

**FACTORS INFLUENCING TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN NAIROBI COUNTY: A CASE OF SMES IN TOI MARKET.**

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**DECLARATION**

This research project is my original work and has not been presented in any other university or college for examination/academic purposes.

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Date.....

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

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Date.....

**NAME:**

**SUPERVISOR**

## **DEDICATION**

I dedicate this research project to my family and friends. Special thanks to my mom, Lydia Ngove who has been a great source of inspiration in whichever challenges I faced for she always encouraged me. To my baby, Michelle Cherry Mueni to whom I want to be a role model forever.

Last but not least, siblings Evalyn Ngina, Alfred Mutua and Douglas Mwololo who have always wished me nothing but good.

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## **ABSTRACT**

The main objective of the study was to examine factors influencing tax compliance among small scale enterprises in Nairobi County with special focus on SMEs in Toi market. The study contributes to the larger literature in the field of tax compliance and also industry players will understand some of the factors that are likely to influence tax compliance among small scale enterprises. The study was guided by the following objectives: To examine the influence of tax knowledge on tax compliance among small scale enterprises in Toi market, to establish the influence of tax rates on tax compliance among small scale enterprises in Toi market, to find out the influence of compliance cost on tax compliance among small scale enterprises in Toi market and to examine the influence of perception on tax compliance among small scale enterprises in Toi market. In examination of factors influencing tax compliance, this study utilizes two theories: Deterrence Theory and Psychology Theory. The target population was all SMEs operating within Toi market who are approximately 500 and 26 KRA Compliance staff based in East of Nairobi Station that is in charge of taxpayers in East of Nairobi areas where Toi market falls under. Considering nature of the study, a sample of 30% of the population (53) was used and a simple random sampling was adopted with questionnaire as the data collection instrument. The study analyzed both quantitative and qualitative data and the findings are presented using frequency tables, pie charts and graphs. The study had high response rate of 92%. The survey data indicate that regarding at least certain elements of the relationship between how fair individuals perceive the tax system to be and their levels of tax compliance, there may be distinct differences.

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## **ABBREVIATIONS AND ACRONYMS**

SMEs:	Small Medium Enterprises
GDP:	Gross Domestic Product
KRA:	Kenya Revenue Authority
SPSS:	Statistical Package for Social Sciences

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter provides a close overview of the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, limitations and the scope of the research on the factors that affect tax compliance among Small and Medium Enterprises (SMEs), in Toi market, Nairobi.

### **1.1 Background of the Study**

The problem of tax compliance is as old as taxes themselves. Characterizing and explaining the observed patterns of tax noncompliance, and ultimately finding ways to reduce it, are of obvious importance to nations around the world (J Andreoni, 1998). Tax is an important stream of revenue for government's development projects. However, tax compliance among SMEs is poor. It is a major problem for many tax authorities, including Kenya. It is not an easy task to persuade taxpayers to comply with tax requirements even as the tax laws are not always precise in some respects (James and Alley, 2004). Paying taxes is however a moral obligation for each and every one. Taxpayers are inherently disposed to reducing their tax liability either through tax evasion or tax avoidance. This may be done through incorrect filling of their tax returns which in turn leads to a loss of revenue to the government. An unduly complex regulatory system and tax regime enforcement makes tax compliance unduly burdensome and often have a distortionary effect on the development of small-scale enterprise (SSEs) as they are tempted to change into forms that offer a lower tax burden or no tax burden at all and as such results in a tax system that imposes high expenses on the society (Masato, 2009). A poorly executed tax system also leads to low efficiency, high collection charges, and waste of time for taxpayers (Akinboade, 2015).

Globally, Small-Scale Enterprises (SSEs) are recognized as the main engine for growth and development. In Kenya, readily available data on SSEs is scarce but statistics from the Registrar General's Department suggests that 92 per cent of companies registered are micro, small and medium enterprises. SSEs in Kenya provide about 85 per cent of manufacturing employment, contribute about 70 per cent to Kenya's Gross Domestic Product (GDP), and therefore have a catalytic impact on economic growth, income and employment (SF, Gakure, & Karanja, 2012). SSEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure

and high port charges that constantly exert serious burden on their operations. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs when scaled by sales or assets. The compliance costs of SSEs are higher than the larger businesses (Devos, 2008).

Tax compliance is defined as the full payment of all taxes due (Braithwaite, 2009). Tax non-compliance is referred to as any difference between the actual amount of taxes paid and the amount of taxes due. This difference occurs because of overstating and understating income, expenses, and deductions. Non-compliance comprises both intentional evasion and unintentional non-compliance, which is due to calculation errors and an inadequate understanding of tax laws (Webley, 2004). Taxpayer mistakes can be unintended and, thus, do not necessarily represent attempts to evade or may even lead to tax over-reporting. In an effort to maximize collection of revenue and efficiency in tax administration, key changes to tax policy evolving around ensuring equity, further widening the tax base, promoting increased investment and in so doing, reducing the tax compliance burden, have in the recent past been made by the Kenyan government.

Many developing countries are at a critical stage on the path towards sustainable development to relieve poverty, reduce inequalities, deliver public services and build infrastructure for inclusive growth. In this new environment, governments are striving more than ever to mobilize greater tax revenue domestically. In an effort to do this, most countries are increasingly reaching out to inform and engage today and future taxpayers (Oyugi, 2008). The goal is to foster an overall culture of tax compliance based on rights and responsibilities, in which citizens see paying taxes as an integral aspect of their relationship with the government (Fieldstad & Heggstand, 2012).

## **1.2 Statement of the Problem**

Countries all over the world depend on taxation as a means of generating the requisite resources to meet expenditure requirements. Among the contributors to the tax revenue are businesses in the private sectors which largely consist of small and medium sized enterprises. Although most businesses especially the small and medium sized enterprises are non-compliant with tax laws in Kenya, there is evidence that there are a few SMEs who try to pay their quota to the state every year.

Small and Medium Enterprises are involved in collecting as well as for remitting taxes to the government (Cheeseman, & Griffiths, 2005). They are, hence, important players in a country's tax system. Though the evidence is not unequivocal most research suggests that small and medium business owner-managers are more likely to cheat than other groups of taxpayers (Boll, 2014). Even the Organization for Economic Co-operation and Development (2004) considers small and medium business owners a high-risk group in terms of tax compliance. In many cases it is impossible to prove non-compliance. For example, Kamau, Mutiso, & Ngui (2012) estimates that only half of corporate non-compliance is detected and that tax audits are generally a costly matter. Increasing voluntary compliance among business owners is thus a worthwhile endeavour and hence the need to conduct more studies to understand what influences tax compliances small and medium enterprises.

In an attempt to enhance the core professional values of tax practitioners in South Africa, the Kenya Revenue Authority (KRA) had proposed the regulation of tax practitioners' services. It is arguable whether or not this would be the only factor to influence the ethical behaviour of tax practitioners. Therefore, this study seeks to examine factors that influence Small-Scale Enterprises in tax compliances in Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The main objective of the study is to examine factors influencing tax compliance among Small and Medium Enterprises (SMEs) in Toi market, Nairobi.

#### **1.3.2 Specific Objectives**

- i. To examine the influence of tax knowledge on tax compliance among Small and Medium Enterprises (SMEs) in Toi market.
- ii. To establish the influence of tax rates on tax compliance among SMEs in Toi market.
- iii. To find out the influence of compliance cost on tax compliance among SMEs in Toi market.
- iv. To examine the influence of perception on tax compliance among SMEs in Toi market.

### **1.4 Research Questions**

- i. To what extent does tax knowledge influence tax compliance among Small and Medium Enterprises (SMEs) in Toi market?

- ii. How do tax rates influence tax compliance among SMEs in Toi market?
- iii. To what extent does compliance cost influence tax compliance among SMEs in Toi market?
- iv. How does perception influence tax compliance among SMEs in Toi market?

### **1.5 Significance of the Study**

The findings of this study will be used to identify factors influencing tax compliance among small enterprise taxpayers and to improve the tax laws and procedures accordingly. Hence, it helps to improve tax compliance and reduce tax compliance costs of the taxpayers & administrative costs of Kenyan Revenues Authority.

### **1.6 Limitation of the Study**

The respondents will require much explanations to fill survey questionnaires and that will take much time and money of the researcher. Most of the respondents work as service providers and retail traders and may not have enough time to respond to the questionnaires. This will require additional time to encourage the respondents and frequently visit most of the businesses even during weekends and out of the normal working hours.

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

There are several markets where many SMEs operate in Nairobi County and these include Toi Market, Kangemi, Muthurwa, Toi, Ngara, City stadium etc. Actually, this is the most common type of business set up in Nairobi. This study will however be undertaken in Toi market because of its strategic location and a wide variety of products handled in the market. It is estimated that there are at least 500 SMEs in Toi market, ranging from small to very large traders and they mostly deal with second hand clothes, shoes, cereals and furniture.

### **1.8 Definition of Key Terms**

#### **Small and Medium Enterprises:**

**Penalty:** is a form of fine imposed for breaking a law, rule, or contract for example failure to file a return on time or paying taxes on time.

**Tax Compliance:** is described as the status of being duly registered, timely filing of returns and making of correct declaration and timely payment of tax liability in accordance with tax laws (Income Tax Act Cap 470 of laws of Kenya).

**Tax:** is a financial charge or other levy imposed upon a taxpayer (an individual or legal entity) by a state or the functional equivalent of a state to fund various public expenditures.

**Taxpayer:** means a person liable for tax under a tax law whether or not they have accrued any tax liability in a tax period (Income Tax Act Cap 470 of laws of Kenya).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The purpose of this chapter is to review the existing literatures regarding the relationship of tax compliance with different variables. The chapter has three sections and organized as follows; the first section does theoretical reviews on tax compliance, second section similarly presents the empirical reviews regarding the impacts of different variables on tax compliance behaviour while section three deals with summary of the chapter and conceptual framework.

#### **2.2 Theoretical Review**

##### **2.2.1 Deterrence Theory**

This theory places emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers who are influenced by economic motives such as profit maximization and probability of detection. Hence, the taxpayers analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative way that maximizes their expected after tax returns after adjusting for risk. Therefore, according to the theory, in order to improve compliance, penalties for non-compliance should be increased. Thus, there is a theoretical positive relationship between tax penalty and tax compliance. Increase in tax penalty would lead to increase in tax compliance and vice versa.

Similarly, the economic deterrence theory states that taxpayers' behavior is influenced by factors such as the tax rate determining the benefits of evasion, and the probability of detection and penalties for fraud which determine the costs (Sandmo, 1972). This implies that if detection is likely and penalties are severe, few people will evade taxes. In contrast, under low audit probabilities and low penalties, the expected return to evasion is high. The model then predicts substantial non-compliance. The theoretical principles of economic deterrence have also been widely adopted by tax administrations when developing enforcement strategies that rely principally on penalties and the fear of getting caught.

##### **2.2.2 Psychology Theory**

Psychology theory posits that taxpayers are influenced to comply with their tax obligations by psychological factors. It focuses on the taxpayers' morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the

deterrence theory that emphasizes increased penalty as solution to compliance issues, psychology theory lays emphasis on changing individual attitudes towards tax systems. Thus, one instrument of changing taxpayers' attitude to tax matters is tax education. It is assumed that improved tax education would increase tax compliance and vice versa.

### **2.3 Empirical Review**

Behavioural models that affect tax payer compliance with the obligation to pay tax are divided into two basic norms as internal & external. The thoughts & perceptions of tax payers about taxation that shape their behaviours & attitudes are viewed as internal, Tax system and technique, approach of tax administration to taxpayers, general sense of political confidence in public opinion, tax knowledge, and legal arrangements are considered as external factors (Chetty & Saez, 2013). The results of the survey carried out in the capital city of Kyrgyzstan among 500 tax payers showed that the most important factors affecting the tax culture are; trust in the government, quality of public services and availability of informal economy (Tsui, 2005).

The perception that the government is not accountable to taxpayer has been identified as a major challenge facing the tax authority (Onuba, 2011). Especially, the surveys revealed that trust in government affects tax compliance of citizens, and increases the tendency to declare taxable revenue more precisely (Alm et al. 1992). The study was conducted using SSEs in Zaria, North-Central Nigeria to evaluate and rank the factors that encourage non-compliance with tax obligation by SSEs (Adebisi & Gbegi, 2013). The authors found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of SSEs. Other factors like multiple taxation and lack of proper enlightenment affect tax compliance among the SSEs surveyed only to a lesser extent. They recommended that SSEs should be levied lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market. Moreover, they suggested that government should also consider increasing tax incentives such as exemptions and tax holidays as these will not only encourage voluntary compliance but also attract investors who are potential viable tax payers in the future. A survey carried out in Afyon city, in the inner western region of Turkey among 231 companies revealed that external factors that affect taxpayers negatively on tax adaptation in fiscal transparency are failure in political policy and deficiency to submit public goods and services. Also, high tax burden and insufficiency of tax audit are negative factors on tax awareness (Fochmann, Kiesewetter & Sadrieh, 2012).

A study by Ojochogwu & Stephen (2012) on 'Factors that affect tax compliance among small and medium enterprises' in Northern Central Nigeria revealed some of the issues of tax compliance. Data for this research was collected from primary sources using survey method (questionnaire and personal interview with 150 respondents of small and medium enterprises). The sample was obtained using a combination of non-probability (judgmental) and probability (random) sampling methods. Data analysis was made by using Microsoft Office excel 2007 using the one sample-size z-test. Thus according to this study, it was found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of small and medium enterprises. Other factors like multiple taxation and lack of proper enlightenment affect tax compliance among small and medium enterprise taxpayers to a lesser extent.

Ahmed and Braithwaite (2005) compared a sample of Australian small business owners with employed taxpayers and found that they did not differ in terms of the following factors: subjectively perceived deterrence from non-compliance; subjective probability of being caught for tax evasion; preference for aggressive tax planning; cooperation with and resistance against tax authorities; attitudes towards equity issues; personal norms of tax honesty; tax morale; and the level of admitted tax evasion. In line with these findings, a scenario study showed no significant differences in terms of hypothetical tax compliance between fiscal officers, business lawyers, and small business owners (Kirchler et al., 2003).

Tilahun & Yadersal (2014) in their study on determinants of tax compliance behaviour in Ethiopia used quantitative methods research approach. They found that perception of government spending, perception of equity and fairness of the tax system, penalties, personal financial constraint, changes on current government policies and referral group (friends, relatives, etc.) are factors that significantly affect tax compliance behaviour of taxpayers. However gender and probability of being audited have no significant impact on tax compliance behaviour. The findings also showed that older people will comply less if there is no equity and fairness in the tax system and any changes in government policy on fuel prices, electricity and water rates are not favourable.

### **2.3.1 Tax Knowledge**

Tax knowledge is the level of awareness or sensitivity of the taxpayers to tax legislation. Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information (Weichenrieder, 2007). The level of formal general education received by taxpayers is an important factor that contributes to the understanding of tax requirements, especially regarding registration and filing requirements. Generally, citizens have very limited knowledge on government true expenditures and the cost of public services provided by the government (Hallsworth, List, Metcalfe & Vlaev, 2014). Hence, those taxpayers without tax knowledge are compelled to solicit the service of tax professionals (Saad, 2014; Castro & Scartascini, 2015). One of the fundamental ways to increase public awareness is for taxpayers to have knowledge about taxation. Castro & Scartascini (2015) observes that general education level is significantly related to tax evasion. High awareness by the society would encourage people to fulfil their obligations to register as taxpayer reporting and paying taxes properly are forms of national and civic responsibility. Most citizens do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is.

Palil (2010) states that tax knowledge reveal that there is a relationship with taxpayers' ability to understand the laws and regulation of taxation and their ability to comply. In this study, SMEs did not consider local authority levies to be different from government taxes because they lacked tax knowledge. This misconception has an impact on their compliance decision because when they pay council levies they might consider that they have paid tax and complied. Gangl, Muehlbacher, de Groot, Goslinga, Hofmann, Kogler, & Kirchler (2013) found that SMEs did not pay their tax obligations because of their inability to understand tax law requirements.

Tax practitioners acknowledge that the complexity of taxation is making compliance especially difficult to achieve for many small businesses (Berkery and Knell, 1992). It can be assumed that, sometimes, small business taxpayers are not even sure about whether they are fully compliant or not. For example, in several countries the distinction between the earnings/income from labour and capital is particularly hard to draw in the case of small businesses and self-reported evasion within small businesses did not match actually documented non-compliance (Webley, 2004). This latter finding might be interpreted as resulting from a lack of taxation knowledge. However, findings on the relation between

knowledge and tax compliance are mixed. On the one hand, highly educated groups were shown to agree more with existing fiscal policies than less educated groups (Schmolders, 1960). Indeed, a low perceived complexity of tax laws education concerning taxation as well as subjective (and actual tax knowledge were shown to relate positively to (hypothetical or intended) compliance (Abiola, & Asiweh, 2012).

Harris (1989), divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. In the first case, the level of education received by taxpayers is an important factor that contributes to the general understanding about taxation especially regarding the laws and regulations of taxation. Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003).

### **2.3.2 Tax Rates**

Tax penalty is a punitive measure that the tax law imposes for the performance of an act that is proscribed, or for the failure to perform a required act such as failure to timely file return or filling wrong or undervalued returns etc. If a taxpayer is required to file an income or excise tax return and fails to timely do so, a late filing penalty may be assessed. The penalty is 5% of the amount of unpaid tax per month (or partial month) the return is late, up to a maximum of 25% (Legal Dictionary). How does tax penalty imposable on taxpayers for noncompliance can promote tax compliance amongst taxpayers?

Deterrence factors such as probability of being audited and being detected by tax authorities are found to reduce noncompliance among taxpayers (Doran, 2009). For instance, Nigeria Personal Income Tax Act (PITA 2011 as amended) strengthen such issues as record keeping, self-assessment and provides penalty of ₦50,000 and ₦500,000 for individuals and companies respectively for contravening the provisions of the Act (Oluchi, 2012). In Malaysia, if it is discovered during the audit process that there is underreporting or misstatement, a penalty will be imposed under subsection 113(2) of the ITA (1967), although revenue authorities in Malaysia encourage taxpayers who underreport their income to voluntarily make disclosure of such underreporting if later they understand that they made underreporting of their income (Palil & Mustapha, 2011). Failure to do so is subject to

penalty depending on the time that has lapsed between omission and voluntary disclosure (Internal Revenues Board (IRB), 2000).

### **2.3.3 Compliance Cost**

Most taxes paid by employed people are withheld from the outset or included in gross prices. In contrast, small business owners typically pay their taxes “out of their pocket” (Thomas, 2013). In other words, while employed are passive recipients of information about the amount of taxes they pay, small business owners dispose of their gross income, which is mentally perceived as their own money, and actively determined taxes represent a loss. Paying the tax share out of one’s own pocket represents a loss frame. While paying taxes typically constitutes a loss for small business owners, it constitutes a non-gain for taxpayers whose taxes are withheld at the source.

Research based on “prospect theory” has demonstrated that the perceived pain of a loss is greater than the perceived pain caused by an equally sized non-gain (Liu, Fan, & Zhang, 2014). Furthermore, prospect theory suggests that people are more risk-seeking in the loss domain than in the gain domain. For small business owners, it might, thus, not only be painful to pay taxes, but the loss-framing might also make them risk-seeking. Tax non-compliance could be a consequence. However, as Chang et al. (1987) point out, there are other possible decision frames. Taxpayers can either view the compliance decision as a choice between a certain loss (tax payment) and a possible larger loss (tax payment plus penalty if audited); or they can view it as a choice between a certain reduced gain (net income after tax payment) and a possible larger gain (gross income without tax payment if not audited).

### **2.3.4 Perception of SMEs on Tax Compliance**

Fairness as a concept is often not well defined and may be viewed as sometimes arbitrary in terms of both its interpretations and its effects. However, within the taxation literature perception of tax fairness has certainly been recognized widely for some time as one of the most important variables that can influence tax-compliance behavior. Other major influences are: age, gender, education, income level, income source, occupation status, peer influence, ethics, complexity, probability of detection, sanctions, tax rates and contact with tax authorities.

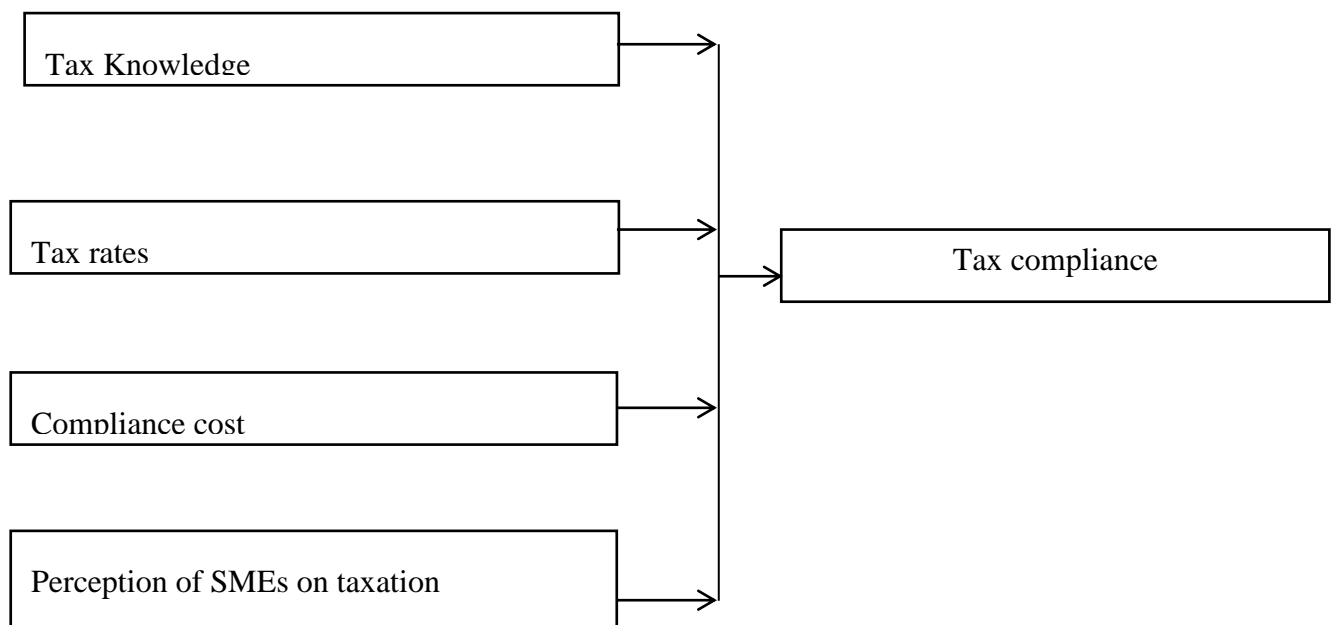
Public perception that the taxation system is fair and equitable is important if that system relies for its success on a significant degree of voluntary tax compliance, which is of course the contemporary reality for many jurisdictions. A taxation system may be less successful to the extent that it is perceived by members of a society to be unfair and inequitable, and can encourage taxpayers to evade paying taxes. However, deconstructing specifically how perceptions of tax fairness impact upon specific levels of tax compliance is a difficult task.

Gerbing represented the first major empirical study that developed a multidimensional model of taxpayer perceptions of fairness. That study utilized factor analysis and identified five major underlying dimensions of tax fairness: general fairness and distribution of the tax burden; exchange with the government; attitude towards taxation of the wealthy; preferred tax-rate structure (viz. progressive versus at tax rates); and self-interest. This model complemented the findings of other tax researchers that dimensions of tax fairness have their roots in distributive justice theory.

## 2.4 Conceptual Framework

### Independent variables

### Dependent variable



**Figure 2. 1. Conceptual framework**

## **2.5 Critique of existing literature**

Various opinions exist about the best ways to improve tax compliance. Given the chance, a lot of businesses will not pay taxes unless there is a motivation to do so. Some believe that the best way is to increase incentives others believe the best way is to increase penalties (Feld & Frey, 2007). Yaobin (2007) declared that special tax regimes for SMEs may be appropriate policy instruments for minimizing the cost of collection. Because awareness of the dangers of inadequate taxation of SMEs has grown because of the potential of uneven tax enforcement to cause distortions of competition, voluntary compliance by larger enterprises and by wage earners, government intervention should help maintain balance while ensuring that countries exploit the social benefits from greater competition and entrepreneurship. There is agreement among scholars that pro-business (and Pro-SME) Tax regimes and enforcement should be simple, consistent and predictable should to lower compliance and administrative costs, and hence reduce uncertainty faced by taxpayers as well as improve the levels of voluntary compliance (Kasipillai, 2005).

## **2.6 Summary**

Taxes are an involuntary charge levied by the government on individual workers' income, business profits and on transactions of goods and services. Unfortunately, Kenya does not collect all the taxes that it ought to. This is mostly attributed to high levels of tax non-compliance. In Kenya, the biggest block of taxpayers on the business sector are the Small and Medium Enterprises (SMEs) which are estimated to be at 34.4% of total businesses in Kenya and they account for 77% of employment statistics. Van der Wijst (1989) considers small and medium businesses as privately held firms with 1 – 9 and 10 – 99 people employed, respectively. Jordan et al. (1998) define SMEs as firms with fewer than 100 employees and less than €15 million turnover. Olorunshola (2003) considers independent private limited companies with fewer than 200 employees to be small, and López & Aybar (2000) considered companies with sales below €15 million as small. According to the British Department of Trade and Industry, the best description of a small firm remains that used by the Bolton Committee in its 1971 Report on Small Firms. This stated that a small firm is an independent business, managed by its owner or part-owners and having a small market share.

Tax non-compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. While some commentators

see non-compliance only as an evasion problem, this does not seem to capture the full nature of the problem. Clearly tax evasion is a form of non-compliance. However, if taxpayers go to inordinate lengths to reduce their liability this could hardly be considered 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfil their obligations as citizens.

## **2.7 Research gaps**

An examination of previous studies shows that the majority of the some researchers have concentrated on attitude and compliance behaviour among large companies while others have focused on tax policies. However, no study has been identified that focuses on factors influencing tax compliance among small-scale enterprises in Nairobi County and especially on SMEs in Toi market. This study therefore seeks to fill this research gap.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

In this chapter, the research methodology that was used in the study has been described. The geographical area where the study was conducted, the study design and the population and sample are described. The instrument that will be used to collect the data, including methods implemented to maintain validity and reliability of the instrument are described.

#### **3.2 Research Design**

Descriptive research design was used to obtain information from the various locations. Orodho (2003) described descriptive survey as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. It can be used to when collecting information about people's attitudes, opinions, habits or any of the variety of education or social issues (Orodho and Kombo 2003). In this research design, primary data will be collected by use of questionnaires and the information gathered will be used to determine the possible answers to the research questions and provide relevant information needed to achieve the research objectives.

For this study, the research will use qualitative and quantitative research methods where qualitative method permits a flexible and interactive approach for example data presented in form of words rather than numbers and this words are often grouped into categories (Mugenda and Mugenda 2003), while the quantitative research method includes designs, techniques and measures that produce discreet numerical or quantifiable data. The value of qualitative research can best be understood by examining its characteristics. One of the primary advantages of qualitative research is that it is more open to the adjusting and refining of research ideas as an inquiry proceeds.

#### **3.3 Study Area**

The study will be conducted in Toi market located in Lang'ata sub-county, Nairobi County. It is recognized as an iconic zone to get second hand clothing, shoes, cereals and furniture. It is also a consumer base that draws shoppers from not only Nairobi but all over the country.

### **3.4 Target Population**

The Bernard (2011) defines population as the total collection of elements about which the researcher wishes to make some inferences. Mugenda and Mugenda (2003) defined a sampling frame as a list or directory or index of cases from which a sample can be selected and in this study, the sampling frame are all SMEs in Toi market who are approximately 500 in number.

Also, part of the target population is KRA staff in East of Nairobi (compliance program officers).

### **3.5 Sampling Design**

Sampling is the process of selecting some elements from the entire population. Non-probability methods will be used to select the sample of business owners to participate in the study. In an attempt to obtain fair representation of the population in the sample, the selection of the SMEs will be done using judgemental sampling since a complete list of all SMEs in Toi market is not available. Since most of the SMEs are involved in the sale of second hand clothes, purposive sampling will be done to ensure enterprises dealing with other goods like cereals and furniture are also represented in the sample. To select KRA compliance staff to participate in the survey, simple random sampling will be used. This sampling method has been selected because it offers each member of a population an equal chance to become part of the sample. As all members of the population will have an equal chance of becoming a research participant, this is said to be the most efficient sampling procedure. In order to conduct this sampling strategy, the researchers defined the population first, list down all the members of the population, and then select study participants to make the sample. Based on According to Mugenda and Mugenda (1999), a sample of 30% of the total KRA compliance staff will be used and in this study, a sample of 26 (30%) will be selected. From the approximated number of SMEs of 500 in Toi market, 50 of the traders will be randomly selected to participate in the study.

**Table 3.1. Sample Size**

<b>Category</b>	<b>Total Population</b>	<b>Sample size</b>
KRA Staff (EON Station-Compliance Program Officers)	26	7.8
SMEs in Toi market	≈500	50
<b>Total</b>	<b>526</b>	<b>57.8</b>

According to Kothari (2004), a sample is a group drawn from a larger population and used to estimate the characteristics of the whole population. A sample size must be large enough to be representative of the whole population. A general rule of thumb for the large enough sample Condition is that  $n \geq 30$ , where  $n$  is your sample size (Greener, 2008)

**$n = 57.8$  (58)**

### **3.6 Data Collection**

A questionnaire will be chosen as data collection instrument for this study. A questionnaire is a printed self-report form designed to elicit information that can be obtained through the written responses of the subjects. Primary data will be collected by use of questionnaires and these questionnaires will have closed ended questions which will include all possible answers/prewritten response categories where the respondents are asked to choose among them. The questionnaire will be divided into two sections. Section one consisted of questions on general information about the respondent and section two contained specific questions in regards to information on tax compliance. Questionnaire has been selected because it ensures a high response rate as the questionnaire will be distributed to respondents to complete and will be collected personally by the researcher, require less time and energy to administer, it offers the possibility of anonymity because subjects' names are not required on the completed questionnaires, less opportunity for bias as they were presented in a consistent manner and lastly but not least most of the items in the questionnaires were closed, which makes it easier to compare the responses to each item.

### **3.7 Pilot Testing**

A sample of respondents will be used to test the validity and reliability of the data collection instrument so as to detect and remove any obstacle that may be there. The researcher then will have to confirm that the data collected answers the research questions. This study will conduct a pilot test using a sample of 10 respondents who will not be part of the actual study.

### **3.8 Data Analysis and Presentation**

The study will analyse the data collected using the descriptive analysis. Both quantitative and qualitative approaches will be used for data analysis. This model of analysis examines the simultaneous effects of the independent variables on a dependent variable. Quantitative data from the questionnaire will be coded and analysed using The Statistical Package for Social Sciences (SPSS). The SPSS will be used to run descriptive statistics such as frequency and percentages so as to present the quantitative data in form of tables and graphs based on the major research questions. Ordinary Least Square (OLS) estimates were employed to estimate the linear regression coefficient. Correlation analysis was used to show the correlation between tax knowledge and voluntary tax compliance. The study used two types of data analysis and includes quantitative technique and qualitative techniques. Quantitative technique was used to analyse data that is numerical in nature in this study. The researcher after receiving the questionnaires coded them and entered the data into a computer to produce figures while qualitative technique involves the study's use and collection of a variety of empirical materials, case study, personal experience, interview, observations among others (Kothari, 2004).

The data will be presented and interpreted using charts, graphs and simple frequency tables. The qualitative data generated from open ended questions will be categorized in themes in accordance with research objectives and reported in narrative form along with quantitative presentation.

### **3.9 Analytical Model**

The study estimated a multiple linear regression model as follows;

Dependent Variable (Y): Voluntary tax compliance over the period of research.

The following were the independent variables:

- i. Tax knowledge,
- ii. Tax rates,
- iii. Compliance cost and
- iv. Taxpayers attitude and perception,

The research model estimated was a multiple linear regression model as follows:

$$Y = \alpha_0 + \alpha_1 X_1 - \alpha_2 X_2 - \alpha_3 X_3 - \alpha_4 X_4 + \varepsilon$$

Where Y= Voluntary tax compliance over the period of research;

$\alpha_0$  - is the Y intercept or co-efficient of constant of the equation,

$\alpha_i$  - is the coefficient of each independent variable ,

$X_1$ - Tax knowledge,

$X_2$ - Tax rates,

$X_3$ - Compliance cost

$X_4$ - Taxpayers attitude and perception and

$\varepsilon$  - is the error term capture the un-explainable effect on tax debt realization

The study used the analysis of variance (ANOVA) test and t-significance to establish the significances of the relationship between independent variables and tax 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 AND PRESENTATION**

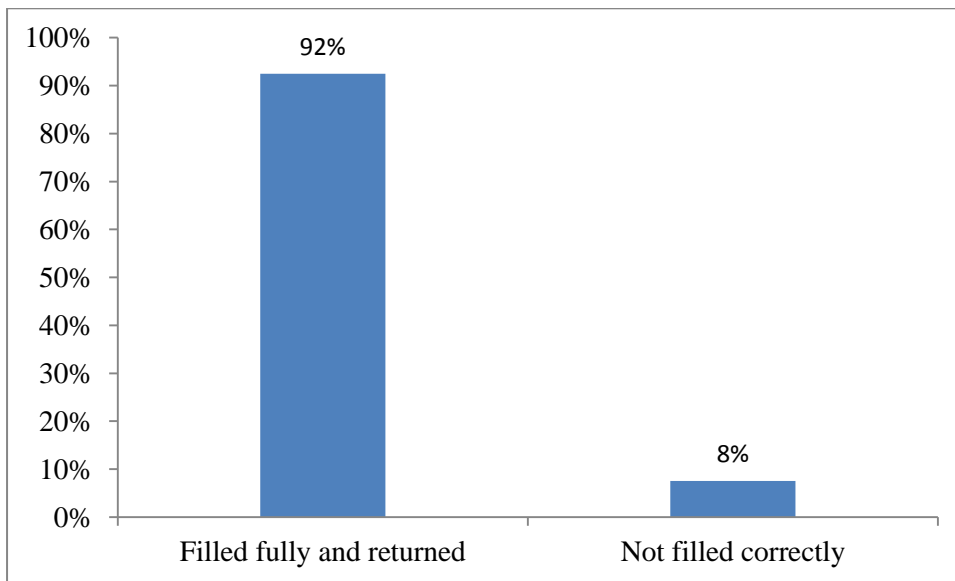
#### **4.1 Introduction**

The study sought to carry out an investigation into factors influencing tax compliance among small-scale enterprises in Nairobi County: A case of Mitumba Bale Traders in Toi Market. The data was collected through structured questionnaire with both closed and open ended questions from the surveyed respondents. Data editing and reconciliation were undertaken before data analysis was done. This was essential to avoid incoherent which could lead to reaching or making wrong conclusions and drawing wrong inferences. This analysis adopted a quantitative and qualitative method. Data was entered using excel sheets to get the required data for presentation.

#### **4.2 Response Rate**

A total of 58 questionnaires were constructed, administered and sent to respondents for the researcher to collect them at a later date. At the end of the study, only 54 questionnaires were returned with 4 returned unfilled making the researcher to regard them as spoiled. Filled returned questionnaires were coded, entered into the computer and analyzed; the overall response rate was 92%. In line with Mugenda and Mugenda (2008) response rate of 86.73% is rated excellent thus it was satisfactory to make valid conclusions for the study. The relatively high response rate for this type of study was thought to be attributed mainly, to three factors: a clear and simple design questionnaire translated into ordinary Kenyan system, respondents were briefed about the content and purpose of the survey and were guaranteed that their replies would be treated in strictest confidence. Lastly, the high response rate was also attributed to the respondents' enthusiasm or willingness to participate obviously, to what they considered as an interesting subject to put their views across considering that this is their field of expertise, which will contribute to the improvement of the sector.

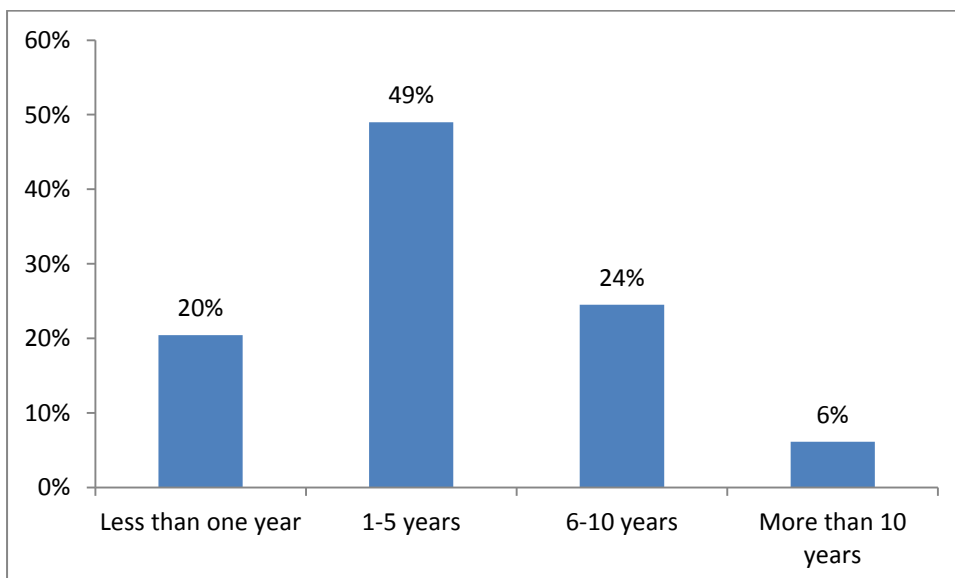
**Figure 4.1. Response rate**



**4.3 Years business in operation**

Asked to state the number of years they have been in operation, 49% indicated that they had been in the Mitumba bale business for about 1-5 years. In addition the result showed that 24% have been in this business for 6-10 years while 20% have just operated for less than one year and 6% for more than 10 years.

**Figure 4.2. Years business in operation**



**4.4 Summary Descriptive Statistics.**

The descriptive statistic considered was mean and standard deviation. Tax knowledge and the in tax showed a mean of 2.6387 with a standard deviation of 0.0143. This implies that

taxpayers barely get tax amnesty information. Tax rates had a mean of 3.5141 with a standard deviation of 0.1265 indicating that taxpayers high tax rates affect to a great extent the compliance levels of small and medium taxpayers. Compliance costs on the other hand had a mean of 3.6895 and a standard deviation of 0.1023 implying that most taxpayers felt that cost of compliance is also a major set back in compliance. Attitude and perception had a mean of 1.32 with a standard deviation of 0.364. The result shows that most taxpayers are not informed and educated on the tax amnesty matters. The results are shown in table 4.3 below.

**Table 4.1. Summary Descriptive Statistics Results.**

<b>Variable</b>	<b>Tax knowledge</b>	<b>Tax rates</b>	<b>Compliance cost</b>	<b>Attitude and perception</b>
Mean	2.6387	3.5141	3.6895	0.3640
Median	4.68	5.28	3.59	1.98
Minimum	3.05	2.58	2.01	1.05
Maximum	1.74	1.411	1.351	7.87
Std. Dev.	0.0143	0.1265	0.1023	1.3200

*Source: researcher's computation (2018)*

#### **4.5 Interpretations of data collection items**

Interpretation of descriptive data will be done using a five-point discrete scale, the respondents were required to rate the extent to which they agree or disagree with the tax knowledge, tax rates, cost of compliance and taxpayers attitudes and perception and how they perceive voluntary tax compliance in SMEs.

**Table 4.2. Ratings.**

<b>Rating</b>	<b>Discrete number representation</b>
Strongly agree	5
Agree	4
Indifferent	3
Disagree	2
Strongly disagree	1

#### 4.5.1 Tax compliance.

**Table 4.3. Tax compliance.**

<b>Variables</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
It is clear why I need a KRA pin	4.53	1.04
information of tax due dates readily available	4.02	1.25
The information available to me is enough to do proper tax computations	4.27	1.01
Information available to me prompt me to pay taxes by due date.	3.01	1.98

*Source: researcher's computation (2018)*

To a great extent respondents agreed that they were aware of the need for KRA pin represented by a mean of 4.53. A standard deviation of 1.04 implied that most people were in agreement that they knew the need for the pins. Information on tax due dates among the registered taxpayers was also information that was available to a great extend, represented by a mean of 4.02. to a moderate extent respondents were prompted to file returns by the available information.

#### 4.5.1 Tax knowledge and Tax Compliance.

After receiving the tax knowledge, respondents were asked about the impact it had on tax compliance. A summary is as follows:

**Table 4.4 . Descriptive Statistics of effectiveness of Tax Amnesty.**

<b>Variables</b>	<b>Mean Score</b>	<b>Standard Deviation</b>
The tax knowledge induced me to pay tax arrears	4.83	1.04
The knowledge was an incentive to me to file returns	4.36	1.68
I was induced to file returns which I have never declared	4.79	1.60
I informed others about filing of returns.	4.69	1.54
I was induced to always file my returns before due dates	4.41	1.38
I was pressured to make correct declarations of tax	2.37	0.27
I was induced to pay more tax arrears	4.60	0.37

*Source: researcher's computation (2018)*

The knowledge to a large extent was regarded as an incentive and induced the respondents to file and pay tax arrears. Those who had tax knowledge informed others about filing of returns. There was a standard deviation of >1 in most of the items implying that there was a big variance in the responses received by the recipients. This suggests mixed reactions with some strongly agreeing and others strongly disagreeing. However, majority of the respondents were not pressured by tax knowledge to make proper declarations of tax.

#### 4.5.2 Tax rates.

The result showed that the tax knowledge to a large extent was readily available, educative and understandable and recorded a mean score of more than (4.22). However, to a less extent of 1.02 the respondents felt that the tax rates were not an incentive to file returns. A mean of 2.32 felt that tax rates were fair. The standard deviation of over 1 was due to the variation of the responses with some respondents highly agreeing and others strongly disagreeing.

**Table 4.5 . Descriptive Statistics of tax rates.**

<b>Variables</b>	<b>Mean</b>	<b>Std</b>	<b>Mode</b>	<b>Median</b>	<b>Skewness</b>	<b>Kurtosis</b>
Awareness on proper tax rates	4.22	2.547	4	14.00	1.073	-0.868
Tax rates were an incentive to file returns	1.02	0.065	2	2.00	0.514	-1.661
The tax rates was fair	2.32	1.358	3	3.00	-0.564	0.513

*Source: researcher's computation (2018)*

The excessive detail in the tax rules and numerous computations required in taxation contribute to high noncompliance. Taxpayers should be able to understand the tax rules for computations by which they are to be taxed. These tax rules should aim to be simple, understandable and clear in order to enhance tax compliance.

#### 4.5.3 Compliance cost.

The relationship between tax compliance and compliance cost was investigated. The cost of compliance is important to look into since it affects compliance, as shown below :

**Table 4.6 . Descriptive Statistics of cost of compliance.**

Variables	Mean	Std	Mode	Media n	Skewnes s	Kurtosis
Compliance cost has induced me to file and comply	2.68	1.438	2	3.00	1.072	-0.668
The rate penalties influence me not either comply or not to comply with tax payment	3.48	1.657	2	2.00	0.524	-1.461
Strict enforcement measures encourage voluntary compliance	4.35	2.58	3	3.00	-0.554	-0.533

*Source: researcher's computation (2018)*

Strict enforcement measures encourage voluntary compliance with a mean of 4.35 and a standard deviation of 2.58. This shows that if the the cost of compliance followed by strict enforcement measures and punitive punishment for those who do not comply, then compliance should be enhanced. Ideally, the fear of penalties prohibits tax noncompliance behaviour. Taxpayers will be more likely to comply if noncompliance may result in severe penalties. This is in line with the theoretical work conducted by Allingham and Sandmo (1972) that tax compliance can be increased by increasing the penalties associated with it. To be effective, penalties must be applied speedily and forcefully. The respondents acknowledging some form of tax noncompliance are less likely if such acts would result in severe penalties.

#### 4.5.4 Attitude and Perception

**Table 4.7 . Descriptive Statistics of Attitude and perception tax compliance.**

Variables	Mea n	Std	Mod e	Media n	Skewne ss	Kurtosi s
High cost of compliance influenced my attitude towards complying with tax laws.	2.36	1.03 5	1	1.00	1.321	-1.161
In future in future tax rates may be revised downwards so I do not need to comply now.	1.85	0.33 0	1	1.00	1.312	1.072
Do you feel overwhelmed by tax procedures	3.65	1.58 4	3	3.00	-0.564	0.513
Do you think the tax rates in Kenya are fair?	1.22	1.05 8	2	2.00	0.433	-1.033

*Source: researcher's computation (2018)*

From the table, research findings reveal that the idea that tax rates may be reviewed downwards on a later date may provide incentives to taxpayers who would have complied to noncompliance. The tax system should be firm in the present time to deter people from waiting on such incentives because it is a setback on revenue collection.

Many respondents also felt that tax procedures were too complex and that this had a negative effect on compliance levels. According to Murphy (2004) non-compliance will increase, if taxpayers do not trust the tax administration to collect tax fairly. The key to establishing trust is to frame the collection of taxes to the population in a transparent manner and emphasize the fairness of the approach taken (Barone and Mocetti, 2009). Fairness is expressed in both – how person is treated by the administration individually and perceptions of fairness of the taxation system in general (whether other people are also paying their fair share). A strong communication about the social costs of tax evasion should induce dishonest taxpayers to feel guilty about the effects on others of their behavior, implying a reinforcement of social norms.

#### 4.6 Correlation Analysis

The study sought to establish the factors affecting compliance of SMEs in Toi market, Nairobi. Pearson Correlation analysis was used to check the correlation of the variables at 95% confidence levels.

**Table 4.8 . Correlation Analysis**

		<b>Correlations coefficients</b>				
		Tax compliance	Tax Knowledge	Tax rates	Compliance cost	Attitude and Perception
Tax compliance	Pearson Correlation	1	.658**	-.785**	-.718**	-.428**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
	N	58	58	58	58	58
Tax Knowledge	Pearson Correlation	.658**	1	.487**	.434**	.416**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
	N	58	58	58	58	58
Tax rates	Pearson	-.785**	.487**	1	.366**	.375**

	Correlation					
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
	N	58	58	58	58	58
Compliance	Pearson					
	Correlation	-.718**	.434**	.366**	1	.401**
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
cost	N	58	58	58	58	58
	Pearson					
	Correlation	-.428**	.416**	.375**	.401**	1
Attitude and	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
	N	58	58	58	58	58
	Perception					
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	0.000
	N	58	58	58	58	58

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

The results provided in table 4.10 above, Correlation analysis showed that, there was a moderate positive correlation between tax compliance and tax knowledge which was statistically significant ( $r = 0.658, n = 58, p < 0.0005$ ). In addition, results in Table 4.9 above showed that, there was a moderate negative correlation between tax rates, which was statistically significant ( $r = -0.785, n = 58, p < 0.0005$ ). However, there was also a weak negative correlation between tax compliance and attitude and perception, which was statistically significant ( $r = -0.428, n = 58, p < 0.0005$ ).

#### 4.7 Regression Analysis

Further analysis was done using multiple regression analysis in order to determine relationship and extent of relationship between tax compliance and four factors namely Tax knowledge, tax rates, compliance cost and taxpayers attitude and perception towards amnesty. The summary is as follows:

#### 4.7.1 Model Summary

**Table 4.9. Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.662	0.701	0.687	0.10158	1.807

a. Predictors: (Constant), Tax information, tax rates, cost of compliance, attitude, and perception.

R-square values present the strength of linear relationship between tax compliance and independent variables which in this case shows the presence of moderately strong linear relationships dependent and independent variables. The correlation coefficient was 0.662. Their R-squared value of 0.701 was established and this implies that 70.10 % of the variation in dependent variable is attributed to the changes in the independent variables. Being that the Durbin Watson Test statistics were close to the prescribed value of 2.0 for residual independence, it can be concluded that there was no auto correlation , according to Fidel (2009).

#### 4.7.2 Regression Coefficients

**Table 4. 10. Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients		95.0% Confidence Interval for B		
		$\alpha$	Std. Error	Alpha	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	.611	.220		3.799	.001	.372	1.271
	Tax Knowledge	.587	.092	.308	5.649	.000	.372	.715
	Tax rates	-3.598	14.520	-.438	.246	.000	-24.128	35.225
	Cost of compliance	-.85	12.332	-.377	.246	.000	-24.128	35.225
	Attitude and Perception	-1.385	.642	-.507	2.034	.000	-.007	2.620

a. Dependent Variable: Tax Compliance

$\alpha$ . Predictors: (Constant), Tax Knowledge, tax rates, cost of compliance, Attitude and Perception

*Author : Research Findings (2018)*

From the regression analysis, all the explanatory variables are statistically significant at 5% level of significance in explaining the variation in model. The coefficient of Tax knowledge, tax rates, cost of compliance and Attitude and Perception had a p-value <0.05 thus were significant at 95% confident level. Thus, model established is as follows;

Tax Compliance= 0.611+0.308 Tax Knowledge - 0.438 tax rates - 0.377 compliance cost- 0.513 Attitude and Perception on Tax.

( $Y = 0.611 + 0.308 X_1 - 0.438 X_2 - 0.377 X_3 - 0.513 X_4 + \epsilon$ ).

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

The chapter gives a summary of major findings drawn from the analyzed data. The summary of findings will help in drawing conclusions towards answering the research questions and then finally will lead to recommendations. The focus of the study was on tax compliance. The conclusions were based on the returned 49 questionnaires.

#### 5.2 Summary of findings

The main objective of this study was to examine factors influencing tax compliance among small-scale enterprises in Nairobi County: A case of SMEs in Toi Market. The study was guided by objectives: To examine the influence of tax knowledge on tax compliance among small scale enterprises in Toi market, to establish the influence of tax rates on tax compliance among small scale enterprises in Toi market, to find out the influence of compliance cost on tax compliance among small scale enterprises in Toi market and to examine the influence of perception on tax compliance among small scale enterprises in Toi market.

The study found that there was strong relationship between Tax compliance and Tax knowledge, cost of compliance and perceptions on tax. In order to determine the significance of the model, the processed data, had a significance level of 5% which shows that the data was ideal for making a conclusion on the population's parameter. From the findings the following regression model was established:  $\text{Tax Compliance} = 0.611 + 0.308 \text{ Tax Knowledge} - 0.438 \text{ tax rates} - 0.377 \text{ compliance cost} - 0.513 \text{ Attitude and Perception on Tax}$ . From the findings the study found that there is significant strong relationship between tax compliance as a result of tax knowledge. However, a negative association was established between tax compliance and cost of compliance, tax rates and perception on tax.

Lastly, the study examined the influence of perception on tax compliance among small scale enterprises in Toi market. The findings agree with those that encourage tax administrators to apply persuasive approach in increasing personal income tax compliance. The findings show most study participants were not sure whether there was a need to improve Kenya's tax system but about a quarter believed there was need to change in order to improve its efficacy. The findings from this study imply that taxpayers who have greater intention to comply will have a bigger tax compliance behavior anyway.

Tax knowledge is necessary to increase public awareness on taxation rules and the role of taxation in national development. Once individuals have the knowledge pertaining to the importance of taxation, they will be influenced to comply without any enforcements or pressure on them. In addition attitude towards taxation can also be improved through taxation knowledge, thus when a taxpayer has a positive attitude toward tax, this may influence him or her to comply.

### **5.3 Conclusion**

A lack of a well-functioning body of tax compliance systems, which is essential for the detection and prosecution of cases of tax fraud, is another determinant of tax compliance. In addition, the lack of sufficient capacities in tax administrations and the use of family and unpaid labor by small-scale business reduce the probability of detection that again influences the decision of a taxpayer as to whether evade or not this in most cases leads to low tax compliance.

In addition to the above the findings also indicate that perception on payment tax payers was seen to influence tax compliance, organizational financial constraints was also seen to influence tax compliance. Equally, simplicity of tax return forms and awareness on offences and penalty on those that do not comply with tax payment were to blame for non-compliance of tax. This study shows that strong desire of taxpayers to comply the tax obligations determined by subjective norms on tax compliance, and the perception of the taxpayer on the regulators.

### **5.4 Recommendations**

- Based on the findings of this study and the conclusions drawn above, the following recommendations are made:
- There is need for more awareness on tax compliance in Kenya especially among the small-scale business in Toi market to increase their knowledge on tax returns. The government should also find more efficient ways of disseminating information to taxpayers.
- The revenue authority should find a way of simplifying the tax systems further. This will act as an incentive to the taxpayers to be compliant with tax laws.

- Further studies should be done on this subject to define further the factors that affect compliance of SMEs. This will give forecast, which in turn will improve revenue collects.

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## APPENDICES

### Appendix: Questionnaire

#### INSTRUCTIONS

The purpose of this study is to examine factors influencing tax compliance among small enterprises in Nairobi with special focus on Mitumba bale traders in Toi market. Please tick in the appropriate box and also fill in the blank spaces provided for those questions.

#### SECTION A: GENERAL INFORMATION

Name of business (Optional).....

##### 1. Gender

Male ( )                      Female ( )

##### 2. Highest level of education

University                      ( )

Tertiary college                      ( )

High school                      ( )

##### 3. What is your position as a respondent in the business?

Business Owner                      ( )

Managing Director                      ( )

Finance Manager                      ( )

Accountant                      ( )

Others (Specify).....

##### 4. For how long has the business been in existence?

Less than One year                      ( )

1-5 Years                      ( )

6-10 Years                      ( )

More than 10 Years                      ( )

##### 5. Does your business have a Personal Identification Number (PIN)?

Yes ( )

No ( )

##### 6. How many employees do you have?

Below 10 ( )

11-15 ( )

15-20 ( )

21 and above ( )

**SECTION B: TAX COMPLIANCE**

Tax laws requires on to be dully registered, added the right obligations and to file returns in the right time. Please rate the following in regard to tax compliance. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	4	3	2	1
It is clear why I need a KRA pin					
information of tax due dates readily available					
The information available to me is enough to do proper tax computations					
Information available to me prompt me to pay taxes by due date.					

**SECTION C: TAX KNOWLEDGE**

KRA issues pamphlets, newsletters and posted messages on the KRA web site. Please rate the following in regard to the availability of such information. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	4	3	2	1
The tax knowledge induced me to pay tax arrears					
The knowledge was an incentive to me to file returns					
I was induced to file returns which I have never declared					
I informed others about filing of returns.					
I was induced to always file my returns before due dates					
I was pressured to make correct declarations of tax					
I was induced to pay more tax arrears					

**SECTION D: TAX RATES**

KRA has different tax rates for different tax heads. These tax rates also have different thresholds and different due dates. Please rate the following statements in regards to your knowledge of the current tax rates. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	4	3	2	1
Awareness on proper tax rates					
Tax rates were an incentive to file returns					
The tax rates was fair					

**SECTION E: COMPLIANCE COST**

In the course of being compliant with tax laws, one may incur costs. Please rate the following statements using your knowledge on tax compliance costs. Where 1= Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4= Agree 5= Strongly agree.

	5	4	3	2	1
Compliance cost has induced me to file and comply					
The rate penalties influence me not either comply or not to comply with tax payment					
Strict enforcement measures encourage voluntary compliance					

**SECTION F: PERCEPTION ON TAX COMPLIANCE**

**11. Attitude & perceptions towards tax amnesty.**

In regards to KRA procedures and operations, please rate the following statements. Where 1 Strongly Disagree 2= Disagree 3= Neither agree nor Disagree 4- Agree 5 Strong agree.

	5	4	3	2	1
High cost of compliance influenced my attitude towards complying with tax laws.					
In future in future tax rates may be revised downwards so I do not need to comply now.					
Do you feel overwhelmed by tax procedures					
Do you think the tax rates in Kenya are fair?					

12. In what areas do you think KRA needs to chage inorder to improve on service delivery?

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THANK YOU!