CUSTOMER-FOCUSED SERVICE ON TAX COMPLIANCE IN KENYA - A CASE OF SMALL AND MEDIUM ENTREPRISES IN THE NAIROBI CENTRAL BUSINESS DISTRICT

MUTHURI JANE WANJIRU

A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUISINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISTRATION, JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY (JKUAT)

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DECLARATION

This project is my original work and has not been presented for a post graduate diploma in any other academic or non-institution

Signed: ………………………………. Date: ……………………..

Muthuri Jane Wanjiru
HDB336-C016-4074/2016

Declaration by the supervisor

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

Signed: …………………….. Date: ………………………….

PRISCILLA MWANGI

ABSTRACT

Kenya Revenue Authority is involved in revenue collection mainly from taxation of taxable persons in the economy. Small businesses are often involved in tax evasion practices deliberately or without knowledge. It is not an easy fete to convince the small and medium enterprises to comply with tax laws. It is for this reason that customer service is seen as a good strategy through which tax compliance among the Small and Medium Enterprises. This study had the general objective of assessing the sequel of customer service on tax compliance in Kenya. The study had three specific objectives: To find out the effect of tax payer training on tax compliance, customer care staff training and to examine how communication to customer strategy on tax compliance, a case of SMEs in Nairobi Central Business District. The study adopted a descriptive research design because it had the objective of establishing the relationship between the variables. The study had a target population of 1,500 Small and Medium Enterprises operating with the Nairobi Central District. A sample of 150 was selected through stratified sampling which acted as a representative of the entire population. The study used descriptive statistics in data analysis. The study has found out that the most enabling factor is customer communication, followed by customer care and the lowest influencing is taxpayer training. Further, the study has found there is a need to improve the customer service of KRA in order to foster voluntary tax compliance. The regression model has found out that 53.7 % of the variations of Turnover Taxes is explained by taxpayer training, customer care training and communication strategy. The study recommends that the KRA needs to establish a strategic customer care department in order to facilitate information dissemination which will foster tax compliance among the SMEs in Kenya. Tax training should be done regularly and the appropriate communication channels should be used.

Key Words: Tax Compliance, Small and Medium Entreprises, Customer Service

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ACRONYMS

EU-	European Commission
FSD-	Financial Sector Deepening
GDP-	Gross Domestic Product
GoK -	Government of Kenya
ICT-	Information and Communication Technology
ITMS-	Integrated Tax Management System
KRA-	Kenya Revenue Authority
KNBS-	Kenya National Bureau of Standards
OECD-	Organization for Cooperation and Development
TOT-	Turnover Tax
TPB-	Theory of Planned Behavior
VAT-	Value Added Tax

DEFINITION OF TERMS

Communication to Customer strategy- this is the dissemination of information on tax matters to the tax payers. This aims at creating awareness on tax matters and regulations which enables tax payers to comply with the tax laws.

Customer Care Staff training - Customer care staff training is imparting knowledge and skills to those people working in the customer care department in order to improve their service delivery

Customer Service - customer service is the process of identifying the needs of customers and taking deliberate measures to satisfy the customer before the purchase, during and even after purchase or provision of service is done.

Small and Medium Entreprises - In Kenya, SMEs is a business entity that has less than Kshs. 50 million annual turnover and which employs 5 to 50 employees**.**

Tax Compliance - Tax compliance is the voluntary willingness of taxpayers to fulfil their tax obligations including timely filing, honest declaration of income and payments of all taxes dues as per the law.

Tax payer Training - This is the process of educating tax payers on their tax obligations and the entire working of the tax system. This involves issuance of printed documents, holding seminars and training through the electronic media

CHAPTER ONE: INTRODUCTION

1.1. Background

Tax is the main source for government revenue, which is in turn used in provision of public goods and services for the benefit of all citizens (Gcabo and Robinson, 2007). Thus it is crucial that governments improve tax revenue by implementing strategies that lead to tax compliance. Lee (2012) noted that in South Korea and Turkey, tax compliance was not at full compliance because some taxpayers did not have the ability of use the tax systems and therefore there was need to train them on use of systems. It is important to note that tax compliance is influenced by a variety of factors. For instance, In Malaysia, the taxpayers' indicated that tax compliance was influenced by such factors as ease of use of systems and knowledge and skills in filing taxes (Azmi and Kamarulzaman, 2010). Helhel & Ahmed, (2014), sought to establish the factors that lead to tax compliance among individuals in Yemen and identified that the understanding of the tax system and tax rates had significant effects on tax compliance among individuals.

In South Africa, voluntary tax compliance was noted as the main challenge in revenue maximization (Trivedi, Shehata, and Mestelman, 2015). According to Mandola (2013) tax compliance among the SMEs in Tanzania was influenced by how well the taxpayers could understand the tax regulations in the country. Most countries are undertaken tax reforms in order to improve the revenue generated from taxes. However, most developing countries run deficit budget implying that the tax systems are not optimum as far as public finance is concerned. It is important to note that, it is the duty of the government to provide public goods such as roads, railways, airports and services such as health care, security and education to all the citizens. As a result, revenue collection is paramount and should be maximized through voluntary compliance.

In Kenya the mandate of tax administration is under the Kenya Revenue Authority (KRA) which was enacted in 1995. Gachuki (2015) did a study that had an aim of establishing the factors that assessed tax compliance by SMEs Nairobi North Tax region and found out that the Kenyan tax law was complex to most SMEs and thus did not foster compliance, the cost of compliance was high and also most of the respondents had not appropriate or adequate tax knowledgeKirchler (2007), notes that tax compliance is the tendency of taxpayers willingly to compute and declare taxes honestly and pay their tax dues in good time. According to Rile (2011), there has been rampant increase in cases of tax evasion which to a large extent undermines the government steps on mobilization funds for public expenditure.

According to Goradichenko et al., (2009), noncompliance to tax obligations cuts across both developing countries and developed countries. Individuals and corporate are involved in tax evasion in order to lower the amount of taxes they pay to the government. As a result, revenue mobilization is compromised and the government is unable to keep providing the public goods for its citizens. It is thus crucial that the tax system is set in a way that it encourages the tax compliance. One method of ensuring that tax payers comply with tax regulations is by offering high quality customer service. It is for this reason that the Government of Kenya (GoK) needs to act prudently set strategies to curb tax evasion and enhance tax compliance among the small and medium enterprises in Kenya. Most SMEs operate in the informal set up and thus they need facilitation to increase their tax compliance. Tax compliance ensures that taxpayers meet their tax obligations and thus the amount of government revenue is enhanced. According to Aksnes (2011), customer service increases the level of understanding of tax laws among the taxpayers.

1.1.1 The Concept of Customer Service

According to Turban (2012), customer service is a conscious process of ensuring that products and or services meet customer expectations. It is a step by step undertaking that leads to customer's satisfaction in the services and products of a particular organization. Customer services entails communications with clients before they purchase goods or before the service is offered and even after the purchase. It involves offering clients with solutions of problems at all the times. With respect to a revenue collection body, customer service involves educating taxpayers, training and offering help in the process of filing tax returns and payments of taxes.

According to Fluss (2010), customer service in a service organization calls for a careful planning of activities that ensures that clients are satisfied with the service. In the modern times, the customers are always in rush and thus an efficient customer services is important in order to attend to their different needs. For instance and specific to tax payers, tax filing is done electronically and thus the taxpayers need to be trained on how to file and remit taxes. A high end customer service increases compliance with tax regulations among the taxpayers. It is of paramount importance that the current taxpayers are encouraged to keep fulfilling their tax obligations while more are brought to tax. According to Lovelock (2014), any organization that has a desire to improve its performance must be customer-oriented. This is because all organizations owe their existence to customers and clients who form their target markets. As a result, the KRA ought to center its operations considering the tax payers and training them on tax compliance.

Ideally, satisfied customers or clients will have a tendency of continued transactions with the specific organizations. It is true to suffice that satisfied customers are loyal and this means when that taxpayers are satisfied they will keep filing and paying their taxes in due. Maxhand

and Plowman (2012), notes that customer service involves meeting customer expectations and ensuring that they are happy and return. For this reason, the KRA should offer high quality customer service in order to encourage the SMEs to keep complying with tax regulations.

1.1.2 Tax Compliance

According to Jones (2009), tax compliance honest reporting of the expected tax information with the stipulated guidelines. In this regard, tax compliance encompasses timely filing, honest tax computation and payment of taxes as per the tax laws of a given state. It is important to note voluntary tax compliance is the best because the tax system motivates taxpayers to meet their tax obligations in timely fashion. According to Khadijah (2014), voluntary tax compliance is influenced by how the tax system of a country works. However, businesses have an inherent desire for increasing profits may lead them to falsifying incomes in order to pay less tax. It is for this reason that the governance of a country should be construed as to be working on behalf of the citizens in order to motivate people to pay taxes at will. Tax is the main source of revenue for governments and thus compliance should be fostered. Tax compliance involves the honest and self-declaring of tax amounts and payments of the same within the stipulated time.

Non-compliance to tax regulations may also be defined as tax evasion. According to Cumming (2012), tax evasion is the failure of individual, corporate and other legal person to fulfill their tax obligations. It is important to note that tax obligations encompasses filing of taxes, filing of annual returns, payments of taxes, withholding of taxes specified by the law among other obligations. Thus, tax evasion is the neglect of one or some of these obligations. By not complying with tax regulations, the amount of taxes collected is less and thus reducing government revenues. It is true to suffice that most governments of developing nations operates deficit national budgets. For this reason, it is crucial for more taxpayers to be motivated and facilitated to pay taxes.

According to Oberholzer (2008), the tax systems of most developing countries are complex hence limiting compliance among the small taxpayers. This is attributed to the fact that the owners of such business are not knowledgeable in tax laws and thus they overlook some aspects without the intention of breaking the law. Further, it is expensive to hire tax practitioners to advice on tax matters since small businesses are characterized by low incomes and thus added costs are always avoided. Worth noting, is the fact that most SMEs operate in the informal set up, hence they may lack the services of tax advisors. Thus, the revenue authorities need to take initiatives to educate the taxpayers through superior customer's service that will ensure they comply with tax regulations.

The Organization for Cooperation and Development(OECD, 2017) notes that tax compliance categorizes tax compliance in two folds: administrative and technical compliance where the formers implies on the willingness of the tax payers to fulfill their tax obligations by filing and paying taxes while technical tax compliance refers to the honest tax computations and payments of the correct amounts. In other words, tax compliance is the state that exists where tax paid is the tax that ought to have been paid. The reverse case is true for noncompliance where it means that the tax paid is not to equal to the tax that ought to have been paid. However, the level of tax compliance among tax payers depends on various factors such as their understanding of the tax regulations and tax skills.

1.1.3 SMES in Nairobi Central Business District

Nairobi City is the capital city of the republic of Kenya with an estimated population of 3.9 million people (KNBS, 2016). Nairobi's people are involved in a variety of economic activities including carrying out business activities of the nature of small and medium enterprises. It is important to note that there is no universally accepted definition as to what characterized an SME. In the Kenyan context, SMEs is a business entity that has less than Kshs. 50 million annual turnover and which employs 5 to 50 employees (FSD, 2016). An estimated 34.3 % of the GDP in Kenya is contributed by the SMEs (The Economic Survey, 2016). In Nairobi a majority of the SMEs are in the informal sector which is less regulated which employs over 50 % of the working population.

Most SMEs are expected to pay a turnover tax which was introduced by the Finance Bill of 2006 and came into law in 2007. ToT is charged at the rate of 3% and is payable monthly by 20th of the following quarterly month of income. The Kenya Revenue Authority expects SMEs to remit the tax in lieu of VAT which is levied to those enterprises with over KShs. 5 million turnovers and above in a calendar year. The SMEs in Nairobi are involved in a variety of activities ranging from sell of second hand items, electronic shops, cloth sellers, vehicle repairs, beauty shops and parlors, public transport vehicle businesses among other ventures. Most of these are situated within the Central Business District.

1.2. Statement of the Problem

Small and Medium Entreprises in Kenya are increasing day to today owing to their informal set up. Thus, they may not have access to specialized tax advisory services from tax practitioners and also the owners who double as the management may not have expertise in matters relating to taxes. For this reason, cases of tax evasion, both deliberate and unintentional are rampant in Kenya (Fjeldstad, 2007). According to the European Commission (EU, 2014), the tax compliance attitudes are different between large taxpayers and small tax payers. The small taxpayers are involved in cases of tax evasion through falsifying income in order to lower taxes payables. In as much as the KRA has adopted various forms of customer service including establishment of a customer care department, issuing newsletters and flyers, advertisements in print and broadcast media, holding seminars and sending of bulk emails to tax payers.

According to Mandola (2013), the introduction of electronic systems results into resistance to remittance of taxes by small taxpayers. According to KRA(2016), the number of manually registered Turnover Taxes (ToT) clients, were far more by ten folds over the online registered ones. Thus, it shows that the adoption of itax system has not necessarily enhanced tax compliance among tax payers in Kenya. As a result, there is a dire need by the KRA to foster customer service in order to enhance tax compliance among the small tax payers in the country. The KRA (2015) indicates that an estimated Kshs. 190 billion was lost in the fiscal year 2013/2014 due to non-compliance with tax regulations. Perhaps, this may be attributed to lack of skills and knowledge on tax remittance by the small and medium enterprises.

A number of studies have been undertaken on tax compliance in Kenya by Gachiku(2015), established that number of taxes and number of tax returns to be paid and filed respectively affects compliance to tax regulations. Further, the study established that compliance costs and tax skills influence compliance among the small taxpayers at the North of Nairobi Tax district. However, the study did not consider the influence of customer service and customer delivery on tax compliance among the small tax payers. Kirathe, (2009 identified that tax compliance costs had a great influence on tax compliance among the taxpayers. Evidently therefore, there is research gap that needs to be filled because it appears that there is no study that has so far been carried out to assess the role of customer service on tax compliance among the small and medium enterprises in Kenya. Therefore this study seeks to answer the following question; does customer service affect the level of tax compliance among the small and medium taxpayers in Kenya?

1.3. Objectives of the study

1.3.1. General Objective

The general objective of this study was to assess the sequel of customer service on tax compliance in Kenya.

1.3.2. Specific Objectives

From the above general objective, the following specific objectives were derived:

1. To find out the effect of tax payer training on tax compliance among SMEs in Nairobi Central Business District
2. To establish the effect of customer care staff training on tax compliance among SMEs in Nairobi Central Business District
3. To examine the impact of customer care communication strategy on among SMEs in Nairobi Central Business District

1.4. Research Questions

This study aims to answer the following research questions;

1. Does taxpayer training have an effect on tax compliance among SMEs in Nairobi Central Business District?

2. Does training customer care staff have an effect on tax compliance among SMEs in Nairobi Central Business District?
3. Does customer care communication strategy on tax compliance among SMEs in Nairobi Central Business District?

1.5. Justification

The findings of this study are of benefit to the SMEs in Kenya because it gives insights on tax compliance and causes of noncompliance. It further documents on how the SMEs can access customer service at the KRA and how it foster compliance. Additionally, the study is of value to the KRA and the government. The study provided information on the subtle reasons that lead to noncompliance to tax regulations. In this respect, it is very helpful in that it provides background information on policy formulation with regard to tax matters of SMEs. Lastly, the study is of use to scholars and other researchers because it is a source of empirical review and it can form the basis of further research.

1.6. Scope

This study sought to assess the sequel of customer-focused service on tax compliance, a case of SMESs in Nairobi Central Business District. The study had the following three objectives, that is: effect of training, customer care staff training and communication to customer strategy on tax compliance among the SMEs. The study used primary data and was conducted for a period of three months. The study had a target population of 1500 SMEs within the Nairobi CBD (KRA, 2018).

1.7. Limitations of the study

The study was limited to extent that tax compliance among the SMEs is affected by a number of factors other than customer service. However, this study considered tax payer training, customer care staff and customer communication. Thus, the study collected data on these variables without alienating possible effects of other factors such as costs of compliance, tax attitude and education. Also, the study sample size may not be a representative of the entire population of SMEs in Kenya. The study had a target population of all SMEs in Nairobi Central Business and sampled 150 respondents. With this in consideration, the study wishes to caution that then findings may not be applicable to other parts of the country and enhance should not be used as basis for tax advisory.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter contains the theories of the study, empirical review, conceptual framework and summary of literature and gaps is presented at the end.

2.2 Theoretical Review

A good research is has a theoretical underpinning. This study will be guided by the following theories; theory of planned behavior, tax moral theory and theory of crime.

2.2.1 Theory of Planned Behavior

According to (Azjen, 1991), the Theory of Planned Behavior (TPB) aims at establishing how people behave in the society. The main theme of this theory is providing explanations that lead to conscious human behaviors. The proponents of this theory argue that individual in a given society behaves in certain manners due to the influence of certain definite factors which are caused by other certain reasons. Individuals are thus inclined towards certain behavior which is influenced by the purpose of engaging in the behavior (Erten, 2002). As a result, behavior is explained by such factors such as attitude, beliefs, and societal norms. This theory is centered on the idea of intention which is defined as the degree to which individuals are willing to conform or change behaviors (Azjen, 1991).

According to Klee *et al. (*2000), intention is defined as the attitude that individuals exhibit towards perceived behavior controls. Also, there are subjective norms that guide people's behavior. Subjective norms are those external; influences which are based on the opinions of other important persons which may have influence on the individual behaviors. This theory posits that individual' intention with influence from the perceived control over the behavior is responsible for explaining if individuals will engage in certain behaviors.

The aim of this study is to assess the role of customer service in tax compliance among the SMEs in Nairobi. Thus, this theory is relevant to this study since it gives insights on why tax payers may choose to comply with tax laws or not. TPB denotes that there are intentions that control individual behaviors together with control over the behavior. For instance, where the individual SMEs are owned by individuals who have the intention of contributing to the economy, compliance to tax laws may be high. The reverse case is also true in that individuals without the intention of contributing to government revenue will conceal tax through tax evasion.

2.2.2 Tax Moral Theory

The tax moral theory was coined by German scholars (Mocetti, 2016) and seeks to explain the effect of tax morality of tax payers and their willingness to pay taxes. According to this theory compliance with tax regulations is based on the environment in which individuals live for instance, in the circumstance that individuals find themselves in a society that does not pay taxes, they will also adopt that practice of non-compliance. According to Gee(2006), people will generally not pay taxes if they think they can escape from being caught on tax evasion. Further, if the society advocates for tax payments, it encourages individuals and other tax persons to pay and comply with tax regulations of the particular country. The theory provides a moral justification that lead to tax compliance or non-compliance. It is also important to note that what is moral may be different from one individual to another and from one society to another.

The theory is crucial to this study because it helps in explaining the moral of the people and the reasons why they are willing or not willing to pay taxes. This theory indicates that the society in which individuals live in has role in whether they pay taxes or not. In this respect, the theory provides a wide view of individual’s willingness to pay taxes. It has been noted that if the individuals believe that their taxes are prudently spent and without embezzlement by those in leadership, the chance of compliance with tax regulations is high (Gee, 2006). More importantly, tax compliance is multidimensional ranging from filing the relevant tax returns, filing within the stipulated time and the honest computations of tax dues.

2.2.3 Theory of Crime

According to Becker (1968), the theory of crime views people as rational being who behave in a manner that their sought for utility is maximized. In this respect, this theory asserts that individuals and corporations will be willing to comply with tax regulations as long as they can get the utility they seek by doing so. Tax is the main source of government revenue which is expensed in provision of public goods and services. Alligham and Sandmo (1972) notes that tax compliance is often influenced by factors such as penalty rates of tax evasion, the likelihood of being detected for tax evasion and the extent of tax evasion that is involved. Further, it has been found out that tax compliance is played by both the tax payers and the regulatory authority. According to Murphy and Harris (2007), tax compliance is better enhanced through cooperation and facilitation because legal coercion may lead to aggressive behaviors which may lead to more non-compliance to tax regulations. Where taxpayers are forced to pay taxes without due cooperation by the revenue regulatory bodies it may lead to creative compliance where tax returns are manipulated and lower taxes are paid (McBarnet, 2003). In the worst case it leads to criminal activities that aim at concealing taxes (Fehr and Rokenbach 2003).

This theory is important to this study because it explains the need for cooperation between tax payers and the revenue bodies. For instance, the theory advocates for support and facilitation in order to enhance compliance. The study seeks to establish the role of customer service on tax compliance among the SMEs in Nairobi Central Business District. This theory advocates for two measures to enhance tax compliance; punitive and persuasive Allingham and Sadmo (1972). Punitive measures are those measures that may be deemed as harsh which are supposed to scare taxpayers from non-compliance and they may include heavy penalties and jail terms. On the other hand, persuasive measures are those that are regarded as soft and aims at achieving tax compliance by the tax payers at will. Customer service may be seen as persuasive measure since it involves a series of activities that make tax filing, tax payments and addressing of tax issues faster and easier.

2.3 Empirical Review

Gachuki (2015) did a study that had an aim of establishing the factors that assessed tax compliance by SMEs Nairobi North Tax region. The study had three objectives, that is, to establish how tax knowledge, current laws in tax and tax compliance costs influenced tax compliance among the SMEs. The study adopted a descriptive research design where a sample size of 150 was selected. The study collected primary data through issuance of questionnaires to the respondents. The study found out that the Kenyan tax law was complex to most SMEs and thus did not foster compliance, the cost of compliance was high and also most of the respondents had not appropriate or adequate tax knowledge. The study is important because it gives insights on how skills may affect tax compliance among taxpayers. However, the study did not consider customer service which will be the main objective of this instant study.

Empirical study by Fagbemi, Uadile and Noah (2010) have reported that noncompliance of tax is prevalent in developing countries and it hinders development thereby leading to economic stagnation and other social and economic problems. Chipeta (2002) has identified high tax rates as one of the reasons of tax evasion. Chipeta (2002) further pointed out that a higher tax rate increases the burden of the tax payer and reduces his disposable income hence, the probability of evading tax is higher.

Ling and Nawawi (2010) conducted a study in Malaysia on the impact of information and communication technology on compliance among the small taxpayers in the country. The study had the overall objective of establishing whether ICT knowledge among the tax advisors had an impact on tax compliance. The study used primary data that was collected by administration of questionnaires. The study found out that ICT skills and basic expertise was crucial in enhancing tax compliance an electronic system. The study recommended that taxpayers need be trained in order to understand the requirements of the law in a far as an online tax system was concerned. This study is relevant because it offers a discussion on how training is beneficial to taxpayers and the regulator. Training enables people with the appropriate skills to perform certain functions that are required of them. Thus, where tax payers are trained on tax regulations including filing and basic computations, the level of tax compliance could be enhanced.

Helhel & Ahmed, (2014), sought to establish the factors that lead to tax compliance among individuals in Yemen. The purpose of the study was to determine the factors that lead to compliance among the taxpayers. Primary data was collected through administration of questionnaires. The study identified that the understanding of the tax system and tax rates had significant effects on tax compliance among individuals. As a result, it is therefore, important that taxpayers are trained and made aware of the number of taxes, tax rates and frequency of filing tax returns and their deadlines. Where these information is disseminated in good time and appropriately level of tax compliance is likely to be enhanced.

Tusubira and Nkote (2013) undertook a survey of tax skills and tax compliance among small and medium enterprises in Uganda. The study had a target population of 377 small and medium enterprises in Mbale District in Uganda. The study had the overall objective of establishing whether tax proficiencies among the small taxpayers had influence on tax compliance. The study found out that information availability and tax training significantly influenced tax compliance. The study recommended that small and medium enterprises be trained in order to enhance their skills with respect to tax matters. Thus, this study is relevant to this instant study. This is because it advocates for information dissemination to tax payers which is the main component of customer service. This current study seeks to identify the role of customer service on tax compliance among the SMEs in Nairobi Central Business District.

Rizalpalil and Mustapha (2010) undertook a study in Malaysia with an aim establishing of how tax knowledge influenced tax compliance. The study concluded that tax knowledge was significant in determining tax compliance and that tax knowledge was varying among the respondents. The individuals who were skilled in tax matters often filed taxes and complied with regulations. On this note, customer delivery and communication of tax related issues is crucial to enhancing level of compliance.

A study on effects of online tax filing on tax compliance among small taxpayers in East of Nairobi region was conducted by Isao (2014). The study has a general objective of evaluating whether online tax filing influenced tax compliance among the small taxpayers. The study had three objectives, that is, establishing the effect of online tax registration, tax filing and tax payment on tax compliance among the respondents. It was found out that online tax affected tax compliance. The study advocated that taxpayers need to be provided with information on the working of an online system in order to foster compliance.

Mararia (2014), assessed the impact of tax compliance costs, tax knowhow and education on compliance among the medium and small taxpayers in Kenya. The study adopted a descriptive research design. The study had a target population of 200 medium and small taxpayers from which a sample size of 100 was selected to be the representative of the entire population. The study collected primary data through administration of questionnaires and conducting interviews. The study found out that there was direct relationship between adoption of the Integrated Tax Management System (ITMS) and tax compliance among the respondents of the study. Further, the study found out that compliance costs, tax knowledge and training and fines and penalties affected tax compliance. The study recommended that it is important to provide education to tax payers.

Kiraithe (2009), did a study on tax compliance among businesses in Kenya. The study had the objective of assessing the factors that led to discrepancy of revenue collected by the Kenya Revenue Authority. The study identified that the most contributing factor was compliance costs which were established to be high hence discouraging the tax payers. The study defined compliance costs as the costs of fulfilling tax obligations. The study recommended that the taxpayers should be trained on how to compute taxes, file taxes and pay tax dues. Consequently, the taxpayers are encouraged to pay taxes.

2.4 Conceptual Framework

A conceptual framework is a representation of the potential interaction among study variables. This study seeks to assess the role of customer service on tax compliance among SMEs in Nairobi Central Business District. The study will have three independent variables which are: tax payer training, customer care staff training and communication whereas the dependent variable will be tax compliance.

Tax payer Training involves offering education on tax related matters to clients which is offered by the KRA. It is important to note that tax laws are constantly changing and thus the taxpayers need to be educated on such changes through taxpayer's seminars, information on print media and in electronic forms. Tax training enables tax payers to possess skills and expertise in addressing tax duties such as filing, computations and payments. Customer care staffs need to train on how to handle customers with care in order to solve their problems. It is crucial that the tax payers have the feel that the customer care personnel will respond to queries appropriately and accurately, they have ability to solve their tax problems and that the service delivery is of high quality.

Customer communication is an integral part of customer service. The taxpayers need to be made aware of their tax obligations and should there be change, they should be made promptly by the revenue authority. For this reason, it is crucial that all stakeholders are sensitized on tax matters and the customer care department of the KRA should be accessible to all businesses including the SMEs. Further, it is crucial that real time help is offered such that tax deadlines are met. On the other hand, tax compliance is the degree to which taxpayers file their tax returns accurately and honestly and payment of taxes within the stipulated time by law.

The study variables are conceptualized as

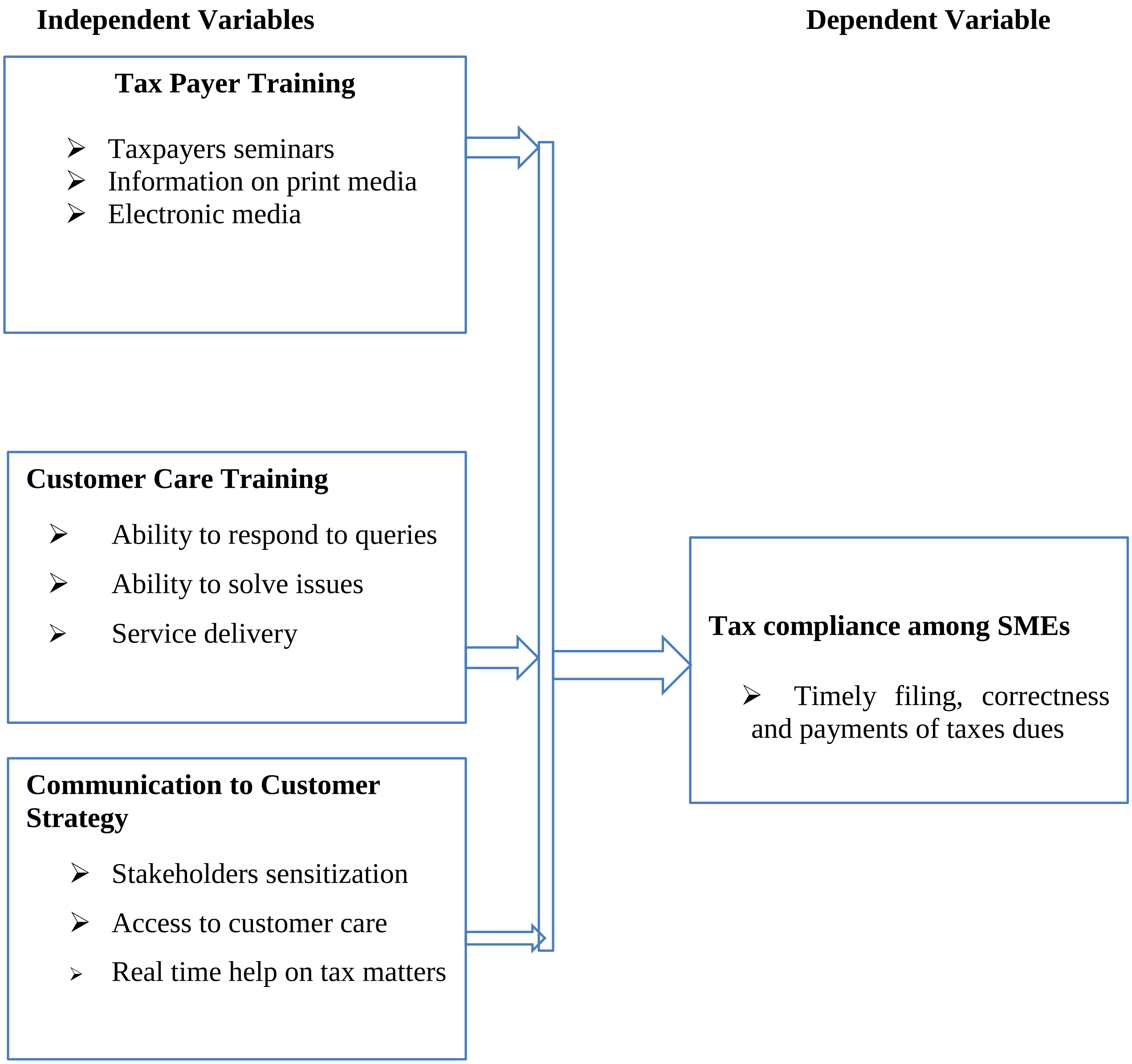

Figure 2.1 Conceptual Framework

2.5 Critique of Existing Literature

Many scholars have addressed the questions that emerge from this literature especially the in-elasticity of tax location decision with respect to tax differences across jurisdictions. The issue of incomplete integration between personal and corporate tax has been addressed. Government need to review tax bias against entrepreneurs and design tax policies for entrepreneurship to remedy market failures, while avoiding adverse side effects. Marginal tax rates exert a statistically and quantitatively significant influence on the growth of SMEs. Marginal tax rate may be defined as the amount of tax paid on an additional cedi of income. This leads to the conclusion that raising income tax inhibits the growth of SMEs.

2.6 Research Gaps

Various studies have been done on tax compliance in developed countries and in the developing countries. Ling and Nawawi (2010) conducted a study in Malaysia on the impact of information and communication technology on compliance among the small taxpayers in the country and established that skills in tax matters are necessary in tax compliance. Gachuki (2015) did a study that had an aim of establishing the factors that assessed tax compliance by SMEs Nairobi North Tax region. The study found out that the Kenyan tax law was complex to most SMEs and thus did not foster compliance, the cost of compliance was high and also most of the respondents had not appropriate or adequate tax knowledge. Muita (2011), noted that skills and support are crucial in enhancing tax compliance among tax payers. However, it appears that none of the studies concentrated on the potential influence of tax payer training, customer care staff training and communication on tax compliance among small and medium tax payers which forms the objectives of this instant study.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter contains the research design, target population and sample size. Also, the chapter has a discussion of the data collection procedure and data analysis with operationalization of the variables presented at the end.

3.2 Research Design

A research design is the arrangement of conditions in order to meet research objectives and answer research questions Saunders et al.(2007) .Cooper and Schinder (2003), notes that a research design outlines how data will be collected, how the target population will be identified and how the sample size will be picked. This study adopted a descriptive research design. According to Saunders et al.(2007), a descriptive research design is best suited for a study that assess variables on their natural and uninterrupted setting. Further, a descriptive research design seeks to describe whether there is a relationship among variables being assessed by a particular study. Kothari (2004), notes that a descriptive research design provides a coherent way of understanding the interrelationships among variables of a particular study. Another reason for adopting quantitative research design is because it provides parameters for measuring the influence customer service on tax compliance among the small and medium enterprises in Nairobi Central Business District.

3.3 Population

According to Cooper (2010), the population of study refers to the distinct set of items that be taken as the units of study for research. According to KRA (2018), there are about 1,500 SMEs that are registered who pay Turn over taxes in Nairobi Central Business District

Table 3.1Target Population

Category	Target population	Percentage
SMEs Expected to pay ToT	1,500	100

3.3.1 Sample Size and Sampling Procedures.

This section outlines how the sample size was selected for this study.

3.3.1.1 Sample Size

The study picked a sample size of 10 % of the population of study which was 150 respondents. The sample size was divided into strata into the classes depending on the area of enterprise. Stratified was regarded as it eliminated the chances of creating biases hence allowing equal chances to all business in the target population to be selected as the sample. The individual respondent enterprises were picked through random sampling and the questionnaires were filled by the owners of such businesses.

Table 3.2 Sample size

NAME	SAMPLE SIZE	PERCENTAGE
Beauty Business	15	10%
Retail Enterprises	20	13%
Transport industry	17	11%
Second hand items Merchandisers	20	13%
Hotels and cafes	28	19%
Electronic and accessories	30	20%
Service Firms	20	13%
TOTAL	**150**	**100%**

3.3.2 Data Collection Instruments

Data was collected through administration of questionnaire. This is further explained follows:

3.3.2.1 Questionnaire

The study employed a questionnaire in order to collect data on influence of customer service on compliance among the SMEs. The questionnaire had four sections. Section “A” collected demographic information about the respondents such as education of owners, length in business and age while the remaining three sections collected data pertinent to the three objectives. The questionnaire had two types of questions; both closed and open ended. Closed ended questionnaires are important because they help in limiting the scope of responses from the respondents and thus are specifically meant to capture data that is pertinent to study objectives. On the other hand, open ended questions leave a room for the respondents to respond in their own terms and may help capture data that may have been overlooked during construction of the questions. The closed ended questionnaires were in form of a Likert’s scale in which the respondents were required to rate the statement in their contexts.

3.3.2.2 Data Collection Procedure

The researcher randomly picked the respondents and drop the questionnaires in person. A one week time for filing the questionnaires was allowed to the respondents. This time period was enough as it ensured that the respondents had enough time to fill the responses. The study issued one questionnaire to each selected SME.

3.3.2.3 Pilot Testing

According to Mugenda and Mugenda (2003) it is important to carry out a reconnaissance study that ensured that the researcher is able to identify the tools required during the study, enables time budgeting and also provides for testing the validity and reliability of research instruments.

The study selected 10 questionnaires for the purpose of a pilot study which were issued to the respondents.

3.3.2.4 Validity of Instruments

According to According to Winterstein, (2008), validity refers to extent to which a given research instrument collects data that is expected to collect. This study adopted content validity which is the degree that a questionnaire collects data which it is ought to collect. In this respect, content validity ensures that all respondents understand the questionnaire in a similar manner. In other words validity seeks to eliminate misinterpretations of the questions in the questionnaire. Where necessary the researcher may use the assistance from a professional in the field of SMEs and tax compliance to ensure that the questions are coherent and were able to meet the objectives of the study.

3.3.2.5 Reliability of Instruments

The reliability of a research instruments is the degree to which it collects consistent results even after repeated trials. According to Winterstein, (2008), reliability tests whether a similar person responds similarly to a given set of questions at different times. This study used a test retest method in order to assess the reliability of the questionnaire. The study evaluated reliability by the use a Cronbach alpha which ranges from 0.00 to 1.00 where a value of above 0.7 is considered good enough for a descriptive study.

3.4 Data Analysis

The study adopted descriptive statistics in order to assess the relationship between customer service and tax compliance among the small and medium enterprises in Nairobi. Immediately after the field work, data was cleaned, edited for completeness and coded to facilitate computer data entry. The study analyzed data using Statistical Package for Social Science (SPSS) which is a good tool for running descriptive statistic such as mean and standard deviations. Data was presented in frequency tables, charts and graphs.

3.5 Regression Model

Secondary data was analysed into a regression model that showed the relationship between the independent variables and tax compliance among the SMEs in Nairobi Central Business District. This study adopted a multiple regression analysis in order to establish the effect of customer service on tax compliance. The study used SPSS in running the regression coefficient of determinations because it gives results of most of the basic outputs that are necessary for a study that uses a descriptive research design.

For the regression analysis, the model was as;

$$\mathbf{TC_t = \beta_0 + \beta_1 TT_t + \beta_2 CT_t + \beta_3 CC_t + \varepsilon_t} \text{.................................(equation 1)}$$

Where;

$\mathbf{TC_{t=}}$ **=** the tax compliance by SMEs expressed by amount of TOT taxes collected at t period.

$\boldsymbol{\beta_0}$ **=** the constant to be estimated by the model

$\boldsymbol{\beta_1}$, $\boldsymbol{\beta_2}$ **and** $\boldsymbol{\beta_3}$ **=** Coefficient indicating influence of independent variables on the dependent variable.

$\mathbf{TT_t}$ **=** taxpayer training expressed as the amount spent in taxpayer training in a given year

$\mathbf{CT_t}$ **=** customer care staff training expressed as the amount spent on training the staffs at t period

$\mathbf{CC_t}$ **=** customer care communication strategy measured by the amount spent on stakeholder sensitization at t period

$_{\mathbf{t}}$ = time period

ε = inherent error in the model

3.6 Diagnostic Test

3.6.1 Auto Correlation

Auto correlation is the chance that independent variables are related to each other. It is a problem because; it limits the establishment of the relationship between dependent variable and independent variables. The study adopted the Durbin-Watson test for autocorrelation. As a general rule the DW test value which is between 1 to 3 hence shows that the independent variables are not auto correlated hence valid for regression modelling

3.6.2 Multicollinearity Tests

Multi collinearity is a regression problem that exists when one or more of the independent variables are significantly related to each other. Thus, existence of multicollinearity makes it difficult to predict and assess the effect of independent variables on dependent variables. The study used the Variance Inflation Factor (VIF) to test multicollinearity. Where there is no multicollinearity problem is below 10 with a tolerance level of less than 0.1

3.6.3 Measures of Normality

Measures of normality assess whether data has features of a normal distribution. This study adopted the Jarque-Berra's statistic of skewness and kurtosis to test normality. According to Gujarati (2007) for a normal statistics the measures of skewness and kurtosis are expected to be 0 and close to 3 respectively. It is crucial to note that the skewness and kurtosis measures assess whether the independent variables affects the dependent variable in a normal distribution way.

3.7 Operationalization of the Variables

The operationalization of the variables is as depicted in Table 3.3

Table 3.3 Operationalization of the Variables

Objective	Type of Variables	Indicators	Scale	Tools of analysis	Type of analysis
To find out the effect of tax payer training on tax compliance, a case of SMEs in Nairobi Central Business District	Independent	Seminars Print media Electronic media Amount spent on training	Nominal and ordinal	Frequency distribution tables and percentages	Descriptive statistics
To identify the effects of customer care staff training on tax compliance, a case of SMEs in Nairobi Central Business District	Independent	Ability to respond to queries Ability to solve issues Service delivery Amount spent on customer care staff training	Nominal and ordinal	Frequency distribution tables and percentages	Descriptive statistics
To examine how communication strategy on tax compliance, a case of SMEs in Nairobi Central Business District	Independent	Stakeholders sensitization Access to customer care Real time help on tax matters Amount spent on stakeholders sensitization	Nominal and ordinal	Frequency distribution tables and percentages	Descriptive statistics
Tax Compliance	Dependent	Timely filing, correctness and payments of taxes dues Amount of ToT	Nominal and ordinal	Frequency distribution tables and percentages	Descriptive statistics

CHAPTER FOUR: RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

Chapter four has data analysis in terms of demographic characteristics of the respondents and as per the objectives of the study. Also, the chapter has discussions and interpretations of findings.

4.2 Demographic Analysis

The study issued a total of 150 questionnaires and 131 were filled and returned. This high return rate is evident because the researcher issued the questionnaires in person. The return rate is presented in Figure 2.1

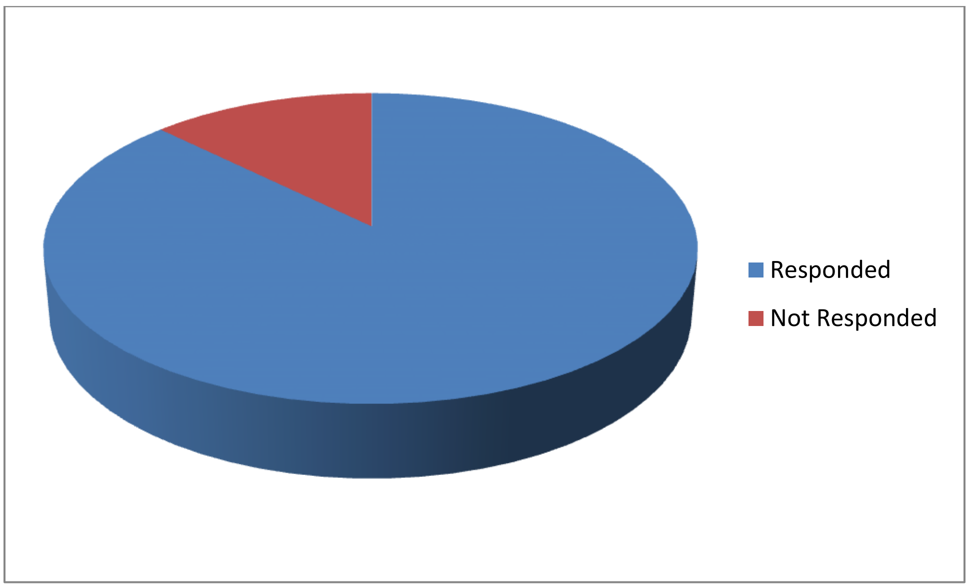

Figure 4.1 Questionnaire Return Rate

This shows a response rate of 87 %. According to Mugenda and Mugenda (2003), a response rate of above 70% is excellent for data analysis; response rate of 60% is good while a response rate of 30 % is not viable for a descriptive study. In this respect, data analysis was commenced and the findings established.

4.2.1 Gender of Respondents

The study collected data on gender of the respondents. The study has established that 56 % of the respondents were male while 44 % were female. Figure 4.2 presents this finding on gender composition of respondents.

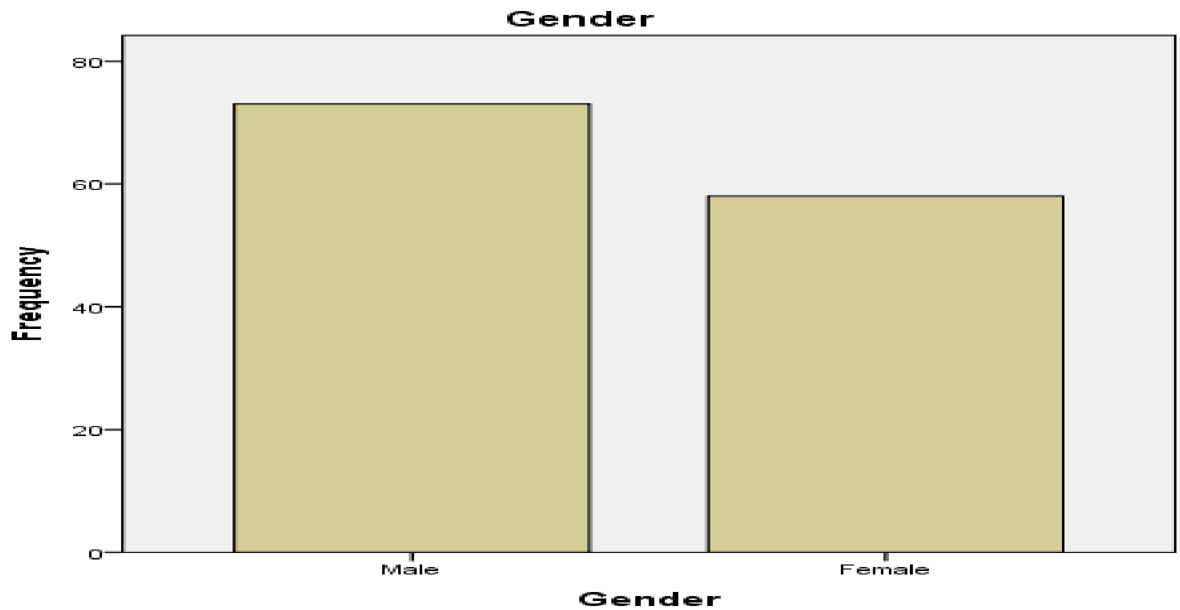

Figure 4.2: Gender of Respondents

This indicates that both genders were involved in the business or running of Small and Medium Enterprises in Nairobi Central Business District.

4.2.2 Age of the Respondents

The study collected data on the age of respondents. Table 4.1 shows the findings on age of respondents.

Table 4: 1Age of the Respondents

	Age of respondents				
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Below 20 years	6	4.6	4.6	4.6
	21-30 years	67	51.1	51.1	55.7
	31-40 years	31	23.7	23.7	79.4
	41-50 years	16	12.2	12.2	91.6
	Above 50 years	11	8.4	8.4	100.0
	Total	131	100.0	100.0	

Table 4.1 indicates that a majority of the respondents were between 21- 30years with 51 %, followed by those with 31-40 years at 23 %, respondents with 41-50 years had 16 %, and those above 50 years were 8.4 % and the least were below 20 years with 5%. These findings indicate that the SMEs owners were of all ages. It is important to collect data from various age groups in a study in order to describe if the aspects being assessed were viewed different across the age groups.

4.2.3 Level of Education

The study collected data on level of education of respondents. Data is presented in Table 4.2

Table 4: 2 Level of Education

	Respondent level of Education				
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary	1	.8	.8	.8
	Secondary	7	5.3	5.3	6.1
	College	70	53.4	53.4	59.5
	Degree	50	38.2	38.2	97.7
	Postgraduate	3	2.3	2.3	100.0
	Total	131	100.0	100.0	

According to Table 4.2, majority, 53 % of the respondents had college education, followed by those with degrees at 38 %, 5% of the respondents had secondary education, 2 % had postgraduate education awhile 8 % had primary level education. This findings show that most of the respondents were educated well enough to articulate the issues in the questionnaires and respond correctly.

4.3 Variable Specific Analysis

4.3.1 Tax Payer Training and Tax compliance by Small and Medium Enterprises in Kenya

The study collected data on the various aspects of tax payer training on tax compliance of small and medium Enterprises in Kenya. Data Findings are presented in Table 4.3

Table 4: 3 TaxPayer Training and Tax Compliance of SMEs

	Mean	Std. Deviation
I find seminars organized by the KRA very informative with respect to my tax obligations	3.20	1.243
The KRA publishes enough materials for tax reference	3.92	0.800
The information found on electronic media is very helpful on tax compliance	3.19	1.009
The frequency of taxpayers training is sufficient and KRA trainings on how to effects proposed tax changes	3.91	1.133
The number of taxes to be filed and paid are not many hence no much skills are required for tax compliance	4.18	1.078
Tax advisors in Kenya offers training which enables me to comply with tax regulations	3.18	1.438
The tax system in Kenya is simple hence easy to follow	4.04	0.948
I enroll for private training in order to enhance my knowledge in tax and tax compliance	4.50	0.546
The KRA has sufficient mediums for tax training which are within my reach	4.63	0.683
The KRA tax iTax system is simple to use hence I do not find difficulties filing taxes	4.24	1.142

The analysis of data indicated that the seminars organized by the KRA on taxation policies and tax compliance were not very informative since the score was 3.20 with a standard deviation of 1.243. This mean indicates that respondents were indifferent on the effectiveness of the seminars. KRA publications had a mean of 3.92 with a standard deviation of 0.800 indicating that the materials were not very effective in enhancing tax compliance. Electronic media had a mean of 3.19 with a standard deviation of 1.009 and thus did not foster tax compliances while the frequency of training had a score of 3.91 with a standard deviation of 1.133. The study found out that the number of taxes were favorable and thus did not inhibit tax compliance among the SMEs in Kenya. A mean of 3.18 was obtained on whether tax advisors aided in tax compliance with a standard deviation of 1.438. Most respondents, with a mean of 4.04 and standard deviation of 0.948 agreed that the tax system in Kenya was simple and this promoted tax compliance among the SMES. The study also established that respondents sought for private training on tax as indicated by the mean of 4.50 and standard deviation of 0.546 while on whether the KRS had sufficient mediums for training, most respondents agreed with a mean of 4.63 and the standard deviation was 0.683. Further, the study has found out a mean of 4.24 with a standard deviation of 1.142 on whether the itax system was simple to use hence respondents did not have difficulties filing taxes.

This result concurs with those of Mandola (2013), who established that the possession of skills had a positive relationship with tax compliance. Perhaps, this is because, tax filing and tax compliance needs basic skills on tax regulations in Kenya. Thus, where taxpayers are skilled in tax computations, their compliance is enhanced. Tax compliance involves adherence to tax regulations of the country. Also, the findings agrees with those of Kiring'a*et al* (2017) who established that staff training in uses of online tax system had effects on tax compliance among the SMEs in Kibwezi County. It is important to consider that tax training ensures that the taxpayers or their agents are equipped with knowledge and skills on how to comply with tax regulations. Tax payer training should be an ongoing process because the tax system is on constant changes and thus the taxpayers should be updated as and when the changes occur. Tax compliance has been explained to be the honest declaration of income and fulfilling relevant taxes as per the law. As a result, the taxpayer should be provided with relevant information on their tax obligations.

Gachuki (2015) established that the tax laws in Kenya were complex and thus without adequate taxpayer training, tax compliance was not high. It is important to note that the tax system in Kenya has various aspects that may not be understood by a person with no former tax training on matters of taxes. As a result, owner of SMEs are disadvantaged by the system since they operate in the informal sector. This being the case, they may fail to comply to certain provisions of the tax laws but due to lack of information. It is for this reason, that tax compliance is greatly fostered through information dissemination by the revenue bodies. However, the study has established that taxpayer training is not in its best state hence low levels of tax compliance.

4.3.2 Customer Care Staff Training and Tax compliance among SMEs in Kenya

The study collected data on various aspects of customer care staff training and tax compliance among the Small and Medium Entreprises. Data findings are presented in Table 4.4

Table 4.4 Customer Care Staff Training and Tax Compliance in Kenya

	Mean	Std. Deviation
The customer care department responds to my tax query hence I am able to fulfil my tax obligation	4.27	0.842
My tax queries are addressed promptly and hence I meet tax deadlines	4.24	0.833
Training on customer care enables staffs to develop good customer relationships	3.94	1.162
The customer care staff are skills and knowledgeable and solves my issues with respect to taxes	4.34	0.781
The service delivery of customer cares staff is efficient	3.98	1.106
The customer care staffs are honest and helpful and this encourages me to fulfil my tax obligations	4.23	0.965
I feel that the customer care staff are dedicated to address my tax issues	3.47	1.291
There is no much time lag between on customer care emailing system	3.43	1.144
In my opinion, KRA is committed to establishing a modern customer care department that solves tax related issues promptly	3.42	1.143
The KRA customer care telephone lines go through hence I can be explained on various tax laws which encourages me to file taxes	3.37	1.229
Customer service training at the KRA enhance the staff capacity to serve clients	3.50	1.179

The study has established a mean of 4.27 with a standard deviation of 0.842 on if the customer care staffs respond to their queries hence enabling them to fulfil their tax obligations. This high mean as an indication that the customer care staff was satisfied by the service of the customer care responses to queries on taxes. The study has found a mean of 4.24 with standard deviation 0.833on whether their queries were promptly replied enabling them to meet deadlines. Training on customer care enables staffs to develop good customer relationships had amean of 3.94 and standard deviation of 1.162, also the study found a mean of 4.34 and a standard deviation on whether customer care had skills to fulfil their functions, a mean of 3.98 and standard deviation of 1.106 on service delivery by customers, customer care staff honesty scored a mean of 4.23 and a standard deviation of 0.965. Further, the study found out that customer care staffs were dedicated at a mean of 3.47 while the lead time in raising queries had a mean of 3.43 and a standard deviation of 1.144. A mean of 3.42 and standard deviation of 1.143 was obtained on whether KRA was committed towards a modern tax system, telephone customer care had a mean of 3.37 with a standard deviation of 1.229 and customer service staff training scored a mean of 3.50 with a standard deviation of 1.179.

Customer care is crucial to an organization because it helps an organization in understanding the awareness of customer complaints and needs. Thus its usefulness in enhancing tax compliance among the SMEs cannot be overlooked. The study has found out that customer care at the KRA affects tax compliance among the SMEs in Kenya. However, most respondents indicated that customer care services were not very significance hence affecting their kevels of tax compliance. These results concur with those of Isao (2014), who established that upon adoption of an online tax system, it was important that a dedicated customer care department was formed to enhance customer problem solving. The existence of a customer care department ensures that clients complaints are sorted almost immediately hence making the tax payers to meet their tax deadlines. The staffs of the customer care department need to be trained adequately in order to foster their service delivery.

Where service delivery is improved, tax compliance is enhanced and thus creation of a tax system that is client-friendly. More importantly, the taxpayers should be motivated to comply with tax regulations willingly. This study agrees with those of Mararia (2014) who had found out that education was of paramount importance in fostering tax compliance among the Small and

Medium Taxpayers. The study recommended that the customer care department staffs need to be skilled with relevant tax regulations and pass this information to the taxpayers efficiently. In this respect, the study viewed that where tax payers were provided with free education from customer care staffs, the skills and knowledge of tax are enhanced and thus increasing theory level of tax compliance.

4.3.3 Customer Communication Strategy and Tax compliance among SMEs in Kenya.

The study sought to establish the effect of customer communication strategy on tax compliance by Small and Medium Entreprises in Kenya. Data findings are presented on Table 4.5

Table 4: 5Customer Communication Strategy and Tax compliance of SMEs

	Mean	Std. Deviation
I can gain access to customer care services whenever I have tax problems	3.89	0.908
The sensitization done by KRA assists me in fulling my obligations	3.41	1.176
The KRA has regional offices that I can visit for tax guidance whenever there are system changes	3.50	1.179
The KRA communicates tax law changes in good time	3.53	1.230
The call centre of KRA is cheap to access hence my tax compliance costs are	3.34	1.287
The time between launching a compliant and when it is solved is not long	3.76	1.239
The communication strategy at the KRA improves service delivery and satisfaction of the taxpayers	3.21	1.194
The customer service staffs are always available to serve as and when I need their help	3.29	1.395

Table 4.5 indicates that a mean of 3.89 with a standard deviation of 1.176was obtained on whether customer care services were accessible; a mean of 3.41 for sensitization with a standard deviation of 1.176, availability of regional office for tax guidance scored 3.50 and standard

deviation of 1.179, communication strategy scored a mean of 3.53 with a standard deviation of 1.230, cost of customer care calls scored a mean of 3.34 with standard deviation of 1.287. The study also found out that the time of waiting between launching a claim and when it was solved affected compliance at a mean of 3.76 and standard deviation of 1.239 and communication strategy had a mean of 3.21 with standard deviation of 1.194 and customer service staffs availability scored a mean of 3.29 with standard deviation of 1.395.

Communication involves information dissemination on the right channels in order to reach the intended recipients. The KRA serves many clients of different status and thus it is important that communication mediums adopted are able to reach the intended persons within the set time. For instance, the services of KRA should be accessible to taxpayers to enable them be tax compliant. In the event that there are issues to be addressed, the KRA should communicate these to all stakeholders concerned. This finding agrees with those of Kanyi (2014), who found out that tax reforms were important to improve tax compliance. Specifically, the study was keen to note that communication strategies by the KRA were to be improved in order to sensitize more taxpayers on the civic duty of paying taxes. Communications ensures that the correct information with respect to their tax obligations and changes in tax laws. Where planned changes are to take effect, it is important that such changes are communicated to the taxpayers and any queries should be addressed without unnecessary delays. It is important to that tax compliance involves the filing of taxes and payments of taxes within set time deadlines and also the honest declaration of incomes and tax thereon. Cost of back communications to the KRA should be bearable especially because the SMEs are characterized by low levels of incomes and thus should tax compliance costs should not be exploitative.

4.3.4 Effect of Customer Service on Tax compliance by SMEs in Kenya

The study collected data on the overall effects of customer care on tax compliance among the SMEs in Kenya. Data findings are represented in Table 4.6

Table 4: 6 Effect of Customer Service on Tax Compliance of SMEs in Kenya

	Mean	Std. Deviation
KRA offers adequate taxpayer training that promotes tax compliance among the small Entreprises	3.47	1.159
The KRA customer care staff training adequate and thus is helpful in terms of assisting me to be tax compliant	3.89	0.958
The KRA customer communication strategy promotes tax compliance	4.08	0.966
I Comply to all tax obligations	4.02	0.836

The study has found a mean of 3.47 on the question of KRA offers adequate training that promotes tax compliance, a mean of 3.89 on customer care departments in enhancing tax compliance and a mean of 4.08 with standard deviation of 0.966 on the KRA customer's communication in promoting tax compliance. Further, the study has found a mean of 4.02 with standard deviation of 0.836 on whether they comply with tax regulations. These findings indicates the most influencing factors towards SMEs tax compliance is that the KRA communications followed by customer care department and lastly taxpayers training as indicated by the means of 4.08, 3.89 and 3.47 respectively. Thus means that the SMEs were made aware of their tax obligations and that the information dissemination mediums in Kenya were effective in fostering tax compliance among the entities. The respondents also agreed that they were tax compliant.

4.3.5 Regression Model

The study collected secondary from the KRA reports on the actual expenditures for the three variables being assessed by the study. The regression model was done by help of SPSS and the findings are discussed in this section.

4.3.6 Test of Autocorrelation

The study carried out the DW test for Autocorrelation. The finding is indicated on Table 4. 7

Table 4: 7 Auto-Correlation

Model	R	R Square	Adjusted R Square	Std Error of the Estimate	Durbin-Watson
1	.605[a]	.366	.348	.31963	3.163
a. Dependent Variable: TOT					
b. Predictors: (Constant) Communication strategy, Tax_payer_Training, Customer_Care Training					

Table 4.7 indicates the Durbin-Watson Test for auto correlation. The DW value is 3.163 indicating that the data is auto-correlated since it is between 1 and 3 which is the set criteria for the autocorrelation. Autocorrelation implies whether variables are related to one another. Failure to identify and account for serial correlation in the individual error term in a panel regression model would result into biased standard errors and inefficient parameter estimates, Wooldridge (2002).

4.3.7 Multi Collinearity Test

The study adopted the VIF measure of multicollinearity and the results were presented on Table 4.8

Table 4: 8 Multicollinearity Test Result

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Tax_payer_Training	.378	2.644
	Customer_Care_Training	.376	2.658
	Communication strategy	.962	1.039

a. Dependent Variable: TOT

Table 4.8 shows the various VIF for the different variables. The VIF for taxpayer training was 2.644 and tolerance of 0.378; customer care training had VIF of 2.658 and tolerance of .376 and communication strategy had a VIF value of 1.039 and tolerance of 0.962. These values of VIF are less than, thus ruling out the chances of multicollinearity. According to (Field, 2009), VIF of less than 10 with a tolerance of more than 0.1 indicates that a set of data has no multicollinearity. It is important to ensure that there is no multicollinearity problem in a regression model.

4.3.8 Model Summary

The study sought to assess the extent the different variables affected tax compliance among the SMEs. The summary is presented on Table 4.9

Table 4: 9 Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.618[a]	.382	.357	.596	3.163

a. Predictors: (Constant), Communication_strategy, Tax_payer_Training, Customer_Care_Training

b. Dependent Variable: TOT

Table 4.9 indicates the model summary that explains the extent of the relationship between the variables. The model output has an R value of 73.3 % and an R^2 53.7 %. These findings indicate that 53.7 % of the variations in return Turnover Taxes collection are explained by taxpayer training, communication strategy and customer care staff training. R is the measure of the correlation among the study variables. Put differently, 47.3 % of changes in Turnover Taxes is explained by other factors other than those considered in this study.

4.3.9 ANOVA Test

The study sought to assess the overall significance of the independent variables in explaining variations in Turnover taxes. The findings are tabulated on Table 4.10

Table 4: 10 ANOVA TEST

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.648	3	.549	1.545	.333[b]
	Residual	1.423	4	.356		
	Total	3.071	7			

a. Dependent Variable: TOT

b. Predictors: (Constant), Communication_strategy, Tax_payer_Training, Customer_Care_Training

The table 4.10 indicates the analysis of variances (ANOVA). It is important to consider P value in order to explain the significance of the relationships among the variables. The finding indicates a P-value of 0.333 which is more than the criteria for rejection of null hypothesis. This finding indicates that although the variables affect the TOT collection, they do so in a no statistical significance manner.

Regression Model Coefficients

The study sought to explain the extent of influence of the independent variables over the dependent variables. The finding is presented on Table 4.11

Table 4: 11 Regression Model Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.821	2.241		2.598	.060
	Tax_payer_Training	.023	.022	.589	1.064	.347
	Customer_Care_Training	-.017	.050	-.187	-.337	.753
	Communication_strategy	.033	.068	.170	.489	.651

Coefficients[a]

a. Dependent Variable: TOT

According to Table 4.11, tax payer training and communication strategy affects turnover taxes collection is a positive way while customer care training has a negative relationship with turnover collection in Nairobi. The regression model which had been set as:

$$\mathbf{TC_t = \beta_0 + \beta_1 TT_t + \beta_2 CT_t + \beta_3 CC_t + \varepsilon_t}$$

The coefficient has been fit as

$$\mathbf{TC_t = 5.821 + 0.23TT_t - 0.17CT_t + 0.33CC_t + \varepsilon_t}$$

Where:

5.821 is the amount of Turnover Taxes in the absence of other study variables

0.23 is the increase in TOT in response to a unit increase in Tax payer training

-0.017 is the decrease in TOT in response to a unit increase in Customer Care training

0.33 is the increase in ROA in response to a unit increase in Communication Strategy

The study found out that tax payer training and communication strategy has positive relationship with tax payer compliance. This is because the coefficients of the two variables are positive. It is important to note that the tax payer training and stakeholder sensitizations have direct impact on taxpayers' knowledge and thus may affect compliance positively. These findings confirms the primary data findings obtained by the study. On the other hand, the study has found out that customer care staff training has negative impact on tax compliance among the SMEs. The study found out that all the three independent variables affect tax compliance in a statistically significant manner.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

The study had the aim of establishing the effect of customer service on tax compliance among the SMEs in Kenya, the case of SMEs in Nairobi Central Business. The study assessed three independent variables, that is, taxpayer training, customer care staff training and communication to customer strategy and their potential effect on tax compliance among the SMEs in Kenya. The study has found out that the most enabling factor is customer communication strategy, followed by customer care staff training and the lowest influencing is taxpayer training. However, it is important to note that these factors do not act singly but is it their overall effect that determines whether an SME will be tax complaint or not compliant. The regression model has found out that 53.7 % of the variations of Turnover Taxes is explained by taxpayer training, customer care training and communication strategy.

The study has found out that taxpayer training affects tax compliance among the SMEs in Kenya. Further, the study has found that the KRA trainings on tax payer's obligations is not effective and thus does not foster tax compliance among the small taxpayers. The KRA organizes seminars, publishes materials and puts information on electronic media in order to foster levels of tax compliance among taxpayers. The study has also found that tax advisors are not effective in providing taxation advisory and thus do not positively impact on tax compliance.

The study has found that customer care staff training affects tax compliance among the Small and Medium Entreprises in Kenya. The study has found out that customer care department addresses queries hence enhancing compliance, queries are addressed promptly, customer care are skilled and knowledgeable in regard to tax obligations and customer care staffs are honest and helpful hence assisting clients to fulfil their tax obligations. The study has established that training customer care positively impacts on tax compliance among the SMEs in Kenya. Tax compliance thus can be improved through having a robust customer care department that will assist taxpayers in meeting their obligations. It is important that the taxpayer is assisted in filing taxes through facilitations.

The study has established that communication to customer strategy affects the compliance. However, the study established low means for all the aspects of communication tested. The SMEs owners need to make aware of their tax obligations such that they can comply willingly. Taxation is an important source for government revenue and should be made efficient. In order to realize this objective, it is important that the SMEs are motivated to file taxes honestly and willingly. The KRA should improve its sensitization program and increase the number of their regional offices to enhance customer service. Service delivery should be improved in order to ensure that customers are satisfied and are motivated to fulfil their tax obligations. Further, the study has found out that the communication means to voice complaints were not cheap hence did not positively impact on tax compliance. Further, the study has also established that changes in tax laws are not communicated in good time and thus at times the SMEs may not fulfil their tax obligations.

5.2 Conclusions

5.2.1 Tax Payer Training and Tax compliance by SMES in Kenya

The study has revealed that tax payer training is not adequately done by the KRA and thus does not foster tax compliance among the SMEs in Kenya. The study has also revealed that understanding the medium of communications is the most enabling aspect of tax payer training and thus positively affects tax compliance among the SMEs in Kenya. Training tax payers is crucial because it equips them with skills and knowledge of tax laws thus enhancing tax compliance among the SMEs. As a result, it is important that the taxpayers are frequently trained and provided with information on their tax obligations and how best to fulfill such obligations.

5.2.2 Customer Care Staff Training and Tax compliance among SMEs

The study has revealed that customer care affects tax compliance by SMEs in Kenya. Customer care is crucial to an organization because it helps an organization in understanding the awareness of customer complaints and needs. Thus its usefulness in enhancing tax compliance among the SMEs cannot be overlooked. The study has found out that customer care at the KRA affects tax compliance among the SMEs in Kenya. However, most respondents indicated that customer care services were not very significance hence affecting their kevels of tax compliance. The study has thus revealed that customer care services at the KRA are not effective in enhancing tax compliance among the SMEs in Kenya.

5.2.3 Communication to Customer Strategy and Tax compliance by SMES in Kenya

The study has established that a majority of the respondents were not motivated to comply with taxes on the aspects of communication to customer strategy tested in the questionnaire. The study has found out that customer communication affects tax compliance among the SMEs in Kenya. The study has further established that customer communication of the KRA is not effective in enhancing tax compliance by small and medium Entreprises in Kenya. In this regard, customer communication should be fostered by the KRA in order to enhance tax compliance among the SMEs in Kenya.

5.3 Recommendations

5.3.1 Tax Payer Training and Tax compliance by SMES in Kenya

The study recommends that tax payers should be trained on tax laws and obligations in order to foster compliance. Training taxpayers is important as it equips the taxpayers with skills on self-assessment. It is important that training is made a regular strategy by the KRA in order to enhance compliance. The KRA should publish more newsletters and engage in electronic media platforms to disseminate information on tax laws. Through adequate tax payer training, the tax payer obtains skills and knowledge of tax computations, filing taxes and payments of taxes thereon.

5.3.2 Customer Care Staff Training and Tax compliance among SMEs

On customer care staff training, it is important that the staff working in the department is adequately trained on how to handle customers and respond to customer complaints and queries. The KRA should therefore educate taxpayers on voluntary tax compliance. The customer care staffs should educate the owners of SMEs in Kenya on how to pay fulfills their tax obligations.

5.3.3 Communication to Customer Strategy and Tax compliance by SMES in Kenya

On communications to customer strategy, it is recommended that the SMEs are sensitized on how and when to file taxes. The study recommends that the KRA should have a dedicated platform that will promote real time responses to customer queries. The KRA should create more regional offices that will guide taxpayers on their tax obligations. Further, service delivery should be given a priority in order to improve voluntary tax compliance.

5.4 Areas for Future Research

The study assessed customer service and tax compliance among the SMEs in Kenya, the case of SMEs in Nairobi CBD. The study has found out that taxpayer training, customer care and customer communication affects tax compliance by the SMEs. The study suggests that another study be carried out in other Counties of the country in order to compare and contrast the findings. Another study may also be carried out to assess other factors such as compliance costs and attitudes on voluntary tax compliance among the SMEs in Kenya.

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Appendix A: Letter of Introduction

Jane Muthuri

Jomo Kenyatta University of Agriculture and Technology

P.O. Box 25486-00100 Nairobi, Kenya

15-September-2019.

Dear Respondent

I am a Post Graduate Diploma of Tax Administration student at Jomo Kenyatta University of Agriculture and Technology. In partial fulfillment of the requirement for the post graduate diploma, I am carrying out a research project on "**Customer-Focused Service on Tax Compliance in Kenya - a Case of Small and Medium Enterprises in Nairobi Central Business District".**

I would be very grateful if you could kindly grant me an interview session with yourself/ complete the enclosed questionnaire to allow me to complete the enclosed interview questions which will be used to collect the data relevant to my study. Completing the survey will take 20-25 minutes. I look forward to your acceptance for an honest and objective interview session/ respond as honestly and objectively as possible. Thank you very much in advance.

All data gathered through this survey will be used in a form that will make it impossible to determine the identity of the individual respondents or their organizations. Confidentiality of all responses is guaranteed. Names of respondents will only be used for administrative purposes for this study.

If you have any questions or concerns about the enclosed interview questions, please do not hesitate to contact me at any time through my contact provided at the top of this letter.

I highly appreciate your assistance and the time you have spared to fill the questionnaire. Once again, thank you for your participation and kind cooperation in advance.

Thank you.

Yours Sincerely,

Jane Muthuri

Appendix B: Questionnaire for SMES in Nairobi Central Business District

I am undertaking a post graduate diploma at the Kenya School of Revenue Administration and I have formulated the questions in the following questionnaire with regard to the topic of study. Kindly, indicate with a tick or filling in the space(s) provided.

Section A: Demographic Characteristics of the Respondents.

1. Please indicate your gender

   a) Male ( )

   b) Female ( )

2. Please indicate your age.

   (a) Below 20 years ( )
   (b) Between 21-30 years ( )
   (c) Between 31-40 years ( )

   (d) Between 41-50 years ( )

   (e) Above 50 years ( )

3. Kindly indicate how long you have been in business?

   a) Less than 2 years ( )

   b) Between 3-5 years ( )

   c) Between 6-10 years ( )

   (d) More than 10 years ( ).

4. Please indicate the highest level of education completed

   (a) Certificate ( )

   (b) Undergraduate Degree ( )

   (c) Postgraduate Degree ( )

   (d) PHD ( )

Section B: Tax Payer Training and Tax compliance by Small and Medium Entreprises in Kenya.

The following statements show how Tax Payer Training and Tax compliance by Small and Medium Enterprises in Kenya. Please indicate your rate by ticking appropriately on a scale of 5-1, where 5= strongly agree, 4=agree 3=neutral 2=disagree 1=strongly disagree.

Tax Payer Training and Tax compliance by Small and Medium Enterprises in Kenya	**5**	**4**	**3**	**2**	**1**
5. I find seminars organised by the KRA very informative with respect to my tax obligations					
6. The KRA publishes enough materials for tax reference					
7. The information found on electronic media is very helpful on tax compliance					
8. The frequency of taxpayers training is sufficient and KRA trainings on how to effects proposed tax changes					
9. The number of taxes to be filed and paid are not many hence no much skills are required for tax compliance					
10. Tax advisors in Kenya offers training which enables me to comply with tax regulations					
11. The tax system in Kenya is simple hence easy to follow					
12. I enrol for private training in order to enhance my knowledge in tax and tax compliance					
13. The KRA has sufficient mediums for tax training which are within my reach					
14. The KRA tax itax system is simple to use hence I do not find difficulties filing taxes					

Please explain any other ways that Tax Payer Training and Tax compliance by Small and Medium Entreprises in Kenya?

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……………………………………………………………………………………………………
……………………………………………………………………………………………………

Section C: Customer Care Staff Training and Tax compliance by Small and Medium Entreprises in Kenya.

The following statements show how customer care staff training and Tax compliance by Small and Medium Entreprises in Kenya. Please indicate your rate by ticking appropriately on a scale of 5-1, where 5= strongly agree, 4=agree 3=neutral 2=disagree 1=strongly disagree.

Customer Care Staff Training and Tax compliance by Small and Medium Entreprises in Kenya.	**5**	**4**	**3**	**2**	**1**
15. The customer care department responds to my tax query hence I am able to fulfil my tax obligation					
16. My tax queries are addressed promptly and hence I meet tax deadlines					
17. Training on customer care enables staffs to develop good customer relationships					
18. The customer care staff are skills and knowledgeable and solves my issues with respect to taxes					
19. The service delivery of customer cares staff is efficient					
20. The customer care staffs are honest and helpful and this encourages me to fulfil my tax obligations					
21. I feel that the customer care staff are dedicated to address my tax issues					
22. There is no much time lag between on customer care emailing system					
23. In my opinion, KRA is committed to establishing a modern customer care department that solves tax related issues promptly					
24. The KRA customer care telephone lines go through hence I can be explained on various tax laws which encourages me to file taxes					
25. Customer service training at the KRA enhance the staff capacity to serve clients					

Briefly explain of there is any other way that customer service may enhance Tax compliance by Small and Medium Entreprises in Kenya?

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Section D: Communication to customer Strategy and Tax compliance by Small and Medium Entreprises in Kenya

The following statements show how Customer Communication and Tax compliance by Small and Medium Entreprises in Kenya. Please indicate your rate by ticking appropriately on a scale of 5-1, where 5= strongly agree, 4=agree 3=neutral 2=disagree 1=strongly disagree.

Communication to Customer Strategy and Tax compliance by Small and Medium Entreprises in Kenya	**5**	**4**	**3**	**2**	**1**
26. I can gain access to customer care services whenever I have tax problems					
27. The sensitization done by KRA assists me in fulling my obligations					
28. The KRA customer care offers real time help on tax filing and payments					
29. The KRA has regional offices that I can visit for tax guidance whenever there are system changes					
30. The KRA communicates tax law changes in good time					
31. The call centre of KRA is cheap to access hence my tax compliance costs are					
32. The time between launching a compliant and when it is solved is not long					
33. The communication strategy at the KRA improves service delivery and satisfaction of the taxpayers					
34. The customer service staffs are always available to serve as and when I need their help					

Are there any other ways that Customer Communication and Tax compliance by Small and Medium Entreprises in Kenya, briefly explain?

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……………………………………………………………………………………………………….

Section E: Effect of Customer Care on Tax compliance by Small and Medium Entreprises in Kenya

The following table shows the overall Effect of Customer Care on Tax compliance by Small and Medium Entreprises in Kenya. Please indicate your rate by ticking appropriately on a scale of 5-1, where 5= strongly agree, 4=agree 3=neutral 2=disagree 1=strongly disagree.

Effect of Customer Care on Tax compliance by Small and Medium Entreprises in Kenya	**5**	**4**	**3**	**2**	**1**
35. KRA offers adequate taxpayer training that promotes tax compliance among the small Entreprises					
36. The KRA customer care staff training adequate and thus is helpful in terms of assisting me to be tax compliant					
37. The KRA customer communication promotes tax compliance					
38. I comply to all tax regulations					

Thank you for your time and response

Secondary data in Kenya Shillings

Table App 1 Secondary Data

Year	TOT	TaxpayerTraining	Cusomercaretraining	CommunicationStrategy
2009	4.74	6.57	43.14	4.18
2010	5.36	7.89	39.35	4.59
2011	5.55	8.33	45.42	9.96
2012	5.41	10.29	41.00	13.57
2013	5.74	7.74	36.4	4.72
2014	6.11	17.02	47.32	5.73
2015	6.51	12.17	35.99	9.12
2016	6.77	57.25	23.57	5.4