since 2001, the highest tax-to-GDP ratio in Kenya was 19.3% in 2014, with the lowest being 16.1% in 2002 (OECD, 2019).

In order to tackle tax noncompliance, the government has instituted a number of tax reforms. Nevertheless, it has not yet been concretely established as to whether the said reforms have achieved targeted voluntary tax compliance by SMEs as envisaged or not (Livoi, 2017). The effect of various tax reforms such as the replacement of turnover tax (ToT) with presumptive tax, introduction of KRA M-Service, reintroduction of withholding VAT and the requirement of tax clearance certificate on voluntary tax compliance among SMEs remained evidently unexplored in Kenya (Ng'eni, 2016). Although the Government has implemented tax reforms meant to improve compliance, it has not yet been able to established as to

whether the said reforms have achieved tax compliance by SMEs as envisaged or not. It is therefore against this background that the researcher sought to determine the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County.

1.3 Objectives of the Study

This study was guided by the general and specific objectives.

1.3.1 General Objective

The general objective of this study was to determine the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County.

1.3.2 Specific Objectives

This study was guided by the following specific objectives: -

- i. To examine the effect of deterrence tax measures on compliance among small and medium sized enterprises in Kiambu County.
- ii. To assess the effect of electronic taxation system on compliance among small and medium sized enterprises in Kiambu County.
- iii. To analyze the effect of tax education on compliance among small and medium sized enterprises in Kiambu County.

1.4 Research Questions

- i. What is the effect of deterrence tax measures on compliance among small and medium sized enterprises in Kiambu County?
- ii. What is the effect of electronic taxation system on tax compliance among small and medium sized enterprises in Kiambu County?
- iii. What is the effect of tax education on tax compliance among small and medium sized enterprises in Kiambu County?

1.5 Significance of the Study

1.5.1 Kenya Revenue Authority

This study would be of great importance to KRA in the identification and solving of the problems that it has always encountered in meeting revenue collection targets, and the challenges faced by SMEs in trying to comply on turnover tax. The study will provide the authority with better ways to collect tax from SMEs which have been posing a great challenge and the collections have been diminishing with the passage of time. The study will also be useful in providing solutions that can be used to expand the tax base by reaching more business people. This research aims at filling up the knowledge gap by explaining the various factors that can be used in the improvement of tax compliance as well as collection of tax in Kiambu county.

1.5.2 Scholars

The scholars studying taxation of SMEs and other areas will use the results of this study as a reference material for further research since for a long time, tax issues on SMEs have always been viewed as a complex subject that should be left largely to tax experts and the government. Huge information gaps therefore have been existing on issues relating to tax administration and tax compliance.

1.5.3 National Government

The evidence from this study is expected to benefit the National Government which might have been seeking for reasons why KRA has not been successful in collection of tax in Kenya. The study will provide the Kenyan government policy makers with useful insights on the most critical factors to consider for purposes of improved service delivery to the public and efficient and effective tax collection policies. This results into improvement on the general tax collection in our country and consequently propelling economic growth.

1.5.4 Small and Medium Size Enterprises

This study will capture original data from the taxpayers who pay turnover tax and this will enable them to provide the data that can be used to find a solution to the challenges they face while trying to comply with the tax laws. Businesses will also find this study relevant since

they will be sensitized and will thus understand their obligations in payment of taxes to the revenue authority.

1.6 Scope of the Study

The area of consideration for the study was Kiambu County. The study will focus on Small and medium enterprises. The study targeted 247 SMEs as indicated by County Integrated Financial Operations Management Systems Business Activity Code, County of Kiambu (2019). The study was conducted during the period of August 2020 to November 2020 and only covered the variables stated in the specific objectives which are; deterrence tax measures, electronic taxation system and tax education.

1.7 Limitation of the Study

One of the major limitation encountered is the availability of respondents, who were too busy to fill out the questionnaire. Secondly, some were reluctant to fill in the questionnaire citing its expense. To counter the problems, the researcher made appointments even over their breaks such as tea and lunch-breaks. In addition, the weekends provided ample time for data collection. The researcher used the drop and pick method for the ones that could not fill them immediately. One other method that the researcher used was to opt for scanned responses which were emailed on time. To counter the issue of size, the researcher patiently asked the questions and filled in the responses.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the theoretical, conceptual and empirical literature pertinent to the study. The empirical literature on various themes was also reviewed to establish research gaps inherent in the studies. Lastly, critique of literature, summary and research gaps too, form key components of this section.

2.2 Theoretical Framework

The theories reviewed under this section were; The Deterrence Theory of Tax Compliance, Theory of Planned Behavior and Adams Smith Canons of Taxation Theory.

2.2.1 The Deterrence Theory of Tax Compliance

The deterrence theory was developed by Beccaria (1738–1794) and Jeremy Bentham (1748–1832). According to Fochmann and Kroll (2015), the theory opined that people are generally motivated to obtain pleasure and avoid pain. Accordingly, crime can be deterred by increasing the certainty, celerity and severity of legal punishment for committing an offence. Beccaria (1963) as cited by Lutfi, Idris and Mohamad (2017) observed that since people are rationally egocentric, they will avoid committing crimes if the perceived costs of such acts exceed the perceived benefits to be achieved. In the same light, McKerchar, Bloomquist and Pope (2016) argued that nature has positioned mankind under the supremacy of two independent masters: pain and pleasure. The deterrence theory is premised on the challenges of tax compliance in an attempt to seek an enforcement mechanism on citizen's tax morality and responsiveness (Mohdali, Isa, & Yusoff, 2016). According to Muche (2017), there is widespread evidence that tax evasion is aimed at reducing the obligation to pay appropriate taxes. The mind-sets of the taxpayers when evading taxes is to maximize the expected utility of the tax evasion gamble. The theoretical debates on tax compliance are commonly discussed in terms of economic deterrence theory and the wider behavioral theory (Mustapha & Obid, 2015).

The deterrence theory is widely used in the analysis of tax evasion. The theory is applied through two viewpoints: the punitive and the persuasive perspectives. In the case of the punitive perspective, it takes the form of increasing the probability of being detected and increasing the tax rate or otherwise, through imposing tougher penalties on tax defaulters. It also provides better education and increased motivations for respecting established tax procedures and institutions (Nura, Abdul-Jabbar & Ibrahim, 2017). According to Joulfaian (2019), deterrence measures are required to improve revenues collection in situations of noncompliance. This means that the taxpayers always do a balance decision as they choose how much to evade and the associated risk of being detected and penalized.

The economic deterrence theory further assumes that taxpayers seek for-profit and their actions are motivated by the calculation of costs to be evaded and the opportunities that come with that. The taxpayer assumed that the payoff from the tax evasion is greater than the expected cost of being caught (Nur-tegin, 2018). It has been established that the economic deterrence model has a positive impact on tax evasion. The theory emphasizes on the use of threat, coercion, and intrinsic material incentives to alter taxpayers' behaviors. In addition, interest rates, the perceived probability of being caught, legal penalties and the severity of punishment will influence them to comply with their tax obligations (Palil et al., 2017). Furthermore, Chow (2015) argued that the deterrence theory plays a pivotal role in improving tax compliance.

This theory is important in this research because it is widely used in the analysis of tax evasion. The theory is applied through two viewpoints: the punitive and the persuasive perspectives. This theory resonates well with the first variable of this study which is deterrence tax measures. The theory is applied through two viewpoints: the punitive and the persuasive perspectives. In the case of the punitive perspective, it takes the form of increasing the probability of being detected and increasing the tax rate or otherwise, through imposing tougher penalties on tax defaulters. It also provides better education and increased motivations for respecting established tax procedures and institutions

2.2.2 Adams Smith Canons of Taxation Theory

This theory states that a good tax system is one which is designed on the basis of an appropriate set of principles. The tax system should strike a balance between the interest of the tax payer and that of the tax Authorities (Ng'eni, 2016). Onyiego (2018) based his argument on four principles otherwise known as canons of taxation. These are Canon of equity, Canon of certainty, Canon of convenience and Canon of economy. According to Miller (2018), one of the important principles of a good tax system on which Adam Smith laid a good deal of stress is the canon of certainty. To quote Adam Smith, 'the tax which each individual is bound to pay ought to be certain and not arbitrary. The time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person. A successful function of an economy requires that the people, especially business class, must be certain about the sum of tax that they have to pay on their income from work or investment (Kipkemoi, 2015).

According to Loo et al., (2019), lack of certainty in the tax system, as pointed out by Smith, encourages corruption in the tax administration. Therefore, in a good tax system, "individuals should be secure against unpredictable taxes levied on their wages or other incomes. Livoi (2017) elucidates that the law should be clear and specific; tax collectors should have little discretion about how much to assess tax payers, for this is a very great power and subject to abuse." In the opinion of the present author the Indian tax system violates this canon of certainty as under the Indian income tax law a lot of discretionary powers have been given to the income tax officers, which have been abused with impunity. According to Kipkemoi (2015), there is a lot of harassment of the tax payers and corruption is rampant in the income tax department. According to the third canon of Adam Smith, the sum, time and/manner of payment of a tax should not only be certain but the time and manner of its payment should also be convenient to the contributor. The introduction of electronic taxation system in Kenya has been able to mitigate such issues.

Although many taxpayers report their income and pay their tax liabilities properly, there are still many taxpayers who do not. The challenge to coordinate policy reforms with parallel reforms in tax administration has rarely been fully addressed yet the menu of administrative

reform options has been greatly enriched with new approaches to organizational design, taxpayer services, ICT solutions, human resource incentives and formal anti-corruption strategies. The canons of taxation theory would help in relating tax administration and tax compliance thereby providing a critical path to follow in obtaining the actual determinants of tax compliance among SMEs.

2.2.3 Theory of Planned Behavior

Unlike the deterrence theory which stresses on penalties for noncompliance, the psychological theory of planned behavior upholds that taxpayers are influenced to comply with tax duties by psychological factors (Pellizzari & Rizzi, 2015). According to Pope and Abdul-Jabbar (2018), the theory of planned behavior uses belief and behavior to explain human intention. It was developed by Icek Ajzen (1991-1998) to help understand how the behavior of people can be changed. It has its origin from the Theory of Reasoned Action proposed by Ajzen in 1991.

According to this theory, the behavior of an individual is under the influence of definite factors which originate from certain reasons and occurred in a planned way (Uchechukwu & John, 2017). The ability to perform a particular behavior depends on an individual purpose towards that behavior (behavioral intention). Behavioral intention, in turn, depends on three factors: attitude towards the behavior, subjective norms and perceived behavioral control (Ritsatos, 2015), which are under the influence of behavioral beliefs, normative beliefs and control beliefs. In other words, the behavior of a person is being influenced by three factors.

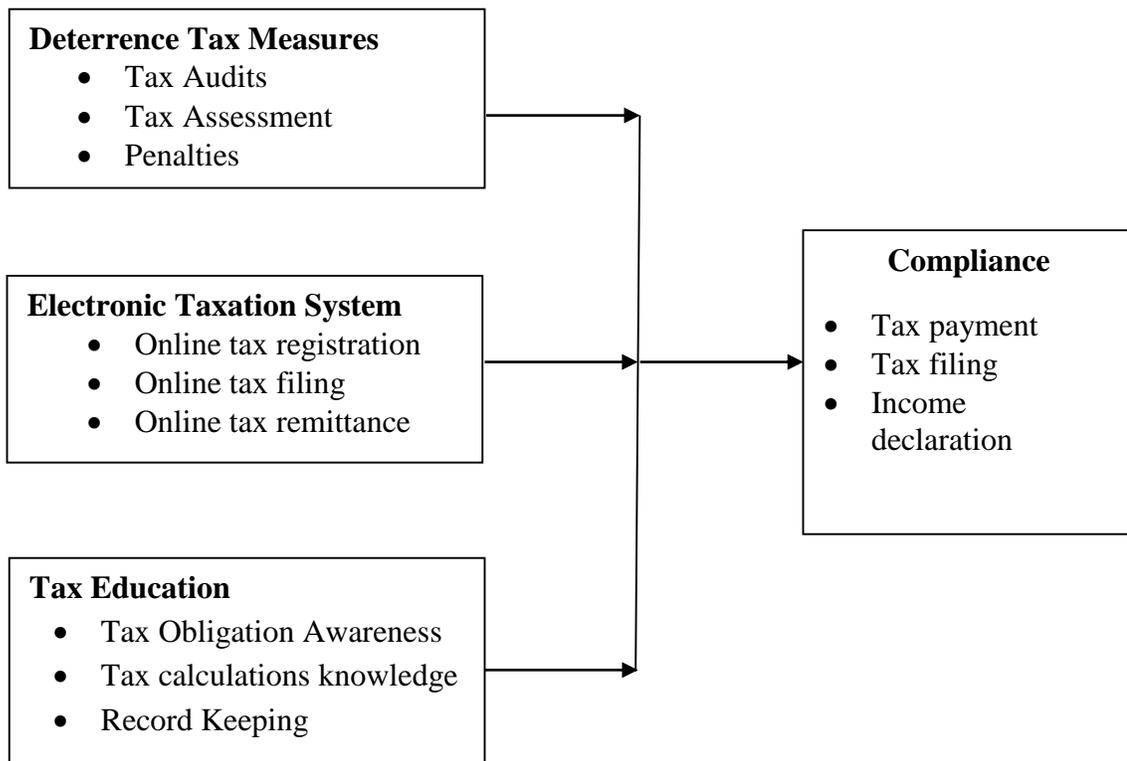
The theory of planned behavior has been used in several disciplines including taxation. Empirically, it has been proven that attitude, subjective norm, perceptual behavior, and perceptions of taxpayers towards the government have certain effects on the intention to comply with tax obligations (Samuel & Dieu, 2016). A taxpayer who portrays an optimistic attitude towards the objectives of the tax systems is likely to have a positive impact on tax compliance and vice versa (Chow, 2015). As opposed to the economic theories that emphasized on increase audits, coercive and penalties to mitigate tax compliance issues; the

psychological theories instead stressed on the changing trends of individual attitudes towards the tax systems.

This theory fosters and is within the ambit of the third variable of this study; the effect of tax education on tax compliance among small and medium sized enterprises in Kiambu county. Tax education can be used to change taxpayers' attitude and perception towards tax compliance. It has been proven that attitude, subjective norm, perceptual behavior, and perceptions of taxpayers towards the government have certain effects on the intention to comply with tax obligations.

2.3 Conceptual Framework

The conceptual framework reveals the relationship and linkage that exists between the dependent variable and the independent variables. Kothari (2013) define conceptual framework as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Figure 2.1 conceptualizes factors (deterrence tax measures, electronic taxation system and tax education) affecting compliance among SMEs in Kiambu County.



Independent Variables

Dependent Variable

Figure 2.1: Conceptual Framework

2.4 Review of Variables

2.4.1 Deterrence Tax Measures

Recent studies confirmed that deterrence approaches provide the power of tax administration to functionalize enforced tax compliance (Muehlbacher et al., 2017). Turner (2016) specified that the law authorizes tax officials with “coercive and legitimated power” to implement revenue collection. By law, the tax authority has the power to enhance tax compliance. The tax authority also has the authoritative power to lawfully punish the illegal reduction in tax payments by conducting tax audits and imposing penalties. The absence of strict laws will cause the tax system to operate ineffectively (Bird & Davis, 2018). To enhance tax compliance, the tax administration should be granted sufficient power to implement the monitoring and auditing roles by imposing penalties on tax evaders. Hai and See (2017) found that the power of authority enhances compliance. Increasing the power of authority

represents the enforcement approach. According to Slemrod and Bakija (2017), if the role of the Internal Revenue Service (IRS) in the United States were absent, free riders would continuously ignore their taxable obligations, while dutiful taxpayers would still remit their tax liabilities, demonstrating that the IRS plays the authoritative role in lawfully protecting legal taxpayers from being exploited by the tax evaders or free riders

Tax audits sometimes result in penalties that require taxpayers to pay the amount of tax due in addition to a fine for evasion. Penalties have a negative effect on tax evasion (Chow, 2015). That is, penalty regulations control people's behavior better than a voluntary approach. Chow further noted that, in addition to penalties, the "tax rate and audit" help to promote tax compliance. Based on theoretical assumptions, tax penalties serve two purposes: functional tools and definitional functions (Modugu, Eragbhe & Izedonmi, 2017). Modugu et al., (2019) further noted that the functional tool of penalties enhances compliance, while the definitional function only defines tax compliance. In this regard, Randlane (2016) addressed the importance of strict penalties, which minimize tax evasion intentions. Anderson (2017) examined the utilization of nudges to alert taxpayers about the threats of fine and penalization upon tax law violations in the audit cases in Nebraska and indicated that twice two nudges could increase the probability of using tax reports and collecting more tax revenue. In the United States, taxpayers who fail to pay tax liabilities will encounter different types of penalties, and high level of fraud will also cause them to face legal challenges, including "criminal charges and jail sentences" (Slemrod & Bakija 2017).

Imposing such penalties could allow SMEs to exhibit a dutiful responsibility for tax compliance. In addition to law enforcement, the probability of detection also reflects the potentiality of tax authority to seek out fraud committed by tax evaders. The ability to identify taxpayer risk will help tax officials increase their level of detection. A high detection level indicates that the tax authority can detect wrongdoing. Increasing the probability of detection will increase tax audit. Thus, taxpayers may perceive that the probability of being caught is also high. The probability of detection is defined as the chance that the tax administration can deter non-compliant taxpayers and eliminate tax evasion. Taxpayers may decide to violate taxation law if there is zero probability of detection. Taxpayers who

perceive a high level of detection will tend not to engage in tax evasion, which results in tax compliance enhancement (Hauptman et al., 2016).

2.4.2 Electronic Taxation System

The use of automated systems has been proven to be capable of introducing massive efficiencies to business processes at a minimal cost (Wasao, 2015), due to the bureaucratic structure of government which is costly to manage with little or no result, tax authorities as an agency of government are turning to e-government led solutions like electronic tax filing (e-filing) (Amabali, 2019), based on the arguments that it enhances the delivery of public services and fiscal profundity without incurring costly recurring overheads (Muthama, 2018). United Nations (2017) stated that e-taxation is a process where tax documents or tax returns are submitted through the internet, usually without the need to submit any paper return; it encompasses the use of internet technology, the WorldWide Web and Software for a wide range of tax administration and compliance purposes.

Electronic tax filing was first coined in United States, where her Internal Revenue Services (IRS) began offering tax return e-filing for tax refunds only (Harrison & Nahashon, 2015). This has now grown to the level that currently approximately one out of every five individual taxpayers is now filing electronically. This however, has been as a result of numerous enhancements and features being added to the program over the years. Today, electronic filing has been extended to other developed countries like Australia, Canada, Italy United Kingdom, Chile, Ireland, Germany, France, Netherlands, Finland, Sweden, Switzerland, Norway, Singapore, Brazil, Mexico, India, China, Thailand, Malaysia and Turkey (Muita, 2017). Nigeria and other developing countries such as Uganda, Rwanda and Kenya have also embraced electronic filing of tax returns (Muita, 2011).

Dowe (2018) disclosed that tax authorities around the world are using electronic tax administration systems to interact with taxpaying public in tax collection, administration and compliance settings so as to improve effectiveness and efficiency in tax administration. Globally, previous studies on the suitability of information technology complied tax system have it that; a positive impact of automation system usage and the cost of tax administration,

automation and effectiveness of revenue collection of Ghana Revenue Authority using a case study of customs division (Gidisu, 2018). Muthama (2018) with focus on the economic development and taxation system by comparing the case of Brazil and Japan. Japan's experience demonstrated that a country does not need to postpone a real change in the tax structure until it achieves a high stage of development, while in Brazil; low-income taxpayers bear most of the tax burden.

In Nigeria, Oseni (2015) concluded that there is no hiding place for tax evaders with the use of this modern technology since all potential taxpayers are captured by the system, but the use of ICT can be catastrophic if carelessly employed by both the tax payers and the tax administrators as scammers and hackers of the internet facilities can utilize the ignorance or the lax security of the system. Efunboade (2015) indicated that these emerging global infrastructures (Taxpayer Identification Number- TIN, Factual Accurate Complete Timely-Project FACT and Integrated System of Tax Administration- ITAS) could make it increasingly possible for eligible taxpayers to pay tax online anywhere and anytime.

I-Tax system or e-pay is among the major technological tax reforms introduced iTax or e-pay through a Common Cash Receipting System (CCRS) by KRA (Gichuki, 2015). This is a web-based system that enables taxpayers to file returns online, and more importantly, make payments online for customers whose banks support the system (Kipkemoi, 2015). iTax is an online platform that enables one to register, file tax returns, process payments and make status enquiries in real-time. Commercial banks are integrated into the system, and a service level agreement entered into to govern the relationship. Generally, iTax is a computer based application system that furnishes a fully-integrated and automated solution for administration of government revenue enhancements.

2.4.3 Tax Education

Wasao (2015) asserts that tax education to the SMEs becomes necessary when the objective of rising tax revenue, at the changing environment; particularly from the official tax assessment is considered. At the same time, achieving tax compliance and improving revenue generation is not an easy task. However, this problem can be minimized through tax education. According to Woodward and Tan (2015), training is useful in raising the

awareness of clients of the revenue authority on different subjects including the importance of voluntary compliance in taxation. KRA has a department for taxpayers' education with the responsibility to ensure the dissemination of tax education to clients. This department provides tax education in the form of leaflets, brochures, advertisements and it organizes numerous periodic trainings to KRA customers (Onyiego, 2018).

Taxpayer education will provide necessary tax knowledge to the SMEs which would enable them to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes (World Bank, 2015). Tapera (2018) opined that tax education component is expected to deal with non-compliance practice among the Small and Medium Enterprises. Tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments; for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayer. Taxpayer education has provided a comprehensive awareness and information that has promoted partnership and voluntary compliance and further maximized revenue collection for national growth and development as well as broadening the tax base (Loo et al., 2019).

Taxation knowledge according Mardiasmo (2018) is the ability of taxpayer to know tax regulations both about the tax rates that they will pay based on the law and tax benefits that will be useful for their lives, so it can be concluded the definition of taxation knowledge is taxation information that can used by taxpayer as a basis for acting, making decisions and taking direction for the implementation of the taxpayer's rights and obligations in the field of taxation that will be useful for the taxpayer's life. Tax education, knowledge about tax laws also play a major role in determining taxpayers' compliance behavior. According to Vadde (2016), continuous education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. On the contrary, awareness and attitude of the taxpayer himself is more important since the effectiveness of tax education depends on the readiness, acceptance and honesty of taxpayers.

Awareness of taxpayers' importance of paying taxes for the nation will help improve taxpayer compliance to pay taxes correctly, entirely, and on time. SMEs tax awareness can be increased by understanding of taxation regulations and taxation laws that include taxation procedures that will help taxpayers to know how to fulfill their tax obligations (Tehulu & Dinberu, 2016). Awareness of taxpayers of the importance of fulfilling their tax obligations to contribute to the development of the nation and state is fundamental in increasing taxpayer compliance. (Sawyer, 2017). According to Pellizzari and Rizzi (2015), taxpayer awareness is the attitude of taxpayers who have understood and are willing to carry out their obligations to pay taxes and have reported all of their income without being hidden following applicable regulations. From the statement above, it can be concluded that tax awareness is a condition where taxpayers know and understand tax matters. Knowledge of taxpayers is essential. If the taxpayer has been aware of paying taxes, taxpayer compliance will be fulfilled so that tax payments will continue to increase, and no more taxpayers are reluctant to pay taxes.

2.4.4 Compliance

Tax compliance matter is a behavioral issue; it is either a taxpayer pays voluntarily or coerced to pay. Level of trust in Government has a significant influence on the level of tax compliance. The higher the level of confidence the greater the level of Compliance and vice-versa (Joulfaian, 2019). Tax compliance is the degree of voluntary agreement by taxpayers to fulfill their tax obligations to the government without the use of force (Gichuki, 2015). According to Festo and Isaac (2018), the level of taxpayers' compliance is greatly influenced by usage of funds generated for services by government, level of fraud and corruption by government officials and the efforts of the government to fight corruption and fraud.

Perception of taxpayers on the issue of accountability, tax administrative procedures, and structures, awareness by taxpayers influence the level of compliance by tax payer's in any country (Feinstein, 2017; Bird & Davis-Nozemack, 2018). Level of transparency also affects Tax Compliance. SMEs form part of taxpayers of a country. Low level of tax compliance is common among SMEs especially the sole proprietors (Anderson, 2017). According to Barako (2015), tax compliance means carrying out tax obligations as indicated by the law freely and completely. High compliance costs may result in tax avoidance, evasion, fraud.

Tax compliance has been defined as reporting of tax liability to the relevant authority in compliance with applicable tax laws, regulation and court (Chebusit et al., 2015). It has also been defined as a process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation (Palil & Mustapha, 2017). However, tax compliance can be in two forms; administrative and judicious compliance. Administrative compliance refers to compliance with the applicable tax laws as stipulated in the relevant regulations whereas judicious compliance refers to the accuracy in filling the tax return forms (Chow, 2015). Compliance can be through enforcement by relevant authorities or through voluntary willingness of the taxpayers.

Tax compliance is a major problem for many tax authorities. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects (Abubakari & Christopher, 2018). According Festo and Isaac (2018), SMEs always tend to avoid or reduce their tax liability either through tax evasion or tax avoidance. This may give rise to non-registration or incorrect filling of their tax returns and loss of revenue to the government. It has been found that regulatory burdens fall disproportionately on small and medium enterprises internationally. Their size and nature makes the issue of tax compliance one of particular importance especially since most SMEs have access to limited resources and inadequate expertise to comply with diverse and complicated regulation. He also believes that high compliance costs can result in tax avoidance, tax fraud, and inhibit investment by way of diminishing competitiveness of the country in terms of taxation attractiveness. (Amabali, 2019).

The reduction of the tax rate, interest on default and compliance cost will increase the profit that accrues to SMEs. This position is likely to improve compliance with tax laws (Abubakari & Christopher, 2018). The government in Nigeria emphasized compliance more on big companies rather than SMEs as a result of the small amount of taxes paid. This makes a lot of SMEs particularly enterprise firms/sole proprietorships escape paying taxes and loss of revenue to the government (Fochmann & Kroll 2015). There is a need for the government to strategically consider how to improve the level of tax compliance among SMEs thereby expanding the tax net and increasing revenue generated from tax. Various measures can be

used to boost tax compliance among SMEs. These measures include Usage of information technology, reduction in the frequency of filing, better communication with taxpayers, usage of third-party information (OECD, 2019).

2.5 Empirical Review

Akubo, Akowe and Ayuba (2016) conducted a study on Tax compliance behaviour of small scale enterprises in Bassa Local Government of Kogi State in North central of Nigeria. A survey design was used and data were gathered from the register of Bassa Local Government Area Council. The Krejcie and Morgan sampling technique was used to determine a sample size of one hundred and ninety-seven registered taxpayers. The hypotheses were tested using one sample chi-square. Their results showed that taxpayers' social psychological factors have significant influence on tax compliance level and that taxpayers' demographical factors have significant influence on tax compliance level. They recommended that tax authority should take tax education as a routine responsibility and that there should be a stiff penalty on any taxpayer who is found wanting in sharp practices. In another development, Abubakari and Christopher (2018) evaluated taxpayers' attitude and its influence on tax compliance decisions in Tamale, Ghana. The survey responses from questionnaires administered to operators of SMEs in Tamale, were quantitatively analyzed. Both descriptive and inferential statistics were applied. Their results indicated that, individuals were highly concerned with the amount of taxes they pay. The rates of income taxes in Ghana were generally perceived to be high. Furthermore, the burden of taxes paid affects the attitudes of individuals and this informs how they evaluate the tax system and consequently their compliance decisions.

Ojochogwu and Stephen (2018) assessed factors that affect tax compliance among small and medium enterprises (SMEs) in North West Nigeria. The study was conducted using SMEs in Zaria, North-West Nigeria. It was found that high tax rates and complex filing procedures were the most crucial factors causing noncompliance of SMEs. Other factors like multiple taxation and lack of proper enlightenment were noted as variables affecting tax compliance among the SMEs surveyed only to a lesser extent. Therefore, they recommended that SMEs should be levied lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market. The government should also consider

increasing tax incentives such as exemptions and tax holidays as these will not only encourage voluntary compliance but also attract investors who are potential viable taxpayers' in the future.

Muthama (2018) failed to recommend that to have a fully compliance turnover tax system among SMEs in Kenya, the small traders should be made to understand tax administration through the turnover tax training and education so that they are encouraged to pay taxes promptly. The computation of taxes should also be made simple and comprehensible to all small scale businessmen. KRA should make more frequent friendly visits to the small and medium traders to educate them on the importance of adopting the turnover tax through channels like mobile tax clinics. KRA also need to train tax payers on how to calculate their tax payments, balance their accounts and filing of returns online. In addition, they ought to be taught on the benefits that accrues from many businesses complying with the tax payment.

Musao (2015) assessed factors influencing tax compliance among SMEs in Nairobi County. The study picked a sample of 398 respondents and collected data using questionnaires which was analyzed using the binary integrity regression model. The study findings revealed that when an individual perception about difficulties of evading taxes increases, the high likelihood of being tax compliant among SMEs in Nairobi County. The study fails to show that tax revenues may decline with the income tax rate in the presence of corrupt tax officials and investigate the impact of alternative reward schemes on the behavior of corrupt tax officials and the level of corruption. In terms of interactive models of tax evasion and bureaucratic corruption.

2.6 Critique of Existing Literature

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Findings by Vadde (2016) revealed that SMEs in Zimbabwe do not comply with tax law, they pose only basic tax knowledge and lack a deeper understanding of tax issues however this is insignificantly influencing the non-compliance behavior among them. Before one can submit accurate tax returns, they need to be in possession of accurate financial records. The study failed to recommend that the government needs to take an active role in enabling the capacity of SMEs in areas of training so that they can be equipped with basic financial and accounting skills. Such training programs could be put in place so that all identifiable SMEs are trained to have the ability to keep accurate financial records. Open house events where tax officers advise tax payers free of charge on their tax statements can improve taxpayer's knowledge of taxes important to them. This will go a long way to enable ZIMRA objectively recover tax from as many SMEs businesses as possible.

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Muche (2017) analyzed the effect of tax related education on PAYE tax compliance for KRA audited firms in Nairobi Central Business District. The findings failed to acknowledge that the majority of potential entrepreneurs have inadequate knowledge on tax accounting since most of them have not been trained on tax issues. This means that they may not go through tax education until such a time when they are in business. For KRA to enhance the level of

PAYE tax compliance among the entrepreneurs it is important to impart general tax knowledge at early stages of starting businesses or KRA should organize regular public training for entrepreneurs and Finance Managers on taxation with an emphasis of promoting voluntary PAYE tax compliance. This will improve the levels of PAYE tax compliance by businesses.

2.7 Research Gaps

Studies by Muche (2017), Muthama (2018), Vadde (2016) and Onyiego (2018) have mainly focused on the impact of tax enforcement measures/tools on tax debt realization among Large Taxpayer's category in Kenya. Tax enforcement measures are a very important component in debt revenue collection and recovery because they directly affect the amount of revenue a country collects within a certain period of time. Ondimu (2015) sought to assess the effect of issuance of Agency notice, use of distraint actions, use of charge or/security on immovable property and use of court suits as an enforcement measures on tax debt realization in Kenya. However, there exist both contextual and objective gaps, these studies only focused on tax enforcement measures and large taxpayer's category and not small and medium sized enterprises. The literature review affirmed that much of the empirical studies undertaken in the topic under study had been undertaken outside Kenya. Hence, there was definite need to focus the study in the Kenyan context to add to literature with evidence from the experiences of SMEs in Kenya.

Azmi and Bee (2017) carried out a study on the acceptance of the e-filing system by Malaysian Taxpayers. Joulfaian (2019) carried out a study on factors underpinning usage behavior of an electronic filing system: the case of Malaysian personal taxpayers. However, there exist both contextual and objective gaps. The literature review affirmed that much of the empirical studies undertaken in the topic under study had been undertaken outside Kenya. Hence, there was definite need to focus the study in the Kenyan context to add to literature with evidence from the experiences of SMEs in Kenya.

There are several studies on tax education and its effect on tax compliance. Misra (2015) conducted a study on the impact of taxpayer education on tax compliance in South-Africa.

Mustapha and Obid (2015) conducted a study on taxpayers' education: A key strategy in achieving voluntary compliance in Lagos State, Nigeria. The only study that is close to the current study is the one by Festo and Isaac (2018) who conducted a study on tax knowledge, perceived tax fairness and tax compliance in Uganda among small and medium income taxpayers in Kampala Central Division. However, there exist both contextual and objective gaps. The literature review affirmed that much of the empirical studies undertaken in the topic under study had been undertaken outside Kenya. Hence, there was definite need to focus the study in the Kenyan context to add to literature with evidence from the experiences of SMEs in Kenya.

2.8 Summary

This chapter reviewed various theoretical literatures, the empirical literature and conceptual framework that is used in this study. Specifically, it outlines the Deterrence Theory of Tax Compliance, Theory of Planned Behavior and Adams Smith Canons of Taxation Theory. The empirical literature was done in accordance to the study objectives and the conceptual framework gives a diagrammatical explanation of the variables; deterrence tax measures, electronic taxation system and tax education as independent variables and compliance among SMEs as a dependent variable. While the primary objective of a well-designed simplified tax regime is to improve efficiency of small businesses taxation, by reducing both compliance costs and tax administration effort, the compliance-enhancing strategies aim at the inclusion and more efficient use of different administrative instruments that allow more taxpayers to be brought into the tax net, encourage existing taxpayers to voluntarily fulfill their tax obligations, and ultimately to create a widespread culture of paying taxes. In emerging countries, tax administration strategies are implemented to enhance the tax compliance of SMEs

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the study will be carried out. It will cover the design used to do the research in terms of research procedures, the target population and sample size, which data collection methods will be used and how data will be analyzed.

3.2 Research Design

Creswell (2014) regards research designs as plans and procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis. A cross-sectional survey design was the specific design that was used in the research, because data was collected at one point in time to test the research questions. The cross sectional survey design has the advantages of being cost effective per respondent as compared to other methods; it employs an easier method of data collection; it enables the researcher to have a much larger sample size that could even range into thousands hence enhancing the accuracy of the conclusions arrived at and finally, due to anonymity, respondents become more candid hence improving the accuracy of the data obtained.

3.3 Target Population

Kothari (2013) describes target population as total items about which information is desired. The target population of this study comprised of all registered SMEs by the County Government of Kiambu as at 31st December, 2019, that had been in operations for over three years with a focus on the owners and/or managers of these SMEs. The target population comprised of 247 registered businesses in Kiambu County as at 31st December, 2019, from different sectors as classified by the County Integrated Financial Operations Management Systems Business Activity Code, County of Kiambu (2019). as shown in Table 3.1.

Table 3.1: Target Population

S/No.	Sector	Population
1	Boutique	50
2	Retail	65
3	Beauty	40
4	Restaurants	42
5	Groceries	50
	TOTAL	247

Source: County Integrated Financial Operations Management Systems Business Activity Code, County of Kiambu (2019).

3.4 Sampling Frame

The sampling frame of this study was derived from the 5 SMEs sectors as per County Integrated Financial Operations Management Systems Business Activity Code, County of Thika, 2019). This sample was selected because it was easier and convenient layout for obtaining information and data from the firms to be studied by the researcher. Sampling frame describes a complete list of all cases in the largest population from which the research draws a sample (Cooper & Schindler, 2013). Also a sampling frame can be described as a representation of all items of the units of interest that constitute the population from which a sample is selected (Mugenda & Mugenda, 2008).

3.5 Sample Size and Sample Technique

Kothari (2013) describes a sample as a collection of units chosen from the universe to represent it. Cooper and Schindler (2013) describe a sample in a survey research context as a subset of elements drawn from a larger population. Sampling techniques provide methods that help to reduce the amount of data needed to be collected by considering only data from a sub- group rather than all possible cases or elements (Creswell, 2014). The method of stratified random sampling was employed to arrive at the 153 SMEs, which the researcher

believed possessed the experience relevant to give information to the questions for this study. A sample of 153 SMEs industry employees, business managers and owners will be selected using stratified random sampling method. Stratified random sampling procedure was used in this research study to ensure that the sample accurately reflects the population on the basis of the criteria used for stratification. According to Kothari (2013), stratified sampling is used when the population from which a sample is to be drawn does not constitute a homogeneous group. The method also involves dividing the population into a series of relevant strata which implies that sample is likely to be more representative (Creswell, 2014).

Deciding on sample size is a vital issue since sample tests that are too vast may result to wastage of resources in terms of time and finances while samples tests that are too little may prompt incorrect outcomes. According to Kothari (2013), the bigger the size of the sample, the lower the possible error in taking a broad view of the population. The sample size is the number of sampling units selected from the population for investigation (Cooper & Schindler, 2013). The researcher used Yamane' (1967) formula to calculate sample size.

$$n = \frac{N}{1+N(e)^2}$$

Where,

n = is the desired sample size

N = is the population size

e = margin of error (at 95% confidence level

$$N = 247/1+ (2470 \times 0.05^2)$$

$$= 1+ (247 \times 0.0025)$$

$$= 153$$

Table 3.2: Sample Size Determination

S/No.	Sector	Population (N)	Sample (n)
1	Boutique	50	31
2	Retail	65	40
3	Beauty	40	25
4	Restaurants	42	26
5	Groceries	50	31
TOTAL		247	153

3.6 Data Collection Instruments

The research utilized survey questionnaires and key informant interviews as the main research tools. The use of questionnaire was considered appropriate since the data was generated from primary source. Questionnaire was used to collect data from the sampled owners and managers of SMEs in Kiambu County. A five point Likert-scale was used in designing closed ended questions where respondents were asked to rate their opinion from two extremes, for instance; strongly agree and strongly disagree. Kothari (2013), defines a questionnaire as a tool that consists of a number of questions printed or typed in a definite order on a form or set of forms, sent to persons concerned with a request to answer the questions and return the questionnaire. Primary data was collected from the owners and managers of SMEs in Kiambu County. The researcher used questionnaires as primary data collection instrument.

3.7 Data Collection Procedure

Data was collected through administration of questionnaires with the help of the research assistants. The questionnaires were self-administered to either the business owners or managers who are considered to be holding the top management positions in the SMEs operating in Kiambu County. The researcher also used face-to-face interviews to get highest

response rate and capture important aspects apart from the questions asked in the questionnaire. The questionnaires were first dropped with an introductory letter of authority to carry out research to the SMEs and follow up was done through telephone and personal visits to secure appointments with the respondents from the firms for face-to-face interview. This was useful to ensure consistency in the interpretation of questions in order to achieve high response level and avoid any misinterpretation of questions or inconsistent responses.

3.8 Pilot Study

Pilot study is an activity that assists the research in determining if there are flaws, limitations, or other weaknesses within the data collection instruments. It allows the researcher to make necessary revisions prior to the implementation of the study. According to Kothari (2013), conducting a pilot involves a few of the target population being given the questionnaires with an intention of pre-testing the questions. A pilot study was therefore undertaken on 15 SMEs to test the reliability and validity of the questionnaire. This primarily depends on the standard guideline of 1 to 10 percent of the sample ought to comprise the pilot test (Cooper & Schindler, 2013). However, the 15 SMEs did not form part of the final study.

3.8.1 Validity

Validity is the instruments or scale by which one can measure the outcomes of a certain research hypothesis about how strong the outcomes are. With the help of validity, one can answer the question such as are we right about the research methodology or the outcomes. Validity is more concerned whether the measure has been done with the right concept or not (Cooper & Schindler, 2013). According to Creswell (2014), validity is the accuracy and meaningfulness of inferences, which are based on the research results. In other words, validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. The researcher used the most common internal consistency measure known as KMO-Bartlett's test. It may be safe to say that its value varies from 0 to 1, but satisfactorily value is required to be more than 0.6 for the scale to be reliable as reminisced by Lutfi, Idris and Mohamad (2017). The recommended value of 0.7 is the cut-off of reliability.

3.8.2 Reliability

Reliability is the scale or instrument of measurement that is consistent with its result. It means if any test is taken using any instrument for a particular subject and the result of the test will be similar in every attempt then it will be considered as reliable. Reliability is more concerned with the consistency and the stability of the test result (Lutfi, Idris & Mohamad, 2017). This was done by determining the association between scores obtained from different administrations of the scale. If the association is high, the scale yields consistent results, thus it is reliable. Cronbach's alpha was used to determine the internal reliability of the questionnaire that was used in this study. Values range between 0 and 1.0; while 1.0 indicates perfect reliability, the value 0.7 is deemed to be the lower level of acceptability (Kothari, 2013).

3.9 Data Analysis and Presentation

The data was collected, processed and analyzed with respect to the study objectives, using both descriptive and inferential statistics. The tool of analysis used for this study was Statistical Package for Social Sciences (SPSS) version 25. The data was analyzed using descriptive statistics such as mode, median, mean, standard deviation. Research questions were tested by use of F-tests (ANOVA) to measure and determine the statistical significance between the variables and to draw conclusions of the study. Correlation and multiple linear regression analyses were also used to determine the relationship between the tax administration and tax compliance among small and medium sized enterprises in Kiambu County

The relevancy and relationships were determined by simple regression and correlation analysis techniques where;

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e_i$$

Where:

$Y = \text{Compliance}$

$\beta_0 = \text{Constant}$

X1= Deterrence Tax Measures

X2= Electronic Taxation system

X3= Tax Education

e_i= Stochastic term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

In this chapter, raw data from the questionnaires was analyzed and interpreted. Various tests were used to test the relationship between variables, level of significance, reliability and random distribution of data. Specifically, the following were used, Cronbach's alpha test, descriptive statistics test, Pearson Bivariate correlation and Regression analysis. The independent variables of the study were deterrence tax measures, electronic taxation system and tax education and how they affected the dependent variable which was the compliance among small and medium sized enterprises in Kiambu county.

4.2 Response Rate

The study targeted 153 respondents in determining the effect of tax administration on compliance among small and medium sized enterprises in Kiambu county of which 118 respondents responded making a response rate of 77% as summarized in table 4.1. This was a reasonable response rate as an above 50% response rate is considered adequate. According to Kothari (2013), a return rate of 50% is acceptable and fit to analyze and publish, as 60% is good while 70% is ranked very good.

Table 4.1: Response Rate

Response	Frequency	Percentage (%)
Responses	118	77
Non responses	35	23
Total	153	100

The recorded high response rate as shown in Table 4.1 was attributed to the data collection procedures, where the researcher pre-notified the potential participants of the intended

survey, utilized a self-administered questionnaire where the respondents completed and immediately after, they were picked. Follow up calls were also made to clarify queries in the questionnaires.

4.3 Pilot Study Results

4.3.1 Validity

Validity refers to the extent at which generated results reflect a true reality. The questionnaire used was simplified in a language that all participants were familiar with. And, to determine internal validity of a questionnaire, researcher did a pilot test, where 10% of participants from the targeted population were selected to fill the questionnaire. The results of the pilot test established that the questionnaire was relatively easy to answer as the questions were well understood by the respondents.

Factor analysis was undertaken to reduce on the number of dimensions and retain the most important for each variable. Prior to undertaking factor analysis, Kaiser-Meyer-Oklin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity were examined to evaluate the factorability of the components. KMO varies between 0 and 1 ($0 < \text{KMO} < 1$). According to Wasao (2015), the sample is termed adequate when KMO ranges from 0 and 1. Table 4.2 shows the KMO was above 0.50 levels implying that the variables had an acceptable degree of sampling adequacy for factor analysis.

Table 4.2: Factor analysis -KMO and Bart

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin	Measure of Sampling Adequacy.	.758
Bartlett's Test of	Approx. Chi-Square	308.709
Sphericity	df	9
	Sig.	.000

The study applied the KMO measures of sampling adequacy and Bartlett’s test of sphericity to test whether the relationship among the variables has been significant or not as shown in below in table 4.2. Factor 1 was based on five items that represented deterrence tax measures; Factor 2 was based on five items that represented electronic taxation system; Factor 3 was based on five items that represented tax education and Factor 4 with five items represented compliance among SMEs in Kiambu county. The Kaiser-Mayor-Oklin measures of sampling adequacy shows the value of test statistic as 0.758, which is greater than 0.5 hence an acceptable index. While Bartlett’s test of sphericity shows the value of test statistic as 0.000 which is less than 0.05 acceptable indexes. This result indicates a highly significant relationship among variables.

4.3.2 Reliability Analysis

According to Kothari (2013) reliability is the extent to which a research instrument gives a consistent and coherent result after carrying out several tests. The study carried out a reliability using Cronbach’s coefficient alpha (α) to determine the instrument’s capabilities. This was done using a test-retest technique at different points to establish the strength of association of the test scores. SPSS was used to analyze data and results were presented as shown in Table 4.3, and going by Creswell (2014) observation that a value of 0.7 or 0.6” is accepted as a threshold or cut-off, the test was found reliable as indicated in Table 4.3.

Table 4.3: Reliability Test

Scale	Cronbach’s Alpha	Number of Items	Remarks
Deterrence Tax Measures	.859	5	Acceptable
Electronic Taxation System	.823	5	Acceptable
Tax Education	.819	5	Acceptable
Compliance	.801	5	Acceptable

4.4 Demographic Data

The study sought to establish the demographic data of the respondents. The researcher begun by a general analysis on the demographic data obtained from the respondents which included; level of education and age of business. This research targeted 153 respondents in regard to determining the effect of tax administration on tax compliance among small and medium sized enterprises in Kiambu County.

4.4.1 Level of Education

The study sought to find out the respondents' level of education in order to ascertain whether academic and professional qualification had an effect on compliance among SMEs in Kiambu County. From the findings, majority (42.4%) indicated that they had attained degree while 25.4% were postgraduate holders. The study further indicated that minority 15.3% of the respondents were college certificate holders while 17% had professional qualification. The findings of the study are illustrated in table 4.4.

Table 4.4: Level of Education

Level	Frequency	Percent (%)
College	18	15.3
Undergraduate	50	42.4
Postgraduate	30	25.4
Professional qualification	20	17
TOTAL	118	100

4.4.2 Age of Business

The study sought to determine the age of family businesses in the study area. It was found out that majority of SMEs family businesses as shown in Table 4.5, were in operation for more than 6 but less that than 10 years, representing 45% of the SMEs in the study area. About 25% of SMEs were above 10 years in existence. 17% of businesses were more than 3 years but less than 5 years. Few businesses were still new and have been in operation for less than 3 years accounting for less than 13%.

Table 4.5: Age of Business

Level	Frequency	Percent (%)
Below 3 years	15	13
Between 3 – 5 years	20	17
Between 6 – 10 years	53	45
Above 10 years	30	25
TOTAL	118	100

4.5 Descriptive Analysis

The following presents the findings on the various study variables.

4.5.1 Deterrence Tax Measures

The study sought to examine the effect of deterrence tax measures on compliance among small and medium sized enterprises in Kiambu County. Table 4.6 summarizes respondents' level of agreement on the effect of deterrence tax measures on compliance among small and medium sized enterprises in Kiambu County. The statement that do you agree paying a substantial fine would deter SMEs from evading tax if KRA detects tax evasion? Had a mean score of 4.27. The statement that tax compliance assists in improving on tax avoidance amongst tax payers had a mean score of 4.07. The statement that tax assessment helps to improve taxpayer's compliance had a mean of 4.33. The statement that audit department often conduct tax audits on tax payers had a mean of 4.14. The statement that possibility of tax audit forces SMEs to meet their tax obligation had a mean of 3.94.

These findings concur with Modugu et al., (2019) who noted that the functional tool of penalties enhances compliance, while the definitional function only defines tax compliance. These findings further agree Randlane (2016) who also addressed the importance of strict penalties. Taxpayers who fail to pay tax liabilities will encounter different types of penalties, and high level of fraud will also cause them to face legal challenges, including “criminal charges and jail sentences.

Table 4.6: Tax Deterrence Measures

Statement	N	Mean	Std. Deviation
Do you agree paying a substantial fine would deter SMEs from evading tax if KRA detects tax evasion?	118	4.27	.549
Tax Compliance assists in improving on tax avoidance amongst tax payers	118	4.07	.502
Tax assessment helps to improve tax payers compliance	118	4.33	.507
Audit department often conduct tax audits on tax payers	118	4.14	.543
Possibility of tax audit forces SMEs to meet their tax obligation	118	3.94	.695
Valid N (listwise)	118		

4.5.2 Electronic Taxation System

The study sought to assess the effect of electronic taxation system on compliance among small and medium sized enterprises in Kiambu County. Table 4.7 summarizes respondents' level of agreement on the effect of electronic taxation system on tax compliance among small and medium sized enterprises in Kiambu County. The statement that using iTax payments has made it easy for us to make tax remittances accurately, conveniently and on time had a mean of 3.75. The statement that filing out tax returns through iTax has reduced the enterprise's money and time related costs considerably had a mean of 4.33. The statement that iTax registration system makes it easy to do necessary tax amendments whenever necessary had a mean of 3.99. The statement that SMEs are able to access specific information needed from KRA through text messages had a mean of 4.18. The statement that tax remittance through mobile payments enhances tax compliance had a mean of 4.31.

The findings concur with a number of studies that have been undertaken to show the link between technological reforms in particular iTax system and tax compliance and mixed

findings have been observed. Kipkemoi (2015) evaluated the effects of recently made changes from the integrated tax system to the iTAX system aimed at encouraging use of the internet to file taxes on compliance of VAT payments by SMEs in Kenya using a case study of Wote Town in Makueni County, Kenya. The study adopted a combination of descriptive and diagnostic research designs. The study found that iTax system particularly registration of VAT taxpayers using iTax, filling of VAT returns online, and tracking VAT tax defaulters had a positive and significant effect on the tax compliance of the SMEs under study.

Table 4.7: Electronic Taxation System

Statement	N	Mean	Std. Deviation
Using iTax payments has made it easy for us to make tax remittances accurately, conveniently and on time	118	3.75	.656
Filing out tax returns through iTax has reduced the enterprise's money and time related costs considerably	118	4.33	.490
iTax registration system makes it easy to do necessary tax amendments whenever necessary	118	3.99	.531
SMEs are able to access specific information needed from KRA through text messages.	118	4.18	.384
Tax remittance through mobile payments enhances tax compliance	118	4.31	.498
Valid N (listwise)	118		

4.5.3 Tax Education

The study sought to analyze the effect of tax education on compliance among small and medium sized enterprises in Kiambu County. Table 4.8 summarizes respondents' level of agreement on the effect of tax education on tax compliance among small and medium sized

enterprises in Kiambu County. The statement that knowledge about tax laws plays a major role in determining tax compliance had a mean of 4.15. The statement that effective tax education can change the attitude and perception of enterprise owners towards tax compliance had a mean of 3.69. The statement that majority of SMEs are familiar with the iTax system had a mean of 4.12. The statement that KRA has created a lot of public awareness on tax compliance had a mean of 3.88. The statement that SMEs have adequate knowledge on tax rate, basis of taxation and compliance requirements had a mean of 4.02. These study findings are supported by Wasao (2015) who asserts that tax education to the SMEs becomes necessary when the objective of rising tax revenue, at the changing environment; particularly from the official tax assessment is considered. At the same time, achieving tax compliance and improving revenue generation is not an easy task. However, this problem can be minimized through tax education. According to Woodward and Tan (2015), training is useful in raising the awareness of clients of the revenue authority on different subjects including the importance of voluntary compliance in taxation.

Table 4.8: Tax Education

Statement	N	Mean	Std. Deviation
Knowledge about tax laws plays a major role in determining tax compliance	118	4.15	.361
Effective tax education can change the attitude and perception of enterprise owners towards tax compliance	118	3.69	.634
Majority of SMEs are familiar with the iTax system	118	4.12	.616
KRA has created a lot of public awareness on tax compliance	118	3.88	.775
SMEs have adequate knowledge on tax rate, basis of taxation and compliance requirements	118	4.02	.546
Valid N (listwise)	118		

4.5.4 SMEs Compliance

The respondents were requested to state their individual opinions on five specific statements regarding compliance among SMEs in Kiambu County. The statement that a lot of small and medium businesses think it is okay to under-declare their revenue in order to avoid paying taxes had a mean of 4.22. The statement that business owners file tax returns only to avoid penalties had a mean of 4.33. The statement that as an enterprise, we inform and declare actual income received from all sources to the KRA had a mean of 4.34. The statement that we keep records/documents pertaining to income and expenditure for a period of seven years after submission of the Tax Return had a mean of 4.19. The statement that taxes due is paid within 30 days from the date of issue of the Notice of Assessment or within the stipulated period had a mean of 4.27.

Table 4.9: Tax Compliance

Statement	N	Mean	Std. Deviation
A lot of small and medium businesses think it is okay to under-declare their revenue in order to avoid paying taxes	118	4.22	.416
Business owners file tax returns only to avoid penalties	118	4.33	.472
As an enterprise, we inform and declare actual income received from all sources to the KRA	118	4.34	.510
We keep records/documents pertaining to income and expenditure for a period of seven years after submission of the Tax Return	118	4.19	.391
Taxes due is paid within 30 days from the date of issue of the Notice of Assessment or within the stipulated period	118	4.27	.31548
Valid N (listwise)	118		

4.6 Correlation Analysis

To establish the relationship between the dependent and independent variables, the study conducted a correlation analysis which involved coefficients of correlation and determination. Pearson Bivariate correlation coefficient was used to determine the correlation between the dependent variable, compliance among SMEs in Kiambu County and the independent variables; deterrence tax measures, electronic taxation system and tax education. As stated by Creswell (2013), the correlation is assumed to be linear with correlation coefficient ranging from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship). The correlation coefficient was computed to establish the strength of the relationship between dependent and independent variables (Kothari, 2013).

From table 4.10, the results generally indicate that independent variables (deterrence tax measures, electronic taxation system and tax education) were found to have positive significant correlations on compliance among SMEs in Kiambu County at 5% level of significance. There was a strong positive and highly significant correlation between deterrence tax measures and compliance ($r = 0.816, P < 0.05$). There was a strong positive and highly significant correlation between electronic taxation system and compliance ($r = 0.840, P < 0.05$). There was a strong positive and highly significant correlation between tax education and compliance ($r = 0.550, P < 0.05$). This is in accordance with Dowe (2018) that tax reforms components (deterrence tax measures, electronic taxation system and tax education) play a crucial role in motivating service delivery, efficiency, tax revenue growth and sustaining momentum.

Table 4.10: Correlations

		Deterrence Tax Measures	Electronic Taxation System	Tax Education	Compliance
Deterrence Tax Measures	Pearson Correlation Sig. (2-tailed) N	1 118			
Electronic Taxation System	Pearson Correlation Sig. (2-tailed) N	.709** .000 118	1 118		
Tax Education	Pearson Correlation Sig. (2-tailed) N	.437** .000 118	.432** .000 118	1 118	
Compliance	Pearson Correlation Sig. (2-tailed) N	.816** .000 118	.840** .000 118	.550** .000 118	1 118

** . Correlation is significant at the 0.01 level (2-tailed).

4.7 Regression Analysis

4.7.1 Model Summary

To ascertain the research model, a confirmatory factors analysis was conducted. The independent variables were subjected to linear regression analysis in order to measure the success of the model and predict causal relationship between the independent variables; deterrence tax measures, electronic taxation system and tax education and the dependent variable; compliance among SMEs in Kiambu County. The model, shown in table 4.11, explains 82.5% of the variance (R Square = 0.825) on tax compliance. Clearly, there are factors other than the three proposed in this model which can be used to predict tax compliance of SMEs in Kiambu County. This implies that 82.5% of the relationship is explained by the identified three factors namely; tax education, electronic taxation system,

deterrence tax measures. The rest 17.5% is explained by other factors not considered in the model.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.908 ^a	.825	.820	.12388

a. Predictors: (Constant), Tax Education, Electronic Taxation System, Deterrence Tax Measures

4.7.2 Analysis of Variance (ANOVA)

The ANOVA result displays the sum of squares due to regression and due to residuals. It also displays the F ratio value and its significance. The F depicts the significance or the fitness of the regression model. It indicates how significant the predictors can predict the dependent variable. The results findings show that the Regression Model is significant (F = 178.855, p = 0.000). The significance of a regression model is considered significant if its p-value is less or equal to 0.05. In table 4.12, is a regression model established with its p-value of 0.000 significance which is less than 0.05. This indicates that the regression model was statistically significant in predicting the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County. This shows that the overall model was significant and that tax education, electronic taxation system and deterrence tax measures have an effect on compliance.

Table 4.12: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.234	3	2.745	178.855	.000 ^b
	Residual	1.749	114	.015		
	Total	9.984	117			

a. Dependent Variable: Compliance

b. Predictors: (Constant), Tax Education, Electronic Taxation System, Deterrence Tax Measures

4.7.3 Regression Coefficients

Table 4.13 presents the Regression Coefficients and the Significance of the Regressions (p-value). From the regression result, the coefficient of deterrence tax measures is .395. This implies that one unit change in deterrence tax measures, increases compliance by .395 units holding other factors constant. Therefore, deterrence tax measures were found to have statistically significant effect on compliance among SMEs in Kiambu County ($\beta = 0.399$; $t = 7.033$; $p < 0.05$). From the regression result, the coefficient of electronic taxation system is .526. This implies that one unit change in electronic taxation system, increases compliance by .526 units holding other factors constant. Therefore, electronic taxation system was found to have statistically significant effect on compliance among SMEs in Kiambu County ($\beta = 0.485$; $t = 8.572$; $p < 0.05$). From the regression result, the coefficient of tax education is .195. This implies that one unit change in tax education, increases compliance by .195 units holding other factors constant. Therefore, tax education was found to have statistically significant effect on compliance among SMEs in Kiambu County ($\beta = 0.166$; $t = 3.738$; $p < 0.05$).

Table 4.13: Multiple Regression (Coefficients)

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	.484	.224		2.163	.033
Deterrence Tax Measures	.395	.056	.399	7.033	.000
Electronic Taxation System	.526	.061	.485	8.572	.008
Tax education	.195	.052	.166	3.738	.000

a. Dependent Variable: Compliance among SMEs

$$Y = 0.484 + 0.395X_1 + 0.526X_2 + 0.195X_3$$

Where:

Y = Compliance among SMEs

β_0 = Constant

X_1 = Deterrence Tax Measures

X_2 = Electronic Taxation System

X_3 = Tax Education

e_i = Stochastic term

4.7.4 Discussion of the Key Findings

This section discusses the research findings presented in the previous section based on the objectives and hypotheses of the study. The general objective of the study was to determine the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County. The variables under study were deterrence tax measures electronic taxation system and tax education.

Pearson Bivariate correlation was used to compute the correlation between deterrence tax measures and tax compliance among SMEs in Kiambu County. There was a strong positive and highly significant correlation between deterrence tax measures and compliance ($r = 0.816$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of deterrence tax measures on compliance among SMEs in Kiambu County ($\beta = 0.399$; $t = 7.033$; $p < 0.05$). These findings concur with Modugu et al., (2019) who noted that the functional tool of penalties enhances compliance, while the definitional function only defines tax compliance. These findings further agree Randlane (2016) who also addressed the importance of strict penalties. Taxpayers who fail to pay tax liabilities will encounter different types of penalties, and high level of fraud will also cause them to face legal challenges, including “criminal charges and jail sentences.

Pearson Bivariate correlation was used to compute the correlation between electronic taxation system and compliance among SMEs in Kiambu County. There was a strong positive and highly significant correlation between electronic taxation system and compliance ($r = 0.840, P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of electronic taxation system on compliance among SMEs in Kiambu County ($\beta = 0.485; t = 8.572; p < 0.05$). The findings concur with a number of studies that have been undertaken to show the link between technological reforms in particular iTax system and tax compliance and mixed findings have been observed. Ritsatos (2015) evaluated the effects of recently made changes from the integrated tax system to the iTAX system aimed at encouraging use of the internet to file taxes on compliance of VAT payments by SMEs in Kenya using a case study of Wote Town in Makueni County, Kenya. The study adopted a combination of descriptive and diagnostic research designs. The study found that iTax system particularly registration of VAT taxpayers using iTax, filling of VAT returns online, and tracking VAT tax defaulters had a positive and significant effect on the tax compliance of the SMEs under study.

Pearson Bivariate correlation was used to compute the correlation between tax education and tax compliance among SMEs in Kiambu County. There was a strong positive and highly significant correlation between tax education and tax compliance ($r = 0.550, P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of tax education on tax compliance among SMEs in Kiambu County ($\beta = 0.166; t = 3.738; p < 0.05$). These study findings are supported by Wasao (2015) who asserts that tax education to the SMEs becomes necessary when the objective of rising tax revenue, at the changing environment; particularly from the official tax assessment is considered. At the same time, achieving tax compliance and improving revenue generation is not an easy task. However, this problem can be minimized through tax education. According to Woodward and Tan (2015), training is useful in raising the awareness of clients of the revenue authority on different subjects including the importance of voluntary compliance in taxation.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study sought to determine the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County. Deterrence tax measures, electronic taxation system and tax education were the independent variables of the study. This chapter provides a summary of the findings of the study based on the objectives of the study, presents the conclusions from the findings and gives recommendations to the beneficiaries of the study and areas of further research in order to fill the gaps identified in the study.

5.2 Summary of Findings

5.2.1 Deterrence Tax Measures

The first objective of the study was to examine the effect of deterrence tax measures on compliance among small and medium sized enterprises in Kiambu County. Deterrence tax measures was found to be satisfactory in explaining tax compliance. Further, results showed that deterrence tax measures are good predictors of compliance. Correlation analysis revealed that deterrence tax measures were positively and significantly associated to compliance. Regression of coefficient revealed that there was a positive and significant relationship between deterrence tax measures and compliance. This means that an improvement in deterrence tax measures leads to an improvement in compliance.

5.2.2 Electronic Taxation System

The second objective of the study was to assess the effect of electronic taxation system on compliance among small and medium sized enterprises in Kiambu County. Electronic taxation system was found to be satisfactory in explaining compliance. Further, results showed that electronic taxation system is a good predictor of compliance. Correlation analysis revealed that electronic taxation system was positively and significantly associated to compliance. Regression of coefficient revealed that there was a positive and significant

relationship between electronic taxation system and compliance. This means that an improvement in electronic taxation system leads to an improvement in compliance.

5.2.3 Tax Education

The third objective of the study was to analyze the effect of tax education on compliance among small and medium sized enterprises in Kiambu County. Tax education was found to be satisfactory in explaining compliance. Further, results showed that tax education is a good predictor of compliance. Correlation analysis revealed that tax education was positively and significantly associated to compliance. Regression of coefficient revealed that there was a positive and significant relationship between tax education and compliance. This means that an improvement in tax education leads to an improvement in compliance.

5.3 Conclusions

Based on the findings, the study concluded that deterrence tax measures have a positive and significant effect on tax compliance. Tax enforcement approaches and techniques to address compliance assist in solving tax evasion cases, assists in improving on tax avoidance and increase of more tax payers into the taxable blanket. It was also noted that the possibility of tax audit makes SMEs be tax compliant. In addition, tax assessment helps to improve tax payer's compliance. Taxpayers may decide to violate taxation law if there is zero probability of detection. Taxpayers who perceive a high level of detection will tend not to engage in tax evasion, which results in tax compliance enhancement

Based on the findings, the study concluded that electronic taxation system has a positive and significant effect on compliance. Tax system or e-pay is among the major technological tax reforms introduced iTax or e-pay through a Common Cash Receipting System (CCRS) by KRA. Electronic taxation system enables taxpayers to file returns online, and more importantly, make payments online for customers whose banks support the system. The iTax system thus provides efficient and effective services to taxpayers and public and reduce interaction with staff, improve tax collection, facilitate seamless sharing of information across Kenya and relevant third parties for data-matching purposes in order to detect non-compliance and to facilitate combined enforcement actions.

Based on the findings, the study concluded that tax education has a positive and significant effect on compliance. Taxpayer education will provide necessary tax knowledge to the SMEs which would enable them to comply with the tax matter and change the perceptions and attitudes towards tax compliance by creating more positive attitudes. Tax education component is expected to deal with non-compliance practice among the Small and Medium Enterprises. Tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. Taxpayer education provides a comprehensive awareness and information that promotes partnership and voluntary compliance and revenue collection.

5.4 Recommendations

5.4.1 Deterrence Tax Measures

A good system of sanctions and penalties should be an indispensable tool for enforcing compliance. A guiding principle in the design of a good system of penalties and sanctions should be to encourage taxpayers to settle the tax arrears quickly and to discourage them from using legal challenges to delay the payment of taxes which have been correctly assessed. To achieve these objectives; the sanctions and penalties should be levied promptly once a liability has been established; should not be excessive; should, however, be higher than the prevailing market interest rates.

5.4.2 Electronic Taxation System

In embracing electronic taxation system, KRA should keep in mind their primary purpose of improving taxpayer compliance and adopt new technologies in a systematic manner that supports their business direction and compliance initiatives. The aim is to create a robust compliance program that helps maximize taxpayers' compliance and minimizes the costs of compliance whilst being effectively supported by appropriate technology. Moreover, KRA should offer continuous training to taxpayers on how to use the various IT platforms like iTax, EGMS, Mobile Apps and Electronic Stamps in their organizations to improve excise duty compliance.

5.4.3 Tax Education

There should be training of special units within the revenue departments; for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayer. Taxpayers with high levels of general knowledge are less likely to be non-compliant taxpayers than those with low levels of knowledge. The positive correlation between tax compliance and knowledge level is attributed to improved tax fairness perceptions when taxpayers are better educated and with a capacity to deal with complex tax laws.

5.5 Areas for Further Research

The study sought to determine the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County. This called for the analysis of Kiambu County, thus area for further studies could consider other counties for purpose of making a comparison of the findings with those of the current study. The study used only three variables that is deterrence tax measures, electronic taxation system and tax education as the only variables that affect tax compliance among SMEs in Kiambu County. Future researchers should consider involving more sectors, especially other sectors of the economy such as the agriculture, manufacturing and real estate and services for better generalization of research findings. Future research on the effect of tax administration on compliance among SMEs could focus on other variables such as business automation and tax enforcement.

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APPENDICES

Appendix I: Letter of Introduction to Respondents



ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/106

30th September 2020

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST TO COLLECT RESEARCH DATA

This is to certify that the following is bona fide student of the Kenya School of Revenue Administration Mombasa Campus undertaking Post Graduate Diploma in Tax Administration.

Name	Admission Number
STEPHEN KAMAU	HDB336-C016-1754/2018

The above mentioned student is in his final year of study at the school and currently conducting research on “**Determinants of tax compliance among SMEs in Kiambu County**” The student is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only. The School would therefore like to seek your permission to allow him collect information that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

Mumia B.J.
For Principal – KESRA, Mombasa Campus



Tulipe Ushuru Tujitegemee !



Appendix II: RESEARCH QUESTIONNAIRE

This questionnaire is meant to gather information regarding your views on the effect of tax administration on compliance among small and medium sized enterprises in Kiambu County.

CONFIDENTIALITY CLAUSE:

The responses you provide will be used for academic research purposes, will be strictly confidential and will be handled ethically.

SECTION A: BASIC INFORMATION

1. Education Level achieved

College [] Undergraduate [] Postgraduate [] Professional Qualification []

2. Age of the business

a. Below 3 years []

b. Between 3 – 5 years []

c. Between 6 – 10 years []

d. Above 10 years []

SECTION B: DETERRENCE TAX MEASURES

Rate the extent to which the following aspects of deterrence tax measures affect compliance among small and medium sized enterprises in Kiambu County

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
B1	Do you agree paying a substantial fine would deter SMEs from evading tax if KRA detects tax evasion?					
B2	Tax Compliance assists in improving on tax avoidance amongst tax payers					
B3	Tax assessment helps to improve tax payers compliance					
B4	Audit department often conduct tax audits on tax payers					
B5	Possibility of tax audit forces SMEs to meet their tax obligation					

SECTION C: ELECTRONIC TAXATION SYTEM

Rate the extent to which the following aspects of electronic taxation system affect compliance among small and medium sized enterprises in Kiambu County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
C1	Using iTax payments has made it easy for us to make tax remittances accurately, conveniently and on time					
C2	Filing out tax returns through iTax has reduced the enterprise's money and time related costs considerably					
C3	iTax registration system makes it easy to do necessary tax amendments whenever necessary.					
C4	SMEs are able to access specific information needed from KRA through text messages.					
C5	Tax remittance through mobile payments enhances tax compliance					

SECTION D: TAX EDUCATION

Rate the extent to which the following aspects of tax education affect compliance among small and medium sized enterprises in Kiambu County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
D1	Knowledge about tax laws plays a major role in determining tax compliance					
D2	Effective tax education can change the attitude and perception of enterprise owners towards tax compliance					
D3	Majority of SMEs are familiar with the iTax system					
D4	KRA has created a lot of public awareness on tax compliance					
D5	SMEs have adequate knowledge on tax rate, basis of taxation and compliance requirements					

SECTION E: TAX COMPLIANCE OF SMEs

Rate the extent to which the following aspects of tax administration affect compliance of SMEs in Kiambu County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
E1	A lot of small and medium businesses think it is okay to under-declare their revenue in order to avoid paying taxes					
E2	Business owners file tax returns only to avoid penalties					
E3	As an enterprise, we inform and declare actual income received from all sources to the KRA					
E4	We keep records/documents pertaining to income and expenditure for a period of seven years after submission of the Tax Return					
E5	Taxes due is paid within 30 days from the date of issue of the Notice of Assessment or within the stipulated period					