

**FACTORS AFFECTING WITHHOLDING VALUE ADDED TAX COMPLIANCE
AMONG SMALL AND MEDIUM ENTERPRISES IN INDUSTRIAL AREA, NAIROBI
COUNTY**

WALLACE NYONGESA WAFULA

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TECHNOLOGY**

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DECLARATION

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

.....

Date.....

Name: Wallace Nyongesa Wafula

HDB336-C016-2243/2016

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

.....

Date.....

Mr. Kennedy Odumbe

DEDICATION

I dedicate this project to my uncle Barasa Wamalwa for the moral and financial support he gave me while developing this project.

ACKNOWLEDGEMENT

I am so grateful to my supervisor, Mr. Kennedy Odumbe, as a result of the positive encouragement and commitment. Furthermore, I thank my friends and class mates for cooperation and the support they gave me. To God, I say thank you for your sufficient grace.

ABSTRACT

The major issue facing Kenya Revenue Authority is that it has never been easy to convince all taxpayers to comply with the regulations of the tax system. Nairobi County plays host to a sizeable amount of businesses that make up a significant quantity of the county's robust economy. SMEs are continuously expanding and have the potential to increase the revenue flows but which have been otherwise left out of the tax bracket. Studies show that millions in taxes have been lost because tax evasion issue under SMEs has not been adequately addressed. As such, it emerged key enough for KRA to revert to the drawing board, reevaluate its VAT taxation mechanisms and device new approaches on how to carry out the reforms with one of them being withholding VAT with the sole aim of increasing the revenue collected from the business within Kenya. However, despite increase in revenue collection, withholding VAT has not been meeting its revenue targets over the last few years. This study was aimed at investigating the factors affecting Withholding VAT compliance among Small and Medium enterprises in Industrial area, Nairobi County. The study was guided by the following specific objectives: - to find out how taxpayer's knowledge management affects withholding VAT compliance, determine how cost of compliance affect Withholding VAT compliance and how tax compliance measures influence withholding VAT compliance. The main theories that will control this study are Economic (Deterrent) model and Social Influences Theory. The target population was active withholding VAT agents in Industrial area, Nairobi County. Random sampling was employed to arrive at a sample size of 60 respondents. The research design used in this study was explanatory study design. Primary data was collected through interviews by use of questionnaires with closed ended questions geared at Likert Scale. Data was coded for processing and SPSS used for data analysis to produce both descriptive and inferential statistics. Regression model was used for establishing the relationship between the study variables. The analysis of variance (Anova) was used on the average figures for all the measures of performance. The key findings of the study were that: knowledge management on taxpayers is essential for withholding VAT compliance, compliance costs deterred taxpayers from being withholding VAT compliant and enforcement measure compelled taxpayers to be withholding VAT compliant. The researcher recommends that regular tax trainings and adequate and simplified information should be provided on KRA website and other social platforms. KRA should respond promptly on issues of concern raised by taxpayers. And that KRA to offer comprehensive trainings in institutions to make taxpayers competent enough to cut down on costs of employing the services of tax experts and also training of staff. Regulatory bodies should consider controlling the amount of fee charged by tax experts. The fact that penalties on late filings and payments are already in place, they should be maintained at a considerable rate that is bearable by taxpayers. Regular audits and compliance should also be conducted by KRA to improve compliance levels. The researcher proposes quarterly audit checks

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ACRONYMS

EACCMA	East Africa Community Customs Management Act
ETR	Electronic Tax Register
EU	European Union
GDP	Gross Domestic Product.
IRS	Internal Revenue Service
KRA	Kenya Revenue Authority
MP	Modernization Programs
SME	Small and Medium Enterprises.
TR	Tax Reform
VAT	Value Added Tax
WHT	Withholding Tax
WVAT	Withholding Value Added Tax

DEFINITION OF TERMS

Compliance: This is adherence to standard, regulations and other requirements. (Feder, B.J 2000).

Consumption tax: This is a tax on spending on goods and services, the tax base of such tax is the money spent on consumption, and they are usually indirect taxes e.g. value added tax. (Robert, H. 2008).

Non-compliance: This is failure to adherence to standard, regulations and other requirements. (Edmund. L 2005)

Revenue: This is the income that a business has from its normal business activities, usually from sale of goods and services to customers; it's also referred to sales or turnover. (Yan, 2006).

Tax agents: This is a person who prepares the returns of income required to be filed for 10 or more taxpayers and should be either a practitioner carrying on a professional public practice, a person carrying on a business or occupation in which returns of income are prepared. (Miller, 2012).

Withholding tax: This is a retention tax according to government requirement for the taxpayer of an item of income to withhold or deduct tax from the payment and pay that tax to the government. (Jacobson, 2008).

CHAPTER ONE

1.1 Introduction

1.1.1 Background of the Study

The level of tax compliance in an economy is a function of many variables especially for Value Added Tax (VAT) since it is not easy for the Government to monitor transactions as they occur at the taxpayer's station (Hurst, Li & Pugsley, 2014). Many governments operate on a self- assessment basis when it comes to payment of VAT as the companies determine on their own the VAT payable through computation of VAT on purchases and VAT on sales. However, one of the challenges noted from previous research indicates that voluntary compliance where the tax payers voluntarily determines their tax liabilities and pays gives room for some form of manipulation (Gangl, Hofmann & Kirchler, 2015). This means that all the taxes due in a particular period may be delayed or ignored all together leading to loss of revenue to the Government.

In the United States, the Government implemented a number of policies and laws to help improve the level of VAT compliance among taxpayers. These measures included requiring withholding of tax at the source of income, which means that the organization paying for services or goods withholds VAT there on and forwards it to the Government (Brockmann, Genschel, & Seelkopf, 2016). Another measure included application of deterrent mechanisms like giving the revenue compliance agencies some powers to enforce the law by laying out clear penalties to those found disobeying the law.

The Kenya Revenue Authority (KRA) is the only government revenue collecting agency in Kenya accounting for over 96% of government revenue. KRA administers 17 revenue Acts, with the key ones (in terms of revenue importance) being Value Added Tax (VAT 2013),

Income Tax Act (Cap470) East Africa Community Customs Management Act (EACCMA), Customs and Excise Act (Cap472) and the Traffic Act Cap403 (Cherogony, 2013). VAT was introduced in Kenya in 1990 to replace sales tax which had been in the existence since 1973.

Compared with other indirect taxes, VAT has more revenue potential, its more broad-based and entails a trail of invoices that helps improve tax compliance and enforcement ((N.T, 2003). Tax modernization programs under Tax Reform and Modernization Programs (TR & MP) was initiated in Kenya back in 1986 with the main objective of broadening the government's revenue base and regulating the expenditure through strict fiscal controls. This brought about the adoption of VAT systems whose aim was to bring more revenue for the government.

These reforms have continuously been carried out to revamp the growth in revenue for the government to meet its huge budgetary needs. Despite these programs, VAT has not been responsive to the changes in reforms and has remained very rigid to changes in GDP. (Kotut&Menjo, 2012). VAT like any other tax, is vulnerable to evasion and fraud although it has some distinctive features that makes it less vulnerable than other forms of taxation ((KEEN, 2007).

1.1.2 Global perspective

Fjeldstad and Iversen (2012) found that tax compliance behavior among South African citizens was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, expenses to non-state participants, perception of an ethnic group being treated unfairly, and tax knowledge. The study did not assess a number of possible determinants of tax compliance and therefore there is need to expand the variables.

Atawodi and Ojeka (2012) conducted a study on issues that affect tax compliance among the small medium enterprises in the Northern part of Nigeria and established that a big tax rate as well as composite recording measures is the majority key factor contributing to lack of compliance of the small medium enterprises. The study also established other factors that significantly influenced tax compliance among SMEs in the region such as compound taxes and shortage of appropriate clarification. The study surveyed a few SMEs in the region that was among those that reported high cases of non-compliance. The study also importantly examined factors that explain non-compliance but not compliance as most other studies have.

Onwuchekwa & Aruwa (2014) conducted a study focusing on the relevance and the problems of Value Added Tax (VAT) in Nigeria. The respondents in the study were tax institutions, the revenue staff and the public. The study employed descriptive analysis techniques and the data used was primary in nature. The findings indicated that there was low tax compliance due to lack of proper records, unqualified FIRS staff and low level of education among the taxpayers and the opinion that the tax revenue was being misused.

Nilsson (2015) used two approaches to evaluate tax conformity performance in Argentina. This was aimed at improving the mercantile taxpayers and far-reaching campaigns and as well as audits to enhance the chance of exposure amongst the taxpayers. The findings of the study revealed that as the number of audits and the chance of exposure increases, the taxpayers became positive in complying with tax regulations and precisely accounted their revenue, which positively influenced the tax proceeds. The initiative showed that unintended tax avoidance resulted relatively than deliberate tax noncompliance. Taxpayers were liable to integrate more intricate tax avoidance plans, which were challenging to detect through documentations so that they would remit small amount of tax if they become conscious that they will not be realized due to lack of scrutiny. Results of a study by Bergman agreed with the theoretical suggestion that the apprehension of recognition affects the degree of

conformity activities, implying that those who avoid to adopt protective ways when the apparent danger of exposure is great.

VAT has become the most common consumption tax in the world. It was first introduced in France in 1954. Its essence was that it will be charged at all levels of production, but with the provision of some mechanism enabled firms to offset the tax they had paid on the purchases of goods and services against the tax they charged on the sales of goods and services. Although this characteristic feature is very clear cut, the VAT observed in practice showed considerable diversity as regards, among other things, the range of inputs for which tax was offsetting was available and the range of economic activities to which the tax applied i.e. the base of the tax (EBRILL, 2001). Over the last few years however there has been marked increase in losses of VAT revenue through evasion and fraud. For example, in European Union (EU), the abolition of internal EU frontiers at the end of 1992 opened up new areas of vulnerability. In March 2006 the first ever fall of in annual nominal VAT receipts in the United Kingdom was attributed by some to fraud (Ainsworth, 2006). In Kenya, the poor performance in VAT revenue has been led by VAT evasion, which has a major drawback on VAT revenue compliance.

1.1.3 Kenya perspective

According to (AL, 1998) the problem of tax noncompliance is as old as taxes themselves. Naibei, Momanyi and Oginda (2012) conducted a study that sought to establish the association between inspection, VAT compliance and the size of income among personal firms in Kenya. The study sampled 233 registered firms and questionnaires was administered to the respondents for purposes of primary data compliance. Data was then analyzed through correlation analysis. The results showed that there was a higher VAT compliance level on those firms, which had applied VAT withholding tax by KRA.

58% of the businessmen agreed that VAT withholding tax acted as deterrence on tax evasion. This in effect had a positive effect on the Revenue compliance by KRA. Osebe (2013) conducted a study that sought to evaluate the issues that influence tax conformity by Real Estate developers in Nakuru town. Results of the study indicated that tax conformity expenditure was causative factor to tax conformity. From this finding therefore there was enough indication that tax conformity price was closely connected with elevated degree of tax conformity leading to an increase in tax revenues.

Taxpayers do a cost-benefit analysis of the cost of being caught through audits and the probability of being penalized, together with the possibility of criminal sanctions. If they find that the magnitude is very high, they end up following tax law and in effect comply. The study therefore provided some preliminary evidence that fines and penalties attached to tax compliance played a crucial role in enhancing revenue compliance. Another study that was conducted by Nyaga (2014) on tax compliance, enforcement, and taxpayer service in Kenya explored the relationship between enforcement policies and taxpayer service on tax compliance in Kenya. The study adopted the use of simple regression analysis of aggregate variables representing tax compliance measures against audit, penalties, criminal sanctions and taxpayer service. The study used a sample frame of self-will employ individual taxpayers for the period 2003-2012. The findings of the study indicated that audit, penalty had a positive relationship with tax compliance and hence enhanced tax revenue and taxpayer service and criminal sanctions had a negative influence on tax revenue.

Mararia (2014) examined the effect of Integrated Tax Management System (ITMS) on tax conformity by SMEs in Nairobi's CBD. Research study adopted a target population of 200 taxpayers from which 100 taxpayers were picked as a representative sample. Data

analysis was conducted by the use of SPSS version 20.0. The findings of her study showed that penalties and fines had a positive and significant association with tax conformity. This resulted to an overall rise in the compliances as penalties and fined deterred tax evasion by taxpayers.

Akumu (2015) sought to establish the determinants of tax revenue in Kenya with data spanning 24 years from the year 1990 to the year 2014. The study specifically aimed to establish the relationship between interest rates, exchange rates and imports growth on revenue growth. The study used time series, data collected on a quarterly basis from the year 1990 to 2014. A descriptive research design was used. Data was collected from sources like Central bank of Kenya, Kenya National Bureau of statistics, International monetary fund and World Bank and was analyzed through regression modeling. The study findings revealed that the study variables investigated; interest rates, exchange rates and imports growth significantly affect revenue growth negatively.

VAT reforms have continuously been carried out to revamp the growth in revenue for the government to meet its huge budgetary needs. Despite these programs, VAT has not been responsive to the changes in reforms and has remained very rigid to changes in GDP. (Kotut&Menjo, 2012). This is attributed to taxpayers' willingness to pay tax being low for historical, political or cultural reasons, implying a perception that governments consistently misuse public funds.

A study by, Parliamentary Budget Office (2010) shows that in 2008 the government could have increased the tax base by approximately Kshs.79.3 billion if the tax evasion among SMEs was addressed. According to the KRA annual report for year ended 2012, the amount lost inform of taxes were Ksh 108 billion which can be directly attributed to the SMEs. (K.R.A, Annual Tax Report, 2013). The SMEs are continuously expanding and has the

potential to increase the revenue flows but which have been otherwise left out of the tax bracket. Generally, if the sector remains untaxed, and as more people transition in to the sector, the government is likely to continue losing billions of shillings. Such a scenario will impact on government's ability to achieve its revenue targets and consequently its development agenda. Over the years, tax collections have fallen below the treasury set targets in Kenya despite efforts by the revenue authority to improve the performance of the tax. There is therefore a need to assess the compliance status and the determinants of compliance among taxpayers with the aim of formulating the strategies to ensure improved compliance to tax laws in the country

1.1.4 Withholding Value Added Tax

Lee (2015) in their study on Value added tax and consumption noted that numerous studies have looked at the several issues involved during execution of VAT in developing and developed countries. Some of the studies cited by them include, Gale and Harris (2011) who discussed the numerous concerns pertinent to the design of a VAT, together with its execution, administration, costs incurred in effecting compliance, its influence on savings as well as labor supply, its distributional impacts, and several transitional issues if implemented in the U.S. Miller and Oats (2016) discussed issues related to VAT design and in the same way concluded, that the influence of a VAT on consumption is crucial but remains unresolved.

WHVAT is a design of VAT; it is a system that encompasses the statement of VAT by both the supplier and his customer (KRA). It is a tax deducted at source on acquisition of taxable goods and services by the withholding VAT Agent. Ability-to-pay theory supports the Withholding Value Added Tax since it reduces the burden on the taxpayer though no reduction of liability on him, the sharing in payment has a psychological effect of not feeling much pinch on payment of VAT due to the government.

Where a person makes a taxable supply and has issued a tax invoice, withholding vat is calculated based on a government's guidelines. For instance, in Kenya, WHVAT rate applicable is 6%. Assuming a taxable value of Ksh. 100,000 has been supplied, the agent with withhold Ksh. 6,000 that is $(100,000 \times 6\%)$. The withholding of VAT by a withholding VAT Agent shall NOT relieve the supplier (Taxable person) of the obligation to charge VAT at 16% and file monthly returns in accordance with the relevant provisions of the VAT Act 2013 (KRA). The supplier is expected to pay the balance of 10% to account for the balance of vat charged at 16%. Withholding Tax is important for it is a tracking system for taxpayers who reduce their actual tax liability or evade on payment of tax due on taxable goods and services.

When the income on which WHT is deducted at source the tax authorities are aware of the transaction between the withholding agent and the taxpayer therefore the tax withheld becomes a basis for the tax expected. The taxpayer has therefore an obligation to pay the balance after matching the actual tax liability against the tax withheld. For purposes of this study Withholding Value Added Tax will be measured by the amount of revenue collected as Value added tax withheld by agents (Adhikari, 2015). Ndumia, (2014) said that WHVAT was scrapped owing to among other reasons, the fact that not all VAT amount withheld was remitted to KRA's account at the Central Bank of Kenya (CBK) which adversely affected the overall VAT revenue performance.

The law also entitled registered persons to a refund of credit arising from withholding VAT, however, this attracted a large number of refund claims, an implication which the government was keen to avoid. WHVAT was re-introduced in 2014 in Kenya and the authority argues that it has increased VAT performance attributing such performance on the WHVAT framework. The Finance Bill 2019 proposes to amend the Tax Procedures Act (TPA) by reducing the Withholding VAT rate from 6% to 2%. While the TPA allows for application

for exemption from withholding VAT, some taxpayers have continued to be in perpetual tax overpayment position as a result of withholding VAT and thus have their cash flow negatively affected. It is hoped that this measure will reduce the pile up of VAT credits arising from withholding VAT and free up cash flow for crucial business needs

1.1.5 Tax Compliance

Organization for Economic Cooperation and Development (2015) defines tax compliance in into two key categories that is Administrative compliance (complying with the administrative rules of lodging and paying on time, what some would include within their definitions of compliance with reporting requirements, procedural compliance or regulatory compliance); and Technical compliance (i.e., taxes calculated in accordance with the technical requirements of the tax laws or taxpayers pay their share of tax in accordance with the provisions of the tax laws). VAT on the other hand refers to an indirect tax levied on consumption of taxable goods as well as services.

Kosgei and Tenai (2016) used tax compliance as the degree to which taxpayers comply with the tax law. Trandafir (2016) cited that tax compliance is affected by 14 main factors as discussed by various studys which are age, gender, education, income, occupation or status, peers' or other taxpayers' influence, ethics, legal sanction, complexity, relationship with taxation authority (IRS), income sources, perceived fairness of the tax system, possibility of being audited and tax rate. Non-Tax compliance is the difference between revenue collected and that ought to be collected. In Tax, administration revenue compliance procedures have to be efficient to minimize on the cost of compliance. VAT compliance measures are vital in ensuring that costs are utilized in compliance of revenue effectively.

1.2 Statement of the problem

This study seeks to determine factors affecting the compliance of withholding value added tax among Small and Medium enterprises in Industrial area, Nairobi County. Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirements even though tax laws are not always precise (James and Alley 2004). Over the years, the Kenyan government has undertaken various revenue administration reforms aimed at enhancing revenue collection (Masinde and Makau, 2010). However despite various administrative reforms, levels of tax compliance have remained quite low. It is difficult to collect tax from low income, agrarian economies, and to do so without resorting to coercion. Taxable units are small, so the costs of collection are high; and incomes are seasonal and unstable. Records are lacking, and there is limited use of banks (osebe, 2013). The tax compliance bodies across the world have advocated for withholding of taxes, more so on VAT due to the benefits that come with it. Some of the benefits include: decreased compliance costs, faster remittance to the Government. Despite of growth of withholding VAT from 32M in the FY 15/16 to 577M in the FY 18/19 for SMEs in industrial area, Nairobi County, the set targets have not been achieved, with set target of 601M for FY18/19. (KRA, Jaspersoft 2019)

Several studies have been conducted on tax compliance and withholding taxes. Chege (2014) examined the effects of employing electronic tax register by hotels in Nairobi on value added tax compliance in Kenya. The findings indicated an increase in Revenue compliance with the use of Electronic Tax Registers. It was concluded that ETR machines enhance VAT compliance resulting from more accurate VAT reporting. Atawodi and Ojeka (2012) focused on issues that affected tax compliance among the small and medium enterprises in the Northern part of Nigeria and established that a big tax rate as well as composite recording measures is the majority key factor contributing to lack of compliance of the small medium

enterprises. Mukabi (2014) examined factors affecting turnover tax compliance in the Kenya Revenue Authority domestic taxes department in Nairobi County. The Findings revealed that taxpayer's awareness, cost of compliance and complicated systems; perceptions of taxpayers towards the tax system greatly determined the level of compliance for turnover tax. King'oina (2016) studied factors affecting value added tax compliance among the construction firms in Kisumu County, Kenya. It was established that tax understanding and knowledge had a significant effect on tax compliance. Reduced tax compliance cost is associated with high levels of tax compliance.

A study by, Parliamentary Budget Office (2010) shows that in 2008 the government could have increased the tax base by approximately Kshs.79.3 billion if the tax evasion among SMEs was addressed. According to the KRA annual report for year ended 2012, the amount lost inform of taxes were Ksh 108 billion which can be directly attributed to the SMEs. (K.R.A, Annual Tax Report, 2013). The SMEs are continuously expanding and has the potential to increase the revenue flows but which have been otherwise left out of the tax bracket. Generally, if the sector remains untaxed, and as more people transition in to the sector, the government is likely to continue losing billions of shillings. Over the years, tax collections have fallen below the treasury set targets in Kenya despite efforts by the revenue authority to improve the performance of the tax. There is therefore a need to assess the compliance status and the determinants of compliance among taxpayers with the aim of formulating the strategies to ensure improved compliance to tax laws in the country. The above studies have concentrated on other factors affecting tax compliance. Limited research has been carried out on the factors affecting withholding value added tax compliance which affects VAT compliance, which is the focus of the current study. This study therefore sought to establish the factors affecting compliance of WVAT among Small and Medium enterprises in Industrial area, Nairobi County

1.3 Research Objectives

The generally objective of the study was to assess factors affecting compliance of withholding value added tax among Small and Medium enterprises in Industrial area, Nairobi County.

1.3.1 Specific objectives

The specific research objectives of the study were:

- i) To determine the influence of taxpayer's knowledge management on withholding value added tax compliance among Small and Medium enterprises in Industrial area, Nairobi County.
- ii) To determine the influence of cost of compliance on withholding value added tax compliance among Small and Medium enterprises in Industrial area, Nairobi County.
- iii) To determine the influence of tax compliance measures on withholding value added tax compliance among Small and Medium enterprises in Industrial area, Nairobi County.

1.4 Research questions.

The study was guided by the following research questions;

- i) What is the influence of taxpayer's knowledge management on withholding value added tax compliance among Small and Medium enterprises in Industrial area, Nairobi County?
- ii) What is the influence of compliance cost on withholding value added tax compliance among Small and Medium enterprises in Industrial area, Nairobi County?
- iii) What is the influence of tax compliance measures on withholding value added tax compliance among Small and Medium enterprises in Industrial area, Nairobi County?

1.5 Justification of the study

The result of this study is important to several stakeholders including the Government of Kenya, taxpayers, scholars, and academicians among other users.

1.5.1 Government of Kenya

For the Government of Kenya and specifically KRA, the findings will inform the future policy formulation and implementation in matters concerning Value Added Tax administration in the Country. The findings will also help avail the Government with statistics on the level of compliance and how it can be improved to increase revenue compliance.

1.5.2 Public

To tax payers in Kenya, the study will inform them of several measures that the Government has put in place to ensure that optimal revenue is collected for better economic growth. The findings will help them learn on the importance of compliance hence reduce the rates of avoidance and evasion of taxes.

1.5.3 Scholars and Academicians.

To scholars and academicians, the study will add to the existing literature on withholding value added taxes and compliance. This will broaden their comprehension of the theories on the subject besides suggesting areas for further research.

1.6 Scope of the Study.

The study was on the factors affecting Withholding VAT among Small and Medium enterprises in Industrial area, Nairobi County, along Mombasa road. Geographically the study was on taxpayers in industrial area since that region deals mostly on supplies. The target group was 166 active withholding VAT agents among Small and Medium enterprises in industrial area, Nairobi County with a random sample of 60. The secondary data was collected from KRA's system, East of Nairobi. To gather enough data, the period covered by the study was 7 weeks including report writing.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction.

This chapter presents a literature review on prior studies that have been done on withholding value added tax as one of the tax compliance measures that are integral part of tax productivity. The chapter also reviews some empirical studies done globally and locally on the effect of withholding tax on VAT revenue. The chapter ends with a summary of the literature review.

2.2 Theoretical Framework.

This study borrows from the existing research of tax compliance measures. It will be controlled by the following three theories put forward by studies on withholding tax VAT compliance.

2.2.1 The (Economic) Deterrent Model

Deterrence theory by Trivedi and Shehata (2010) argue that taxpayers are amoral utility maximizers. Tax payers are guided by economic motives, for example, profit maximization and probability of being detected. According to deterrence theory, there is a need to increase audits and impose penalties for non-compliance to enhance taxpayers' compliance (Trivedi and Shehata, 2010). This theory, also known as deterrence theory, holds that behavior of tax payers is impacted by factors such as tax rate that determines the threats that may come with evasion, and also the likelihood of being detected upon evasion and what penalties one may face as a result of Allingham and Sadmo (1972). Persuasive measures and also punitive measures can be combined to achieve deterrence. Measures such as increased chances of detection for evaders, increasing tax rates for non-compliers, and an imposition of tighter penalties. Alternative methods could include properly educating the tax payers, increasing

publicity and the associated incentives. In economic terms, a tax payer is taken to be a person of upright morality who finds any ways to evade tax payment with an aim of maximizing their utility. The model suggest that tax spenders play an audit lottery, that is, they perform computations of economic significances of varied obedient alternative, like whether to evade tax or not; the prospect of being detected and penalties that may accrue, and they select the alternate that make the most of their after tax earnings or proceeds. The concept suggest that tax payers are moral utility maximizers, hence the stress on augmented inspections and punishments as a resolution to compliance challenges. Monetary founded studies be certain of that tax payers' behavior is subjective to monetary motives like enlargement of profits and likelihood of being detected (Trivedi & Shehata, 2010).

2.2.2 Social Influences Theory

This theory affirms that, tax compliance by citizens is specifically influenced by their individual behavior and social norms. The theory assumes that individual behavior in taxation is basically influenced by social interactions like other forms of behavior (Ali et 12 al., 2013). The theory follows that an individual is most likely to comply with tax requirements if he believes members of his reference groups also comply, just as he is also likely not to comply if he believes that members of his referent group do not comply (Walsh, 2012).

The social influence theory presupposes that individual behavior in taxation is basically influenced by social interactions like other forms of behavior (Bello & Danjuma, 2014). The theory also presupposes that the fear of social stigmatization as one of the possible deterrent factor to tax compliance (Kirchler, 2007), and that existence of the social norms effect on compliance behavior. The relevance of this theory is that property owners are likely to be influenced by social groups, family members, friends and other property owners to comply on payment of residential rental income tax.

2.3 Conceptual Framework

Conceptual framework is defined as the result of when a study conceptualizes the relationship between variables in the study and shows the relationship graphically or diagrammatically (MUGENDA, 2003). The conceptual framework of the study demonstrates the effect of Knowledge management, cost of compliance and tax compliance measures on compliance of Withholding VAT among Small and Medium enterprises in Industrial area, Nairobi County

This is diagrammatically illustrated in Figure 2.1

INDEPENDENT VARIABLE

DEPENDENT VARIABLE

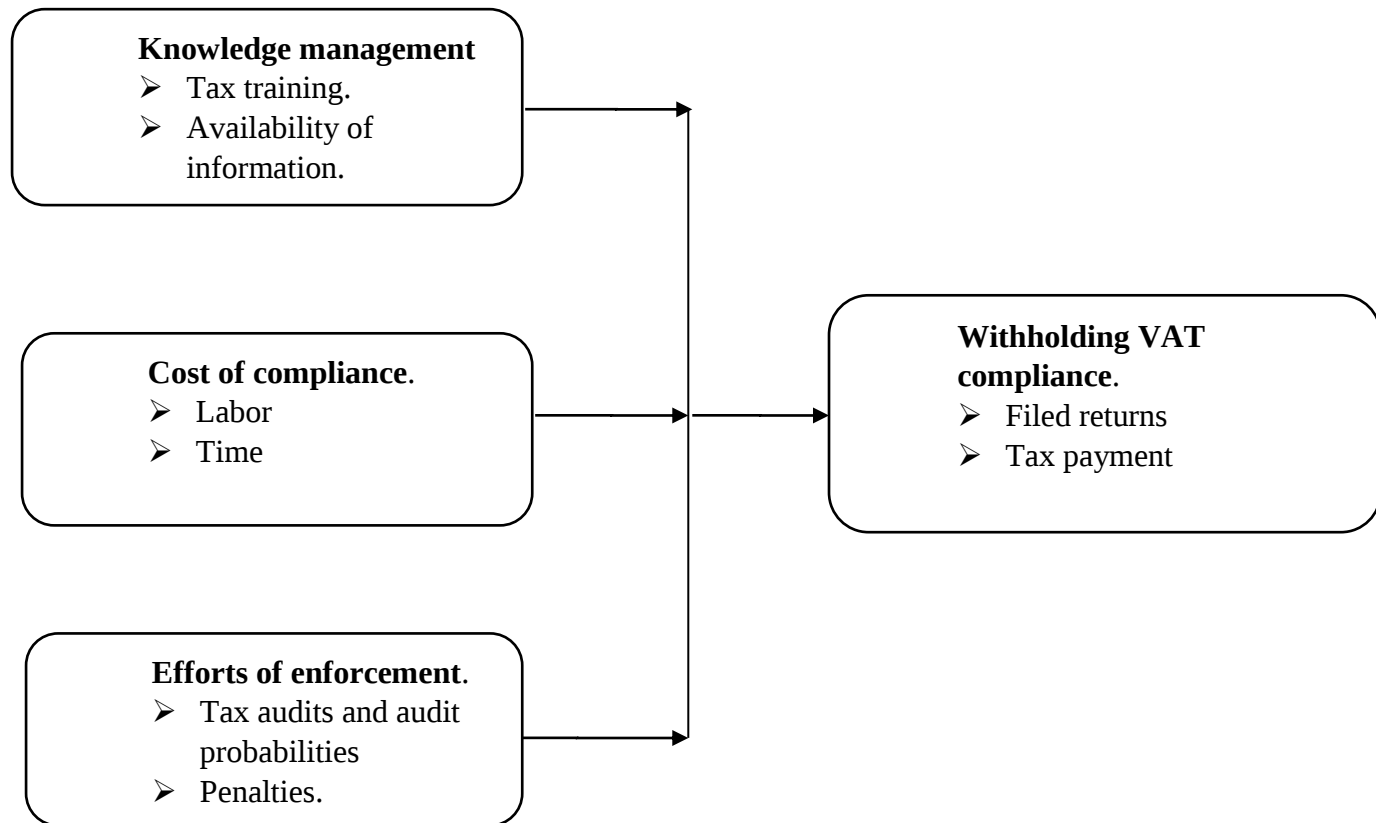


Figure 2. 1: Conceptual Framework

2.3.1 Independent variable

2.3.1.1 Tax compliance measures.

While some taxpayers try to be compliant with the laid down Tax laws, others are way ahead to beat the systems so as to remain non-compliant. This has led the tax agencies to employ tax compliance measures of audit rate, penalties, audit probabilities and criminal sanctions to counter non-compliant taxpayers.

Empirical studies on the impact of fines on tax compliance do not provide a clear picture on the relation between fines and tax compliance (Fischer et al, 1992). Keeping constant the

expected value of a tax but changing audit probabilities and fines for non-compliance, it showed that compliance increased significantly with higher fines, but not with higher audit probabilities (Friedland, Maital and Rutenberg, 1978). Punitive penalties makes tax evasion more costly for the taxpayer hence leading to the reduction of tax evasion. Research studies show that more punitive fines and penalties can result in more tax avoidance (Kirchler, 2007). Deterrence is effective when there is a combination of effective imposition of fines and frequent audits to detect cases of noncompliance. Penalties and audit probabilities have a strong impact on tax compliance (Allingham and Sandmo, 1972). The Higher the fine, penalty and higher the potential of audit probability, the greater the deterrent effect on tax evasion. Extremely punitive tax penalties have no effect if it is common knowledge that tax audits will not occur. Fines should be set at a higher level to minimize the expected the value of tax evasion and assure its deterrent effect on taxpayers. The tax system would be viewed as unjust if fines are too high individuals would exploit any available opportunity to avoid tax payment (Kirchler et al, 2007).

In Kenya, the penalty for non-submission or late filing of a VAT return is 5% of VAT payable or kshs.10, 000 per tax period whichever is higher. Fines and penalties commonly relate to failure to; register, submit a return on or before the due date or submitting a payment return without paying the tax due, filing incorrect tax returns, keeping inaccurate records, issue of improper tax invoice, failure to display a certificate of registration, and charging VAT when not registered among the many noncompliance aspects.

2.3.1.2 Knowledge management

Level of tax knowledge and compliance tax knowledge refers to the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, 2013)

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2013). Attitude towards tax compliance can be improved through the enhancement of taxation understanding. When a taxpayer has a positive attitude towards tax, this will motivate him to pay more and vice versa (Eriksen, 1996) Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2013) . According to (Hite, 2001) tax authority need to emphasize teaching tax courses because of impact of understanding on compliance.

Lewis (1982) says that a good tax system should satisfy the four canons of taxation (ability to pay, efficiency, equity and simplicity). Simplifying that tax systems ensures that basics of taxation are easily understood by the majority of taxpayers and should be easy to operate it. The system should avoid frequent changes to the tax rates, complicated and cumbersome tax language. The language should be easily understood by ordinary taxpayers. Tax understanding encompasses tax aspects like conversant with the tax system, knowledge of the applicable tax obligations and knowing where relevant tax information is available. Taxpayer knowledge is concerned with the taxpayers' ability in understanding tax laws, the willingness to comply and the role of taxes in national development (how tax collected by the government is utilized) (Mohd, 2010).

Noncompliance opportunities may be readily available to educated taxpayers but because of their better understanding of the tax system contributes towards positive attitudes hence promoting tax compliance. Education programs creates awareness of laws, procedures, motivates taxpayers to voluntarily comply, report correct income, maintain a close relationship between the revenue authority & the taxpayer and instill confidence in the tax system (Oyedele, 2009). Teaching tax courses should be emphasized because of their impact

on compliance (Hite and Hasseldine, 2001). Taxpayer knowledge has influence on compliance and various researches support this argument.

Taxpayer education exists to encourage voluntary compliance through service delivery to taxpayers. Low levels of voluntary tax compliance will compel revenue authority to use costly and coercive methods to enforce compliance (Fjeldstad and Ranker 2003). Kimingu and Kileva (2007) says that the education component will deal with compliance matters in the informal sector. This is premised on the possibility that non-compliance being unintentional due to the ignorance of the law or may be intentional due to the negative compliance attitudes. (Christina, Deboral and Gray, 2003).

2.3.1.3 Cost of compliance

Tax compliance expenses are incurred by taxpayers in the process of fulfilling tax requirements laid on them by tax law (Sandford, 1995). Tax compliance costs include the tax compliance costs, expenses relating to paying and accounting for tax, wages & salaries of employees and professionals and the cost of acquiring knowledge, updating the system to enable it work. Taxpayers usually depend on tax professionals who through avoidance schemes minimize tax payments (Franzoni, 2000). High tax compliance costs disadvantages a country's competitiveness in terms of attractiveness. In fact, taxpayers may face economic hardship as a result of proportionately higher compliance costs (Schoonjans et al., 2011) and their tax compliance levels may be lower (Arachi & Santoro, 2007). High tax compliance costs may explain why SMEs' tax compliance levels are lower than expected, as many of these business entities may perceive the tax systems to be unfair. Subsequently, knowing whether tax compliance costs impact on the SMEs' tax compliance is useful when considering how to combat their tax non-compliance.

KRA has devised ways of simplifying the tax systems e.g. the iTax system in order to reduce reliance on tax professionals. This encourages voluntary compliance. Compliance expenses can be interpreted in different ways. One, the costs are divided in three in respect to time, monetary and psychological costs. Time expenses relate to hours consumed to in ensuring all aspects of tax compliance. Cash expenses relate salaries paid to internal employees and fees paid external tax professionals. The psychological costs concerns the effects upon a taxpayer in dealing with the tax matters e.g. mental stress. Psychological costs are difficult to quantify. Other compliance expenses include all expenses incurred by the taxpayer but are outside the control of the taxpayer (Hijattulah and Pope, 2008). Vaillancourt (1987) held that Value Added Tax (indirect tax) has a higher compliance cost than Income Tax (direct tax). In the study survey of the OECD countries, 8 out of 11 countries cited VAT compliance cost as forming the largest part of the total tax compliance cost (Pope, 2001). Compliance expenses entail record keeping, preparation and submission of VAT returns (Cleruox, 1992); Klun, 2004; O'Keefe & O'Hare, 2008).

2.3.2 Dependent Variable

2.3.2.1 Compliance of Withholding VAT

Withholding value added tax (VAT) allows the Kenya Revenue Authority (KRA) to collect VAT in advance from suppliers of taxable supplies. Under the withholding VAT system, KRA appoints selected local entities to be withholding VAT agents. Registered withholding VAT agents are required to withhold 6% of the taxable value at the point of paying the suppliers.

2.4 Empirical Review

In this section, the study reviewed existing studies both local and international on the independent variables that influence Revenue compliance in Kenya. In order to meet their

vast budgets, governments around the world have devised ways of employing various measures to reap more on taxes.

(WILDE, 1988) Conducted an empirical analysis of federal withholding taxing and compliance in USA. The study had an objective of establishing the relationship between withholding taxes and compliance from IRS tax returns made in 1969. Data was analyzed by Ordinary Least Square regression. Among other variables that contributed to increased tax compliance, which in turn enhanced tax revenues, Dublin and Wilde found that there was a strong deterrence effect on non-compliance. They concluded that IRS was effectively right to direct its resources to withholding taxes to enhance tax revenue.

(NYAGA, 2014) In her study on tax compliance, enforcement and taxpayer service in Kenya purposed to explore the relationship between enforcement policies and taxpayer service on tax compliance. The study used simple regression analysis of aggregate variables representing tax compliance measures against audit, penalties, criminal sanctions and taxpayer service. A sample frame list of self-will employed individual taxpayers used for 2003 to 2012. Nyaga found that audit and penalty had a positive relationship with tax compliance and hence tax revenue and taxpayer service and criminal sanctions had a negative relationship. With the variability in 27 audit rate accounting for only 31% of the variability in tax compliance, she concluded that the reason why Kenyans pay taxes remains an interesting question that required further research.

In a study titled ‘Tax Knowledge and Tax Compliance determinants in Self-Assessment System in Malaysia’, (MOHD, 2010), Data was collected through large scale national postal survey and analyzed using t-test and ANOVA. The findings of the study were that, in the self-assessment system in Malaysia, tax knowledge has a significant impact on tax compliance and the level of tax knowledge varies among respondents. Males, Malaysian,

residents of Eastern region, high-income earners and taxpayers who have attended tax courses appeared to be the most knowledgeable taxpayer groups. The results also indicated that tax compliance was influenced by probability of being audited, perception of government spending, penalties, personal financial constraints, and referent group. These results were validated through a multiple method of questionnaires (direct and hypothetical questions) and analysis (stepwise multiple regressions and multiple regressions).

(Osebe, 2013) carried out a study on the factors affecting tax compliance by Real Estate developers in Nakuru town. A sample size of 271 was drawn from the target population of 841 real estate investors. Data was collected using structured questionnaire, coded, keyed and analyzed quantitatively using both descriptive and inferential statistics. Pearson's correlation coefficient was used to establish relationships between variables. A Multiple linear regression model was used to predict tax compliance using the four independent variables in the study: tax compliance cost, tax knowledge and education, fines and penalties and perceived opportunity for tax evasion. The study revealed that tax compliance cost was a contributory factor to tax compliance. From the study findings, there was enough indication that tax compliance cost was associated with high levels of tax compliance thereby increasing tax revenues. Taxpayers did a cost-benefit analysis of the cost of being caught through audits and the probability of being penalized, together with the possibility of criminal sanctions and where the magnitude was high; they ended up following tax law and in effect complied. The study also provided some preliminary evidence that fines and penalties played a vital role in improving tax revenue.

2.5 Critiques of existing literature.

There has been a considerable amount of research, which has been carried out on tax compliance (AL, 1998). Studies on the economic factors that affect tax compliance have been consistently been inconclusive leaving studies to state that the more important question is

why people pay taxes and not why they evade them (SLEMROD A. E., 1992). According to (WEBLEY, 2002) there are very minimal studies on VAT non-compliance. The main purpose for pushing for increased tax compliance through a reduction of tax evasion by issuing of withholding taxes, helping taxpayers through taxpayer service and other mechanisms is to increase tax compliances. The effects of audits, penalties and criminal sanctions vary sometimes even within the same context (Witte & Woodbury, 1985; Dubin & Wilde, 1988).

2.6 Summary of literature review

The review of literature has indicated knowledge gaps ranging from the contextual, conceptual and methodological knowledge gaps. Studies for instance Batrancea, Nichita and Batracea (2012) focused on the factors that shape tax compliance behavior and withholding value added tax.

Fjeldstad and Iversen (2012) found that tax compliance behaviors among South African citizens was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, expenses to non-state participants, perception of an ethnic group being treated unfairly, and tax knowledge. Thus, these studies were all conducted in different contexts with a different set of local economic conditions leading to a contextual gap. On the same note, studies by Atawodi and Ojeka (2012) focused on issues that affected tax compliance among the small medium enterprises in the Northern part of Nigeria and established that a big tax rate as well as composite recording measures were the majority key factor contributing to lack of compliance of the small medium enterprises.

On the other hand, the study by Nilsson (2015) used two approaches to evaluate tax conformity performance in Argentina. From the empirical studies, it is clear that tax evasion has been a problem to many governments and that tax enforcement has been a tool used by

many tax agents to deter further noncompliance. However, most studies have focused on personal income tax, there has not been much concentration on VAT which is an important tax. The few studies carried out on Vat have focused majorly on small and medium enterprises and the black market. It is therefore paramount to study how Withholding VAT contribute to the revenue compliance for firms in large taxpayers' category.

2.7 Research Gaps.

From the existing literature, it is clear that tax evasion has been a problem to many governments and that tax enforcement has been a tool used by many tax agencies to deter further non-compliance. Cost has been a factor to consider and so is knowledge management for tax compliance. However, most empirical studies have focused on personal income tax. There has not been much concentration on VAT which is an important tax. Taxpayers in different tax brackets behave differently on taxation matters. The few studies carried out on VAT have focused majorly on Small and Medium enterprises and the black market. It is therefore paramount to study how Withholding VAT contributes to the revenue compliance on VAT for firms in Small and Medium taxpayer's category.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction.

Research methodology is a system of rules and procedures upon which research is based and against which claims for knowledge are evaluated (Nachmias, 1996).

This chapter encompasses the research methodology to be used in the field. It focuses on sources of data and their compliance techniques, the sampling procedures adopted and tools for data compliance, analysis, interpretation and presentation.

3.2 Research Design

According to cooper and Schindler (2006), research design is the process through which data is gathered and analyzed to achieve the purpose of the study. This study will adopt an explanatory research design. This will enable the study to answer key “how” questions. Explanatory research designs help in explaining how a variable influences the other. Therefore, the adoption of explanatory design is regarded as suitable whenever there is a need for clarification of a supposed difficulty. Any time a difficulty arises, it is imperative to fully comprehend it prior to looking for its solution; therefore, it is advisable to employ an explanatory study to deal with it (Gill and Johnson, 2010). To fully determine the factors affecting the compliance of withholding value added tax among Small and Medium enterprises in Industrial area, Nairobi County, and this study will employ explanatory research design.

3.3 Target Population

Mugenda & Mugenda (2008) defines a population as an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2008). Thus in reference to Mugenda & Mugenda (2008) definition, the study will employ a population of

166 active Withholding VAT SMEs agents taxpayers in Industrial area of Nairobi County from information available from KRA systems.

3.4. Sampling frame.

Sampling frame for any probability sample is the whole list of entire cases in the population from which the sample is derived (Saunders *et al*, 2009). The sampling frame for this study clearly comprised of the registered active Withholding VAT taxpayers among Small and Medium enterprises in Industrial area, Nairobi County

3.5 Sample and Sampling technique

An optimum sample is one that fulfils the requirements of efficiency, representativeness, reliability and flexibility.

According to Mugenda and Mugenda (2003) a large population requires a formula to come up with the sample. Determining a final population for a large population was assumed to be normally distributed at a confidence interval of 95% or significance interval of 5%. Based on the formula below the minimum target sample for a large population is 60 cases. The study adopted simple random sampling technique. Simple random sampling allows for equal chance of selection of sample elements hence minimizing biasness (Orodho, 2005). In addition, the study will adopt judgmental sampling to ensure only active taxpayers who were registered on iTax system will be selected for the study.

The sample was determined using the formula given as;

$$n = Z^2 * p * (1-p) / d^2$$

Where:

n = Sample size for large population

Z = Normal distribution Z value score, (1.96)

p = Proportion of units in the sample size possessing the variables under study, where for this study it is set at 50% (0.5)

d = Precision level desired or the significance level which is 0.05 for the study

The substituted values in determining the sample size for a large population are as follows.

$$n = \frac{(1.96)^2 * (0.5) (0.5)}{(0.05)^2} = 60$$

3.6 Data compliance instruments

Borgad Gall (1998) argues that a questionnaire is a suitable data compliance tool because it gives the respondents freedom to express their views freely and accurately. Structured questionnaire will be used to collect responses. The available secondary data will be sampled for analysis. The questionnaires will be pretested before final data compliance is done to ensure adequacy of the instruments.

3.7 Data compliance procedures.

The research relied on primary data.

3.8 Primary data

The primary data was collected by use of a Likert Scale type questionnaire with closed ended questions. A research permit was obtained from KESRA registrar office, Nairobi Campus to give permission to the study to carry out data compliance exercise. An introductory letter was sent to department and section heads two weeks prior to commencement of the exercise to enable the relevant Authorities to prepare for the exercise in advance to avoid inconvenience. Data collected was checked for reliability and validity and to ensure that valid conclusions are drawn from the data (Saunders et al, 2009).

3.9 Pilot study.

McMillan (2013) says that pilot testing is a small scale try out of an instrument such as a questionnaire that is administered to direct the revision or fine tuning process, in order to reveal issues that may affect its administration, and their correction until it is satisfactory. The study employed a sample size of 60 taxpayers and tax officers who are not part of the actual sample for pilot study. They were given questionnaires to fill. According to Mark (2015), pilot test is used to gauge any varying element, which may occur in an actual research, and to check whether research elements produced what was expected. He stated that pilot study not only checks on completeness and probable accuracy of a questionnaire, in terms of time, but also helps fine tune it to reflect and produce desirable output. Accordingly, it is used to correct ambiguities before the actual study, in order to produce the best results.

3.10 Reliability of research instrument

The reliability of an instrument is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study after repeated trials (Winterstein, 2008). Reliability estimates will be measured by administering a set of questionnaires during the pilot study and the crude information from the instruments will be subjected to Cronbach's co-efficient alpha and methodically, systematically and consistently computed using Cronbach's Alpha measures. A study is reliable if the results of a study can be reproduced under a similar methodology (Kozinets, 2002).

3.11 Validity of the Research Instruments.

According to Kothari (Kothari 2004), validity is the degree to which an instrument measures what it is supposed to measure. Therefore, the term refers to the extent to which an instrument asks the right questions in terms of accuracy. In addition, Crocker and Algina 1986 have pointed to the importance of a theoretical foundation by noting that constructs cannot be defined only in terms of operational definitions but must also have demonstrated relationships

to other constructs or observable phenomena. “Validity evidence is built over time, with validations occurring in variety of populations. Comprehensive literature reviews on measurement approaches are therefore critical including the selection of measures and measurement instruments. (Winterstein, 2008). The content validity of the research instrument for this study will be determined through consultation with my supervisor and piloting, where the responses of the subjects will be checked against the research objectives. For a research instrument to be considered valid, the content selected and included in the questionnaire must be relevant to the variable being investigated. The study will perform the pilot test with a randomly selected sample of twenty-eight (28) withholding VAT taxpayers.

3.12 Data analysis and presentation.

The study conducted data cleaning after data compliance, which involved identification of incomplete or inaccurate responses. It was corrected to improve the quality of the responses. Likert scale was used for ranking factors in accordance to their weighted means. Data was coded and entered in excel sheet for analysis using the statistical package for social sciences (SPSS). Pearson correlation was used to determine the correlation between variables. Multiple linear regression was used because there are more than one variable assumed to be having combined linear effect on the dependent variable. Multiple regression model attempts to determine whether a group of variables together predict a given dependent variable(Frank, 1995). Regression analysis was employed and Chi-square test of independence at 95% confidence level was established for quantitative data. Tables, charts and graphs were used in presenting the analyzed data.

3.13 Regression Models

This study employed regression models to determine the relationship between the independent and the dependent variables. In relation to the objectives of the study, the study used SPSS to estimate the following multivariate regression analysis:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \dots\dots\dots (i)$$

Where Y- Withholding VAT compliances.

β_0 - is the intercept; and reflects the constant of the equation.

β_i - is the sensitive coefficient of each independent variable (i=1, 2, 3, 4).

X_1 –Knowledge management- taxpayer understands of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge (Kirchiler, 2009).

X_2 - Compliance cost- the costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of tax incurred by taxpayers in meeting the tax requirements.

X_3 -Tax compliance measures- Strategies aimed at collecting tax revenue from non-compliant taxpayers.

ε - Is the error term.

The study used the analysis of variance (ANOVA) test and t-significance to establish the significances of the relationship between independent variables and WVAT compliance. The study also used Pearson Correlation analysis to test the relationship between the two variables by measuring the existence, direction (positive or negative) and magnitude of such linear relationship.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTEPRETATION.

4.1 Introduction

This chapter presents data analysis, presentation and interpretation of the research findings. The main objective of the study was to evaluate the factors affecting collection of withholding value added tax in industrial Area, Nairobi County in relation to taxpayer level of tax awareness, Cost of compliance and tax compliance measures. The study sampled 60 respondents mainly active Withholding VAT taxpayers within Industrial Area, Nairobi County and the data analyzed and interpreted as the objective of the study.

4.2 Response rate.

The study targeted 60 SMEs respondents on the factors influencing collection of Withholding VAT in Industrial Area, Nairobi County. Out of the 60 questionnaires issued, 56 were returned giving a 94% response rate as shown in Table 4.1.

Table 4. 1: Response rate

RESPONSE	Questionnaires administered	Questionnaires filled and returned	Percentage rate
TOTAL	60	56	94%

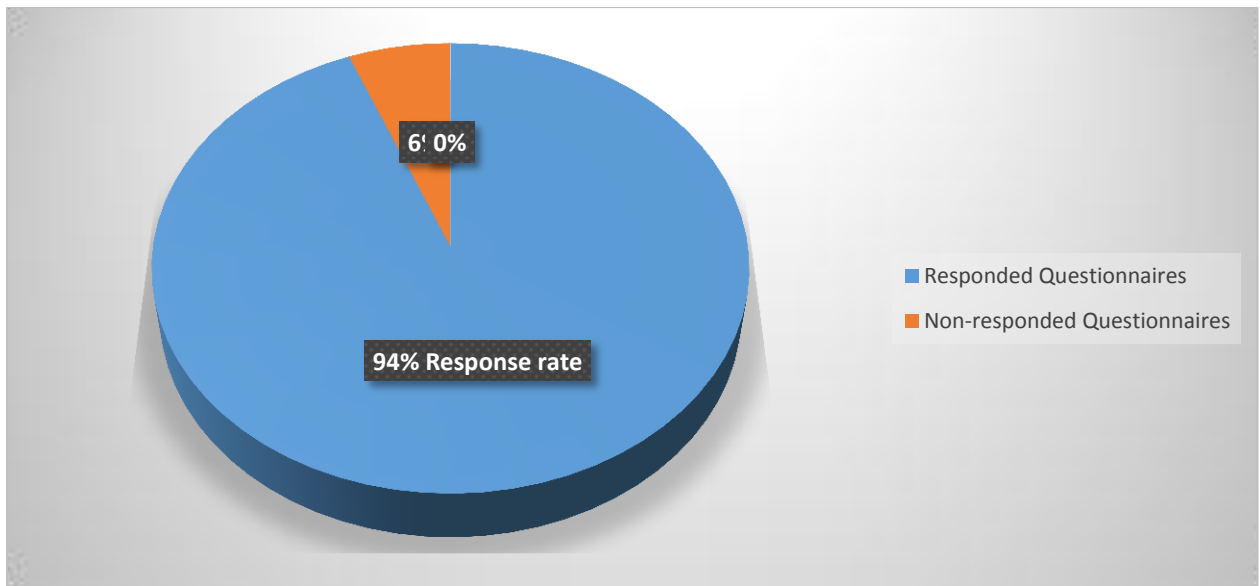


Figure 4. 1: Response rate

Survey Data (2019)

According to Mugenda and Mugenda (2008) a 50% response rate is adequate, 60% is rated good, 70% is rated very good and above 80% is rated excellent. This implies that based on these assertions; the response rate for this study, 94% is excellent for drawing valid conclusions.

4.3 Demographic factors.

The study found it important to establish the demographic information in order to evaluate the factors that influence collection of withholding VAT in Industrial area, Nairobi County. The demographic information of the respondents included gender, age and number of years the business has existed.

4.3.1 Gender.

The researcher sought to find out the gender of the persons filling the questionnaire. The findings indicate that majority of the respondents 38 who filled the questionnaires were male while 28 respondents were female. Figure 4.1 below best illustrates these findings.

Table 4. 2: Gender of respondents

Gender	Frequency	Percentage
Male	38	67.6%
Female	28	32.4%
Total	56	100%

The findings of the study indicated that the dominant group, the majority of the respondents who participated in the study, were male who accounted for 67.6% while their female counterparts accounted for 32.4%. This indicates that majority of the people who either charge withholding VAT are males as they accounted for a higher percentage than females.

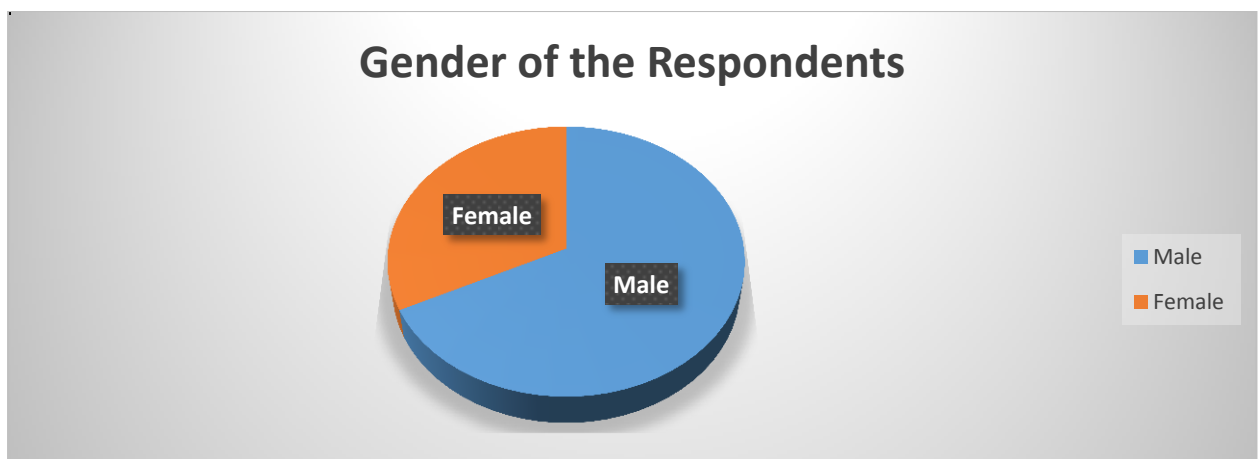


Figure 4. 2 Age Category.

The study sought to determine the age category under which the (taxpayers) respondents fall and the findings are shown in Table 4.3

Table 4.3: Age of respondent

Age of respondent	Frequency	Percentage
21-30	9	15.9%
31-40	21	36.4%
41-50	16	28.4%
Above 50	10	19.3%
TOTAL	56	100%

The findings reveal that most participants are in the age bracket of between 31-40 representing 36.4 % followed by 28.4% who are aged between 41-50 years. The study further reveals that 19.3% of the respondents were aged above 50 years and 15.9% were between 20-30 years. It can therefore be observed from the findings of the study that most of respondents were aged between 31-40 making a total of 36.4%.

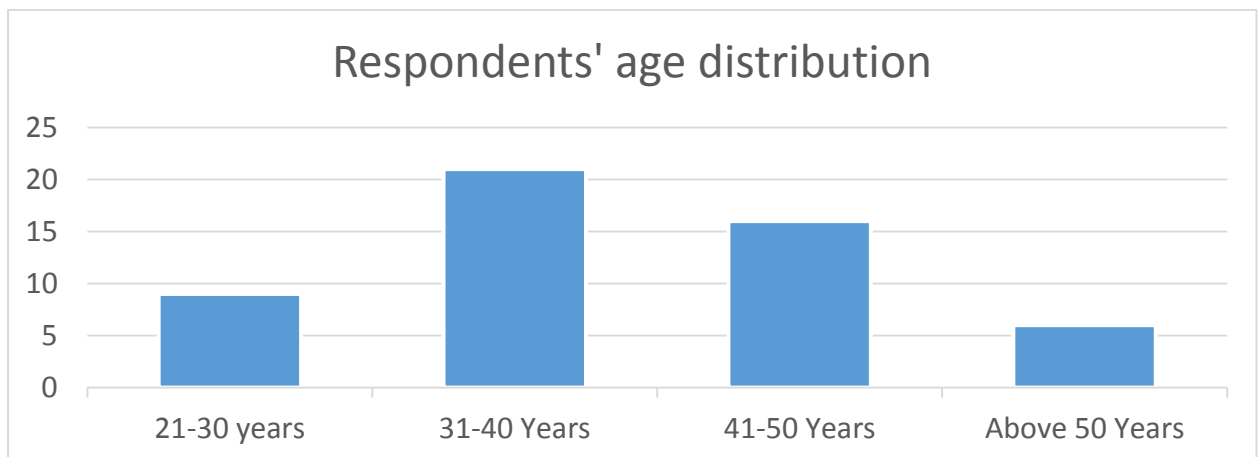


Figure 4 3: Age distribution

4.3.2 Time period the business has existed

The study sought to find out the duration the enterprise has existed. The findings are tabulated on Table 4.3:

Table 4. 4: Duration of existence of business

Duration	Frequency(F)	Percentage
Below 2 years	12	22.0
3 to 5years	10	18.0
6 to 8 years	18	32.0
9 years and above	16	28.0
Total	56	100.0

It is evident from the data shown in Table 4.4 that, majority of the businesses have been in existence for a period of 6 to 8 years (32.0%). Below 2 years (22.0%), 3 to 5 years (18.0%) and More than 9 years (28%).

4.4. Study of variables.

The objective of the study was to establish factors influencing collection of withholding value added tax among SMEs in Industrial area, Nairobi County

4.4.1 Knowledge management.

The study sought to find out the impact of taxpayers Knowledge management on WVAT compliance among SMEs in industrial area, Nairobi County. The findings of the study are presented in tables and figures below.

4.4.1.1 Attending tax trainings on WVAT

The study sought to find out whether attendance of tax training on WVAT is essential for WVAT compliance among SMEs in Industrial area, Nairobi County. The findings are shown in the table below:

Table 4. 5: Attending WVAT tax training

Attendance of tax training on WVAT is essential for WVAT compliance	Frequency (F)	Percentage (%)
Strongly agree	35	63.0
Agree	15	27.0
Not sure	4	7.0
Disagree	2	3.0
Strongly disagree	0	0.0
Total	56	100.0

It is quite evident from the data shown in Table 4.5 that a majority of the taxpayers strongly agree that it's essential to attend WVAT training in order to be compliant (63%). A majority (27%) agree to that, while (7%) are not really sure. (3%) Disagree and none strongly disagrees.

4.4.1.2 Knowledge from KRA trainings on time spent on WVAT filing and payment

The study sought to find out whether knowledge attained from KRA trainings helped reduce time spent on WVAT filing and payment among SMEs in Industrial area, Nairobi County. The findings are shown in the table below:

Table 4. 6: Knowledge from KRA trainings on time spent on WVAT filing

knowledge attained from KRA trainings helped reduce time spent on WVAT filing and payment	Frequency (F)	Percentage (%)
Strongly agree	30	53.0
Agree	22	39.0
Not sure	1	3.0
Disagree	3	5.0
Strongly disagree	0	0.0
Total	56	100.0

From Table 4.6 that a majority of the taxpayers strongly agree that knowledge derived from KRA trainings helped reduce the time spent on filing of WVAT (53%). A majority (39%) agree to that, while (3%) are not really sure. (5%) Disagree and none strongly disagrees.

4.4.1.3. Availability of WVAT procedures on KRA website

The study sought to find out whether KRA website has adequate information on WVAT procedures. The findings are shown in the table below

Table 4. 7: Availability of WVAT procedures on KRA website

KRA website has adequate information on WVAT procedures	Frequency (F)	Percentage (%)
Strongly agree	10	18.0
Agree	18	32.0
Not sure	2	4.0
Disagree	23	41.0
Strongly disagree	3	5.0
Total	56	100.0

From Table 4.7 that a majority of the taxpayers strongly disagree that KRA website has adequate information on WVAT procedures (41%, (18%) agree that it has enough information. (10%) strongly disagree to that, while (3%) disagree. (2%) aren't really sure.

4.4.1.4. Information provided by KRA is easy to understand

The study sought to find out whether information provided by KRA website and other social platforms on WVAT procedures is easy to understand. The findings are shown in the table below

Table 4. 8: Availability of WVAT procedures on KRA website

information provided by KRA website and other social platforms on WVAT procedures is easy to understand	Frequency (F)	Percentage (%)
Strongly agree	3	5.0
Agree	18	32.0
Not sure	2	4.0
Disagree	23	41.0
Strongly disagree	10	18.0
Total	56	100.0

From Table 4.8 that a majority of the taxpayers strongly disagree that KRA website and other social platforms provides information that is easy to understand on WVAT procedures (23%), while (18%) agree that information is easy to understand. (10%) strongly disagree to that, while (3%) strongly agree. (2%) aren't really sure.

The study sought to find out how the following statements in regard to Knowledge management impact on WVAT compliance among SMEs in industrial area, Nairobi County.

The findings are tabulated below:

Table 4. 9: Impact of knowledge management on WVAT compliance

	Mean	Standard deviation
Attending a tax training is essential for Withholding VAT compliance	1.5179	.78604
Knowledge attained from KRA trainings helps reduce the time spent on withholding VAT filing and payment	1.5893	.78107
KRA website has adequate information on Withholding VAT procedures	2.8393	1.29020
Information provided on the KRA website and other online platforms on Withholding VAT is easy to understand	3.3393	1.25447

The results in Figure 4.9 indicate that most traders agreed that attending tax training is essential for withholding VAT compliance with a mean of 1.5179. A majority agreed that the knowledge they got from KRA trainings helps reduce the time spent on with VAT filing and payment with a mean of 1.5893. Respondents were split on whether KRA website has adequate information on withholding VAT procedures, with a mean of 2.8393. They were also split on whether information provided on KRA website and other platform is easy to understand, with a mean of 3.3393

4.4.2. Impact of cost of compliance on Withholding VAT compliance

The study sought to find out the impact of cost of compliance on WVAT compliance among SMEs in industrial area, Nairobi County. The findings of the study are presented in tables and figures below.

4.4.2.1 Cost of acquiring services of a tax expert hinders WVAT compliance

The study sought to find out whether cost of acquiring services of a tax expert and other professionals hinders WVAT compliance among SMEs in Industrial area, Nairobi County. The findings are shown in the table below:

Table 4. 10: Cost of acquiring services of a tax expert hinders WVAT compliance

Cost of acquiring services of a tax expert hinders WVAT compliance	Frequency (F)	Percentage (%)
Strongly agree	31	56.0
Agree	23	41.0
Not sure	1	1.0
Disagree	1	1.0
Strongly disagree	1	1.0
Total	56	100.0

From Table 4.10, it is quite evident that a majority of the taxpayers (56%) strongly agree that the cost of employing a tax expert hinders WVAT compliance. A majority (41%) agree to that, while (1%) are not really sure. (1%) Disagree and another (1%) strongly disagrees.

4.4.2.2. Complexity in computing WVAT on Itax

The study sought to find out whether it's complicated to compute WVAT on Itax. The findings are shown in the table below

Table 4. 11: Complexity of computing WVAT on Itax

Complexity of computing WVAT on Itax	Frequency (F)	Percentage (%)
Strongly agree	10	18.0
Agree	23	41.0
Not sure	1	2.0
Disagree	18	33.0
Strongly disagree	4	7.0
Total	56	100.0

From Table 4.11, it's evident that a majority of the traders agree that computing of WVAT is complex (41%), whereas (33%) disagree that. (18%) Strongly disagree to that, while (7%) strongly disagree. (2%) aren't really sure.

4.4.2.3. The cost of training employees on withholding VAT compliance

The study sought to find out whether the cost of training employees on WVAT outweighs the benefits of WVAT compliance. The findings are shown in the table below

Table 4. 12: The cost of training employees on withholding VAT compliance

The cost of training employees on withholding VAT compliance outweighs the benefits of compliance	Frequency (F)	Percentage (%)
Strongly agree	6	10.0
Agree	23	41.0
Not sure	4	8.0
Disagree	22	40.0
Strongly disagree	1	1.0
Total	56	100.0

From Table 4.12, a majority of the traders agree that the cost of training employees on withholding VAT compliance outweighs the benefits that come from being compliant (41%), while (40%) disagree to that. (10%) strongly disagree, while (8%) aren't really sure. (1%) strongly disagree.

The study sought to find out whether the following statements in relation to cost of compliance on WVAT compliance among SMEs in industrial area, Nairobi County. The findings are tabulated below

Table 4. 13: The impact of cost of compliance on WVAT compliance

	Strongly agree	Agree
Cost of acquiring services of a tax expert hinders WVAT compliance	1.5536	.78438
It's complicated to compute WVAT on Itax	2.6964	1.29221
The cost of training employees on withholding VAT compliance outweighs the benefits of compliance	2.8036	1.13490

The results in Figure 4.13 indicate that most traders agreed that cost of acquiring the services of an expert hinders withholding VAT compliance, with a mean of 1.5536. A majority agreed that it's complicated to compute withholding VAT on Itax, with a mean of 2.6964. A majority agreed that cost of training employees on withholding VAT compliance outweighs the benefits of compliance, with a mean of 2.8036

4.4.3. Impact of tax compliance measures on withholding VAT compliance

The study sought to find out the impact tax compliance measures on WVAT compliance among SMEs in industrial area, Nairobi County. The findings of the study are presented in tables and figures below.

4.4.3.1. Regular Audit and audit probabilities on Withholding VAT compel traders to be compliance

The study sought to find out whether KRA audits and audit probabilities play an important role in making traders to be compliant. The findings are shown in the table below

Table 4. 14. Regular Audit and Compliance checks conducted by KRA on Withholding VAT compliance

Regular Audit and audit probabilities on Withholding VAT compel traders to be compliant	Frequency (F)	Percentage (%)
Strongly agree	18	33.0
Agree	20	36.0
Not sure	3	5.0
Disagree	14	25.0
Strongly disagree	1	1.0
Total	56	100.0

From Table 4.14 that a majority of the traders agree that regular Compliance and audit checks conducted by KRA on Withholding VAT compel traders to be compliant (36%), while (33%) strongly disagree to that. (25%) disagree, while (5%) aren't really sure. (1%) strongly disagree.

The study sought to find out the following statements in terms of tax compliance measures impact on WVAT compliance among SMEs in industrial area, Nairobi County. The findings are tabulated below

4.4.3.2 Penalties on late filing and payments on withholding VAT compel taxpayers to be compliant

The study sought to find out whether penalties on late filing and payments on withholding VAT compel traders to be compliant among SMEs in Industrial area, Nairobi County. The findings are shown in the table below:

Table 4. 15: Penalties on late filing and payments on withholding VAT compel taxpayers to be compliant

Penalties on late filing and payments on withholding VAT compel taxpayers to be compliant	Frequency (F)	Percentage (%)
Strongly agree	32	57.0
Agree	16	28.0
Not sure	2	3.0
Disagree	6	12.0
Strongly disagree	0	0.0
Total	56	100.0

Table 4. 15 clearly shows that a majority of the traders strongly agree that late penalties and WVAT filing and payment compel taxpayers to be compliant (57%). 28% agree to that, while (3%) are not really sure. (12%) Disagree and none strongly disagrees.

4.4.3.2. The higher the rate of Withholding VAT penalties, the higher the rate of compliance

The study sought to find out whether the rate of WVAT penalties impact on the rate of compliance. The findings are shown in the table below

Table 4. 16. Impact of WVAT penalties on compliance

Impact of WVAT penalties on compliance	Frequency (F)	Percentage (%)
Strongly agree	10	18.0
Agree	23	41.0
Not sure	1	2.0
Disagree	18	33.0
Strongly disagree	4	7.0
Total	56	100.0

From Table 4.16, it's evident that a majority of the traders agree that the higher the rate of WVAT penalties, the higher the rate of compliance (41%), whereas (33%) disagree to that. (18%) Strongly disagree, while (7%) strongly disagree. (2%) aren't really sure.

Table 4. 17: The impact of enforcement measure on WVAT compliance

	Mean	Standard deviation
Regular Audit and Compliance checks conducted by KRA on Withholding VAT compel traders to be compliance	2.2857	1.21677
Penalties on late filing and payments on withholding VAT compel taxpayers to be compliant	1.6964	.97084
The higher the rate of Withholding VAT penalties, the higher the rate of compliance	2.6964	1.29221

The results in Figure 4.17 indicate that most traders agreed that regular audit and audit probabilities in WVAT compel traders to be compliant with a mean of 2.2857. A majority agree that penalties on late filing and payments on WVAT compel taxpayers to be compliant, with a mean of 1.6964. However, a respondents were split on whether the higher the rate of WVAT penalties, then the higher the rate of compliance, with a mean of 2.6964

4.4.4. Withholding VAT compliance

4.4.4.1 Accurate and timely submission of WVAT is a form of compliance

The study sought to find out whether traders understood that accurate and timely submission of WVAT is a form of compliance among SMEs in Industrial area, Nairobi County. The findings are shown in the table below:

Table 4. 18: Accurate and timely submission as a form of compliance

Accurate and timely submission as a form of compliance	Frequency (F)	Percentage (%)
Strongly agree	26	47.0
Agree	21	38.0
Not sure	8	13.0
Disagree	1	2.0
Strongly disagree	0	0.0
Total	56	100.0

Table 4. 18 clearly shows that a majority of the traders strongly agree that accurate and timely submission of WVAT is a form of compliance (47%). 38% agree to that, while (13%) are not really sure. (2%) Disagree and none strongly disagrees

4.6 Analysis Models

4.6.1 Correlation Analysis

In order to express the influence of the three factors on withholding value added tax compliance, the researcher conducted the correlation analysis between the variables. In making the interpretation of the correlation analysis, Pearson's R-value were used given that $+1 \leq r \leq -1$. An absolute value of r between 0.5 and less than 1 indicate a strong relationship between the variables. If the value r is greater than 0.3 and less than 0.5 then the relationship is moderate. The relationship is weak if the value of r is less than 0.3. The correlation matrix show that service delivery is correlated with sources of revenue at 5 percent significance level (.418). The findings are reported under table 4.17 below.

Table 4. 19: Correlations Analysis

Correlations coefficient

		WHVAT compliance	Knowledge management	Cost of compliance	Tax compliance measures
Pearson Correlation	WVAT compliance	1.000	.927*	.874*	.904*
	Knowledge management		1.000	.962*	.958*
	Cost of compliance			1.000	.960*
	tax compliance measures				1.000

*. Correlation is significant at the 0.05 level (1-tailed).

From the findings above presented in table 4.19 correlation results shows that knowledge management with regards to VAT is positively correlated to withholding VAT compliance with a coefficient of 0.927. In addition, the findings show that the compliance cost incurred by the taxpayers is positively correlated to withholding value added tax compliance as the results shows the correlation value of 0.874. Furthermore, the results show a positive

correlation between the tax tax compliance measures and withholding VAT compliance, with a correlation value of 0.904.

4.6.2 Regression Analysis.

4.6.2.1 Regression Coefficients

A multivariate regression analysis was estimated to link the independent variuables with the dependent variables and the coefficient of regression (β_i)was established as shown in table 4.18 below.

Table 4. 20 Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	.029	.111		.262	.795
	Knowledge management	.790	.165	.960	4.779	.000
	Compliance Cost	-.342	.158	-.448	-2.165	.035
	Tax compliance measures	.295	.140	.416	2.100	.041

From the above table the beta (β_i) are replaced by the actual coefficient established from regression analysis to form the actual equation as Withholding VAT compliance = $0.29 + 0.790 \text{ knowledge management} - 0.342 \text{ Cost of Compliance} + 0.295 \text{ tax compliance measures}$.

$$(WHVAT \text{ collections} = 0.29 + 0.790KM - 0.342CC + 0.295EM + \mathcal{E})$$

All the explanatory variables are statistically significant at 5% level of significance in explaining the variation in model. All together the influences of explanatory variables captured in the model are significant, and these findings are informative, as they intrigue significant questions regarding determinants of Withholding VAT compliance in industrial area, Nairobi county.

4.6.2.2 Model Summary

The main objective of the study was to investigate the factors affecting withholding VAT compliance among SMEs in industrial area, Nairobi County. To realize this objective, three specific objectives and three corresponding questions were set and formulated respectively. Subsequently, to achieve the lay down objectives and to answer the questions, the study used various inferential statistical tools and multiple regression analyses. R-square values present the strength of the relationship between WHVAT compliance and independent variables. The results below show that the independent variables, knowledge management, cost of compliance and tax compliance measures, each had a positive correlation with withholding VAT compliance up to 93.5 % or ($R=0.935$). The results reveal that the knowledge management, cost of compliance and tax compliance measures, each caused a variation of 87.4 % or ($R^2=0.874$ and adjusted $R^2= 0.867$) on withholding VAT compliance. This implies that the remaining 13.3% of the change was caused by the other factors not included in the model ($F \text{ value} = 120.068, p=0.00 < 0.05$)

Table 4. 21: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	Sig. F Change
1	.935 ^a	.874	.867	.28478	.874	.000

a. Predictors: (Constant), knowledge management, cost of compliance, tax compliance measures

4.6.2.3 Analysis of Variance

Analysis of Variance's (ANOVA) F-test was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between

variables (dependent and independent variables); thus, helping in bringing out the significance of the regression model.

Table 4. 22 ANOVA table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.212	3	9.737	120.068	.000 ^b
	Residual	4.217	52	.081		
	Total	33.429	55			

Since the value ($p=0.000$) were below 0.05, it can be concluded that the regression models were significant. This implies that relationship between the dependent variable, withholding VAT compliance and the independent variables is significantly significant.

According to the equation, (WHVAT collections= $0.29+0.790KM - 0.342CC +0.295EM+\epsilon$)), the new model will be as follows; WHVAT collections= $0.29+0.790KM+0.295EM$, where

KM- Knowledge management

CC- Cost of compliance

EM- Tax compliance measures

The variable Cost of compliance could be used as a moderating variable

4.7 Discussion of the Findings

The discussion of results of various tests carried out in the study will be discussed per variable.

4.7.1 Effect of knowledge management on withholding VAT compliance

The first objective of the study was to find out how knowledge management affects withholding VAT compliance in industrial area, Nairobi County. From the findings of the study it is evident that knowledge management was statistically significant at a p value of 0.000, which is less than 0.05 the convectional probability significance level, $p = 0.00 < 0.05$. This is in line with (Mohd, 2013) who studied the perception on tax knowledge and tax education with level of compliance, a study of the influence of religiosity. He found out that, taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended. Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government. Attitude towards tax compliance can be improved through the enhancement of taxation understanding.

4.7.2 Effect of cost of compliance on withholding VAT compliance

The second objective of the study was to determine the effect of cost of compliance on withholding VAT among SMEs in Industrial area, Nairobi County. The study findings pointed out that cost of compliance was statistically significant at a p value of 0.00, which is less than 0.05 the convectional probability significance level, $p = 0.00 < 0.05$. The findings are in line with (Arachi & Santoro, 2007) who did a study of Tax tax compliance measures

for SMEs in Italy and found that tax compliance levels among SMEs maybe lower because of compliance costs

4.7.3 Effect of tax compliance measures on withholding VAT compliance

The last objective of the study was to determine the effect of tax compliance measures on withholding VAT compliance among SMEs in industrial area, Nairobi County. From the findings of the study they pointed out that tax compliance measures was statistically significant at a p value of 0.000, which is less than 0.05 the convectional probability significance level, $p = 0.00 < 0.05$. This concurs with a study conducted by (Allingham and Sandmo, 1972) who did a study of the impact of tax audit on tax compliance. They found out that penalties and audit probabilities have a strong impact on tax compliance in that they compel taxpayers to be compliant

CHAPTER FIVE.

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of findings

The study sought to examine factors influencing withholding VAT compliance among SMEs in industrial area, Nairobi County.

5.2.1 Knowledge management

The study aimed to find out how level awareness impacts on withholding VAT compliance among SMEs in industrial area, Nairobi County. Correlation analysis showed that knowledge management of taxpayers and withholding VAT compliance are positively and significantly associated. Regression analysis shows that there was a positive significant relationship

5.2.2 Cost of tax compliance.

The study aimed to find out how cost of compliance impacts on withholding VAT compliance among SMEs in industrial area, Nairobi County. Correlation analysis showed that cost compliance and withholding VAT compliance are positively and significantly related. Regression analysis shows that there was a negative significant relationship. This could indicate that it could be utilised as a moderating variable.

5.2.4 Tax tax compliance measures.

The study sought to find out how tax tax compliance measures impact of WVAT compliance among SMEs in Industrial area, Nairobi County. Correlation analysis showed that tax compliance measures and withholding VAT compliance are positively and significantly associated. Regression analysis shows that there was a positive significant relationship

5.3 Conclusions

5.3.1 Knowledge management

The study concluded that knowledge management is very essential to withholding VAT compliance. Knowledge provided for in trainings and availability and simplicity of withholding VAT information provided by KRA is very important for withholding VAT compliance.

5.3.2 Cost of compliance

The study concluded that cost of compliance decrease withholding VAT compliance. Tax compliance costs include the tax compliance costs, expenses relating to paying and accounting for tax, wages & salaries of employees and professionals and the cost of acquiring knowledge, updating the system to enable it work. Taxpayers usually depend on tax professionals who through avoidance schemes minimize tax payments (Franzoni, 2000). High tax compliance costs disadvantages a country's competitiveness in terms of attractiveness.

5.3.3 Tax compliance measures

The study concluded that tax compliance measures increase withholding VAT compliance. Punitive penalties makes tax evasion more costly for the taxpayer hence leading to the reduction of tax evasion.

5.4 Recommendations of the study

5.4.1 Knowledge management

This study aimed to find out how level of knowledge on WVAT affects WVAT compliance. The statistical findings of this study confirm the existence of a causal relationship between

tax understanding and awareness level. The researcher recommends that regular tax trainings and adequate and simplified information should be provided on KRA website and other social platforms. The researcher recommends that KRA to reply promptly to questions and comments that are raised by taxpayers on phone, email and any other contact platform

5.4.2 Cost of compliance

This study aimed to find out how cost of compliance affects WVAT compliance. From the statistical findings, the researcher recommends that should offer comprehensive trainings in institutions to make taxpayers competent enough to cut down on costs of employing the services of tax experts and also training of staff. Regulatory bodies should consider putting checks and controls on the fees charged by tax experts.

5.4.3 Tax compliance measures.

This study aimed to find out how tax compliance measures affects WVAT compliance. From the statistical findings, the researcher recommends that penalties on late filings are already in place, they should be maintained at a considerable rate that is bearable by the taxpayers because they tend to shy away when the penalties are too high. Regular audits and compliance should also be conducted by KRA for compliance levels go up. The researcher recommends quarterly audit checks on taxpayers by KRA

5.4 Suggestions for further research.

This study proposes the following areas for further study:

1. An investigation to examine withholding vat awareness creation as the responsibility of the tax authority.
2. An investigation into how peer pressure influence withholding vat compliance.
3. An assessment of the impact of demographic factors; such as sex, age, education and size of income have on withholding vat compliance.

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APPENDICES

APPENDIX I: LETTER TO THE RESPONDENTS

1st October, 2019

Wallace Wafula

P.O. Box 4064- 00506

Nairobi, Kenya.

Dear Respondent,

RE: DATA COMPLIANCE

I am a student at the Kenya School of Revenue Administration, currently doing a research study on the “factors affecting compliance of withholding VAT among Small and Medium enterprises in Industrial area, Nairobi County” to fulfill the requirements for the award of the post graduate diploma in Tax Administration. You have been selected to participate in this study and I would highly appreciate if you assisted me by responding to all questions in the attached questionnaire as completely, correctly and honestly as possible. Your response will be treated with utmost confidentiality and will be used only for research purposes of this study. Thank you in advance for your co-operation.

Yours faithfully,

Wallace Wafula

HDB336-C016-2243/2016

APPENDIX II: QUESTIONNAIRE

My name is Wallace Wafula and I am a student at Kenya School of Revenue Administration pursuing post graduate diploma in Tax administration, and undertaking a research entitled “factors affecting compliance of withholding VAT among Small and Medium enterprises in Industrial area, Nairobi County”. It is in this regard that I humbly request for your participation in filling this questionnaire. Any information collected will be treated with confidentiality and only used for academic purposes. Thank you in advance.

Instructions

This questionnaire consists of two parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

PART I

GENERAL INFORMATION

Your position in the company _____

Please specify your gender

Female [] Male []

Age of the respondent

21-30 years []

31-40 years []

41-50 years []

Above 50 []

Number of years business has existed

Below 2 years [] 3-5 years [] 6-8 years [] 9 years and above []

PART II

SECTION A: EFFECT KNOWLEDGE MANAGEMENT ON COMPLIANCE OF WITHHOLDING VAT

Evaluate the following statements and tick where appropriate under the choices below where;
1-Strongly agree, 2-Agree, 3-Not sure, 4-Disagree, 5-Strongly disagree

No	STATEMENT	1	2	3	4	5
a)	Attending tax training is essential for Withholding VAT compliance					
b)	Knowledge attained from KRA trainings helps reduce the time spent on filing and payment of withholding VAT					
c)	KRA website has adequate information on Withholding VAT procedures.					
d)	Information provided on the KRA website and other online platforms on Withholding VAT is easy to understand					

SECTION B: EFFECT OF COST OF COMPLIANCE ON COMPLIANCE OF WHTVAT

Evaluate the following statements and tick where appropriate under the choices below where,
1- Strongly agree, 2- Agree, 3- Not sure, 4- Disagree , 5- Strongly disagree,

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No.	STATEMENT	1	2	3	4	5
1.	Cost of acquiring the services of a tax expert can hinder withholding VAT compliance					
2.	I find it difficult to compute Withholding VAT on Itax					
3.	The cost of training employees on withholding VAT compliance outweighs the benefits of withholding VAT compliance					

SECTION C:**EFFECTS OF TAX COMPLIANCE MEASURES ON WITHHOLDING VAT COMPLIANCE**

Evaluate the following statements and tick where appropriate under the choices below where, 1- Strongly agree, 2- Agree, 3- Not sure, 4- Disagree , 5- Strongly disagree.

NO	STATEMENT	1	2	3	4	5
1.	Regular Compliance and audit checks conducted by KRA on Withholding VAT compel traders to be compliant					
2.	Penalties on late filing and payment of withholding VAT compel taxpayers to be compliant					
3.	The higher the tax penalties on Withholding VAT non-compliance, the higher the rate of withholding VAT compliance					

SECTION D

WITHHOLDING VALUE ADDED TAX COMPLIANCE

Evaluate the following statements and tick where appropriate given the choices below where,
1- Strongly agree, 2- Agree, 3- Not sure, 4- Disagree , 5- Strongly disagree

STATEMENT	1	2	3	4	5
Accurate and timely filing and payment of withholding VAT is a form of compliance					

APPENDIX III: BUDGET

DESCRIPTION	COST PER ITEM	TOTAL AMOUNT (Kshs)
Stationery		6,000.00
Photocopying papers	10 reams @600/=	
Pens, pencils, rubbers		
Ink cartridge (Printer)		
Files (12 rim binders)		
Personnel		30,000.00
Questionnaires administrators		
Stastician		
Transport and subsistence		4,000.00
Vehicles		
Subsistence allowance		
Communication		2,000.00
Telephone		
Internet		
Other Services		22,000.00
Library services		
Purchase of periodicals and books		
<u>Total expected cost</u>		<u>70, 000.00</u>

APPENDIX IV –WORK PLAN

ACTIVITY	SEPTEMBER 2019	OCTOBER(2 019	NOVEMBER (2019)
Draft proposal			
Proposal presentation			
Designing the research instrument			
Proposal defense			
Field work & data Compliance			
Data Entry / Analysis			
Report Writing			
Presentation of 1 st draft			
Presentation of 2 nd draft			
Submission of final report			