

**EFFECTS OF TAX EDUCATION ON TAX COMPLIANCE AMONG THE  
SMALL AND MEDIUM ENTERPRISES IN NAIROBI CITY COUNTY  
KENYA**

**BY  
RAPHAEL KAAKA KAMAU**

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## DECLARATION

### Declaration by Candidate

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Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Raphael Kaaka Kamau**

**MU\KESRA\0077\2018**

### Declaration by the Supervisors

This thesis has been submitted with the approval of the University supervisors

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Dr David Muraga**

**KESRA**

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

**Dr Yegon Cheboi**

**Moi University, Eldoret, Kenya**

**DEDICATION**

I dedicate this work to my family who have without holding back; supported me all through during the period of my study, may God bless them.

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The researcher would like to acknowledge several people for their dedicated efforts that made the research project successful. Special thanks to my supervisor Dr. David Muraga and Dr. Yegon Cheboi for their support, advice, direction and continuous assessment and supervision of my work. Researcher would also like to extend his appreciation to the administration of the Moi University that enabled him to access the various materials used in compiling this work. Last but not least, I would like to give my most special tribute to the almighty Lord for all his blessings.

## ABSTRACT

Governments are striving to rally greater tax revenue domestically by increasingly reaching out to inform and engage taxpayers, aiming to foster an overall culture of compliance, in which citizens understand paying taxes as an essential aspect of their connection with their government. Taxpayer education is the channel linking tax administration and citizens and a significant tool to change tax culture. Studies done on tax compliance globally revealed that the level of the SMEs tax compliance in the developed nations is higher due to tax education. In Africa, the SMEs tax compliance rate is low and majority of the revenue authorities are unable to meet the tax targets due to inadequate tax education. SMEs have the potential to produce a lot of government revenue in Kenya, but this is not the case. It poses a huge threat to the country's growth as a whole. Against this background, the purpose of this study was to uncover the effects of tax education on tax compliance in Nairobi City County among SMEs. In particular, the study aimed to determine the effect of electronic taxpayers, stakeholder awareness programs and print media education on tax compliance among medium-sized enterprises in Nairobi City County, Kenya. The theories used are the economic deterrence theory and vroom's expectancy theory. An explanatory research design was used. The target population was 170197 licensed SMEs in Nairobi City County. Out of this, a sample of 384 SMEs was selected. The data was distributed to administrators, compliance officers and accountants of SME companies through the use of standardized questionnaires. Using descriptive and inferential statistics, data was analysed. A multiple regression model was used to assess the relationship between the research variables. The results showed an R squared of 0.683, suggesting that 68% of differences in tax compliance are explained by all predictor variables. The outcome also revealed that electronic taxpayer education ( $\beta_1 = 0.242$ ,  $P = .000$ ); stakeholder sensitization programme ( $\beta_2 = 0.349$ ,  $P = .000$ ); and print media education ( $\beta_3 = 0.132$ ,  $P = .014$ ) had a positive and significant effect on tax compliance among small and medium enterprises. The study concluded that when combined, electronic taxpayer education, stakeholder sensitization programme and print media education positively and significantly impact tax compliance among the small and medium enterprises. In particular, stakeholder sensitization programme was identified as the most significant predictor of tax compliance, followed by electronic taxpayer education and lastly print media education. The study recommended the need for the KRA management to strengthen aspects relating to electronic taxpayer education including having adequate tax materials in the internet, enhancing I tax system and use of tax advertisements. It should also strengthen strategies relating to stakeholder sensitization programme such as seminars, workshops and road shows. Finally, the management should strengthen aspects relating to print media education including taxpaying culture, ethical attitudes and public awareness. This study makes significant contribution to theory, policy and practice in the area of tax education and compliance.

## TABLE OF CONTENTS

DECLARATION .....	ii
DEDICATION .....	iii
ACKNOWLEDGEMENTS.....	iv
ABSTRACT .....	v
TABLE OF CONTENTS .....	vi
LIST OF TABLES.....	ix
LIST OF FIGURES .....	x
ABBREVIATIONS AND ACRONYMS .....	xi
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1 Overview .....	1
1.2 Background of the Study .....	1
1.2.1 Global Tax education and Compliance.....	2
1.2.2 Tax Education and Compliance in Africa .....	4
1.2.3 Kenya SMEs.....	5
1.3 Statement of the Problem.....	6
1.4 Research Objectives .....	8
1.4.1 General objective .....	8
1.4.2 Specific objectives .....	8
1.5 Research hypotheses.....	9
1.6 Significance of the Study .....	9
1.7 Scope of the Study.....	9
<b>CHAPTER TWO .....</b>	<b>11</b>
<b>LITERATURE REVIEW .....</b>	<b>11</b>
2.1 Introduction .....	11
2.2 Tax Compliance .....	11
2.3 Tax Education .....	12
2.3.1 Influence of Tax Education and Tax compliance .....	13
2.4 Theoretical Review .....	14
2.4.1 Economic Deterrence Theory .....	14
2.4.2 Vroom’s Expectancy Theory .....	16
2.5 Empirical Review.....	17

2.5.1 Electronic Taxpayer Education and Tax Compliance .....	17
2.5.2 Print Media Taxpayer Education and Tax Compliance .....	18
2.5.3 Stakeholder Sensitization Programme and Tax Compliance .....	18
2.6 Summary of Literature.....	21
2.7 Conceptual Framework.....	21
<b>CHAPTER THREE .....</b>	<b>23</b>
<b>RESEARCH METHODOLOGY.....</b>	<b>23</b>
3.0 Introduction .....	23
3.1 Research design .....	23
3.2 Target Population .....	23
3.3 Sampling Frame .....	23
3.4 Sample and Sampling Technique .....	24
3.5 Data Collection Instrument .....	25
3.5.1 Data Collection Procedure .....	26
3.5.2 Pilot Test .....	26
3.5.3 Data Validity and Reliability .....	27
3.6 Measurements of Variables.....	28
3.7 Data Analysis Techniques and Interpretation.....	28
3.7.1 Analytical Model .....	29
3.7.2 Assumptions of multiple regression analysis .....	29
3.8 Ethical Considerations .....	30
<b>CHAPTER FOUR.....</b>	<b>31</b>
<b>DATA ANALYSIS, INTERPRETATION AND PRESENTATION .....</b>	<b>31</b>
4.1 Introduction .....	31
4.2 Response Rate.....	31
4.3 Reliability Statistic Results .....	31
4.4 Background Profiles of the Respondents .....	32
4.5 Descriptive Analysis Results.....	33
4.5.1 Descriptive Statistics on Electronic Taxpayer Education.....	33
4.5.2 Descriptive Statistics on Stakeholder Sensitization Programme.....	34
4.5.3 Descriptive Statistics on Print Media Education .....	35
4.5.4 Descriptive Statistics on Tax compliance .....	36
4.6 Test of Regression Assumptions .....	37
4.6.1 Normality Test.....	37

4.6.2 Linearity Test.....	38
4.6.3 Test of Heteroskedasticity .....	40
4.6.4 Multicollinearity Test.....	40
4.7 Correlation Analysis Results .....	41
4.8 Multiple Regression Analysis Results .....	42
4.9 Discussion of the key Findings .....	44
4.10 Hypotheses Testing .....	46
<b>CHAPTER FIVE .....</b>	<b>47</b>
<b>SUMMARY, CONCLUSIONS AND RECCOMMENDATIONS .....</b>	<b>47</b>
5.1 Introduction .....	47
5.2 Summary .....	47
5.2.1 Electronic Taxpayer Education and Tax compliance.....	47
5.2.2 Stakeholder Sensitization Programme and Tax compliance.....	48
5.2.3 Print Media Education and Tax Compliance.....	49
5.3 Conclusions .....	49
5.3.1 Electronic Taxpayer Education and Tax compliance.....	50
5.3.2 Stakeholder Sensitization Programme and Tax compliance.....	50
5.3.3 Print Media Education and Tax compliance .....	50
5.4 Recommendations .....	51
5.5 Areas of Further Research .....	51
REFERENCES.....	52
APPENDICES.....	55
Appendix I: Questionnaire .....	55

## LIST OF TABLES

Table 2.1: Summary of Knowledge Gaps.....	20
Table 3.1: Sample Size.....	25
Table 3.2: Summary of sources of data, and data type .....	28
Table 4.1: Response Rate .....	31
Table 4.2: Reliability Statistics .....	32
Table 4.3: Background Profiles of Respondents .....	32
Table 4.4: Descriptive Statistics on Electronic Taxpayer Education .....	33
Table 4.5: Descriptive Statistics on Stakeholder Sensitization Programme .....	34
Table 4.6: Descriptive Statistics on Print Media Education .....	35
Table 4.7: Descriptive Statistics on Tax compliance .....	36
Table 4.8: Kolmogorov-Smirnov Test on Normality.....	38
Table 4.9: Test of Heteroskedasticity: Levene's Test of Equality of Error Variances.	40
Table 4.10: Multicollinearity Tests .....	41
Table 4.11: Correlation Matrix; Tax Education and Tax compliance .....	41
Table 4.12: Model Summary; Tax Education and Tax compliance .....	42
Table 4.13: ANOVA; Tax Education and Tax compliance.....	43
Table 4.14: Coefficients; Tax Education and Tax compliance .....	43
Table 4.15: Hypotheses Test Results.....	46

**LIST OF FIGURES**

Figure 2.1: Conceptual Framework .....	22
Figure 4.1: Linearity test: Scatter Plots .....	39

**ABBREVIATIONS AND ACRONYMS**

CBD	Central Business District
GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
MEs	Medium Enterprises
MSME	Micro Small and Medium Enterprises
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Overview**

Chapter one covers the background of the study .Global tax education and compliance, Africa tax education and compliance. Problem statement, research objectives, significant of the study and the scope of the study.

#### **1.2 Background of the Study**

The matter of tax compliance of the SMEs in developing nations has pulled in developing enthusiasm for ongoing years. The worry of whether tax compliance of the SMEs is essential has been a theme of longstanding discussion. As indicated by critics views, the income yields are low, regulatory expenses are high, and tax enforcement risk companies to harassment (Keen, 2012). Latest intrigue has been catalyzed by expanding thoughtfulness regarding the likely advantages of medium enterprises taxation which are; tax revenue growth and governance. In appreciation to revenue, medium enterprises frames a tremendous and growing share of GDP in numerous nations and accordingly speaks to a major source of tax revenue for cash strapped governments (Schneider, Buehn, and Montenegro,2010).

Taxes can be interpreted as a source of funds from a country to overcome various problems such as social problems, welfare improvement, and prosperity and become a social contract between the government and its citizens (Ruyadi, 2012). There are many factors affecting the tax revenue of a country such as the level of taxpayer compliance in the country (Chau, 2009). If the society becomes more aware and obedient to taxation, it will affect the increase of domestic tax revenue. The issue of taxpayer compliance is an important issue throughout the world, for both developed and developing countries, because if the taxpayer does not comply then it will create a

desire to take avoidance, evasion, smuggling and tax evasion, which ultimately leads to the acceptance the state tax will decrease (Rahayu, 2010).

In general, the reduction in tax enforcement has a countercyclical impact on the economy, and non-compliance in many countries has become a known standard. Tolerating non-compliance, however, may not be a viable solution to fiscal challenges because it is distorting, unfair and critical; it hampers the long-term reconstruction of tax bases. As argued by Kastlunger *et al.* (2012), tax non-compliance among MEs is a major problem that has troubled tax authorities, scholars and non-governmental organisations worldwide.

### **1.2.1 Global Tax education and Compliance**

Harris (2013) analyzed tax education among MEs in the United Kingdom, dividing tax education into two aspects, namely knowledge acquired as a matter of course through popular or formal education, and knowledge explicitly aimed at potential tax evasion opportunities. His results found that small and medium-sized companies in the United Kingdom have tax visibility and that nearly half of them are aware of tax laws. In New Zealand, (Ritsema *et al.* 2013) disclosed that MEs in New Zealand had sufficient tax details and complied with the region's tax regulations. Saad *et al.* (2014) also added that free public lectures on tax regulations provide knowledge. In support of the above results, Mckerchar and Hansford (2015) argued that the lack of tax consciousness might lead to non-compliance behavior among taxpayers, either deliberately or unintentionally.

In the study of tax information among small medium-sized companies, Bautigam *et al.* (2015) used the specification model and the results of the research were not definitive as their results suggested an equal presence of SMEs with information and

those without knowledge, their studies were focused in Hungary, Dubai and Spain respectively. In a cross-cultural analysis between Hong Kong and Australia, Richardson (2012) found that Australian SMEs were relatively more cooperative than the taxpayers of Hong Kong. In their experimental research, Cuccia (2013) also used a hypothetical tax scenario to examine the non-compliance actions of SME taxpayers in the US, Australia and Singapore, and its findings showed that Singaporean SME taxpayers had around 74% of the highest violation rate, whereas Australian taxpayers had 45% of the lowest. The findings further showed that due to the lack of tax awareness within the country, full enforcement was the lowest in Australia and was the highest in Singapore because of the tax awareness given to individuals before they embark on a venture.

According to Morgan & Morgan, 2010 (Morgan & Morgan, 2010), basic tax education is as much an urgent call and a required obligation for US taxpayers and prospective taxpayers as it is similarly essential and important on the part of governments that impose a range of taxes as a primary source of income. "An educated and tax-savvy citizenry will be less tax-averse, income tax in particular, less aggressive to the IRS, less tax-rebellious or tax-militant, and more tax-compliant, is both our argument and our implication that it is a matter of" national security In turn, this would provide the government with a less costly way of growing the necessary tax revenues. It is essential and is very much in line with what we preach the popular adage that information is power. The fact that the IRS recognizes, in its 2005-2009 Strategic Plans, that the lack of awareness is part of the reason why taxpayers do not satisfy their tax obligations is the greater reason why tax education is important, beneficial and a good investment for all people.

### **1.2.2 Tax Education and Compliance in Africa**

Alm *et al.* (2012), however, have denied that SMEs comply with tax laws; their analysis in Rwanda reveals that most SMEs do not comply with the specifics of tax regulations. In a study focused on Malaysia, Cuccia (2013) also denounced the compliance rate of SMEs with tax regulations. According to Nyamwanza *et al.* (2014), SMEs do not believe in the tax system and Zimbabwe's SMEs do not comply with taxes. Their study found that during the enforcement blitz, most MEs evade tax by paying bribes, relocating or temporarily shutting down business, and 67 percent of respondents in the sample reported never complying with PAYE, Nyamwanza *et al.* (2014).

According to Maseko (2013), the majority of SMEs refuse to pay their taxes. The degree of education that taxpayers receive is a significant factor contributing to the awareness of the tax requirements, especially with regard to registration and filing requirements. A study by Palil (2010) showed that tax literacy has a very close association with the willingness of taxpayers to understand and adhere to tax laws and regulations. SMEs were not deemed autonomous from government taxation by local authority levies in this analysis because they lacked tax awareness. Their legal activities are affected by this misunderstanding as they assume they have paid tax and agreed to pay council levies as they collect them. An analysis by Lumumba *et al.* (2010) showed that because of their failure to grasp tax law criteria, SMEs did not fulfill their tax liabilities.

Lubua (2014) indicates that among customers registered with the tax authorities, a significant number of SME taxpayers are also defaulters. In the survey in Tanzania, 68 percent of respondents said that SME taxpayers did not file their returns as required by law. Atawodi (2012) claims that a large amount of small and medium-

sized enterprises are running away from taxes, losing cash that can otherwise be spent on development projects and thereby benefiting small and medium-sized companies.

However, previous taxation analysis has shown that many SMEs remain non-tax compliant in emerging economies despite substantial reforms (James, Barbour & Stern, 2007), as they are not immediately discovered by the tax administration, but pay less tax than their fair share of taxation (Ahmed & Braithwaite, 2005). Bad knowledge and expertise regarding tax procedures are the primary characteristics of most SMEs in Uganda, as most owners hire inept family members to keep proper financial documents (Kiwauka, 2004).

### **1.2.3 Kenya SMEs**

In Kenya, SMEs are businesses that employ ten to ninety-nine workers. Little businesses have ten to forty-nine representatives whereas medium-sized enterprises have between 50 and 99 employees. Kenya's SMEs play a fundamental role in the development of employment and prosperity. Although the masses are informal, they contribute to the bulk of the production of new jobs. The current 2016 Economic Survey (Kenya) annual newspaper specifies that the casual sector continues to offer the leading portion of other occupations, thus making the casual segment essential to the economy. In 2015, the underground economy is estimated to have created 713,600 new jobs, contributing to 84.8% of all new jobs (KNBS, 2016).

In general, small and medium-sized companies face various development obstacles, ranging from an adverse macroeconomic climate to possibly a prevailing barrier to insufficient access to financial services. Establishment in this segment went up by 5.1% in 2011. Examination by area demonstrates that Nairobi District recorded a 5.4% increment (RoK, 2012). Agreeing to the sessional paper No.2 of (RoK, 2005),

Small and Medium have raised mortality rates with most of them not existing to see further than their third commemorations. This assigns that SMEs have inherent inconveniences either in their inner environment or from the outside environment that makes them come up short. In supporting entrepreneurial pursuits, businesses encounter innumerable hitches when rising funds KNBS (2016).

SMEs financing has circumvented around traditional sources and to an extent the informal sources. The central bank has put more attention and has come up with a few lending and credit facilities aimed at helping and encouraging more banks to fund SMEs. These facilities will help solve the issue of unmet finance requirement and take care of the banking flow of credit. For the 3 years ago MSMEs applied for loan equivalent to Ksh 707.3 billion, and Ksh 644.1 billion was made available to them equating to ninety one percent. 92.3 % was channeled to MSMEs that are not yet licensed KNBS (2016).

### **1.3 Statement of the Problem**

Government spending has been on an upward trajectory over the past decade, rising from 22.3% of GDP in 2008/09 to 27.5% of GDP in 2016/17. After the impact of devolution, this has been more pronounced since 2013/14. Increased expenditure is due in the 2013/14 period to the immediate establishment of county governments and other constitutional offices (Institute of Economic Affairs, 2018). Further down the line, wage increases for public servants and, in particular, the introduction of infrastructure growth, including energy projects, the first phase of the SGR (Ksh 398.1 billion, equal to 6.1 percent of GDP) and the rise in debt service debt increased further down the line. Budget implementation has led to budget deficits due to spending rising at a faster rate than revenue. The deficit dramatically expanded from 6.4% in 2013/14 to 9.3% in 2016/17. In view of the above scenario, the government

continued to borrow internally and externally to fill in the hole generated by increased expenditure relative to the revenue raised according to the World Bank (2014) Kenya public expenditure review.

In the last five years the Kenya budget has increased by 90 percent from ksh 1.6 trillion in 2013/2014 financial year to Sh3.07 Trillion in June 2018 fueling financing concern since the Kenya revenue authority has targeted the same group of tax payers. It is estimated that revenue will grow by 17.5 per cent to Sh1.92 trillion with revenue enhancement steps, equal to twenty per cent of gross domestic product (GDP) in 2018/19 from the projected Sh1.66 trillion obtained in 2017/18. In particular, as of April 2018, the Kenya Revenue Authority had not reached half of its revenue goals. The Sh3 trillion investment plan for the next financial year, beginning on July 1, reflects an improvement of around Sh400 billion on the Sh2.6 trillion budget this year. Extra tax receipts or debt, or both, would have to fund the increase. In addition to the implementation of an 8 per cent value-added tax (VAT) on petroleum products, the extra revenue is to come from income tax (Aminga, 2018).

The current budget deficit will be decreased by increased tax enforcement by SMEs. The literature available points out that there is a close association between small and medium-sized enterprises (SMEs) and the government's inability to collect important taxes. Earlier studies on tax compliance issues such as Park and Ya (2002) and Yong and Hooper (2011) have established tax compliance issues in other countries other than Kenya, including: tax rates, tax audits and public expense expectations, the position of tax authorities and tax administration, simplicity of tax returns, risk of identification, understanding of offences and penalties, and personal financial restrictions. Lumumba *et al.* (2010) did a study in Kenya on the attitudes of taxpayers and tax enforcement conduct. They recommended a need for more literacy campaigns

in order to improve the taxpayer attitudes towards tax hence improve tax compliance. Studies done on tax compliance globally revealed that the level of the SMEs tax compliance in the developed nations is higher due to tax education. In Africa, the SMEs tax compliance rate is low and majority of the revenue authorities are unable to meet the tax targets due to inadequate tax education. In Kenya, KRA performs monthly taxpayer education to all newly registered taxpayers in a bid to improve tax compliance. Therefore, this study sought to determine the impact of taxpayer education on tax compliance in Nairobi City County among SMEs.

#### **1.4 Research Objectives**

This study was guided by the following general and specific objectives

##### **1.4.1 General objective**

The general objective of this study was to establish the effects of tax education on tax compliance among the medium enterprises in Nairobi county city in Kenya.

##### **1.4.2 Specific objectives**

The specific objectives of this study were:

- i. To determine the effect of electronic taxpayer education on voluntary tax compliance among the medium enterprises in Nairobi county city in Kenya
- ii. To examine the effect of stakeholder sensitization programme on voluntary tax compliance among the medium enterprises in Nairobi county city in Kenya
- iii. To ascertain the effect of print media on voluntary tax compliance among the medium enterprises in Nairobi county city in Kenya

### **1.5 Research hypotheses**

**H<sub>01</sub>:** Electronic taxpayer education has no significant effect on tax compliance among the small and medium enterprises in Nairobi county city in Kenya

**H<sub>02</sub>:** There is no significant effect of stakeholder sensitization programme on tax compliance among the small and medium enterprises in Nairobi county city in Kenya

**H<sub>03</sub>:** Print media education has no significant effect on tax compliance among the small and medium enterprises in Nairobi county city in Kenya

### **1.6 Significance of the Study**

The outcomes of this study will provide ideas and grounds for developing a framework for exploring the conduct of tax enforcement among MEs. The Government of Kenya and the KRA will receive more details arising from this report in their efforts to formulate successful tax policies for MEs. The research is valuable for sector and organization management departments to understand the external factors of tax compliance and how the conditions can be altered. Further, academics and analysts who might like to develop and/or advance their tax compliance and administration skills will be involved in the study.

### **1.7 Scope of the Study**

The impact of tax education on tax compliance among SMEs in Nairobi City County was the subject of this report. The research was limited to the sample size of a large proportion of the total population of small and medium-sized enterprises in Nairobi County. The number of studies on effects of tax education on compliance among SMEs is limited in Kenya more specifically Nairobi County, hence the contribution of this study to enrich the understanding on this important field. Further, Nairobi County is considered to be the highest tax revenue generator

and is crucial if KRA has to meet its revenue targets. In addition, Nairobi has the most SMEs in the country and this justified why this study focused on Nairobi city county as opposed to other counties. The SMEs was identified by database kept by the KRA and Kenya bureau of statistics. The study was conducted in the year 2020.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This section provides a review of literature information that is related and consistent with the objectives of the study. It starts with section theoretical framework, empirical literatures review, conceptual framework, research gap and chapter summary.

#### **2.2 Tax Compliance**

Compliance with taxation is a condition under which all tax obligations are met and enforced by the taxpayer (Nurmantu,2010), namely compliance with the taxpayer in the registration process; compliance with the notice; compliance with the estimation, estimation and payment of the tax payable; compliance with the notification and payment of arrears. Identify these indicators in accordance with the self-assessment system's tax obligations (Devano and Kurnia, 2011). Tax enforcement is a complex concept, but it simply refers, according to Marti (2010), to fulfilling tax requirements as openly and wholly defined by the statute. Pope and Abdul-Jabbar (2008) found that these regulatory pressures are unduly placed on the world's informal economy.

Failure to comply with the tax might be triggered either by failure to file a tax return at the time required or by failure to submit a tax return, understating the revenue, overstating the deductions and not paying the tax due on time. An outright inability to pay taxes may be non-compliance. Studies have shown a widespread issue of tax non-compliance. In addition, Fagbemi, Uadile and Noah (2010) identified that it is widespread and holds back development in developing countries.

### **2.3 Tax Education**

Tax information in general is an appreciation of the core principles of tax policy applied to a country (Fauziati *et al.*, 2016). Tax system enforcement describes an interpretation of SMEs' tax policies in an area. In a compliance tax system, tax education for multiple small medium enterprises is an essential element, particularly in determining an accurate tax liability (Baru, 2016). Tax knowledge has been proved to be a variable that influences compliance behavior significantly (Isa, 2012). Taxpayers' knowledge has been vital for both the Authority responsible for administering tax and the organization (Sapiei & Kasipillai, 2016). Literature such as Palil (2010) noted that taxpayer's knowledge had found to significant on tax compliance.

According to Tukur and Onyegbule (2011) taxpayer education is the foundation of understanding tax laws which ensure filing tax returns/payments promptly. Tax knowledge enhances tax compliance; it also assists tax authority in designing tax education programmes and developing the understanding of taxpayers' behaviors (Palil & Mustapha, 2011; Okello 2014). Although, Sapiei & Kasipillai (2013) noted that taxpayers have knowledge of SAS as seminars and training are being facilitated by the tax authority to fulfill its responsibilities to the taxpayers. Lai, Zalilawati, Amran and Choong (2013) stressed that studies on tax education among emerging economy are rare. This is because tax awareness in most developing countries may possibly be below average.

However, Atawodi and Ojeka (2012) stressed that the lack of proper awareness affects tax compliance among SMEs in Zaria north central Nigeria. Even though in Nigeria, tax practitioners which include: accountants, tax agents and professionals to embrace the system based on their tax knowledge. The advantages of the system in

the country's tax administration have also been interpreted (Cata, 2003; Okello 2014). The official in charge of tax administration needs to realize that the easier it is for them to comply effectively, the more competent taxpayers are. So, it is very important for tax officers to implement continuous programmes in educating the taxpayers. Moreover, the lack of knowledge and expertise from corporate taxpayers has the possibility of influencing compliance behavior as noted by Sapiei and Kasipillai (2013).

The tax knowledge gained by the taxpayers would be a determinant factor towards the behavior of the taxpayers. Akintoye and Tashie (2013) stressed on the tax education which is significantly associated with tax compliance behavior in Nigeria. Tax officials have to realize that the easier it is for them to comply effectively, the more educated taxpayers are. Hasseldinea, Hollandb and Rijt (2011) found that revenue authorities and taxpayers in the UK have a relationship to market tax knowledge under the three categories a knowledge seller, broker and a buyer for effective tax compliance. Therefore, in educating taxpayers, it is important for tax officials to plan ongoing programmes.

### **2.3.1 Influence of Tax Education and Tax compliance**

Tax education provides taxpayers with information or awareness about tax steps, such as the calculation, payment and reporting of the amount of taxes levied. Based on research findings, Diatnyani (2010) shows that taxpayer knowledge has a positive and substantial effect on taxpayer compliance reporting, which means that the greater taxpayer knowledge, the greater the compliance of individuals with taxpayer reporting, and vice versa. Rahayu (2010) offers research on the value of tax education for taxpayers to have a substantial effect on the fairness of tax attitudes towards the tax system.

The presence of a higher standard of information would provide the attitude of correctly performing responsibilities by the presence of a reasonably regarded state taxation scheme. The knowledge of taxation owned by the taxpayer would therefore have an impact on the taxpayer's own obedience in the performance of his tax obligations. And if citizens already have good tax awareness, it would also impact the tax revenue collected by the state. Supriyati and Hayati (2012) say that tax awareness impacts the payment of taxes by taxpayers. The more the taxpayer has knowledge on the utility of taxes and the greater the taxpayer's comprehension of taxes, the more the taxpayer is obedient to settling his tax obligations.

Machogu and Amayi (2013) revealed that tax recognition is required to boost tax compliance, thus more revenue to finance the recurrent and development spending of the government. This also suggests less labor charges for tax collection. As the case may be, not only is the government urged to impart tax knowledge to the current business community, but to the future business community, more specifically. Taxation should be taught at all levels of education, from elementary school to secondary school to university, with an emphasis on ensuring tax enforcement.

## **2.4 Theoretical Review**

This segment discusses and articulates the pertinent theories on the role of tax knowledge on tax compliance among the SMEs. The theories help to build a case to justify the study. These theories include the economic deterrence theory and diffusion theory.

### **2.4.1 Economic Deterrence Theory**

Becker theory (1968) postulated that if the profit of the crime itself is overwhelmed by the consequence of committing a crime, then the person would be stopped from

committing the crime. The principle of economic deterrence, in its simple form, sees individual taxpayers as a rational economic agent who calculates the costs and fines of deception and the rewards of tax evasion and therefore chooses not to pay if the expense is outweighed by the benefit of non-compliance (Walsh, 2012).

The implication of this principle is that where there are low audit probabilities and low fines, the pattern for avoidance will be higher, while if there is a strong trend for identification and fines are heavy, less people may evade taxes (Fjeldstad, Schulz-Herzenberg & Sjursen, 2012). Centered on this principle, the model recommends stricter auditing and strict sanctions for criminals as a framework for reducing non-compliance. However, in describing taxpayer enforcement, the hypothesis has also been criticized as not practical, as it assumes a general substantial non-compliance beyond what is currently obtainable (Slemrod, 2007).

The relevance of the economic deterrence theory is that, the government should consequently deter SMEs tax non-fillers by ensuring that hefty and severe penalties and interests are charged to tax defaulters. Consequently, potentially, audits and fines for non-compliance should be enhanced in order to enhance compliance. This will make sure that all SMEs fill returns and payment of taxes due within the stipulated timelines. The costs of not filling returns should outweigh the benefit of evading taxes. Tax education can therefore be used to create awareness to the taxpayers on deterrence measures undertaken by the government in order to discourage non-compliance. The theory thus supports the connection between tax education and tax compliance.

### **2.4.2 Vroom's Expectancy Theory**

Theory was developed by Victor Vroom (1964) and postulates that action is the product of deliberate decisions between alternatives that are driven to maximize enjoyment and reduce pain. Vroom discovered that an employee's success depends on individual variables such as temperament, abilities, expertise, expertise and talents. The internal functions of desire or option are the subject of this hypothesis. This determines the protocols an entity undergoes to make a decision. Vroom defined motivation as a mechanism that governs choices among alternative types of voluntary activities, a person-controlled process. The person makes decisions based on estimates of how well the expected outcomes of a given action will align with the desired outcomes or ultimately lead to them. Motivation is a result of the belief of the participant that the expected output will contribute to a certain effort (Hester & Adams, 2014).

The relevance of the theory to the study is that when taxpayers know tax compliance will bring desirable results that satisfies one or more of their important needs then they will be motivated to be paying taxes (Gaffney, 2018). It is the responsibility of the government to offer tax education to SMEs through seminars, workshops, media and stakeholders sensitization. Tax education will equip taxpayers with knowledge about tax and can contribute to shaping attitudes towards compliance for it will boost/motivate their morale to paying taxes leading to economic development that translates to a better standard of living (Murgaš & Böhm, 2015). The Vroom's expectancy theory therefore predicts a direct connection between tax education and tax compliance among SMEs.

## **2.5 Empirical Review**

### **2.5.1 Electronic Taxpayer Education and Tax Compliance**

Lai Ming; Ling Nuruld and Hidayah Aham and Nawawi, (2010 ) assessed the ICT skills needed by a recent accounting graduate to enter a tax firm for the first time; assessed the usage of electronic tax (e-tax) applications in tax practice; assessed the ranking of senior tax practitioners on the skills of new ICT and e-tax applications graduates; and obtained advice from tax practitioners on integrating tax applications. The paper reflected the study format of the survey, which, using questionnaires, was carried out online. The study found that students' perception of ICT and electronic tax systems had a positive effect on compliance. Using modern devices, television, radio, Twitter, fax, CD-ROMs, DVDs and all other medium requiring energy or digital data encoding can provide such transmission or storage media. Along with print media, electronic media is also used.

In order to determine the economic and behavioural influences impacting tax compliance by taxpayers, Christina, Deborah and Gray (2003) undertook a study. The aim of the study was to identify the economic and behavioral factors impacting taxpayers' tax compliance through the tax penalty amnesty process. The respondents identified the factors that induced them not to pay their taxes due during the legislative period and not to report sufficient taxable income as such; the ambiguity of the tax regulations, the ability to pay, the uncertainty of tax laws, the sense of high tax rates and the unfairness of the tax system, using the questionnaires given to the participants in the amnesty scheme. According to (Sas, 2007), a comprehensive vision of taxpayers through the use of electronic media would facilitate compliance through the use of nuanced, systemic approaches.

### **2.5.2 Print Media Taxpayer Education and Tax Compliance**

The influence of different media campaigns in Pakistan on the fundamental tax morality of eligible persons exposed to them for tax filing was investigated by Musharraf *et al* (2016). They find that both TV and newspaper ads in Pakistan would improve individual expectations of tax compliance, using fresh survey data from Pakistani income tax filers. Furthermore, it was observed that the power of the newspaper ad was greater than the impact of the TV ad. This finding underlines the importance of the delivery device for the promotional campaign's success. This could be clarified by the implicit preference of portrayal in the two newspapers.

The impact of the website-based taxpayer training program on tax enforcement in Tanzania was calculated by Gatora and Dr. Samuel (2018). The target population included TRA workers in the Monduli District and taxpayers in the District, all of whom were working until 1997. A survey of 60 respondents was used to gather data through the use of questionnaires and interviews. Using frequency, the data obtained was evaluated and percentages and conclusions were interpreted accordingly. On the other hand, the data analysis tools will show how education for tax payers in Tanzania impacts tax enforcement. There was a descriptive aspect of the data analysis methods used. The study found that the level of tax enforcement in Tanzania was significantly influenced by education through print media, website-based taxpayer education, and tax stakeholder workshops. In addition, taxpayer education services for print and electronic media increased tax enforcement substantially.

### **2.5.3 Stakeholder Sensitization Programme and Tax Compliance**

In Kenya, Karanja (2014) analyzed the variables influencing voluntary tax compliance. The investigator was informed by a non-probabilistic sampling methodology that everyone in the selected population had a reasonable probability of

being sampled. The research used questionnaires to collect and gather information. The knowledge presentation was carried out for easy interpretation in the form of figures and tables. The data was coded, structured and examined using descriptive and inferential analysis to ensure a true and professional data analysis process. For research, the Statistical Package for Social Sciences (SPSS) was used. The study suggested that the government should raise awareness among tax payers about the value of paying taxes.

Gitaru (2017) described the effect of electronic taxpayer education, print media taxpayer education, and stakeholder engagement on tax enforcement. SMEs in the CBD Tax Area of Nairobi were the target population. SMEs conducting business inside Nairobi CBD were the focus of the analysis. Data was obtained by administering pre-tested questionnaires to the business owners of SMEs. Both descriptive and inferential statistics have been used to evaluate results. Indeed, the results of the study showed that electronic taxpayer education, print media taxpayer education, and stakeholder engagement have an effect on tax compliance among SMEs in the CBD region of Nairobi. To evaluate the association between the independent variables, the Correlation Matrix was used. The findings showed that the sensitization of stakeholders was directly connected with education of taxpayers.

**Table 2.1: Summary of Knowledge Gaps**

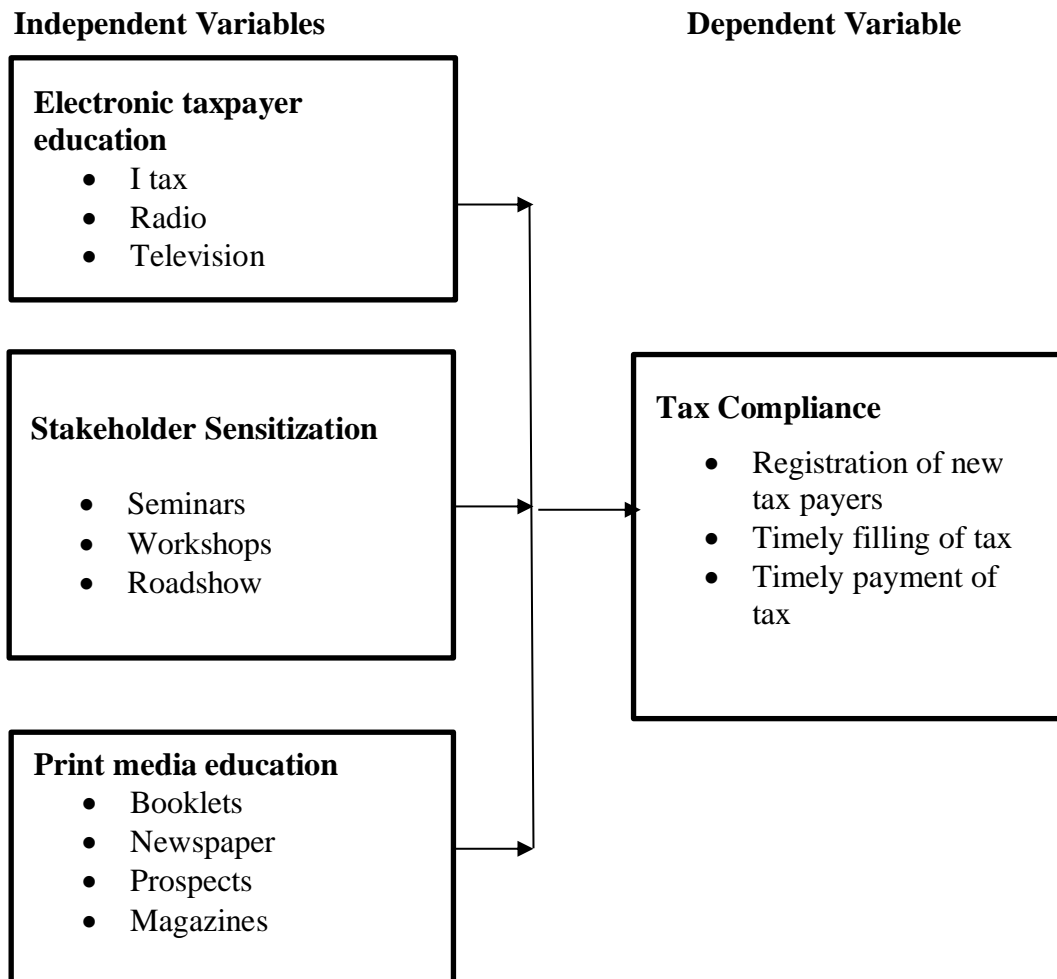
<b>Author</b>	<b>Focus of the study</b>	<b>Findings</b>	<b>Knowledge gaps</b>	<b>Focus on the current study</b>
Karanja (2014)	factors affecting voluntarily tax compliance in Kenya	established that the government should sensitize the tax payers on the importance of paying taxes	study focused on factors affecting compliance	effects of tax education on compliance among SMEs
Gitaru (2017)	Impact on tax compliance on SMEs of electronic taxpayer education, print media taxpayer education, and stakeholder engagement	Found that the sensitization of stakeholders is positively linked to the education of taxpayers to correctly measure the tax	The study focused on print media education for taxpayers and stakeholder engagement on tax enforcement for SMEs.	Effects of tax education on compliance among SMEs
Gotora and Dr.Samuel (2018)	Influence of website-based taxpayer education programme on tax compliance in Tanzania	Established that education through print media, website-based taxpayer education, and tax stakeholders' workshops had a significant effect on the level of tax compliance in Tanzania	The study focused on influence of website based taxpayer education programme	Effects of tax education on compliance among SMEs
Musharraf(2016)	effects of different medis campaigns in Pakistan on the underlying tax morale of tax filing eligible individual who were exposed to them	they showed that both TV and newspaper ads can improve individual perceptions towards tax compliance in Pakistan	The study focused on effect of media campaigns in Pakistan	
Lai Ming(2010)	ICT skills needed by a fresh accounting graduate when first joining a tax firm	established that knowledge of ICT and electronic tax systems among students had positive impact on compliance	the study focused on ICT skills needed by a fresh accounting graduate when joining a tax firm	effects of tax education on compliance among SMEs
Christina, Deborah and Gray (2003)	Economic and behavioral factors affecting tax compliance among taxpayers	a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches	The study focused on the economic behavioral factors affecting tax compliance among tax payers	Effects of tax education on compliance among SMEs

## **2.6 Summary of Literature**

From the literature review, economic deterrence theory state that human beings are fond of committing crime if the gains outweigh the consequences of their actions (Becker, 1968). The anticipation principle of Vroom is about the conceptual mechanisms of preference, or selection. It defines the procedures a person undergoes to make choices.

## **2.7 Conceptual Framework**

In the conceptual framework presented in Figure 2.1, the expected connection between the variables is demonstrated. The independent variables included: electronic taxpayers' education, stakeholder sensitization and print media tax education. On the other hand, the dependent variable was SMEs tax compliance.



**Figure 2.1: Conceptual Framework**

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter specifies the research methodology employed in this study. It starts with research design, target population, sampling for the study, data collection instruments and data analysis.

#### **3.1 Research design**

The study design is the analysis plan and layout considered to obtain answers to research questions. In this study, an explanatory research design was used to help establish any causal ties between the factors or variables relevant to the study problem. This design was appropriate for the study because it concentrated on the effect of tax education on tax compliance in Nairobi City County among small and medium-sized enterprises.

#### **3.2 Target Population**

Target population is the collection of all likely observations about which the study will make inferences (Cooper & Schindler, 2014). The study's target population was all the 170,197 licensed SMEs in Nairobi City County according to the MSME basic report 2016 done by the Kenya bureau of statistics.

#### **3.3 Sampling Frame**

A sampling frame refers to the list of all items that constitute a universe or population in any field of investigation (Kothari, 2011). Using a random sampling procedure, the sample size was obtained. Random sampling is a type of sampling technique where the probability of being selected for each sample is equal. A randomly chosen sample is intended to be an impartial representation of the whole population.

The desired sample size was determined using the formula of Fisher *et. al* (1991) below

$$n = \frac{z^2 p (1 - p)}{d^2}$$

n- the desired sample size

z- the standard normal deviation, set at 1.96, which corresponds to 95% confidence level.

p- the proportion in the target population estimated to have a particular characteristic. If there is no reasonable estimate, then use 50 percent.

d- the degree of accuracy desired, here set at 0.05 corresponding to the 1.96.

$$n = \frac{1.96^2 0.5 (1 - 0.5)}{0.05^2} = 384$$

### **3.4 Sample and Sampling Technique**

The technique of sampling refers to the process of sampling used to obtain the sample size. A sample is referred to by Kothari (2011) as a group of units selected from the universe to represent it. In this analysis, the basic random sampling technique was used to select the sample. It is favored because it allows for impartial sampling and gives more empirical features to the study work, thus making the validity of the results of the research more concrete. The study used a sample size of 384 respondents as calculated using the fisher formula. Consequently, the sample size of 384 which included finance managers, accountants and business owners was satisfactory for the study.

**Table 3.1: Sample Size**

<b>Constituency</b>	<b>Sample Proportion %</b>	<b>Sample Size</b>
Wetlands	6%	23
Dagoretti North	6%	23
Dagoretti South	6%	23
Lang'ata	6%	23
Kibra	6%	23
Roysambu	6%	22
Kasarani	6%	22
Ruaraka	6%	23
Embakasi South	6%	23
Embakasi North	6%	23
Embakasi Central	6%	22
Embakasi East	6%	22
Embakasi West	6%	22
Makadara	6%	22
Kamukunji	6%	23
Starehe	6%	23
Mathare	6%	22
<b>Total</b>	<b>100%</b>	<b>384</b>

### **3.5 Data Collection Instrument**

Data collection is the process of routinely collecting and evaluating information on variables of interest, helping one to answer particular research questions, test hypotheses, and analyze outcomes. Mugenda and Mugenda (2012) have identified data collection instruments as the instruments and procedures used to quantify variables in science. A variety of approaches, including interviews, focus groups, surveys, telephone interviews, field notes, taped social contact or questionnaires, can be used to gather data (Cooper & Schindler, 2014).

To gather primary data, a formal questionnaire was used. It enables the researcher to rapidly, effectively and easily contact large numbers of individuals and can therefore be confident that respondents in the survey answer precisely the same questions, making this a very effective research tool (Creswell, 2011). A questionnaire is a data collection technique in which each person in a predetermined order is asked to

respond to the same series of questions (Cooper & Schindler, 2011; Burns & Burns, 2012). Furthermore, questionnaires can allow respondents time to think over responses and are easy to handle and rate (Kothari, 2011). They also contribute to reducing the prejudices that can arise from personal experiences and attitudes (Kasomo, 2010).

### **3.5.1 Data Collection Procedure**

Data collection is defined as the process of selecting and developing measuring tools and methods appropriate for research study. Questionnaire was used in data collection because of low cost, respondents have adequate time to respond and large number of participants can be reached (Kothari, 2011). The drop and pick later technique was applied in administering the questionnaires.

### **3.5.2 Pilot Test**

In order to pre-test the reliability and validity of data obtained using the questionnaire, the investigator performed a pilot study. Scholars say that a pilot test helps to find out the accuracy and suitability of the design and instrumentation of the study (Sekaran & Bougie, 2010). It also helps to find defects in data instruments and collection procedures design and execution (Cooper & Schindler, 2014). It also helps to identify faults in the configuration and execution of data instruments and processing processes (Cooper & Schindler, 2014). This helps to recognise future problems, to evaluate mistakes and to provide an idea of the time taken for practical field work. In order to ensure that the instruments are precise and reliable, this study subjected 10 percent of the respondents to data collection methods (Questionnaire), according to Connelly (2008). In Kiambu District, the pilot test was performed and was not consistently selected for validity and reliability during testing (Cooper & Schindler, 2014).

### 3.5.3 Data Validity and Reliability

Validity entails the degree to which the conclusions derived through data analysis objectively reflect the research phenomena and can be evaluated by experts by consensus decisions (Kothari 2006). The study considered content, construct and face validity

Construct validity was based on the study objectives, individuals questions were developed to reveal whether the wording of items used to measure concept are related to that concept. The aim of this review is to ensure that the framework it purports to evaluate is adequately evaluated by each measurement.

Face validity: the questions were checked by the supervisors for clarity, word usage, time period and response collection to ensure that the approach is carefully described without language barriers.

Content validity: was measured using the Content Validity Index (CVI). If the CVI is higher than 0.6 according to David and Thomas (2006) the questionnaire is considered valid and could measure the variables accordingly. (CVI=Number of items declared valid /total number of items in questionnaire). All the questionnaire items were valid and therefore a CVI of 1 was obtained.

Reliability tells the precision and accuracy of the questionnaire which when used on a similar group of participants in a similar environment it should produce related results (Cohen *et al* 2000). Reliability was achieved by avoiding ambiguity and questions that lead the participants to a particular outcome. To achieve this, Cronbach alpha was used as given by Glien and Gliem (2003). According to David and Thomas (2006) , a reliability test of more 75 % is good but greater than 95 % is not desirable for it

indicates that items may be entirely redundant and less than 75 % indicates that scores are close together hence the test may not be useful.

### 3.6 Measurements of Variables

The scales that were used in this study are nominal scales and the likert scale that represent the interval scale ranging from one to five was used on both the independent and dependent variables.

**Table 3.2: Summary of sources of data, and data type**

<b>Variables</b>	<b>Indicators</b>	<b>Measurements</b>	<b>Operationalization in questionnaire</b>
<b>Electronic media</b>	<input type="checkbox"/> Itax <input type="checkbox"/> Radio <input type="checkbox"/> Television	likert scale	part 2
<b>Stakeholders sensitization</b>	<input type="checkbox"/> Seminars <input type="checkbox"/> Workshop <input type="checkbox"/> Road shows <input type="checkbox"/> Tax summits	likert scale	part 3
<b>Print media education</b>	<input type="checkbox"/> Newspapers <input type="checkbox"/> Booklets <input type="checkbox"/> Magazines	likert scale	part 4
<b>Tax Compliance</b>	<input type="checkbox"/> Timely filling of taxes <input type="checkbox"/> Registration of new taxpayers <input type="checkbox"/> Timely paying of taxes	likert scale	part 5

### 3.7 Data Analysis Techniques and Interpretation

Mugenda and Mugenda (2012) suggested that to obtain useful data, data must be cleaned, coded and properly analyzed. SPSS Version 20 was used to analyze the data. Representation of data was in the form of tables and graphs.

### 3.7.1 Analytical Model

The following multiple linear regression analysis was used to evaluate the effects of tax knowledge on tax compliance among the medium enterprises in Nairobi City county for the model contains more than one independent variable.

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

Where: Y measures Tax compliance

$X_1$  measures electronic tax education

$X_2$  measures the stake holder's sensitization programme

$X_3$  measures the print media education

$\beta_0$ =Constant

$\beta_1 \beta_2 \beta_3$ = Regression co-efficient

$\varepsilon$  -error term

### 3.7.2 Assumptions of multiple regression analysis

Linearity test was conducted using scatter plots. The aim was to establish whether there was a linear relationship between the dependent variable and the independent variables.

No Multi-collinearity: Multiple regressions mean that there is no high correlation between the independent variables. Using Variance Inflation Factor (VIF) values, this statement was checked.

Homoscedasticity–This assumption states that the variances of error terms are similar across the values of the independent variables. The assumption was tested by use of levene's test

Normality assumes that the sampling distribution of the mean is normal or that the distribution of means across samples is normal. This assumption was tested using Kolmogorov-Smirnov test.

### **3.8 Ethical Considerations**

During the study the researcher upheld ethical standards for instance: The respondents were updated on the purpose and nature of the study prior and during the time of collecting data and an approval to participate was required from each respondent. Furthermore, each participant was assured of data privacy of the information they shared, and was made aware of the freedom to withdraw from the study if one wishes. Respondents with special needs were accorded immediate assistance by the researcher or his assistants and that the information gathered was only be used for education purpose.

## CHAPTER FOUR

### DATA ANALYSIS, INTERPRETATION AND PRESENTATION

#### 4.1 Introduction

In this chapter, findings are presented as per the study objectives. The outcomes are also interpreted and discussed with reference to reviewed empirical literature in chapter two. The aim of the study was to establish the effects of tax education on tax compliance among the small and medium enterprises in Nairobi county city in Kenya.

#### 4.2 Response Rate

This section presents the response rate from the questionnaires administered.

**Table 4.1: Response Rate**

<b>Response</b>	<b>Frequency</b>	<b>Percentage</b>
Returned	284	74%
Unreturned	100	26%
<b>Total</b>	<b>384</b>	<b>100%</b>

**Source: Research Data (2020)**

Out of the 384 questionnaires administered to the respondents, 284 were properly filled and returned. This represented 74% response rate. The other questionnaires were either unreturned or not valid. A return rate above 50% is adequate for analysis (Mugenda & Mugenda, 2003).

#### 4.3 Reliability Statistic Results

Reliability of the data was determined using internal consistency measure, that is, Cronbach's Alpha, which was computed using the SPSS software. The results are in Table 4.2.

**Table 4.2: Reliability Statistics**

Cronbach's Alpha	Number of Items	Comment
.891	22	Reliable

**Source: Research Data (2020)**

The alpha value of Cronbach was 0.891. The correlation coefficient above 0.7 was adequate and suggested worthwhile data reliability, according to Bhattacharjee (2012). The elements in the questionnaire were, thus, accurate.

#### 4.4 Background Profiles of the Respondents

**Table 4.3: Background Profiles of Respondents**

		Frequency	Percent(%)
Gender	Male	164	57.7
	Female	120	42.3
	<b>Total</b>	<b>284</b>	<b>100</b>
Highest education	Primary	2	0.7
	Secondary	28	9.9
	Diploma	149	52.5
	Degree	99	34.9
	Masters	6	2.1
	<b>Total</b>	<b>284</b>	<b>100</b>
Period	Less than 1 years	53	18.7
	2 to 5 years	64	22.5
	6 to 7 years	69	24.3
	More than 7 years	98	34.5
	<b>Total</b>	<b>284</b>	<b>100</b>

**Source: Research Data (2020)**

The results in Table 4.3 show that there were more male respondents (164, 57.7 percent) than female respondents (120, 42.3 percent) who took part in this survey. However, the constitutional provision of at least a third representation of each gender was satisfied by the gender composition.

The findings also reveal that majority (149, 52.5 percent) of the participants had attained diploma level of education, (99, 34.9 percent) had degrees while (28, 9.9 percent) had secondary level education. The expectation is that individuals with

higher education are more likely to be tax compliant since they have knowledge about taxation. In this research therefore, majority of the respondents were expected to be tax compliant given their level of education.

Further, the findings show that (98, 34.5%) of the participants had operated their businesses for more than seven years, while (69, 24.3%) had been in business for 6 to 7 years. This suggests that most of the participants have been in business for over 5 years. As such, they have most probably heard from different sources about taxes and tax enforcement, and are thus likely to be tax compliant.

#### 4.5 Descriptive Analysis Results

Descriptive analysis results for the study variables are given in this section. Percent, mean and standard deviation are included in the basic descriptive statistics.

##### 4.5.1 Descriptive Statistics on Electronic Taxpayer Education

The study's first objective was to assess the effects of electronic taxpayer education on tax enforcement for SMEs in Kenya's Nairobi County. Table 4.4 shows the findings.

**Table 4.4: Descriptive Statistics on Electronic Taxpayer Education**

Statements N=284	SD	D	N	A	SA	Mean	S.D EV
There is enough tax payer education materials in the internet	3.5%	7.0%	1.4%	43.0%	45.1%	4.2	1.0
Radio is more informative on tax matters.	20.8%	32.7%	20.1%	25.7%	0.7%	2.5	1.1
Television offer tax training programmes	22.9%	36.8%	16.8%	22.2%	1.4%	2.5	1.1
I tax system has lessons on how to fill returns	3.9%	8.1%	5.6%	47.2%	35.2%	4.0	1.0
Tax adverts are more informative about taxes matters	6.3%	11.3%	5.6%	39.1%	37.7%	3.9	1.2
<b>Aggregate mean</b>						<b>3.4</b>	<b>1.1</b>

**Source: Research Data (2020)**

The results in Table 4.4 show that the majority of participants with an overall mean score of 3.4 agreed with a variety of electronic taxpayer education claims. They were in agreement with the following three statements: there is enough tax payer education materials in the internet (88%); I- tax system has lessons on how to fill returns (82.4%); and tax adverts are more informative about taxes matters (76.8%). On the other hand, most of the respondents disagreed with the statement that radio is more informative on tax matters (53%); and television offer tax training programmes (60%). This implies that the respondents acknowledge the role of electronic platforms as a way of providing education to taxpayers. This is expected to enhance tax compliance among taxpayers.

#### 4.5.2 Descriptive Statistics on Stakeholder Sensitization Programme

The second objective of the study was to determine the effect of stakeholder sensitization programme on tax compliance among the SMEs in Nairobi county city in Kenya.

**Table 4.5: Descriptive Statistics on Stakeholder Sensitization Programme**

Statements N=284	SD	D	N	A	SA	Mean	S. dev
Seminars/workshops provides room for discussion over tax audits and prosecution	2.1%	7.7%	4.2%	45.4%	40.5%	4.1	1.0
Sensitization of taxes has played a critical part in improving taxes' perceptions.	2.8%	6.7%	1.1%	47.5%	41.9%	4.2	1.0
Road shows have Influenced decision to pay tax	2.8%	9.5%	3.5%	44.0%	40.1%	4.1	1.0
Seminars Provides discussions that helps to understand the tax laws	2.1%	7.4%	5.6%	39.8%	45.1%	4.2	1.0
Workshops are more comprehensive and allow the public enough opportunities to conceptualize the theory.	2.8%	11.3%	6.0%	36.6%	43.3%	4.1	1.1
<b>Aggregate mean</b>						<b>4.1</b>	<b>1.0</b>

**Source: Research Data (2020)**

Table 4.5 findings indicate that most participants with an aggregate mean score of 4.1 agreed with statements on sensitization initiatives for stakeholders. They were in agreement with the following statements: seminars/workshops provides room for discussion over tax audits and prosecution (85.9%); sensitization of taxpayers has played a critical role in improving taxpayer perceptions (87.4%); road shows have influenced decision to pay tax (84.1%); seminars provides discussions that helps to understand the tax laws (84.9%); and workshops are more informative and allow the public enough time to conceptualize the idea (79.9%). This implies that the respondents appreciate the role of stakeholder sensitization programmes in driving tax compliance. The key stakeholder sensitization programmes aspects include seminars, workshops and roadshows.

#### 4.5.3 Descriptive Statistics on Print Media Education

The third objective of the study was to establish the effects of print media education on tax enforcement for small and medium-sized enterprises in Kenya's Nairobi County. Table 4.6 illustrates the results.

**Table 4.6: Descriptive Statistics on Print Media Education**

Statements N=284	SD	D	N	A	SA	Mean	S.Dev
Increases public awareness especially on matters concerning taxation laws.	2.5%	9.5%	3.5%	41.5%	43.0%	4.1	1.0
Helps to Influence taxpaying culture	2.1%	10.2%	3.9%	40.5%	43.3%	4.1	1.0
Creates tax payment reasons awareness	3.9%	7.0%	3.2%	41.9%	44.0%	4.2	1.0
Helps in easy understanding of legal tax requirements	3.5%	10.2%	4.2%	41.2%	40.8%	4.1	1.1
Increases the level of tax compliance.	2.8%	6.7%	2.8%	42.6%	45.1%	4.2	1.0
Impact of ethical attitudes on the tax compliance	2.5%	6.0%	6.0%	46.1%	39.4%	4.1	0.9
<b>Aggregate mean</b>						<b>4.1</b>	<b>1.0</b>

**Source: Research Data (2020)**

The results in Table 4.6 show that most respondents agreed with claims on print media education with an aggregate mean score of 4.1. They were in agreement with the following statements: print media education increases public awareness especially on matters concerning taxation laws (85%); helps to influence taxpaying culture (84.3%); creates tax payment reasons awareness (86.2%); helps in easy understanding of legal tax requirements (82%); increases the level of tax compliance (87.7%); and impact of ethical attitudes on tax (85.5%). This implies that the respondents appreciate the contribution of print media towards taxpayer education. In particular, print media education enhances public awareness, taxpaying culture, legal tax requirements and ethical attitudes of the taxpayers. Print media is therefore expected to promote tax compliance among the small and medium enterprises' owners.

#### 4.5.4 Descriptive Statistics on Tax compliance

The dependent variable in the study was tax compliance among small and medium enterprises in Nairobi county city in Kenya. Table 4.7 shows the findings.

**Table 4.7: Descriptive Statistics on Tax compliance**

Statements N=284	SD	D	N	A	SA	Mean	S.DEV
Penalties and interests imposed are sufficient to deter people from regularly evading income tax	2.1%	6.0%	2.8%	47.2%	41.9%	4.2	0.9
The tax return is easy and simple to complete	3.2%	10.2%	1.8%	43.0%	41.9%	4.1	1.1
The tax systems are friendly and stable	1.1%	4.9%	5.3%	42.6%	46.1%	4.3	0.9
I am fully satisfied with all requirements imposed by KRA	1.8%	4.2%	6.3%	45.1%	42.6%	4.2	0.9
Strong KRA compliance and punishment can result if I do not comply with it.	2.1%	4.9%	3.5%	45.1%	44.4%	4.3	0.9
Payment of tax has been made easier through e slip	1.4%	4.9%	3.2%	44.7%	45.8%	4.3	0.9
<b>Aggregate mean</b>						<b>4.2</b>	<b>0.9</b>

**Source: Research Data (2020)**

The results in Table 4.7 indicate that most respondents agreed to tax compliance statements with an aggregate mean score of 4.2. They were in agreement with the following statements: penalties and interests imposed are sufficient to deter people from regularly evading income tax (89.1%); the tax return is easy and simple to complete (84.9%); the tax systems are friendly and stable (88.7%); they are fully satisfied with all requirements imposed by KRA (87.7%); strong KRA compliance and punishment can result if I do not comply with it (89.5%); and payment of tax has been made easier through e slip (90.5%). This implies that the respondents acknowledge the effort KRA has made to enhance tax compliance. The use of penalties and interests, strict enforcements measures, use of e-system and simplified procedures were identified as critical in determining tax compliance.

#### **4.6 Test of Regression Assumptions**

Prior to inferential analysis, data was first subjected to a number of tests. These included: normality test, linearity test and heteroscedasticity test and multicollinearity tests.

##### **4.6.1 Normality Test**

Normality testing in this research was done by use of the Kolmogorov-Smirnov check because the observations exceeded 50. Kolmogorov-Smirnov test assume normal distribution when the Asymp. Sig. (2-tailed) is greater than 0.05. Table 4.8 illustrates the results.

**Table 4.8: Kolmogorov-Smirnov Test on Normality**

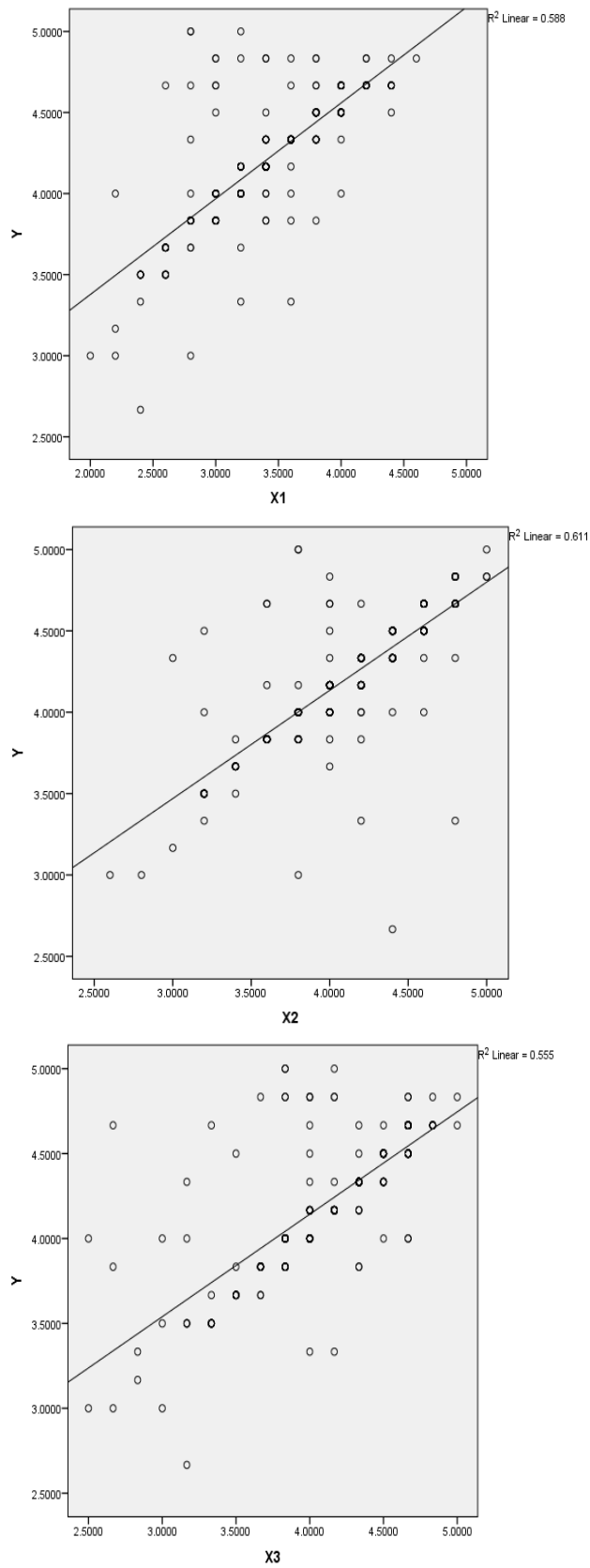
		Y	X1	X2	X3
N		284	284	284	284
Normal Parameters <sup>a,b</sup>	Mean	4.22418	3.4331	4.13451	4.13498
	Std. Deviation	0.38806	0.50401	0.45622	0.47922
Most Extreme Differences	Absolute	0.132	0.122	0.135	0.143
	Positive	0.074	0.065	0.062	0.102
	Negative	-0.132	-0.122	-0.135	-0.143
Kolmogorov-Smirnov Z		2.223	2.051	2.267	2.409
Asymp. Sig. (2-tailed)		0.000	0.000	0.000	0.000

**Source: Research Data (2020)**

The findings in Table 4.8 indicate that all the variables data had Asymptotic significant (Sig) values less than 0.05 implying that data series was not normally distributed. However, since the sample size was large, normality of the data was assumed in line with the central limit theorem.

#### **4.6.2 Linearity Test**

In this study linearity test was conducted using scatter plots. The findings are demonstrated in Figure 4.1.



**Figure 4.1: Linearity test: Scatter Plots**

**Source: Research Data (2020)**

The scatter plots in Figure 4.1 reveal existence of linear dependence between the independent variables (electronic taxpayer education, X1, stakeholder sensitization programmes, X2, print media education, X3) and the dependent variable (tax compliance, Y). This is demonstrated by the fit line in each of the plots.

#### 4.6.3 Test of Heteroskedasticity

The heteroskedasticity test was carried out by use of Levene's test of equality of error variances.

**Table 4.9: Test of Heteroskedasticity: Levene's Test of Equality of Error Variances**

Dependent Variable: Perception				
F	df1		df2	Sig.
1.216	13		270	0.085
1.672		12	271	0.073
1.531	15		268	0.136

Tests the null hypothesis that the error variance of the dependent variable is equal across groups.

a. Design: Intercept X1, X2, X3

**Source: Research Data (2020)**

The results in Table 4.9 indicate that all the P values (Sig) for independent variables (X1, X2 and X3) were more than 0.05 and therefore the null hypothesis of constant variance of error term was accepted. This implies that the data was homoscedastic.

#### 4.6.4 Multicollinearity Test

Multicollinearity between independent variables was tested using collinearity statistics. The outcomes are depicted in table 4.10.

**Table 4.10: Multicollinearity Tests**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1.405	0.126		11.142	.000		
	X1	0.242	0.05	0.314	4.882	.000	0.273	3.657
	X2	0.349	0.05	0.411	7.049	.000	0.334	2.997
	X3	0.132	0.053	0.163	2.48	.014	0.263	3.802

a Dependent Variable: Y

**Source: Research Data (2020)**

The findings in Table 4.10 indicate VIF values less than 10 implying that there was multicollinearity among the independent variables.

#### 4.7 Correlation Analysis Results

This section provides findings on the correlation between the independent variables - electronic taxpayer education [X1], stakeholder sensitization programme [X2], print media education [X3] and dependent variable - tax compliance [Y].

**Table 4.11: Correlation Matrix; Tax Education and Tax compliance**

		Y	X1	X2	X3
Y	Pearson Correlation	1			
	Sig. (2-tailed)				
X1	Pearson Correlation	.767**	1		
	Sig. (2-tailed)	.000			
X2	Pearson Correlation	.782**	.775**	1	
	Sig. (2-tailed)	.000	.000		
X3	Pearson Correlation	.745**	.728**	.785**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	284	284	284	284

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

**Source: Research Data (2020)**

The outcome in Table 4.11 indicate that electronic taxpayer education, x1 ( $r = .767^{**}$ ,  $P = .000$ ), had a strong direct and meaningful association with tax compliance (Y). The P value shows that connection between the two variables is strong. This implies

that increase in electronic taxpayer education is significantly correlated with increase in tax compliance among SMEs.

The findings also reveal that stakeholder sensitization programme, X2 ( $r = .782^{**}$ ,  $P = .000$ ), had a strong direct and meaningful association with tax compliance (Y). The P value shows that connection between the two variables is strong. This implies that increase in stakeholder sensitization programme is significantly correlated with rise in tax compliance among SMEs.

The findings further reveal that print media education, X3 ( $r = .745^{**}$ ,  $P = .000$ ), had a strong direct and meaningful association with tax compliance (Y). The P value shows that the connection between the two variables is strong. This implies that increase in print media tax education is significantly correlated with rise in tax compliance among SMEs.

#### 4.8 Multiple Regression Analysis Results

A multiple regression analysis was conducted to determine the effect of tax education on tax compliance. Tables 4.12, 4.13 and 4.14 show the outcomes.

**Table 4.12: Model Summary; Tax Education and Tax compliance**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.827a	0.683	0.68	0.21962

a Predictors: (Constant), X3, X2, X1

**Source: Research Data (2020)**

Results in Table 4.12 show that 68 percent ( $R^2 = .683$ ) of the total differences in tax enforcement between small and medium enterprises is jointly explained by all three predictor variables in this analysis. These findings confirm the correlation outcome in Table 4.11.

**Table 4.13: ANOVA; Tax Education and Tax compliance**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.112	3	9.704	201.196	.000b
	Residual	13.505	280	0.048		
	Total	42.616	283			

a Dependent Variable: Y

b Predictors: (Constant), X3, X2, X1

**Source: Research Data (2020)**

In Table 4.13, the ANOVA regression model shows an F value of 201.196 and a P value of 0.000. The model is therefore significant in predicting the dependent variable given that the P value <0.05.

**Table 4.14: Coefficients; Tax Education and Tax compliance**

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.405	0.126		11.142	0.000
	X1	0.242	0.05	0.314	4.882	0.000
	X2	0.349	0.05	0.411	7.049	0.000
	X3	0.132	0.053	0.163	2.48	0.014

a Dependent Variable: Y

**Source: Research Data (2020)**

All the predictor factors of electronic taxpayer education (X1), stakeholder sensitization programme (X2), and print media education (X3) have similar scales as well as a noteworthy constant, hence the use of unstandardized B-coefficients. The outcome in Table 4.14 indicate that electronic taxpayer education (X1), ( $\beta_1 = 0.242$ ,  $P = .000$ ); stakeholder sensitization programme (X2), ( $\beta_2 = 0.349$ ,  $P = .000$ ); and print media education (X3), ( $\beta_3 = 0.132$ ,  $P = .014$ ) have a direct and meaningful effect on tax compliance among SMEs. The most significant predictor of tax compliance is stakeholder sensitization programme ( $\beta_2 = 0.349$ ), followed by electronic taxpayer education ( $\beta_1 = 0.242$ ) and lastly print media education ( $\beta_3 = 0.132$ ).

Thus, the hypothesized model:  $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$ , now becomes:

$$Y = 1.405 + 0.242X_1 + 0.349X_2 + 0.132X_3$$

Where:

Y = tax compliance

X<sub>1</sub> = electronic tax education

X<sub>2</sub> = stake holder's sensitization programme

X<sub>3</sub> = print media education

The findings imply that stakeholder sensitization programme contributes significantly towards tax compliance. This finding was consistent with that of Gitaru (2017) who established that stakeholder engagement influences tax compliance among business owners.

The findings also imply that electronic taxpayer education contributes significantly towards tax compliance. This outcome was consistent with that of Lai Ming *et al.* (2010), who observed that the interpretation of ICT and electronic tax structures by students had a positive influence on tax compliance. According to the holistic perspective of taxpayers using electronic methods, compliance would be facilitated by the use of nuanced, systemic methods (Sas, 2007).

The findings further imply that print media education contributes significantly towards tax compliance. The findings supported Musharraf *et al.* (2016) assertion that print media improve individual perceptions towards tax compliance. Gitaru (2017) also observed that print media influences tax compliance among business owners.

#### **4.9 Discussion of the key Findings**

The reliability results indicated that the items measuring tax compliance, electronic taxpayer education, stakeholder sensitization programme and print media education

were reliable. This was confirmed by Cronbach alpha coefficient greater than 0.7. From the descriptive analysis findings, majority of the respondents agreed with statements relating to the study variables. This was confirmed by aggregate mean scores: 3.4, 4.1, 4.1 and 4.2 for electronic taxpayer education, stakeholder sensitization programme, print media education and tax compliance respectively.

The correlation analysis results indicated that all the independent variables (electronic taxpayer education, stakeholder sensitization programme, print media education) had a strong direct and meaningful connection with tax compliance. This was confirmed by the following correlation coefficients: 0.767, 0.782, and 0.745 for electronic taxpayer education, stakeholder sensitization programme and print media education respectively. The P value of 0.000 further indicated that relationship between the independent and dependent variable is very strong.

The multiple regression findings indicated that all the predictor variables had a direct and meaningful effect on tax compliance. In particular, electronic taxpayer education (X1), ( $\beta_1 = 0.242$ ,  $P = .000$ ); stakeholder sensitization programme (X2), ( $\beta_2 = 0.349$ ,  $P = .000$ ); and print media education (X3), ( $\beta_3 = 0.132$ ,  $P = .014$ ) had a direct and meaningful effect on tax compliance among SMEs.

#### 4.10 Hypotheses Testing

This section summarizes results on hypotheses testing. Table 4.15 shows the findings.

**Table 4.15: Hypotheses Test Results**

Hypotheses	P value	Decision
<i>H<sub>01</sub></i> : Electronic taxpayer education has no significant effect on tax compliance among the small and medium enterprises in Nairobi county city in Kenya	0.000<0.05	Rejected
<i>H<sub>02</sub></i> : There is no significant effect of stakeholder sensitization programme on tax compliance among the small and medium enterprises in Nairobi county city in Kenya	0.000<0.05	Rejected
<i>H<sub>03</sub></i> : Print media education has no significant effect on tax compliance among the small and medium enterprises in Nairobi county city in Kenya	0.014<0.05	Rejected

**Source: (Research data, 2020)**

Based on the multiple regression findings (Table 4.14), all the three null hypotheses were rejected since the P values were less than 0.05. Table 4.15 summarizes the study hypotheses and their rejection criteria. Rejection of the null hypotheses implies that electronic taxpayer education, stakeholder sensitization programme and print media education have a statistically significant effect on tax compliance among the medium enterprises.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter provides a summary, conclusion and recommendations of the study. The purpose of the study was to establish the effects of tax education on tax compliance among SMEs in Nairobi county city in Kenya. The study was informed by economic deterrence theory and diffusion theory. An explanatory research design was employed. The total target population was 170,197 licensed SMEs in Nairobi City County according to the MSME basic report 2016 done by the Kenya bureau of statistics. The study used a sample size of 384 respondents as calculated using the fisher formula. Consequently, the sample size of 384 which included finance managers, accountants and business owners was selected using simple random sampling procedures. Self-administered questionnaires were used to collect data from the respondents. Descriptive and inferential statistics were employed in the analysis of the research data. Data was presented using tables and graphs.

#### **5.2 Summary**

The outcomes on tax compliance revealed that penalties and interests, strict enforcements measures, use of e-system and simplified procedures were key aspects that enhanced tax compliance among small and medium enterprises.

##### **5.2.1 Electronic Taxpayer Education and Tax compliance**

The study's first goal was to evaluate the influence of electronic taxpayer education on tax compliance among SMEs in Kenya's Nairobi County. Majority of the respondents noted that internet materials, I –tax system and tax advertisements were critical aspects that drive electronic taxpayer education.

The findings of the correlation study revealed that the relationship between electronic taxpayer education and tax enforcement among small and medium enterprises is substantially positive. In addition, multiple regression findings showed that electronic taxpayer education has a favorable and substantial impact on small and medium-sized enterprises' tax compliance. This led to the rejection of the null hypothesis in favor of the alternative. Therefore, electronic taxpayer education has a significant effect on tax compliance among the medium enterprises in Nairobi county city in Kenya. The result was consistent with that of Lai Ming *et al.* (2010), who discovered that students' perception of ICT and electronic tax structures had a significant effect on tax enforcement. Similarly, (Sas, 2007) noted that by using electronic means, a systemic view of taxpayers would promote enforcement by using complex, systematic methods.

### **5.2.2 Stakeholder Sensitization Programme and Tax compliance**

The second study goal was to assess the effects of the stakeholder sensitization program on SME tax compliance in Nairobi County City, Kenya. Majority of the respondents noted that seminars, workshops and road shows were key aspects of stakeholder sensitization programme that enhanced their tax compliance.

The correlation findings indicated that there is a direct and meaningful association between stakeholder sensitization programme and tax enforcement among the SMEs. In addition, the regression outcome revealed that stakeholder sensitization programme has a direct and substantial effect on tax compliance among SMEs. This led to the rejection of the null hypothesis in favor of the alternative. Therefore, stakeholder sensitization programme has a significant effect on tax enforcement among the SMEs in Nairobi County. The results agreed with Gitaru (2017) who established that stakeholder engagement influences tax compliance among business owners. Similarly,

Karanja (2014) established that sensitization was paramount in promoting tax compliance among taxpayers.

### **5.2.3 Print Media Education and Tax Compliance**

The third aim of the analysis was to assess the effects of print media education on tax compliance among SMEs in Nairobi County. Majority of the respondents noted that print media education enhances public awareness, taxpaying culture, legal tax requirements and ethical attitudes of the taxpayers.

The results of the correlation analysis showed that the relationship between print media education and tax enforcement among small and medium enterprises is significantly positive. In addition, multiple regression findings showed that print media education has a positive and important impact on small and medium-sized enterprises' tax enforcement. This led to the rejection of the null hypothesis in favor of the alternative. Therefore, print media education has a significant effect on tax compliance among the medium enterprises in Nairobi county city in Kenya. The results were similar to those of Musharraf *et al.* (2016) who found that print media improve individual perceptions towards tax compliance. Gitaru (2017) also observed that print media influences tax compliance among business owners.

### **5.3 Conclusions**

Overall, the study concluded that when combined, electronic taxpayer education, stakeholder sensitization programme and print media education positively and significantly affect tax compliance among the SMEs. In particular, stakeholder sensitization programme was identified as the most significant predictor of tax compliance, followed by electronic taxpayer education and lastly print media education. The findings supported the theoretical predictions of a connection between

tax education and tax compliance. Both the economic deterrence and Vroom's Expectancy theory predicted a direct connection between the tax education and the compliance.

### **5.3.1 Electronic Taxpayer Education and Tax compliance**

The study concluded that when combined with other predictors; electronic taxpayer education has a direct and meaningful effect on tax compliance among the SMEs. From the results, it is clear that electronic taxpayer education is a significant contributor of tax compliance. Some of the key aspects of electronic taxpayer education include use of internet, I-tax system and tax advertisement.

### **5.3.2 Stakeholder Sensitization Programme and Tax compliance**

In line with the findings for objective two, the study concluded that when combined with other predictors; stakeholder sensitization programme has a positive and significant effect on tax compliance among the SMEs. From the results, it is clear that stakeholder sensitization programme is a significant contributor of tax compliance. Seminars, workshops and road shows were identified as key strategies that can enhance stakeholder sensitization programme resulting to increase in tax compliance.

### **5.3.3 Print Media Education and Tax compliance**

From the findings for objective three, the study concluded that when combined with other predictors; print media education has a direct and meaningful effect on tax compliance the SMEs. From the results, it is clear that print media education is a significant contributor of tax compliance. In particular, print media education enhances public awareness, taxpaying culture, legal tax requirements and ethical attitudes of the taxpayers.

#### **5.4 Recommendations**

The study recommended the need for the KRA management to strengthen aspects relating to electronic taxpayer education. In particular, they should focus on the following aspects: having adequate tax materials in the internet, enhancing I tax system and use of tax advertisements. Improvement of the mentioned aspects is likely to enhance tax compliance among the SMEs.

The study also recommended the need for the KRA management to strengthen strategies relating to stakeholder sensitization programme. In particular, they should focus on the following strategies: seminars, workshops and road shows. Improvement of the mentioned strategies is likely to enhance tax compliance among the SMEs.

The study further recommended need for the KRA management to strengthen aspects relating to print media education. In particular, they should focus on the following aspects: taxpaying culture, ethical attitudes and public awareness. Improvement of the mentioned aspects is likely to enhance tax compliance among the SMEs.

#### **5.5 Areas of Further Research**

The study explored the impact of tax education on tax enforcement for SMEs in Nairobi County. The focus was on three components (electronic taxpayer education, stakeholder sensitization programme and print media education), which accounted for 68% of variations in the dependent variable. Future studies could consider other aspects that can be attributed to the remaining 32%.

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## APPENDICES

### Appendix I: Questionnaire

Kindly answer the following questions as honestly and accurately as possible. The information given will be treated with a lot of confidentiality. Please do not write your name anywhere on this questionnaire. You are encouraged to give your honest opinion.

#### **PART 1: DEMOGRAPHIC INFORMATION**

- 1) Indicate your gender
  - a) Male
  - b) Female
  
- 2) Highest level of academic qualification
  - a) Primary School Level
  - b) Secondary School Level
  - c) Diploma Level
  - d) Degree Level
  - e) Master's degree
  
- 3) How long has your business been operating?
  - a. Less than 1 years
  - b. 2 to 5 years
  - c. 6 to 7 years
  - d. More than 7 years

#### **PART 2: THE EFFECT OF ELECTRONIC TAXPAYER EDUCATION ON TAX COMPLIANCE AMONG MEDIUM ENTERPRISES IN NAIROBI CITY COUNTY**

This Section is concerned with assessing the effect of electronic taxpayer on tax compliance on tax compliance among small and medium enterprises. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are: **Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree**

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
There is enough tax payer education materials in the internet					
Radio is more informative on					

tax matters.					
Television offer tax training programmes					
I tax system has lessons on how to fill returns					
Tax adverts are more informative about taxes matters					

### **PART 3: EFFECT OF STAKEHOLDER SENSITIZATION PROGRAMMES ON TAX COMPLIANCE**

This Section is concerned with assessing the effect of stakeholder's sensitization programmes on tax compliance among the small and medium enterprises. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are: **Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree**

<b>Statement</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Seminars/workshops provides room for discussion over tax audits and prosecution					
Taxpayer sensitization has played a vital role in changing the attitudes of taxpayers.					
Road shows have Influenced decision to pay tax					
Seminars Provides discussions that helps to understand the tax laws					
Workshops and seminars are more detailed and provide ample time for the public to conceptualize idea					

### **PART 4: EFFECT OF PRINT MEDIA TAX PAYER EDUCATION ON COMPLIANCE AMONG THE MEDIUM ENTERPRISES**

This Section is concerned with assessing the effect of print media tax payer education on compliance among the small and medium enterprises. Please mark (x) in the box which best describes your agreement or disagreement on each of the following statements. The choices given are: **Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree**

<b>Print media tax payer education</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Increases public awareness especially on matters concerning taxation laws.					

Helps to Influence taxpaying culture					
Creates tax payment reasons awareness					
Helps in easy understanding of legal tax requirements					
Increases the level of tax compliance.					
Influence of ethical attitudes on the tax compliance					

#### **PART 4: TAX COMPLIANCE**

This Section is concerned with assessing the compliance among the small and medium enterprises. Please mark (x) in the box which best describes your agreement or disagreement on each of the following

Statements. The choices given are: **Strongly Disagree, Disagree, Neutral, Agree and Strongly Agree**

<b>Tax compliance</b>	<b>Strongly Disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
Penalties and interests imposed are sufficient to deter people from regularly evading income tax					
The tax return is easy and simple to complete					
The tax systems are friendly and stable					
I am fully satisfied with all requirements imposed by KRA					
Serious enforcement and penalty by the KRA may result if I do not comply					
Payment of tax has been made easier through e slip					