

**Factors Influencing Turnover Tax Compliance among Micro, Small and
Medium Enterprises Sector in Westland Area in Nairobi, Kenya**

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DECLARATION

This project is my original work and it has not been submitted to any other institution or university.

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This research work has been presented for examination with my approval as the appointed supervisor.

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DEDICATION

This project is dedicated to my loving and caring family members for their support both morally and financially. I thank you very much for the love, motivation, encouragement and sacrifices that you have made for me.

ACKNOWLEDGEMENT

I take this opportunity to give thanks to my Creator, the Almighty God for the wisdom, health and courage granted to me, which has enabled me to achieve this project. This project could not have been possible without the supervision of Dr. Marion Nekesa. I am especially grateful for his professional input, patience and commitment in taking me through this intellectual journey.

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LIST OF ABBREVIATIONS AND ACRONYMS

| | |
|---------------|---|
| IRS | Inland Revenue Services |
| KIPPRA | Kenya Institute for Public Policy Research and Analysis |
| KNBS | Kenya National Bureau of Statistics |
| KRA | Kenya Revenue Authority |
| MSMEs | Micro, Small and Medium Enterprises |
| OECD | Organization for Economic Cooperation and Development |
| PBO | Parliamentary Budget office |
| SAS | Self-Assessment Systems |
| SMEs | Small and Medium Enterprises |
| SPSS | Statistical Package of social statistics |
| TOT | Turnover Tax |

DEFINITION OF TERMS

Costs of compliance: Costs of compliance are the common costs a taxpayer has to incur in complying with tax obligations for example, time taken to complete tax returns, costs of hiring tax accountants, psychological costs such as stress, arising as a result of uncertainty that one is not sure that he/she has met all of the tax rules (Amayi & Machogu, 2013)

Deterrence Measures: Punitive measures that the law imposes for the performance of an act that is prescribed or for the failure to perform a required act (IAEA, 2017).

Digitalization: The environment where business transactions are primarily conducted online using various digital platforms existing in the digital marketplace including ecommerce platforms and digital payment (Switzer & Switzer, 2014).

Taxpayers knowledge: An individual awareness on tax legislation and acquisition of tax information (Jorgenson & Yun, 2009).

Taxpayers Perception: This is the act or faculty of perceiving, or apprehending by means of the senses or of the mind; cognition; understanding. This is thus how taxpayers perceive or understand the tax systems put in place in their area of operation.

Turnover tax: Is a type of tax introduced by the Finance Act 2007 through the provision of the Income Tax Act, Cap 470, under section 12c which is calculated against the turnover of a business, as opposed to a percentage of taxable profit.

ABSTRACT

Turnover tax was introduced in Kenya in 2007 to enhance revenue collection, improve tax administration and reduce non-compliance and collection costs among the micro, small and medium enterprises. However, the level of tax compliance for the turnover tax has been very low since its implementation. The main objective of the study was to establish factors influencing turnover tax compliance among micro, small and medium enterprises sector in Westlands area in Nairobi. The specific objectives were to establish the effect of digitalization of service, compliance cost, taxpayer perception and deterrent measures on turnover tax compliance among the MSMEs in Westlands. The study was anchored on four theories; Ability to pay theory, Fiscal Exchange Theory, The economic deterrence theory and Technology Acceptance Theory. The target population was 241 MSMEs registered by the Kenya Revenue Authority and a sample size of 151 respondents. Primary data was collected through closed-ended questionnaire, with a response rate of 74%. The data was analyzed using descriptive and inferential statistics. The study findings indicated that the digitalization of services ($\beta_1=0.315$, $p=0.000<0.05$), taxpayer perception ($\beta_3=0.278$, $p=0.006<0.05$), and deterrence measures ($\beta_4=0.330$, $p=0.000<0.05$), had a statistically positive significant effect on turnover tax compliance among the MSMEs in Westlands while compliance cost ($\beta_2=-0.294$, $p=0.000<0.05$), had a negative effect on turnover tax compliance among the MSMEs in Westland. The study results concluded that digitalization of service, compliance cost, taxpayer perception and deterrence measures significantly affect turnover tax compliance among the MSMEs in Westland. Based on the findings, the study recommended that KRA should pay more attention and focus on deterrence measures and develop policies relating to the deterrence measures. The study therefore suggests that, future studies to focus on different variable such as effect of tax audits on turnover tax compliance in Kenya.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter comprises of background of the study, statement of the problem, objectives of the study, research questions, significance of the study and the scope of the study.

1.1 Background of the study

Turnover tax is available to individuals who elective qualifying small businesses can choose to register for the standard tax system or for turnover tax. Turnover Tax will be calculated by simply applying a tax rate to a “taxable turnover”. Turnover taxes have parameters in place to determine when such taxes should be assessed, and at what rate (McCluskey, 2011). In the US, for instance, forty percent of Americans, most of who are mostly in the informal sector, are not in compliance with income tax. The reasons for non-compliance are instructive. For instance, taxpayers lack the requisite knowledge of the tax law, taxpayers interpret the law differently from the Internal Revenue Service of the USA, taxpayers lack record keeping ability sufficient to satisfy the Internal Revenue Service and the taxpayers do their math wrong, or they rely on professional return preparers who get it wrong (Spiro, 2005).

Small businesses are viewed as more likely to evade taxes since the owner, and beneficiary of tax evasion, is more likely to also be responsible for keeping the books and filing the tax returns. Those small business persons that are inclined to cheat on their sales tax are probably already cheating on their income tax and would be inclined to do so under any tax system. Further, the economic importance of small firms in the retail sector is usually grossly overstated (Friedman, Kaufmann & Zoido-Lobaton, 2000).

The taxation of MSMEs faces several major policy challenges. The first one concerns compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales

or assets, the compliance costs of MSMEs are higher than for large businesses. Given that small start-ups and research oriented MSMEs are generally considered as important factors for economic growth, tax compliance cost may slow down the economy. At least two policy responses to the problem of compliance costs are conceivable. Governments could try to generally simplify tax administration for businesses. At the same time, special responses targeted at MSMEs are conceivable. For example, a widely observed measure to reduce the cost for small businesses are exemption thresholds under value added taxation (Weichenrieder, 2007).

1.1.1 Global Perspective

In the United States (U.S.), non-compliance is estimated to cost the federal government over \$300 billion annually. However, traditional economic models of tax compliance, which primarily emphasize enforcement and detection variables, are unable to explain current levels of compliance. In fact, in the United States, compliance is much higher than these economic models would suggest. (Bobek, Roberts and Sweeney 2007). It is estimated that the extent of tax gap (the difference between taxes owed and taxes filed) for 2001 were US\$ 353 billion (IRS, 2006). This concern is particularly severe for developing countries given the rapid growth of investment in their economies and their lack of adequate experience in dealing with this problem.

1.1.2 Regional Perspective

In Africa, South Africa Revenue Service has a comparatively advanced tax collection system which explains the country's position as a leading economy in the continent (Coolidge et al, 2009). On the other hand, the East Africa countries that comprises of Uganda, Tanzania and Kenya have remained in the list of developing countries despite economic integration and abundance of natural economic resources (IMF, 2015). The region has been beset with tax evasion such that, in Tanzania, the forfeited tax is one-sixth of the annual national budget.

1.1.3 Kenyan Perspective

In Kenya, Turnover tax (TOT) is a simple tax on the gross income of any resident person whose turnover from business does not exceed Kshs.5 million during any year of Income. It is a tax that was introduced by the Finance Act of 2007 through a provision of the Income Tax Act, Cap 470, and effective as from 1st January 2008. (Income Tax Act, Cap 470) Turnover tax is a tax that targets what is most commonly known in Kenya as the informal sector. The informal sector comprises of the micro and the small enterprises most of which are not well organized, they use labour intensive digitalization of services and most of them are unregistered. Turnover tax targets traders, artisans and others working in market stalls, in residential houses or in open places (Ouma, Njeru, Kamau, Khainga & Kiriga, 2007).

According to Mr. Michael Waweru, then Commissioner General, this policy was introduced based on recommendation from the IMF to the Kenya Government. At the time of introduction of the tax, Mr Waweru confirms that no feasibility was undertaken to establish the cost of collection of the new tax or what new implementation structures would be required to implement the new tax effectively (M.G. Waweru, personal communication, May 17, 2015).

Revenue collection enables the government to acquire assets which are not liable to debt and which the government uses to develop its economy. Tax administration therefore, should aim at improving on laws regarding the registration, assessment, collection revenue, and exploiting fully taxation potential of a country (World Bank, 2015). Developed and developing countries experience a high number of informal sector enterprises with a high variability in their mobility and operations, making it difficult for the tax authorities to effectively administer the tax laws (Casale, 2016). According to Lumumba *et al.* (2010), small businesses are among the taxpayers that are hard to tax in Kenya thus making TOT to have been performing poorly unlike other tax heads in the country as per the KRA.

Admittedly, turnover tax compliance levels have steadily remained low since the introduction of TOT in the year 2007. The Low tax compliance is a major concern for tax authorities because it limits the governments' capacity to raise revenue for the country developments and expenditure purposes.

The small business taxpayers who do not qualify for VAT pay the turnover tax. This tax was aimed at bringing businesses in the informal sector into the tax bracket. These businesses include small scale manufacturing firms and Jua Kali businesses, agricultural enterprises and transport industries. The turnover tax rate was initially set at three percent (3%) but the rate has since been revised to one percent (1%) effective April 2020. Turnover tax does not apply to rental income, management or professional fees or training fees, income subject to withholding tax as a final tax and income of incorporated companies (Income Tax Act, Cap 470).

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

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

1.1.4 Micro small and medium enterprises (MSMEs)

Micro, Small and Medium Enterprises (MSMEs) have been recognized by development agencies, multilateral organizations, and Governments all over the world as a basic element of development and economic growth and development. In developed countries MSMEs characterize a fundamental pillar of their economy and play a major role in driving innovation, creating sectoral competitiveness and creation of wealth.

In Kenya the Micro and Small Enterprises were recognized by the government by forming Micro and Small Enterprise Authority (MSEA) under the Micro and Small Enterprise Act No. 55 of 2012. to formulate and coordinate policies that will enable the integration and harmonization of various public and private sector initiatives, for the promotion, development and regulation of the Micro and Small Enterprises to become key future Industries.

As per the Micro and Small Enterprise Act of 2012, micro and small enterprises (MSEs) or micro, small and medium enterprises (MSMEs), refers to a firm in trade, service industry or business activity, micro enterprises employ less than 10 people and have maximum yearly turnover of Kes 500,000. The registered capital of the enterprise does not exceed Kes 5 million in the manufacturing sector and does not exceed Kes 10 million in the farming and service sector.

Small enterprises have a yearly turnover of between Kes 500,000 and Kes 5 million and employ 10-50 people. The registered capital of the enterprise is between Kes 5 million and Kes 25 million in the service and farming sector.

According to MSME Baseline Survey (2016) the MSMEs created employment of about 6.3 Million for licensed MSMEs and 3.1 Million for unlicensed MSMEs. The value of the MSME's output is estimated to be Kes 3,371.7 billion against a national output of Kes

9,971.4 billion representing a contribution of 33.8% in 2015. It further state that MSMEs cover a range of establishments in almost all sectors of the economy; they operate formally or informally, seasonally or year round and are located in a number of areas including markets, streets and households or mobile. The survey concluded that, the high contribution of the MSMEs sector underscores the essential role played by the MSMEs towards economic growth and development. Ouma et al, (2009) informed that over 60 percent of people employed in MSMEs are young and are between 18 to 35 years, half being women. The words MSMEs, informal sector and Juakali are used interchangeably in Kenya.

MSMEs in Westlands area ranges from Autospares retailers, supermarkets, barbershops, garages, Salons, restaurants, Bars, wholesalers, chemists among others. These MSMEs are the main contributors and support economy of Westlands as they create employment and most people livelihoods depends on these businesses. Most SMES do not register their operations with the National government and the county government (Ndemo 2015).In 2017/2018, the resilience of the economy was attributed to resilience of Micro Small and Medium Enterprises (MSMEs), public investment in infrastructure, increased growth of the digital economy, and strong performance of the tourism sector (CBK 2018).MSMEs in Kenya are obliged to pay presumptive tax of 15% on the value of the single business or trade license issued or renewed by county government .Therefore, a study on factors influencing turnover tax compliance among micro, small and medium enterprises sector in Westland area in Nairobi is vital.

1.2 Statement of the problem

In the financial year 2019/2020 the KRA missed its target by collecting 1.607 Trillion against Sh1.7 trillion revised target for that financial year. According to KRA Revenue report (2018) the revenue target set by the National treasury, for financial year 2017/2018 was 1.4 trillion. However, KRA collected Sh. 1.17 trillion. The total revenue collected from the Turnover tax

(TOT) in 2019/2020 FY was Kshs.103 million below the target of Kshs.126 million. Since the implementation of TOT in 2007, various attempts and efforts have been made to bring the MSMEs sector into the tax bracket however, despite these efforts, the tax compliance among the MSMEs is low although its productivity is increasingly. This is a problem to the government as it should ensure that there is sufficient revenue to support its operations.

It is also instructive to note very few studies have been done on the same. In Kenya, previous studies have been done in regard to the factors affecting tax compliance among the SMEs (Mwangi, 2014; Adhiambo, 2019, Magiya 2016; Mwaura 2019). These researches have been generalized hence may not be used to determine the factors affecting turnover tax since they are different tax heads in Kenya with different factors affecting them on compliance. Mukabi, (2014) examined factors influencing turnover tax compliance in the Kenya Revenue Authority domestic taxes department in Nairobi county whereby he focused on KRA Domestic Taxes Department. This portrays wide knowledge gap which this study seeks to fill-in as the study will is to focus on MSMEs in Westlands.

Other research on the same topics has been done in Nigeria (Ojochogwa & Atawodi, 2012) which is out of the context area. In this regard, this study will focus on factors influencing turnover tax compliance among small medium enterprises in westlands, Nairobi County to give recommendations that can be put in place so as to build a culture of tax compliance of the turnover tax among MSMEs.

1.3 Objectives of the Study

1.3.1 General Objectives of the Study

The main objective of this study was to establish the factors affecting turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County.

1.3.2 Specific Objectives

This study was guided by the following specific objectives:

- i. To establish the effect of digitalization of services on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County.
- ii. To determine the effect of compliance cost on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands Nairobi County.
- iii. To establish the influence of taxpayer perception on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County.
- iv. To determine the influence of deterrence measures on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County

1.4 Research Questions

This study was guided by the following questions:

- i. What is the effect of digitalization of services on turnover tax compliance by the MSMEs in westlands Nairobi County?
- ii. What is the effect of compliance cost on turnover tax compliance by the MSMEs in westlands Nairobi County?
- iii. What is the influence of taxpayer perception on turnover tax compliance by MSMEs in westlands, Nairobi County?
- iv. What is the influence of deterrent measures on turnover tax compliance by MSMEs in Westlands, Nairobi County?

1.5 Significance of the Study

The study will be beneficial to various stakeholders including, policymakers, tax practitioners, future researchers, and Micro, Small and Medium Enterprises

1.5.1 Policy Makers

The study would help the Government of Kenya and KRA in formulation and implementation of policies in the field of turnover compliance thus increasing revenue collection. This will consequently serve as a guide or reference for other government

departments and ministries as they undertake modernization programs to enhance turnover.

1.5.2 Practitioners and Management

This study will give insight to KRA on the progress made so far in bringing on board tax payers through digitization to increase tax compliance. It will enhance the understanding of the Revenue Authority of the MSMEs sector, which will enable them develop strategies to enhance compliance. It will also point out the challenges faced by taxpayers, with regards to the use of new tax remittance platforms thus bringing greater efficiency in turnover tax compliance.

1.5.3 The MSMEs

The study will help the taxpayers to know what they are supposed to do for them to comply, also help them to know what await them if they don't comply. This will help them to improve and how to relate with KRA for them to benefit with free trainings and materials on the emerging tax issues. Also this will go hand in hand in demystifying taxation in Kenya and make them more compliant.

1.5.4 Scholars and Researchers

This study's results will be used as a reference point by researchers, students and scholars who might wish to undertake further studies on the same field. Researchers and scholars may also utilize the findings so as to identify further research areas on related studies by identifying topics that require further research and giving a review of the empirical literature so as to establish study gaps. The research contributes to compliance in Kenya.

1.6 Scope of the Study

The study was done in Nairobi County, through a widely view of different sectors operating in the MSMEs like retails, wholesale, transport sector and hospitality. The study targeted population of 241 and a sample of 151 Micro, Small and Medium Enterprises (MSMEs) in westlands, specifically in Parklands/Highridge area. It was carried out for the financial years,

2020/2021. The study analyzed variables such as digitalization of services, compliance cost, taxpayer perception and deterrence measures as factors influencing turnover tax compliance among MSMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter expounds on the relevant literatures related to tax compliance of turnover tax among the MSMEs. It consists of theoretical framework centered on past theories and empirical literature. The conceptual framework is presented with key variables and the measurement of each of the variable. The reviewed literature will be summarized and well analyzed to bring out gaps.

2.2 Theoretical framework

The study is anchored on four theories; Ability to pay theory, Fiscal Exchange Theory , The economic deterrence theory and Technology Acceptance Theory which have been put across by various scholars regarding the effect of tax compliance.

2.2.1 Ability to Pay Theory

This theory has been advanced by Adam Smith. it assumes that the level of income is the determinant of one's ability to pay tax and is equivalent to progressive tax in which the tax rate rises with increase in taxable income (Odongo,2016). This theory, is considered effective in addressing tax equity and justice as it assumes that people pay tax in accordance with their income. This implies that people earning more income ought to pay more tax and at a higher rate than the low-income earners, in Kenya income tax follows this theory (Wasao, 2014). The theory has led to different interpretations of equity in taxation; equal absolute for all taxpayers, equal proportional sacrifice and equal marginal sacrifice Clara Hein Online (2016). It is widely acknowledged as an independent source of tax law and applied as a parameter for designing fair tax systems in most countries especially in the European Union, Clara Maria (2015).

The relevance of this theory to this study is it presents information on the dependent variable which is Turnover tax compliance by identifying the ought to characterize a good tax system in respect to administration and its effect on entrepreneurship. Ability to pay influences the way people perceive payment of tax as it is an added expense to the business. Although registered TOT taxpayers pay the taxes due, it takes considerable large amount of one's capital, which in turn reduces his propensity to invest. This is completely unfavorable particularly to small investors who are either wiped out of investment or they look for ways and means of avoiding tax. This has led to collection of lower tax by the government resulting to budget deficit and excessive borrowings.

2.2.2 Fiscal Exchange Theory

The theory is premised on the fact that there exists a relationship between the tax payers and the government and this relation is in form a contract (McKerchar & Evans, 2009). It argues that expenditure by the government is a significant factor stimulating tax compliance among the tax payers the existence of positive benefits may increase the probability that taxpayers will comply voluntarily without direct coercion (Bodea and LeBas, 2013). The theory has however undergone evolution with time to incorporate the need to have bargaining for optimal compliance between the tax payers and the relevant tax agencies in an economic system (Fjeldstad, et al., 2012).

The government is able to motivate taxpayers to comply through provision of satisfactory public services and goods using tax revenue collected (Ali, Fjeldstad and Sjursen, 2013). Moore (2004) notes that provision of public services and goods through government expenditure and taxation is interpreted as a contract between the government and the taxpayers, thus individual taxpayers are concerned about the direct benefit they derive from paying taxes. When individuals value the goods and services provided through government

expenditure, they are motivated to pay taxes to finance the services and also as a means of encouraging compliance from others (Fjeldstad and Semboja, 2012).

The theory argues that government expenditure plays an important role in enhancing tax compliance and particularly when people are of the view that all the goods they are receiving are from the government (Bello & Danjuma, 2014). Even though it is very hard for taxpayers to establish the precise value of benefit received from taxes paid, they generally have a sense of the terms of trade between them and the government. Taxpayers' behaviour is therefore affected by satisfaction or dissatisfaction with their terms of trade with governments. Where taxpayers are not satisfied by products provided by the government or do not approve the manner in which revenue is utilized, they alter their terms of trade through reduced tax compliance (Torgler, 2003).

This theory is relevant to the independent variable taxpayer's perception as it explains how the Taxpayers are willing to comply when they are content with the services and goods provided by the government even in the absence of detection and sanctions. From this theory, it can be inferred that MSMEs' perception towards compliance or non-compliance is influenced by government expenditure and its relationship with the taxpayers. The taxpayers are then expected to comply if they are satisfied by services provided by the government. However, the level of non-compliance will be low if the taxpayers are dissatisfied.

2.2.3 Economic Deterrence Theory

The economic deterrence theory aids in understanding that the taxpayer's behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection fines and penalties for fraud which determine the costs (Mendoza, Wielhouwer, & Kirchler, 2017). This implies that if detection is likely and penalties are severe, few people will evade taxes by declaring a true income and revenue. In contrast,

under low audit probabilities and low penalties, the tax payer may choose to declare only a part of the income or not declare at all thus the expected tax evasion is high.

The propositions of the theory forms one of the basics strategies of the revenue authorities of enforcing tax compliance through coercive methods (Kiow, Salleh, & Kassim, 2017). Currently, many revenue authorities are emphasizing on the use of the quality service as it builds sustainable tax compliance behavior, rather than the use of force and coercive means which results into temporary tax compliance. According to Mengere, (2014) taxpayers want to maximize returns and minimize costs; in doing so, they evaluate their activities and desist from doing them where the probability of fines, sanctions and other costs involved outweigh the benefits substantial noncompliance.

Evidently, therefore economic deterrence theory is vital in this study because it offers an understanding on tax compliance among individuals. As such, the theory aids in providing how punitive and persuasive measures can be adopted to influence tax compliance. In this regards, the study examined persuasive mechanisms as that people are driven by their values that they want to fulfil. People have different habits and views about paying tax to the government. Those who have the right conviction would not be coerced to fill in tax returns, but those who do not care will be fined for non-tax compliance.

2.2.4 Technology Acceptance Theory

TAT was first advanced by David in 1986. This model is important in explaining and determining technological behavior (Chem Shing-itan and Chien-Yi 2011). The acceptance and rejection of technology can be used by this approach. The model implies that once a customer is given is exposed to alternative innovations, some components affect their choices on the time and means of utilization. This constitutes its apparently seen helpfulness and convenient. This was produced from the contemplated hypothesis activity by social clinicals.

In Davis' research, two fundamental parts are recognized; seen helpfulness and convenience (Davis, Foxall & Pallister, 2002). TAT has been largely adopted due to its ability to predict of the use of technology by individuals (Fishbein & Ajzen, 2010). Davis (1989) argues that the perceived ease of use affects the intention for adoption and perceived usefulness. TAT has however been linked with haddocks despite being a resourceful in the study of adoption and use of technology such as failing to consider the organization's setting, generality and parsimony during the initial stages of designing the model and disregarding the factors which moderate ICT adoption (Sun & Zhang, 2006).

This theory has influences explorations on digitalization of services acceptance. In this research, TAT will be used to explore the manner in which persons have how individuals have been slowly embracing the use of mobile banking in order to save time and cut costs thus better business performance. In this survey, TAT will be utilized to ascertain how the use of digitalization of services enhances voluntary tax compliance in Kenya and how technology use influences the adoption of technological innovations by Kenya Revenue Authority.

2.3 Conceptual Framework

A conceptual framework is defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Wong and Wai-Yee, 2015). It identifies the various variables in the study including: independent variable and the dependent variable and also identifies various parameters that the study wishes to be measured of the various variables (Kothari, 2004). Figure 2.1 shows the conceptual model depicting the nature of relationship between the independent variables and the dependent variable. From Figure 2.1, the independent variables of the study include digitalization of services which was measured by Online Filling system and Online Payment system. Compliance cost was measured by. Cost of book keeping and Cost of filing. Taxpayer

perception was measured by Perceived opportunity for tax evasion and Perceived benefit. Deterrent measures were also be measured by: court suits and agency notices. The dependent variable on the other hand is turnover tax compliance which was measured by Tax Collected and Returns filed. This study conceptualizes that turnover tax compliance could be affected by digitalization of services, compliance cost, taxpayer perception and deterrent measures. The purpose of this study was therefore to test the nature and the strength of these relationships.

Independent variables

Dependent variable

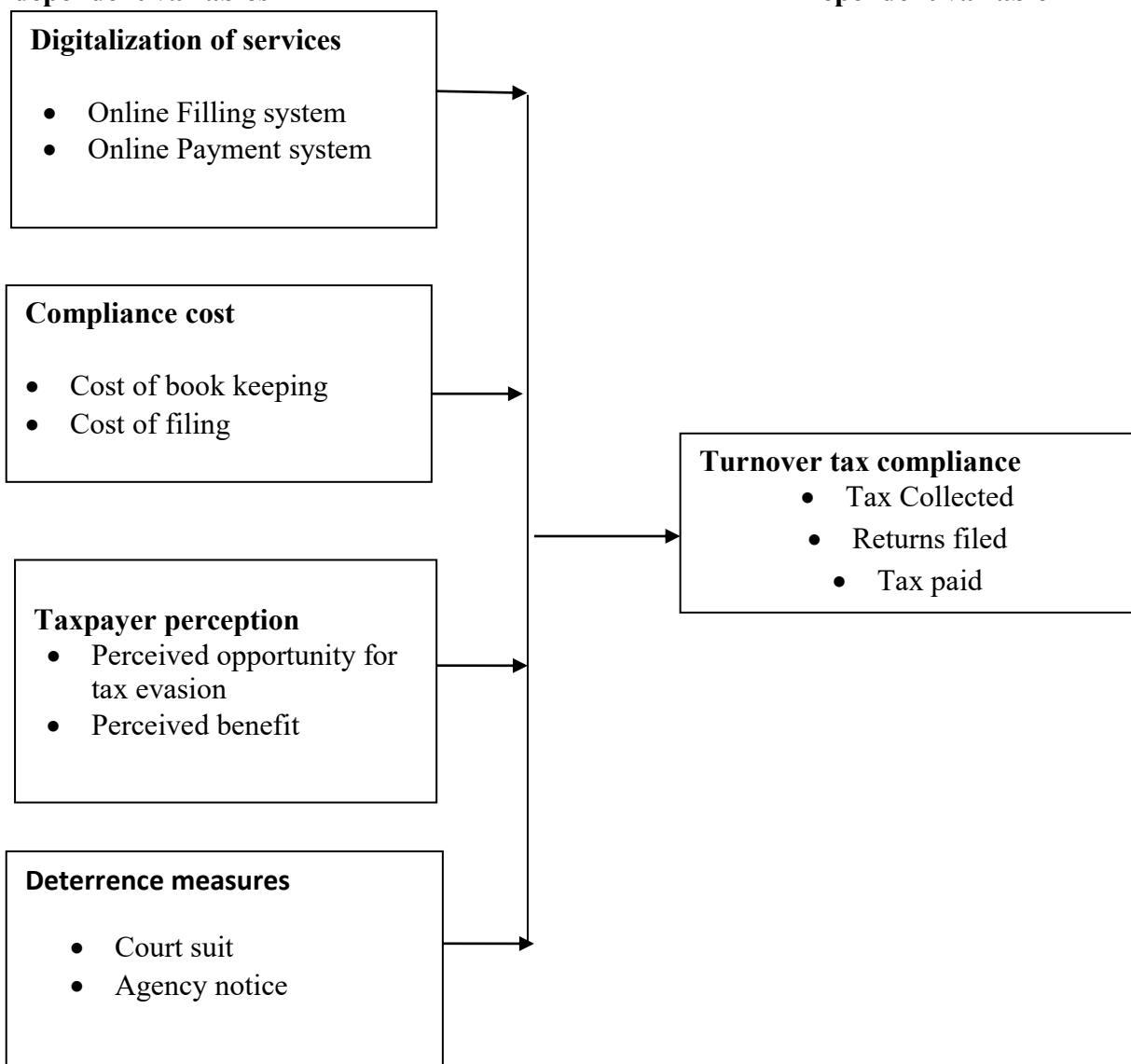


Figure 2.1: Conceptual Framework

2.4 Empirical Review

This section reviews studies that have been undertaken by various scholars on the same subject area. These are past and present studies which are relevant to the study variables. These studies were discussed and critically analyzed to find out the gaps on contextual approaches, the methodological that would still be filled by this research.

2.4.1 Digitalization of services and Turnover Tax Compliance

The digital age is rapidly transforming the relationship between tax authorities and tax payers (Ernst & Young, 2016). Digital disruptions have significant implications on the functioning and organization of an economy. One of the consequences is their impact on taxation. In digital context, this implies the necessary tax reform (European, commission, 2017). Digitization of tax administration entails five elements: technologies, people, managing of tax risks, financial resources, and communication. Digitization implies that a single IT database would be networked with the Pension and Disability Insurance Fund, the Health Care Fund, the National Employment Service, the Customs, and the Ministry of Internal Affairs. This is a basic prerequisite for the digitization of tax administration, as well as online control and tax collection. The uncontrolled accumulation of debt of certain taxpayers will be avoided and the administrative costs, both for the tax administration and taxpayers, will be reduced (OECD (2017; OECD, 2016).

Amitabh (2009) examined the advantages online tax filing by young experts in India. The study's goal was to analyze the manner in which young professionals in India will react towards online filing of tax return submissions so as to enhance compliance. Regression analysis was conducted on the antecedents of young Indian professionals depended on personal innovativeness in information technology, the perceived ease of the tax system, performance of filing service, compatibility and relative advantage.

Nawawi and Ling (2010) conducted a study on integration of ICT Skills and tax software in tax education. Tax practitioners were utilized as the respondents and the research aimed at ascertaining the necessary skills needed by taxpayers for full utilization of the online tax platform. The research established that three skills are required by taxpayers to interact fully with technology based tax systems namely, word-processing software, e-mail and spread sheet software. The study's results has got correlate with the current investigation since analyzing the electronic system's effectiveness demands for ignoring of the past technologies failure to which might result to not fully leveraging on the benefits.

Makanga (2010) examined technology adoption as a strategic tool for improving tax compliance in Kenya a case of Large Taxpayer companies with a turn in excess of Kshs. 750 million. The study's objective was to examine the role Technology on tax compliance by the large taxpayers. The investigation established that in the highly dynamic world, technology is crucial for business growth. Either Large Taxpayers or KRA must adopt modern technology so improve tax compliance efficiencies.

2.4.2 Compliance cost and Turnover Tax Compliance

The costs of complying with tax obligations have generated widespread interest among academics, government policy makers and business organizations. Contemporary research in the area was pioneered by Sandford who examined the cost of complying with Valued Added Tax (VAT) and other taxes for taxpayers in the United Kingdom (UK) in the 1970s and 1980s (Sandford, Godwin and Hardwick, 1989). Sandford (1989) defined Tax compliance costs as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. Most published research adheres to the convention established by Sandford and distinguishes between gross compliance costs and net compliance costs.

Net compliance costs are defined as the gross compliance costs less tax compliance benefits which include tax deductibility benefits, cash flow benefits, and managerial benefits. Tax deductibility benefits result from the fact that business taxpayers are entitled to tax deductions for some of the compliance costs they incur. Cash flow benefits arise because of the difference between the time when the tax is collected by the taxpayer and the time when it is actually handed over to the tax authorities (B Tran-Nam et al, 2000).

Slemrod and Yitzhaki (1996) identified compliance costs as one of the three components of the social costs of taxation. These social costs can be paraphrased as costs incurred by society in the process of transferring purchasing power from the taxpayers to the government. The other elements are compliance costs and deadweight efficiency loss from taxation. Zachary et al. (2017) in his study found out that high cost of compliance may encourage tax evasion which will result to low compliance and reduced revenues to the tax authorities.

Coolidge (2010) did a study on costs of compliance and their influence on the ability of the taxpayers to comply with taxes in an economic system. The focus of the study was on a number of countries including South Africa, Peru, Ukraine and Yemen as a republic. This study adopted a survey design and the analysis showed that any efforts to increase the costs of compliance might make the taxpayers not to comply with taxes in an economy.

According to a study done by OECD (2004) on simplification of taxes and how this influences the ability of the taxpayers to comply with taxes, it was shown that the costs of compliance with taxes increases as one is subjected to various tax heads. The costs of compliance with taxes also increase with the degree and level of complexity of the rules and regulations of taxation and the frequency, which the returns of the taxes should be filed.

Olweny and Omondi(2011) investigated the effect of determinants of tax compliance on the firms listed at the Nairobi Securities Exchange, Kenya. The study focused on the effects of the determinants and compliance level at the NSE. It used monthly time series data for five

years, a period between January 2008 to December 2013 they found out that tax compliance cost, perceived opportunity for tax evasion affect tax compliance level among firms.

(Muturi and Kiaries, 2015) states that there is no effect of online tax remittance on tax compliance. Studies on the effect of information technology suggest that for small scale traders there is minimal impact which can be documented since most of them operate outside the tax bracket. The revenue authorities' have embarked on the use of information technology in order to reduce administrative costs of tax compliance. (Alm and McKee, 2006) investigates the application of experimental methods to examine the individual compliance responses to a "certain" probability of audit, and conclude that the compliance rate rises if an individual knows he will be audited and the rate falls if he knows he will not be audited.

2.4.3 Taxpayer perception and Turnover Tax Compliance

Several researches have been advanced on the need to understand the perceived opportunities for tax evasion. Berk et (2015) noted that the general public do not perceive tax as a serious crime. In their study carried out in Turkey, it revealed that average person ranked tax evasion as only somewhat serious as compared to the white collar crimes. Enotes that a bad perception by the Smes on tax matters and they impact negatively on the economy. Karlinsky et al 2014 argues that MSMEs perceive tax cheating and shop lifting are almost equivalent offences.

Baru 2016 argues that the taxpayers perceive and associate paying tax with social responsibility and the company should pay its fair share of taxes. Other studies show that MSMEs do not support Tax evasion especially in developed countries as it inhibits growth of the economy. Gunz et al 2014. Mugenda 2015 concluded that MSMEs tend to follow the policies they feel that they can support their businesses.

Small scale traders normally operate in the informal sector and therefore they believe that there is no way the authorities can be able to get them. This is because most of this traders engage in business that are not documented other than being registered by the local authorities leading to noncompliance. (Wembley, 2004). Small scale traders have high potential for evading tax because they are not in the tax bracket meaning they are not registered for tax purposes.

According to fraud triangle (W.Albert, 2009), considers that perceived pressure, perceived opportunity and rationalization are interrelated. This may result due to corruption, asset misappropriation and fraudulent statement. Opportunity results from the fact that an individual does the assessment on their own and therefore can be able to manipulate data to fit into what he wants to pay. In the small businesses, the opportunity can result due to ignorance, incapacity to understand the laws and inability to tell the accuracy of work done. According to (J. Keraro, M. Oloo and P. Ragama, 2015) notes that opportunity for tax evasion may influence tax compliance negatively.

Tax compliance can have psychological connotations and as such, perceived fairness plays a pivotal role in shaping compliance behavior (OECD, 2015). Of some of the empirical evidence, Nguyen (2019) argued that the odds of non-compliance increases when economic agents perceive a tax system to be unfair. Munga (2019) who indicated that the perceived fairness of tax system plays a significant impact on behavior towards tax remittances posted similar argument. Mwakibete (2015) stressed on the influence of taxpayers' perceptions on tax compliance. The study was undertaken in three municipal councils of Kinondoni, Morogoro and Dodoma. The findings revealed that 22.3% of the respondents showed 19 that they did not pay tax at all because of their negative perception of tax collected

2.4.4 Deterrence Measures and Turnover Tax Compliance

Tax evasion has been a common problem in some countries with damaging consequences to national budgets. Attitudes towards taxes reflect attitudes towards governments and tax evasion can be the only means available to citizens to express their disapproval (Lewis, 1982). It is thus important to understand what informs attitudes towards tax compliance. Trust, perceptions of fairness and corruption have consistently been identified as playing a crucial role in tax compliance (Torgler, 2003, 2004; Wenzel, 2003a). Where governments are seen to be fair, not corrupt and treat citizens with respect, taxpayers will tend to trust them and show more willingness to comply (Feld and Frey, 2007).

According to the slippery slope framework (Kirchler, 2007; Kirchler, Hoelzl, and Wahl, 2008; Kirchler and Wahl, 2010; Muehlbacher and Kirchler, 2010), trust in authorities as well as deterrence measures deployed by them increase tax compliance even though the type of compliance is clearly discrete. Power increases enforced tax compliance and trust increases voluntary tax compliance. According to Mckerchar and Evans (2009), some commentators suggest that a dedicated tax fraud unit should be established to tackle such cases, as it requires special skills including knowledge of the tax fraud legislation, knowledge of the courts and appeals systems, and law enforcement expertise and ability to liaise with other governmental offices. This appears to be a better idea than the introduction of a separate “Tax Police” introduced in some Eastern European and South American regimes which has a sub-optimal effect as it artificially splits tax law enforcement between two organizations.

Olokooba et al., (2018) looked at tax offences in Nigeria. The study critically looks at what covers an offence, their categories as well as penalties. It was established that tax offences constitute of both civil as well as criminal vices in an economy. In Nigeria, where some of the tax offences are more serious hence attracting severe punishment, other offences are mild

requiring only fines. It is worthwhile to establish that the laws of taxation give authority to administrators to use both civil and criminal sanctions for enforcing compliance behavior

Gill (2003) noted that this “is perhaps still the weakest area in revenue administrations in most developing countries”. It is therefore an area that deserves closer attention, by reference to specific further strategies (involving registration, verification, investigation and sanctions) that can ensure revenue authorities enforce compliance in the most efficient and cost-effective fashion. A study by Merima et al., (2013) established that probability of detection and difficulty of evading taxes were among the factors that influence tax compliance behavior by taxpayers in Tanzania, Kenya, South Africa and Uganda. Past scholars have recommended regular and random audits as deterrence measures but this raises the question of cost of administration vis-à-vis the resultant increase in revenue collection.

(Muoki & Osebe, 2014) argues that taxpayers, when made to pay higher fines for evading taxes, deters them from future evasion. Tax penalties may have both positive and negative impact on taxpayers. If tax penalties are fair and acceptable, they strengthen taxpayers’ compliance. If they are perceived as oppressive, they are likely to create.

2.4.5 Turnover tax Compliance

Tax compliance is multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance and reporting compliance (Brown and Mazur 2013). OECD (2001) advocates dividing compliance into categories in considering definitions of tax compliance. These categories are administrative compliance and technical compliance where the former refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance and the latter refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax. Income tax compliance applies to all salaried

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

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

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

2.5 Critique of the Existing Literature

Previous studies that have like According to the slippery slope framework (Kirchler, 2007; Kirchler, Hoelzl, and Wahl, 2008; Kirchler and Wahl, 2010; Muehlbacher and Kirchler, 2010), trust in authorities as well as deterrence measures deployed by them increase tax compliance even though the type of compliance is clearly discrete. Power increases enforced tax compliance and trust increases voluntary tax compliance.

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Tanzania, Kenya, South Africa and Uganda. Past scholars have recommended regular and random audits as deterrence measures but this raises the question of cost of administration vis-à-vis the resultant increase in revenue collection.

2.6 Summary of literature review and Research Gaps

Role of technology in enhancing tax compliance by Kenyan large tax payers (Makanga, 2010) the study used Cross sectional survey. The study established that technology adoption in tax administration had increased the level of compliance of Large Taxpayers. The study only focused on large manufacturing firms. The study treated technology as the independent variable. The current survey will explore how digitalization and the association between digitalization of services and tax turnover tax compliance among MSMEs.

Coolidge (2010) did a study on costs of compliance and their influence on the ability of the taxpayers to comply with taxes in an economic system. The focus of the study was on a number of countries including South Africa, Peru, Ukraine and Yemen as a republic. This study adopted a survey design and the analysis showed that any efforts to increase the costs of compliance might make the taxpayers not to comply with taxes in an economy. However, the study used only survey research design and the study was carried out in South Africa, Peru, Ukraine and Yemen, On the other hand the current study will be done in Nairobi, Kenya

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter focuses on the research methodology that will be employed in this research. It describes the research design, the study population, the sampling frame, the sample, the sampling techniques that was used in data collection, identification of the pilot of the study and reliability testing and data analysis and presentation.

3.2 Research Design

This study adopted a descriptive research design which was the best for this study as it describes characteristics associated with the subject population, and in particular factors that make them behave the way they do. According to Coopers and Schindler (2003), descriptive design discovers and measures the cause and effect of relationships between variables. Mugenda and Mugenda (2013) state that a descriptive research determines and reports the way things are and attempts to describe possible behavior, attitude, values and characteristics of such things. The study used descriptive design because it enabled the researcher to collect large quantity of in-depth information about the population being studied.

3.3 Target Population

A population element is the subject on which the measurement is being taken and is the unit of study (Donald Cooper 2010). According to KRA (2013), there are 241 MSMEs within Westlands. Specific focus on businesses operating in Parklands/Highridge, being near capital city of Nairobi.

Table 3.1: Target Population

| Item | Target Population |
|-----------------------|--------------------------|
| Boutique traders | 98 |
| Groceries Traders | 42 |
| Juakali Artisans | 49 |
| Hair products traders | 28 |
| Furniture traders | 24 |
| Total | 241 |

3.4 Sampling Technique and Sample Size

A sample is a subset of the population. By studying the sample, the researcher should be able to draw conclusions that would be generalizable to the population of interest (Sekaran, 2003). Yamane formula was used for determining the sample size for this study because Yamane formula assumes a normal distribution and it is assumed that the taxpayer was distributed normally in relation to the parameters under study that is turnover tax compliance. This formula also enables the selection of a sample that represents the population, with confidence and risk levels. The Yamane formula is;

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

Whereby n represents the sample size for target population, N represents the population size, e represents the error of sampling or precision/error limit at 95% level of confidence and 5% level of precision is required (Yamane, 1967) . Using the above formula and a precision level of 5%, the desired sample size was; $n = 241 / 1 + (241 * 0.05 * 0.05)$; $241 / 1.60$; $150.63 \sim 151$. Therefore, 151 taxpayer formed the sample size for the study. The sampling technique for this research was simple random sampling.

3.5 Sampling frame

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

3.6 Data Collection method

The study collected data by use of primary data sources. For the primary data, the study used the questionnaires. The questionnaire is defined by Glen (2017) as any written instruments that present respondents with a series of questions or statements to which they are to react either by writing out their answers or selecting from among existing answers. Questionnaire was developed and distributed to the respondents; this was undertaken by the basic approach of hand delivery and use of emails. A period of one week will be allowed for the respondents to respond to the questionnaires which were later be collected back for analysis. Closed ended questions was adopted which usually suggests the answers to solicit the most relevant information.

3.7 Data Collection Instrument

The study was collect primary using a self-administered questionnaire on a 5-point Likert scale was used as the main instrument for collecting primary data from each respondent. Cooper and Schindler (2012) noted that questionnaires work best with standardized questions that one can be confident to interpret the same way by all respondents.

They further contended that questionnaires are mostly used for descriptive research. For the purpose of this research, the questionnaire was based on closed-ended questions aimed at generating brief and specific answers from the participants. The questionnaire is prepared in form of a five-point Likert Scale and organized in line with each of the study variables and their respective variable.

3.7.1 Pilot Study

According to Payne (2016), a pilot study is a mini version of a full-scaled study executed as is planned for the intended study but on a smaller scale. According to (Cooper & Schindler, 2011), a pre-test should range from 1% to 10% depending on the sample size. For this reason, the researcher administering the questionnaire carried out a pre-test on 15 respondents who were purposively be selected to test the reliability of the research instruments Pilot studies help pre-test a particular research instrument such a questionnaire or an interview guide in order to test various indicators, methodological, and reveal any deficiencies in the tool. The respondents were encouraged to comment on and suggest areas in questions that are not clear and may need improvement. The questionnaire were then be adjusted based on the comments of the respondents and given to them for the second time. The scores of the first and the second time will be recorded and correlated to test for reliability of the questionnaire.

3.7.2 Validity of the Instruments

Zikmund *et al.*, (2010) state that validity in research is concerned with measuring what is intended for measurement. It arises due to the fact that measurements in social science are indirect. It is the degree of accuracy of the indicators (Cooper and Schindler, 2006). Validity is therefore, the degree of accurate measure or score that fruitfully give the exact measure. There are four conventional ways of inaugurating validity, this includes, face validity, construct validity, criterion validity, and content validity. The study adopted content validity

to determine data accuracy. This enabled the researcher to assess validity of instrument including clarity, relevance, interpretation of questions and time spent, to improve where necessary. Supervisors were consulted to examine and review the instrument for content validity. Any ambiguous questions was identified and rectified.

3.7.3 Reliability of the Instrument

The questionnaires were tested for reliability during the pilot study. The study used Cronbach's Alpha to undertake a reliability test to confirm internal consistency of items. According to Cooper and Schindler (2013) expressed that Cronbach Alpha determines a range that is between 0-1, as a result when the Cronbach Alpha has a score ranging 0-0.6 it is an indication that the reliability of the instrument is low however, a score of 0.7 and over is an expression that the internal consistency and reliability is high.

3.8 Diagnostic Tests

In scientific research, diagnostic tests are usually carried out to empirically determine the quantitative effect of study design shortcomings of more quantitative loading of diagnostic accuracy (Lijmer *et al.*, 1999). In this study, two diagnostic tests were done before data analysis to authenticate the research findings. The tests included Multicollinearity test and Normality test,

3.9 Data Analysis and Presentation

Data analysis is the whole process, which starts immediately after data collection and ends at the point of interpretation and processing (Cresswell, 2015). Therefore, before processing the responses, the completed questionnaires were edited for completeness and consistency. Both quantitative and inferential statistics was used to analyse the data. The descriptive statistics was presented in the form of percentages, mean and standard deviation. Inferential analysis was represented using correlation analysis and multi regression analysis. The findings of the study was presented inform of tables and charts

3.9.1 Analytical Model

The analytical model was used in the study is multiple linear regression model as follows:

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

Where: Y – Turnover Tax Compliance

$\beta_0 - \beta_3$ - regression coefficient of independent variables

X_1 – Digitalization of services

X_2 – Compliance cost

X_3 – Taxpayer Perception

X_4 – Deterrence Measures

ε - error term,

3.10 Operationalization and Measurement of Variables

The following table gives an outline of the dependent and independent variables and how they were measured and reviewed

Table 3.2: Operationalization and Measurement of Variables

| Variables | Indicators | Source/ author | Data collection instrument | Measurements scales | Analysis |
|------------------------------|--|------------------------|----------------------------------|------------------------|---|
| Independent variables | | | | | |
| Digitalization of service | <ul style="list-style-type: none"> • Online Filling system • Online Payment system | (Ernst & Young, 2016). | questionnaire | 5point likert | Regression Analysis Correlation Analysis |
| Compliance cost | <ul style="list-style-type: none"> • Cost of book keeping • Cost of filing | | | | |
| Taxpayer perception | <ul style="list-style-type: none"> • Perceived opportunity for tax evasion • Perceived benefit | Berk et (2015) | questionnaire | 5point likert | Regression Analysis Correlation Analysis |
| Deterrent measures | <ul style="list-style-type: none"> • Agency notices • Court suit | (Lewis, 1982). | questionnaire | 5point likert | Regression Analysis Correlation Analysis |
| Dependent variable | | | | | |
| Turnover tax compliance | <ul style="list-style-type: none"> • Tax Collected • Returns filed • Tax paid | (KRA,2016) | questionnaire | 5point likert | Regression Analysis Correlation Analysis |

3.11 Ethical considerations

Ethical considerations entail informed consent, confidentiality and anonymity during the research process. During fieldwork, an introduction letter was attached to every questionnaire, spelling out clearly the purpose of the study and the kind of information required from the respondents. The research participants will be informed that their involvement will be voluntary and be assured of confidentiality of the information they share. Safe for their designation, they will not be required to give their actual names. They will not be coerced in any way to give out information they were not comfortable revealing. They will also be at liberty to cease participating in the study at any level of the interviewing process without any fear of being reprimanded.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter describes the findings from the respondents and which linked them to the objectives of the study. It includes the descriptive and inferential statistics of the respondents and views on digitalization of services, compliance cost, taxpayer perception and deterrence measures on turnover tax compliance

4.1.1 Reliability test

The reliability of the study questionnaire was tested after piloting of questionnaires. The instrument was reliable for all the variables since they all had a Cronbach's Alpha value higher than the threshold of 0.7. (Digitalization of service $\alpha=0.800$; compliance cost $\alpha=0.767$; taxpayer perception $\alpha=0.754$; deterrence measures $\alpha=0.923$; VAT compliance $\alpha=0.910$).

Table 4.1: Reliability test

| Reliability Statistics | | |
|---------------------------|------------------|------------|
| Variable | Cronbach's Alpha | N of Items |
| Digitalization of service | 0.800 | 5 |
| Compliance cost | 0.767 | 4 |
| Taxpayer perception | 0.754 | 4 |
| Deterrence measures | 0.923 | 4 |
| Turnover tax compliance | 0.910 | 4 |

4.2 Response Rate

The researcher distributed 151 questionnaires out of questionnaires 39 were rejected as a result of improper completion. Thus, 112 questionnaires were accepted as correctly filled.

This represented a 74% response rate. Response rate is a key determinant to the performance of regression analysis, as it has a major effect on whether data met assumption tests or not. 72% was good and as confirmed by Baruch and Holtom (2008), who contend that a response rate of 70% is a good. A response rate of 100% is excellent; however, it was not achieved in this study. This was attributable to work interrelated challenges on the part of the respondents as the questionnaire was self-administered within a short time

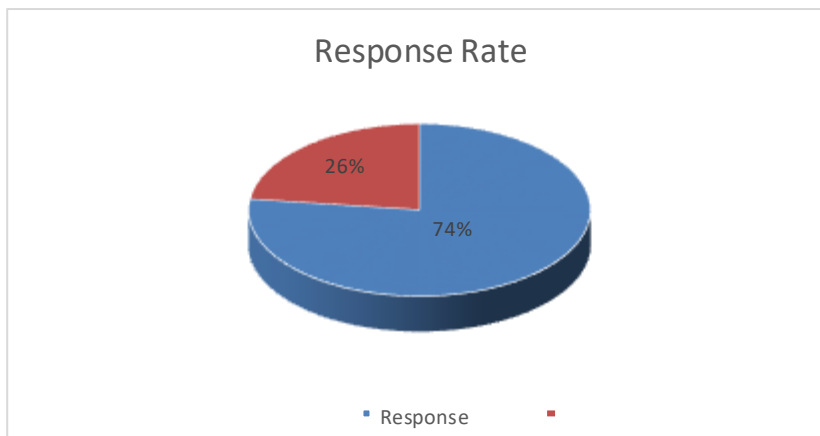


Figure 4.1: Response Rate

Survey Data (2022)

4.3 Demographic Characteristics of the Respondents

4.3.1 Gender

The study sought to establish the gender of the respondents. Results revealed that 59.8% were male respondents while 40.2% were female respondents. The results demonstrate that majority of respondents were male.

Table 4.2: Respondent Gender

| Gender | Frequency | Percentage |
|---------------|------------------|-------------------|
| Male | 67 | 59.8 |
| Female | 45 | 40.2 |
| Total | 112 | 100 |

4.3.2 Highest Level of Education

The researcher sought to find out the highest level of education of the respondents. Table 4.3 shows that 13.4% of the respondents were primary level qualification, 25% who had secondary level qualification. 30.3% were technical level qualification, 14.3% had undergraduate qualification While 16.9% were post graduate holders.

Table 4.3: Highest level of Education

| Professional | Frequency | Percentage |
|---------------------|------------------|-------------------|
| Primary | 15 | 13.4 |
| Secondary | 28 | 25 |
| Technical level | 34 | 30.3 |
| Undergraduate | 16 | 14.3 |
| Post graduate | 19 | 16.9 |
| Total | 112 | 100 |

4.3.3 Business Annual Turnover

The respondents were also asked about their business annual turnover. Respondents agreed on annual turnover were 500,000-1M at 43.7% annually. 38.4%, turnover of 1M-3M. Further 3M-5M at 9.8%, and finally above 5M turnover annually was at 8 %.

Table 4.4: Turnover

| | Frequency | Percentage |
|--------------|------------------|-------------------|
| 500,000-1M | 49 | 43.7 |
| 1M-3M | 43 | 38.4 |
| 3M-5M | 11 | 9.8 |
| Above 5M | 9 | 8 |
| Total | 112 | 100 |

4.4 Descriptive Statistics

4.4.1 Digitalization of service

The study sought to establish the effect of digitalization of service on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County. Respondents affirmed on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County with a mean score of 3.55. Use of media in tax education ensures that I can access to information easily with a mean score of 4.04. KRA has been able to educate taxpayers through KRA website with a mean score of 3.12. KRA provide flier to taxpayers on monthly basis with a mean score of 4.22. Trainings and sensitization programs organized by the KRA are informative with a mean score of 3.17. The implication is that majority of respondent agreed on digitalization of services statements.

Table 4.5: Digitalization of Service

| Statement | Mean | Std. Dev |
|---|-------------|-----------------|
| KRA should organize more workshops to sensitize its members about tax issues | 3.55 | .756 |
| Use of media in tax education ensures that I can access to information easily | 4.04 | .378 |
| KRA has been able to educate taxpayers through KRA website. | 3.12 | .651 |
| KRA provide flier to taxpayers on monthly basis | 4.22 | .517 |
| Trainings and sensitization programs organized by the KRA are informative | 3.17 | .682 |
| Total mean | 3.62 | |

4.4.2 Compliance cost

The study also explored to determine the effect of compliance cost on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County. This was achieved with the use of statements rated on a five point Likert scale. Where respondents agreed the agency costs are high for me with a mean score of 4.17. The costs of hiring employees with tax expertise are high with a mean score of 3.63. It is expensive to do manual filing of tax returns than on-line filing with a mean score of 4.82. It is costly for the company to obtain and maintain an ETR machine had a mean score of 3.91. The implication is that majority of respondent agreed on compliance cost statements

Table 4.6: Compliance cost

| Statement | Mean | Std. Dev |
|--|-------------|-----------------|
| The agency costs are high for me | 4.17 | .512 |
| The costs of hiring employees with tax expertise are high | 3.63 | .605 |
| It is expensive to do manual filing of tax returns than on-line filing | 4.82 | .596 |
| It is costly for the company to obtain and maintain an ETR machine | 3.91 | .785 |
| Total Mean | 4.13 | |

4.4.3 Taxpayer Perception

The study further sought to investigate the effect of taxpayer's perception on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County. This was achieved using statements that were measured on a five point likert scale. Some respondents agreed Payment of turnover tax is perceived by MSMEs as contribution to economic growth with a mean score of 4.65. Political goodwill and fair distribution of public resources influences my perception towards turnover compliance had a mean score of 3.14. I perceive the Kenya Revenue Authority (KRA) to be efficient in tax administration thus likely to catch up with defaulters had a mean score of 3.20. Lastly, I have a negative attitude towards tax evasion with a mean score of 4.03. The implication is that majority of respondent agreed on taxpayer perception statements

Table 4.7: Taxpayer Perception

| Statement | Mean | Std. Dev |
|--|-------------|-----------------|
| Payment of turnover tax is perceived by MSMEs as contribution to economic growth | 4.65 | .348 |
| Political goodwill and fair distribution of public resources influences my perception towards turnover compliance | 3.14 | .718 |
| I perceive the Kenya Revenue Authority (KRA) to be efficient in tax administration thus likely to catch up with defaulters | 3.20 | .813 |
| I have a negative attitude towards tax evasion | 4.03 | .557 |
| Total Mean | 3.75 | |

4.4.4 Deterrence measures

The study sought to determine the effect of deterrence measures on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County. Respondents agreed Penalties imposed by KRA are harsh and that prompts me to be tax compliant with a mean score of 4.10. High tax rates deter me from being tax compliant had a mean score of 3.84. I choose to pay tax penalty rather than payment of actual taxes had a mean score of 4.11. Lastly, I file nil and incorrect returns to avoid penalties had a mean score of 4.31. The implication is that majority of respondent agreed on deterrence measurements statements.

Table 4.8: Deterrence measures

| Statement | Mean | Std. Dev |
|--|-------------|-----------------|
| Penalties imposed by KRA are harsh and that prompts me to be tax compliant | 4.10 | .577 |
| High tax rates deter me from being tax compliant | 3.84 | .614 |
| I choose to pay tax penalty rather than payment of actual taxes | 4.11 | .538 |
| I file nil and incorrect returns to avoid penalties | 4.31 | .853 |
| Total Mean | 4.09 | |

4.4.5 Turnover Tax Compliance

The study sought to establish Value Added Tax compliance on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County. Respondents agreed Taxpayer education affects turnover tax compliance with a mean score of 4.15. Mode of tax payment affects turnover tax compliance with a mean score of 3.67. Frequency of filing returns affects turnover tax compliance with a mean score of 3.67. Lastly, Taxpayer education, mode of tax payment, and frequency of filing returns all affect turnover tax compliance in equal measure with a mean score of 3.09. The implication is that majority of respondent agreed on turnover tax compliance statements

Table 4.9: Turnover Tax Compliance

| Statement | Mean | Std. Dev |
|---|-------------|-----------------|
| Taxpayer education affects turnover tax compliance | 4.15 | .441 |
| Mode of tax payment affects turnover tax compliance | 3.45 | .617 |
| Frequency of filing returns affects turnover tax compliance | 2.83 | .717 |
| Taxpayer education, mode of tax payment, and frequency of filing returns all affect turnover tax compliance in equal measure. | 3.67 | .622 |
| Total mean | 3.52 | |

4.5 Statistical Assumptions

Assumptions testing were carried carefully to check and avoid incorrect assumptions that could generate inaccurate conclusions and in particularly statistical assumptions. Testing for assumptions is beneficial as it ensures that the assumption is met and helps avoid type I and II Errors, (Osborne and Waters, 2014). Prior to data analysis, assumptions for normality and multicollinearity were checked.

4.5.1 Test for Normality

In parametric analysis, an assumption is made to the effect that the data under test has a normal distribution and hence the use of measures of location or central tendency. Most statistical procedures for instance regression and t-test are based on the assumption of normality (Ghasemi & Zahediasl, 2012). The various techniques of testist normality include the Kolmogorov-Smirnov, Shapiro-Wilk, Lilliefors and Anderson Darling. This study used the Shapiro-Wilk test which is the most powerful normality distribution test according to Razali and Wah (2011).

As a rule of thumb, the Shapiro-Wilk test should be above 0.05 for the assumption to be met. Table 4.10 presents the results for this test. Normality was tested using the Shapiro-Wilk test and the results showed that all the variables were above 0.05 ($p > 0.05$) hence confirming data normality. Normality assumes that the sampling distribution of the mean is normal. P-values for the Shapiro-Wilk tests for digitalization of services were 0.26, compliance cost were 0.38, taxpayer perception 0.47, deterrence measures were 0.92 and turnover tax compliance were 0.15. Since all the p-values were greater than the cutoff point of 0.05 at 95% confidence level, this confirms that data was collected from a population which is normally distributed.

Table 4.10: Test for Normality

| | Shapiro-Wilk | | |
|---------------------------|--------------|-----|------|
| | Statistic | df | Sig. |
| Digitalization of service | 0.742 | 112 | 0.26 |
| Compliance cost | 0.916 | 112 | 0.38 |
| Taxpayer perception | 0.830 | 112 | 0.47 |
| Deterrence measures | 0.790 | 112 | 0.92 |
| Turnover tax Compliance | 0.817 | 112 | 0.15 |

4.5.2 Multicollinearity Test.

Another significant assumption in parametric analysis is to the effect that there lacks multicollinearity. According to Gujarati & Porter (2008), multicollinearity denotes a high correlation between the independent variables. Gujarati avers that multicollinearity causes an insignificant problem in econometric estimation in the sense that it violates no assumptions. Nevertheless, it can lead to very large standard errors of the coefficient (Osborne and Walters, 2014) and thus there is need to examine whether some independent variables may be

insignificant by reason of high multicollinearity. This study used the variance inflation factor (VIF) and tolerance scores (the reciprocal of VIF) to test for multicollinearity. As a rule of thumb, for the variables to be free from multicollinearity, the VIF values for variables ought to be way below 10 ($VIF < 10$) or tolerance scores be well above 0.2. Conferring to the results in Table 4.11, an analysis of the collinearity statistics reveal that the assumption was met, as VIF values were all well below 10 with the evidence of digitalization of service was 1.345; compliance cost had 1.082; taxpayer perception had 1.241 while deterrence measures had 1.439.

Table 4.11: Collinearity Statistics

| | Collinearity Statistics | |
|---------------------------|-------------------------|-------|
| | Tolerance | VIF |
| Digitalization of service | .679 | 1.345 |
| Compliance cost | .851 | 1.082 |
| Taxpayer perception | .712 | 1.241 |
| Deterrence measures | .678 | 1.439 |

4.6 Correlation Analysis

Pearson correlation analysis was done to determine the relationship between independent variables and dependent variable. Table 4.12 indicate that digitalization of service had the highest positive correlation with turnover compliance ($r = 0.379$ and $p = 0.000 < 0.05$), deterrence measures is positively correlated with turnover compliance ($r = 0.316$ and $p = 0.000 < 0.05$), taxpayer perception is positively correlated with turnover compliance ($r = 0.310$ and $p = 0.001 < 0.05$), compliance cost is negatively correlated with turnover compliance ($r = -0.231$ and $p = 0.000 < 0.05$).

Table 4.12: Correlation Analysis

| | | TNTC | DOS | CC | TP | DM |
|-------------------------|---------------------|-------------|------------|-----------|-----------|-----------|
| Turnover tax compliance | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 112 | | | | |
| DOS | Pearson Correlation | .379** | 1 | | | |
| | Sig. (2-tailed) | .000 | | | | |
| | N | 112 | | | | |
| CC | Pearson Correlation | -.231** | -.234** | 1 | | |
| | Sig. (2-tailed) | .000 | .000 | | | |
| | N | 112 | | | | |
| TP | Pearson Correlation | .310** | .320** | .350** | 1 | |
| | Sig. (2-tailed) | .001 | .003 | .000 | | |
| | N | 112 | | | | |
| DM | Pearson Correlation | .316** | .275** | .332 | .211 | 1 |
| | Sig.(2tailed) | .000 | .000 | .002 | .000 | |
| | N | 112 | | | | |

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

Source: Research Data, (2022)

4.7 Multiple Regression Analysis

The broad objective of the study was to establish the factors affecting turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County. To achieve this objective; three specific objectives and three corresponding questions were set and developed.

4.7.1 Regression Analysis

The results in Table 4.13 indicated that digitalization of service, compliance cost, taxpayer perception and deterrence measures had a positive correlation with turnover tax compliance

up to 71.6% (R= 0.716). According to study findings the model accounts for 51.2% (R-Square, 0.512) of variation in turnover tax compliance. This implies that 48.8% of the change in turnover tax compliance was caused by other factors which were not included in the model. The results further reveal that even if the study adjusts the model would still account for 50.5% (Adjusted R Square, 0.505) of turnover compliance

Table 4.13: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|--------------|--------------------|-----------------|--------------------------|-----------------------------------|
| 1 | 0.716 ^a | 0.512 | 0.505 | 0.43970 |

4.7.2 Analysis of Variance

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings it shows an F value of 21.864 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that each independent variable contributes significantly to changes in the dependent variable turnover tax compliance

Table 4.14: ANOVA

| Model | Sum of Square | df | Means Squares | F | Sig. |
|--------------|----------------------|------------|----------------------|----------|-------------------|
| Regression | 6.160 | 1 | 6.160 | 21.864 | .000 ^b |
| Residual | 9.185 | 111 | 0.082 | | |
| Total | 15.345 | 112 | | | |

4.7.3 The Overall Effect Digitalization of Service, Compliance Cost, Taxpayer Perception and Deterrence Measures on Turnover Tax Compliance

Regression was carried out to determine the combined influence of digitalization of service, compliance cost, taxpayer perception and deterrence measures on turnover tax compliance.

Table 4.15: Regression Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|----------------------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .261 | .061 | | 4.278 | .002 |
| | Digitalization of services | .315 | .073 | .286 | 4.315 | .000 |
| | Compliance cost | -.294 | .051 | -.229 | -5.764 | .000 |
| | Taxpayer perception | .278 | .047 | .411 | 5.914 | .006 |
| | Deterrence measures | .330 | .041 | .290 | 8.048 | .000 |

a Dependent Variable: Turnover Tax Compliance

b Independent Variables: (digitalization of service, compliance cost, taxpayer perception and deterrence measures)

Regression Equation

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

Where:

γ Represents Turnover Tax compliance

β_0 Is the constant

$\beta_1, \beta_2, \beta_3$ and β_4 The regression coefficients

X_1 =digitalization of service

X_2 =compliance cost

X_3 = Taxpayers perception

X_4 = deterrence measures

ϵ = The error term or residuals

Régression Equation

$$Y = 0.261 + .315X_1 - .294X_2 + .278X_3 + .330X_4$$

The regression equation shows that the independent variables and dependent variables were statistically significant. A unit change in digitalization of services increases turnover tax compliance by 0.315. A unit change in compliance cost decreases turnover tax compliance by -0.294. A unit change in taxpayer perception increases turnover tax compliance by 0.278. A unit change in deterrence measures increases turnover tax compliance by 0.330.

4.8 Discussion of Findings

The purpose of this study was to determine the influence of digitalization of service, compliance cost, taxpayer perception and deterrence measures on turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County.

4.8.1 Effect of digitalization of services on Turnover Tax Compliance

The first objective of the study was to establish the effect of digitalization of service on turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County. The findings of the study shows that the relationship between digitalization of services and turnover tax compliance was statistically significant at a p value of 0.000, which is less than 0.05 the conventional probability significance level, $p = 0.000 < 0.05$. The findings were in agreement with Amitabh (2009) examined the advantages online tax filing by young experts in India. The study's goal was to analyze the manner in which young professionals in India will react towards online filing of tax return submissions so as to enhance compliance. Regression analysis was conducted on the antecedents of young Indian

professionals depended on personal innovativeness in information technology, the perceived ease of the tax system, performance of filing service, compatibility and relative advantage.

Nawawi and Ling (2010) conducted a study on integration of ICT Skills and tax software in tax education. Tax practitioners were utilized as the respondents and the research aimed at ascertaining the necessary skills needed by taxpayers for full utilization of the online tax platform. The research established that three skills are required by taxpayers to interact fully with technology based tax systems namely, word-processing software, e-mail and spread sheet software. The study's results has got correlate with the current investigation since analyzing the electronic system's effectiveness demands for ignoring of the past technologies failure to which might result to not fully leveraging on the benefits.

4.8.2 Effect of Compliance Cost on Turnover Tax Compliance

The second objective of the study was to determine the effect of compliance cost on turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County. The findings of the study shows that the relationship between compliance cost and turnover tax compliance was statistically significant at a p value of 0.000, which is less than 0.05 the convectional probability significance level, $p = 0.000 < 0.05$. The findings with concurred with Coolidge (2010) did a study on costs of compliance and their influence on the ability of the taxpayers to comply with taxes in an economic system. The focus of the study was on a number of countries including South Africa, Peru, Ukraine and Yemen as a republic. This study adopted a survey design and the analysis showed that any efforts to increase the costs of compliance might make the taxpayers not to comply with taxes in an economy. Slemrod and Yitzhaki (1996) identified compliance costs as one of the three components of the social costs of taxation. These social costs can be paraphrased as costs incurred by society in the process of transferring purchasing power from the taxpayers to the government. The other elements are compliance costs and deadweight efficiency loss from taxation

4.8.3 Effect of Taxpayer Perception on Turnover Tax Compliance

The third objective of the study was to establish the effect of taxpayer perception on turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County. The findings of the study shows that the relationship between taxpayer perception and turnover tax compliance was statistically significant at a p value of 0.006, which is less than 0.05 the conventional probability significance level, $p = 0.006 < 0.05$. The findings were in agreement with Baru 2016 argues that the taxpayers perceive and associate paying tax with social responsibility and the company should pay its fair share of taxes. Other studies show that MSMEs do not support Tax evasion especially in developed countries as it inhibits growth of the economy. Gunz et al 2014. Mugenda 2015 concluded that MSMEs tend to follow the policies they feel that they can support their businesses.

4.8.4 Effect of Deterrence Measures on Turnover Tax Compliance

The fourth objective of the study was to determine the effect of deterrence measures on turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County. The findings of the study shows that the relationship between deterrence measures and turnover tax compliance was statistically significant at a p value of 0.000, which is less than 0.05 the conventional probability significance level, $p = 0.000 < 0.05$. The findings were in agreement with Olokooba et al., (2018) looked at tax offences in Nigeria. The study critically looks at what covers an offence, their categories as well as penalties. It was established that tax offences constitute of both civil as well as criminal vices in an economy. In Nigeria, where some of the tax offences are more serious hence attracting severe punishment, other offences are mild requiring only fines. It is worthwhile to establish that the laws of taxation give authority to administrators to use both civil and criminal sanctions for enforcing compliance behavior.

According to fraud triangle (W.Albert, 2009), considers that perceived pressure, perceived opportunity and rationalization are interrelated. This may result due to corruption, asset misappropriation and fraudulent statement. Opportunity results from the fact that an individual does the assessment on their own and therefore can be able to manipulate data to fit into what he wants to pay. In the small businesses, the opportunity can result due to ignorance, incapacity to understand the laws and inability to tell the accuracy of work don

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

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

5.2 Summary of the Findings

The general objective of this study was to establish the factors affecting turnover tax compliance among Micro, Small and Medium Enterprises in Westlands, Nairobi County. The specific objectives were to establish the effect of digitalization of services on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County, to determine the effect of compliance cost on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands Nairobi County. To establish the influence of taxpayer perception on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County. To determine the influence of deterrence measures on turnover tax compliance by the Micro, Small and Medium Enterprises westlands, Nairobi County.

5.2.1 Effect of Digitalization of service on Turnover Tax Compliance

The first objective was to establish the effect of digitalization of services on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County. Correlation analysis shows that digitalization of service and turnover tax compliance are positively and significantly associated. Also the Regression analysis shown there was a positive significant relationship between digitalization of service and turnover tax compliance. Digitalization of service was found to be satisfactory in explaining turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County

5.2.2 Effect of Compliance Cost on Turnover Tax Compliance

The second objective was to determine the effect of compliance cost on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands Nairobi County. Correlation analysis shows that compliance cost and turnover tax compliance are negatively and significantly associated. Also the Regression analysis shown there was a positive significant relationship between compliance cost and turnover tax compliance. Compliance cost was found to be satisfactory in explaining turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County

5.2.3 Effect of Taxpayer Perception on Turnover Tax Compliance

The first objective was to establish the effect of taxpayer perception on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County. Correlation analysis shows that taxpayer perception and turnover tax compliance are positively and significantly associated. Also the Regression analysis shown there was a positive significant relationship between taxpayer perception and turnover tax compliance. Taxpayer perception was found to be satisfactory in explaining turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County

5.2.4 Effect of Deterrence measures on Turnover Tax Compliance

The first objective was to determine the effect of deterrence measures on turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County. Correlation analysis shows that taxpayer perception and turnover tax compliance are positively and significantly associated. Also the Regression analysis shown there was a positive significant relationship between taxpayer perception and turnover tax compliance. Taxpayer perception was found to be satisfactory in explaining turnover tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County

5.3 Conclusions

Based on the foregoing findings, the study concludes that digitalization of service has a significant effect on Turnover Tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County, and is found to play a significant role in the Turnover Tax compliance. Respondents agreed that, Use of media in tax education ensures that I can access to information easily and KRA should organize more workshops to sensitize its members about tax issues.

The study concludes that Compliance Cost has a significant effect on Turnover Tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County, and is found to play a significant role in the Turnover Tax compliance. Respondents agreed that, It is expensive to do manual filing of tax returns than on-line filing and the agency costs are high for taxpayers.

On taxpayer perception the study concludes that taxpayer perception has a significant effect on Turnover Tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County, and is found to play a significant role in the Turnover Tax compliance. The agreement was made to a large extent that Payment of turnover tax is perceived by MSMEs as contribution to economic growth

Lastly, the study concludes that deterrence measures has a significant effect on Turnover Tax compliance by the Micro, Small and Medium Enterprises in westlands, Nairobi County, and is found to play a significant role in the Turnover Tax compliance. The respondent agreed that taxpayer file nil and incorrect returns to avoid penalties.

5.4 Recommendations

The study recommends that the government should have policies relating to digitalization of service, compliance cost, taxpayer perception and deterrence measures so as to improve

turnover tax compliance. The study further recommends that KRA should pay more attention on policies on deterrence measures.

5.5 Suggestions for Further Research

The study suggests the needs for more studies focusing on other factors not included in the study. The study was only limited to digitalization of services, compliance cost ,taxpayer perception and deterrence measures on turnover tax compliance and this calls the need for more studies on different variables such as effect of tax audits on turnover tax compliance in Kenya.

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APPENDICES

Appendix I: Questionnaire

This questionnaire is designed to collect information on the **FACTORS INFLUENCING TURNOVER TAX COMPLIANCE AMONG MICRO, SMALL AND MEDIUM ENTERPRISES SECTOR IN WESTLAND AREA IN NAIROBI**. Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate answers are required. Use the space at the back of this questionnaire if you need more space for your responses.

PART A GENERAL INFORMATION

1. Gender of respondent

Female [] b) Male []

2. Age of respondent

a) Below 30 [] b) 31-40 [] c) 41-50 [] d) 51-60 []

e) Above 60 []

3. Level of education attained

Primary Undergraduate

Secondary Postgraduate

Technical/Vocational

4. Which of the following best estimate your annual turnover in Ksh?

a. Between Kes 500,000 and 1,000,000

b. Between Kes 1,000,001 and 3,000,000

c. Between Kes 3,000,001 and 5,000,000

d. Over Kes 5,000,000

**PART B FACTORS INFLUENCING TURNOVER TAX COMPLIANCE
 AMONG MICRO, SMALL AND MEDIUM ENTERPRISES SECTOR
 IN WESTLAND AREA IN NAIROBI**

DIGITALIZATION OF SERVICES

1. On a 5-point scale where 1= Not at all, 2= little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent, to what extent do you agree with the following regarding the effect of digitalization of service on turnover tax compliance among MSMEs in Westlands Nairobi?

| Statements | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| KRA should organize more workshops to sensitize its members about tax issues | | | | | |
| Use of media in tax education ensures that I can access to information easily | | | | | |
| KRA has been able to educate taxpayers through KRA website. | | | | | |
| KRA provide flier to taxpayers on monthly basis | | | | | |
| Trainings and sensitization programs organized by the KRA are informative | | | | | |

COST OF COMPLIANCE

2. On a 5-point scale where 1= Not at all, 2= little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent, to what extent do you agree with the following regarding the effect of compliance of cost turnover tax on turnover tax compliance among MSMEs in Westlands Nairobi?

| Statements | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|----------|
| The agency costs are convenient | | | | | |
| The costs of hiring employees with tax expertise are low | | | | | |
| It is less expensive to do manual filing of tax returns than on-line filing | | | | | |
| It is too costly for the company to obtain and maintain an ETR machine | | | | | |

TAXPAYER PERCEPTION

3. On a 5-point scale where 1= Not at all, 2= little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent, to what extent do you agree with the following regarding the effect of taxpayer perception on turnover tax compliance among MSMEs in Westlands Nairobi?

| Statement | 1 | 2 | 3 | 4 | 5 |
|--|----------|----------|----------|----------|----------|
| Payment of turnover tax is perceived by MSMEs as contribution to economic growth | | | | | |
| Political goodwill and fair distribution of public resources influences my perception towards turnover compliance | | | | | |
| I perceive the Kenya Revenue Authority (KRA) to be efficient in tax administration thus likely to catch up with defaulters | | | | | |
| I have a negative attitude towards tax evasion | | | | | |

DETERRENCE MEASURES

4. On a 5-point scale where 1= Not at all, 2= little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent, to what extent do you agree with the following regarding the effect of deterrence measure on turnover tax compliance among MSMEs in Westlands Nairobi?

| Statement | 1 | 2 | 3 | 4 | 5 |
|--|---|---|---|---|---|
| Penalties imposed by KRA are harsh and that prompts me to be tax compliant | | | | | |
| High tax rates deter me from being tax compliant | | | | | |
| I choose to pay tax penalty rather than payment of actual taxes | | | | | |
| I file nil and incorrect returns to avoid penalties | | | | | |

TURNOVER TAX COMPLIANCE

5. On a 5-point scale where 1= Not at all, 2= little extent, 3=Moderate extent, 4=Great extent, 5=Very great extent, to what extent do you agree with the following regarding factors that influence turnover tax compliance among MSMEs in Westlands Nairobi?

| Turnover Tax Compliance | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Taxpayer education affects turnover tax compliance | | | | | |
| Mode of tax payment affects turnover tax compliance | | | | | |
| Frequency of filing returns affects turnover tax compliance | | | | | |
| Taxpayer education, mode of tax payment, and frequency of filing returns all affect turnover tax compliance in equal measure. | | | | | |

Thank you very much for taking time to complete this questionnaire.

Appendix II: Work Plan

| Activity | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2021 | 2021 | 2021 | 2021 | 2021 | 2021 | 2021 | 2021 |
| Proposal Development | | | | | | | | |
| Presentation | | | | | | | | |
| Pilot Testing | | | | | | | | |
| Data Collection | | | | | | | | |
| Data Coding & Editing | | | | | | | | |
| Data Analysis | | | | | | | | |
| Report Writing | | | | | | | | |
| Submission | | | | | | | | |

Appendix III: Budget

| Description | Total |
|---------------------|---------------|
| Stationery | 1,000 |
| Photocopying | 1600 |
| Typing | 2,300 |
| Binding | 2,000 |
| Internet | 3,000 |
| Book binding | 4,000 |
| Research Assistants | 35,000 |
| Total | 48,900 |

Appendix III: List of MSEs In Parklands/Highridge

1. SIMON KANIARU GAKINYA
2. JOHNA OMONDI OYULE
3. GIDEON WANGANG'A MAINA
4. MALACHI OBADO ONDEGOH
5. RICHARD KARORI NJOMO
6. JANET NZANDI MUSEMBI
7. DENNIS MATAYIAN PARSANKA
8. JULIANA WAMBUI MUNENE
9. TOM MUNGEDI AGATSIVA
10. PETER NGUNJIRI CHAHILA
11. MACK-E TRADERS
12. PAMBAZA KITCHEN WARE
13. JIKAZE ENTERPRISES
14. IMANI ENTERPRISES
15. KINKIM TRADERS
16. GUNAS ENTERPRISES
17. MILLENIUM TRADERS
18. KINYOHO STORES
19. KIAMA INVESTMENT
20. MADEFU TRADERS
21. ELSHADAI ENTERPRISES
22. WINCOM TRADERS
23. GRASPER VENTURES
24. BASMA TRADERS
25. WAJACKLINE ENTERPRISES
26. VICTORY TRADERS
27. RENTON ENTERPRISES
28. FIDELITY STORES
29. MAMBO YETU ENTERPRISES
30. WINAM ENTERPRISES
31. GENESIS TRADERS
32. CENTUARY ENTERPRISES
33. GURU MERCHANTS
34. MARIANAH TRADERS
35. HAPPY FEET COLLECTIONS
36. DOLLY CLASSIC ENTERPRISES
37. PIONEER TRADERS
38. MR. SNEEKERS VENTURES
39. AL-AMIN FOOTWARE
40. DIKIROS TRADERS
41. PYRAMID COLLECTIONS
42. SAN SIRO FOOTWARE
43. SHOES UNIVERSE
44. ZEUMU FOOTWARE
45. JUDAH INVESTMENTS
46. PATA FASHIONS
47. AARAN ENTERPRISES
48. KITCHEN SECRETS COOKWARE
49. HAVEN COOKWARE
50. ELVIS ENTERPRISES
51. CYBRA ENTERPRISES
52. TWO IN ONE
53. GLADELI ENTERPRISES
54. JEYDEN ENTERPRISES
55. MINTECH ENTERPRISES
56. JOPA TRADERS
57. MIKI TRADERS
58. GLORIUS BABY SHOP
59. MWATHI KITCHEN WARE
60. TOTO FABULOUS
61. ROSEN ENTERPRISES
62. SWEET ANGLES BABY SHOP
63. SAFROB FOOTWARE
64. META TRADERS
65. THE PLACE COOKWARE
66. MANTEMO ENTERPRISES
67. GITHIWA TRADERS
68. BERMWA ENTERPRISES
69. JOAN'S COLLECTIONS
70. SHALOM ENTERPRISES
71. AVIWA ENTERPRISES
72. ZONELLA ENTERPRISES
73. LUCIMA HOLDINGS
74. SANVIC BABY SHOP
75. ELEGANT KITCHEN & BAKEWARE
76. STARLITE ENTERPRISES
77. AURY STORES
78. TEMPARA ENTERPRISES
79. PASEPH ENTERPRISES
80. ECONMA ENTERPRISES
81. PROJECT FURNITURE
82. RAMBOO COLOURCANE LTD
83. RAMPPEL DESIGNERS LTD
84. OMAR ALI SALAD
85. RICHARD W ODONGO OCHOLLA
86. AUGUSTINE KINUTHIA MURATHI
87. KENNEDY KUNG'U WANJIKU
88. JOHN KIMANI KINUTHIA
89. LUCY WAMBUI NDUNGU
90. SUSAN WANJIRU GICHUKI
91. DANCAN MUOKI JOHN NDUNGA
92. THOMAS NGUGI KIMANI
93. RACHEL NYOKABI NJOROGI
94. TIMOTHY MUGENDI KABUTHY
95. MARTIN OKARO OSAMA
96. LABAN MIKE OMONDI ABUYA
97. CATHYRN WANJIKU MWANGI
98. EVANS ALEMBA LUMASAI

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|------|--------------------------------|------|---------------------------------|
| 99. | JOSEPHAT WERE | 106. | DURGA ENTERPRISES |
| 100. | MWANGI IKENU | 107. | ELLIZA BEAUTY SHOP |
| 101. | ZEBRA GLASS WORK & HARDWARE | 108. | ELWAKI ENTERPRISES |
| 102. | EXPRESS AUTO WORK | 109. | EVERLORA LTD |
| 103. | TWISTER ERRANDS LTD | 110. | EVERTON UNIFORM DISTRIBUTERS |
| 104. | ALPHA KNITS LTD | 111. | BEEL POWER & GENERAL K LTD |
| 105. | KHILNA ENTERPRISES | 112. | BENKAM AUTO SPARES |