

**FACTORS AFFECTING ITAX SYSTEM ON REVENUE COLLECTION AMONG
SMALL AND MEDIUM ENTERPRISES IN BUNGOMA TOWN.**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,
ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILMENT
OF THE REQUIREMENT FOR THE AWARD OF POST-GRADUATE DIPLOMA IN
TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE
AND TECHNOLOGY.**

OCTOBER, 2019

DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than Kenya School of Revenue Authority for academic credit.

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This project has been presented for examination with my approval as the appointed course supervisor.

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Supervisor: Dr. Marion Nekesa

DEDICATION

This research project is dedicated to my family members who have always believed in my potential and encouraged me to join the Tax Administration at the Kenya School of Revenue Administration, thanks for your prayers. To my parents who always sacrificed, supported and inculcated relentless virtues in me. It was always your desire I be fruitful mentally and in all depths of life. To my supervisor, lecturers and fellow students for their undying support throughout my studies.

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TABLE OF CONTENTS

DECLARATION.....	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	x
LIST OF FIGURES	xi
DEFINITION OF TERMS	xiii
ABSTRACT	xiv
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Global Perspective	2
1.1.2 Kenya Perspective	16
1. 1.3 Effect of iTax System	18
1.2 Statement of the Problem.....	23
1.3 Research Objectives	24
1.3.1 General Objective	24
1.3.2 Specific Objective	24
1.4 Research Questions	24
1.5 Significance of the Study	25
1.5.1 Government of Kenya.....	25
1.5.2 KRA Management	25

1.5.3 SMEs.....	25
1.5.4 Future Researchers	26
1.6 Scope of the Study.....	26
CHAPTER TWO	27
LITERATURE REVIEW	27
2.1 Introduction.....	27
2.2 Theoretical Literature Review.....	27
2.2.1 Theory of Technology Acceptance Model	27
2.2.2 Unified theory of acceptance and use of technology.....	28
2.2.3 Deterrence Theory	30
2.2.4 Ability to Pay Theory	31
2.3 Conceptual Framework.....	32
2.4 Empirical Literature.....	33
2.4.1 Technical skills and knowledge of use of the iTax online system	34
2.2.2 Perceived Usefulness of iTax system	36
2.4.2 Perceived Ease of use of iTax system.....	39
2.5 Critiques of the Study	40
2.6 Research gap	41
2.7 Summary.....	42
CHAPTER THREE	43

RESEARCH METHODOLOGY	43
3.1 Introduction.....	43
3.2 Research Design.....	43
3.4 Sampling Frame	43
3.3 Target Population	44
Table 3.1 Target Population	44
3.3 Sample and Sampling technique	44
3.3.1 Sample Size.....	44
3.6Data Collection Methods	46
3.5.1 Primary Data	46
3.5 Data Collection Instruments	46
3.6 Data Collection Instrument and Procedure.....	46
3.7 Pilot Study.....	47
3.7.1 Reliability of Research Instruments	47
3.7.2 Validity of Research Instruments	47
3.8 Data Analysis and Presentation.....	47
3.8.1 The Qualitative Analysis.....	48
3.8.2 The Quantitative Analysis.....	48
CHAPTER FOUR.....	50
RESEARCH FINDINGS AND DISCUSSION	50
4.0 Introduction.....	50

4.1 Response Rates.....	50
4.2 Reliability test results	51
Table 4.3 Reliability test results.....	51
4.4 Descriptive Statistics	52
4.4.1 Technical skills and knowledge	52
4.4.1 Perceived ease of use	53
4.4.1 Perceived usefulness	54
4.4.1 Revenue collection	55
4.5 Correlation Analysis	56
4.5.1 Correlation results on independent variables	56
4.6 Regression Analysis	58
4.7 Discussion of key Findings	68
4.7.1 Technical skills and knowledge	68
4.7.2 Perceived ease of use and revenue collection	69
4.7.3 Perceived usefulness and revenue collection	69
CHAPTER FIVE	70
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	70
Introduction.....	70
5.1 Summary of the findings.....	70
5.1.1 Technical skills and knowledge	70

5.1.2 Perceived ease of use	70
5.1.3 Perceived usefulness	71
5.2 Conclusions	71
5.2.1 Technical skills and knowledge	72
5.2.2 Perceived ease of use	72
5.2.3 Perceived usefulness	72
5.3 Recommendation.....	72
5.4 Suggestions for Further Research	73
REFERENCES.....	74
APPENDIX 2: QUESTIONNAIRE.....	77

LIST OF TABLES

Table 3.1 Sample Size.....	44
Table 4.2 Reliability Coefficients.....	51

LIST OF FIGURES

Figure 2.1: Conceptual Framework.....	32
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LIST OF ACRONYMS AND ABRVIATIONS

CBD	Central Business District
ETR	Electronic Tax Register
ICT	Information and Communication Technology
IMF	International Monetary Fund
KRA	Kenya Revenue Authority
PC	Personal Computer
SMEs	Small and Medium Enterprises
VAT	Value Added Tax
GDP	Gross Domestic Product
KRA	Kenya Revenue Authority
MST	Medium and Small Taxpayers
PIN	Personal Identification Number
SPSS	Statistical Package of Social Sciences
VAT	Value Added Tax

DEFINITION OF TERMS

- SMEs -** These are enterprises with a turnover of between 5M and 8M
- Tax:** A compulsory financial contribution imposed by a government to raise revenue, levied on the income or property of persons or organizations, on the production costs or sales prices of goods and services, etc.
- Tax Compliance:** The Degree to which a taxpayer complies with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner.
- Tax Evasion:** It refers to the conscious or unconscious action and behaviour
- Tax Rate:** Tax imposed by the federal government based on an individual's taxable income or a corporation's earnings
- Tax Information:** The knowledge or facts provided about taxes.
- Tax Obligation:** Responsibilities pertaining to tax payment and declaring of tax returns which a person duly registered
- Tax Compliance cost:** It refers to the expenditure of time or money in conforming to government requirements such as legislation or regulation.
- Tax Administration:** It refers to the procedures attached to tax compliance including registration and filling of returns.

ABSTRACT

The study aims to establish factors affecting iTax system on revenue collection among Small and Medium Enterprises in Bungoma town. The study was guided by the following specific objectives: -.To establish the effect of technical skills and knowledge on revenue collection among small and medium enterprises in Bungoma town, to assess the effect of perceived ease of use on revenue collection among small and medium enterprises in Bungoma town and to analyse the effect of perceived usefulness on revenue collection among small and medium enterprises in Bungoma County, Kenya. The study adopted descriptive research design. The study target population was 1400 Small and Medium taxpayers in Bungoma town. The study sample size was 147. This study used primary data collected through questionnaires. A pre-test on a different sample was carried out to give a Cronbach's alpha greater than 0.7 for all the variables as a rule of thumb. Data analysis was done by use of descriptive statistics and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis employed in the analysis. All the analysis will be done using the statistical package for social sciences (SPSS Version.24). Analysis of variance (ANOVA) used to establish if there is a statistical significance between the observed and expected values with the Pearson Chi square giving the degree significance of the relations. Findings revealed that the regression coefficient results indicate a positive significant effect between training, perceived ease of use and perceived usefulness and implementation of iTax system. The study recommends that the government should strive to build public confidence in the taxation systems. Trainings on iTax system should be enhanced to benefit more SMEs in submitting tax returns through provision of training on servicing of iTax system and utilization of by KRA to foster compliance levels.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Revenue Authorities across the world are mandated to assess, collect and enforce laws relating to a country's tax revenues. "Governments around the world are increasing the use of information and communications technologies to improve the delivery of public services and the dissemination of public administration information to the public" (Azmi & Kamarulzaman, 2010, p. 599). A common feature of these reforms is the use of automated systems in collecting, accounting and facilitating tax payments. This facilitates timely access to information from reliable databases, it also unifies procedures and standardizes the payments processes. According to e-File LLC (2016), online filing of tax returns in the USA began as early as 1986. Initially, e-filing in the USA began as a small test program with only 25,000 tax returns being filed electronically. It was seen to greatly reduce the chances of making an error while filing the tax return. The test program's success led to its rollout to other cities initially not covered. Four years later 4.2 million tax returns were filed in the year 1990. As at 2013, the method had become widely popular with a record of 1 billion tax returns having been filed throughout its history.

In Africa, Nigeria for instance modernised its tax administration services in the period between 2004 and 2013. The online system was known as Integrated Tax Administration System (ITAS). The system was launched in 2013, its main aim was to use technology to enhance tax compliance with automation of all core processes of tax administration (PwC, 2015). Muwonge (2011) notes that in Uganda, the Uganda Revenue Authority (URA) in 2005 developed an online tax system dubbed 'e-Tax'. Muwonge (2011) further comments that the purpose of the online tax system was to enable efficiency in the tax administration process as well as reduce the taxpayer's expenses in

tax compliance. In Tanzania on the other hand, electronic filing of VAT returns was introduced in October 2012 significantly reducing the time taken to file the tax returns. Additionally, in 2013 the Tanzania Revenue Authority (TRA) launched a Revenue Gateway System, an interface between the TRA and commercial banks enabling seamless payments of taxes.

1.1.1 Global Perspective

Automation of tax collection allows tax data entry, automated processing, computation and analysis as well as automatic production of tax reports and feedback required for control and risk management purposes (Holniker,2005). According to Holniker (2005), automation of tax collection includes developing powered computer program to carry out tax assessments and computations; and to determine tax dues at high levels of speed and accuracy hence ensuring quick response to the recipient (Guido, 2007).

Online response of automation tax collection is the processing of customs documents by the computer assisted treatment of electronically transmitted information. Swindle (2007) adds payment and accounting, to register and account for payments by importers and exporters; and risk management, to select those consignments bearing higher risks, concealing duty and tax noncompliance, illegal importation of drugs or materials aimed for terrorist activities. Notwithstanding the foregoing benefits, Ward and Dietmar (2007) noted that automating customs administration has cost implications, which vary from country to country and according to the initial situation of the customs administration in terms of available ICT, human expertise and the structure of tax administration (Peled, 2008).

Tax is an economic obligation imposed by the government on natural and legal persons (Tauy & Guvenc, 2007). These tax obligations are contained in tax laws. Tax compliance refers to fulfilling all tax obligations as required by the tax laws. It is the act of reporting all incomes and paying of

all taxes by fulfilling the provisions of laws, regulations and court judgements within the stipulated period without having to wait for follow-up actions from the authority. Non-compliance is the intentional failure by citizens to declare their taxable activities. It takes several forms like concealing some taxable activities, falsifying returns and failing to stick to the laid regulations concerning declarations and submission of the returns.

The use of technology to foster tax compliance by the United States Internal Revenue Service (IRS) shows that more developed economies also face challenges in increasing the use of e-filing. The IRS introduced e-filing of federal tax returns in 1986. Though this system predated Singapore's, it was initially less comprehensive. In fact, even though the number of electronic returns filed increased over time, the potential savings from that increase were partly offset by the ongoing use of paper filings for complex returns. But by 2012 the IRS achieved 80% e-filing of major returns. (Electronic Tax Administration Advisory Committee, 2012).

Tax systems in developing economies, like those in more developed ones, face both new challenges and new possibilities because of technological change. Malaysia's ongoing reform of its electronic tax filing and payment system describes how technology can benefit both tax authorities and taxpayers. Singapore was one of the first economies to adopt electronic systems in its public administration. In 1992, the Inland Revenue Department was replaced by the Inland Revenue Authority of Singapore, which developed an integrated, computerized tax administration system (World Bank, 2000).

Gupta. (2012) stated in his study that all the reforms in Rwanda's tax base system were aimed at improving tax collections, administrations, and above all tax compliance.

In a bid to improve tax compliance, Rwanda Revenue Authority (RRA) decided to opt for electronic tax management system which includes e payment, e filling and electronic tax education in order to improve on tax collection in the country. This research analysed the effect of an electronic tax management system on tax collection in Rwanda. According to Holniker (2005), automation of tax collection includes developing powered computer program to carry out tax assessments and computations; and to determine tax dues at high levels of speed and accuracy hence ensuring quick response to the recipient (Guido, 2007).

As a result, many in the business community react by taking steps which adversely affect the tax base. This typically includes underreporting profits and turnover; underreporting employee wages and by creating phantom employees. A significant number of businesses also fail to register or file tax declarations. This only increases the burden on those taxpayers who try to comply with the tax law and discourages their future compliance. The result is a vicious cycle which tends to preserve the status quo Customs automation is usually part of an overall tax administration reform (Rao, 2000) and modernization program.

Online response of automation tax collection is the processing of customs documents by the computer assisted treatment of electronically transmitted information. Swindle (2007) adds payment and accounting, to register and account for payments by importers and exporters; and risk management, to select those consignments bearing higher risks, concealing duty and tax noncompliance, illegal importation of drugs or materials aimed for terrorist activities.

Notwithstanding the foregoing benefits, Ward and Dietmar (2007) noted that automating customs administration has cost implications, which vary from country to country and according to the initial situation of the customs administration in terms of available ICT, human expertise and the structure of tax administration (Peled, 2008).

Tax is an economic obligation imposed by the government on natural and legal persons (Tauby & Guvenc, 2007). These tax obligations are contained in tax laws. Tax compliance refers to fulfilling all tax obligations as required by the tax laws. It is the act of reporting all incomes and paying of all taxes by fulfilling the provisions of laws, regulations and court judgements within the stipulated period without having to wait for follow-up actions from the authority. Non-compliance is the intentional failure by citizens to declare their taxable activities. It takes several forms like concealing some taxable activities, falsifying returns and failing to stick to the laid regulations concerning declarations and submission of the returns. On-compliance is closely linked to tax evasion except that it incorporates, apart from evading taxes the aspect of complying with other income tax rules and regulations such as deadline for submission of tax returns. Tax avoidance is legal while tax evasion is not, although tax evasion and tax avoidance have similar effect on revenue collection, however from legal point of view tax avoidance doesn't amount to non-compliance (Myles, 1995)

Sreekantaradhya (2000) notes that taxation plays a vital role in the process of development of any country. It enables resource mobilisation, allocation, distribution and stabilisation. Revenue Authorities across the world are mandated to assess, collect and enforce laws relating to a country's tax revenues. "Governments around the world are increasing the use of information and communications technologies to improve the delivery of public services and the dissemination of public administration information to the public"

(Azmi & Kamarulzaman, 2010, p. 599). A common feature of these reforms is the use of automated systems in collecting, accounting and facilitating tax payments. This facilitates timely access to information from reliable databases, it also unifies procedures and standardizes the

payments processes. One of the earliest adopters of online filing was the United States of America (USA), through its Internal Revenue Service (IRS).

Before 1990, organizations in most countries across the world used information technology (IT) in a very restricted manner (Bryson & Daniels, 2007). At the time, the use of information and communication technologies (ICT's) for business operations was considered to be costly rather than a way of presenting organizations with a new approach to business. As a result of increased technological advancements, however, things took a different turn and the use of ICT's became an important consideration for most organizations (Al-Adaileh, 2009). A number of factors including increased global activities and the evolution of a digital environment have greatly contributed to the increased use of ICT's by organizations. As a result of the above changes, many organizations are compelled to spend heavily on ICT's in order to improve performance and increase efficiency (Rao, 2006; May et al., 2007).

However, the initial excitement quickly disappears when it becomes almost impossible to determine the role and exact benefits associated with the use of ICT's. Consequently, it is critical for any organization to assess the contribution of ICT systems to performance. Considering that the use of ICT's is aimed at enhancing the users' ability to work better and produce more, it is imperative to measure and assess the success of ICT's from the users' perspective. Arguably, the success of ICT's depends more on users than on technology (Akman et al., 2005).

Tax compliance is the timely filing and reporting of required tax information, the correct self-assessment of taxes owed, and the timely payment of those taxes without enforcement action (Jones, 2009).

According to Gebre (2006), tax revenue is one of the most important sources of government income. Thus, tax is compulsory payment to government without expectation of direct return or benefit to taxpayers. Taxation is a powerful instrument in the hands of the government for transferring purchasing power from individuals to government. It imposes a personal obligation on the taxpayer. Several factors explain this, including the potential benefits of taxation for state building and independence from foreign aid. However, governments in developing countries face great challenges in collecting tax revenues, which result in gaps between what they could collect and what they actually collect.

Muita (2011) indicated that the embracing of emerging technologies and tax payment methods are more efficient in reducing wastage. Nyareru, Kibati & Ragama Licensed under Creative Common Page 728 According to Cobham (2010), the electronic tax system has been around, globally, for the last 30 years. According to Friedman, Kaufmann and Zoido-Lobaton (2000), those SMEs and persons that are inclined to cheat on their sales tax are probably already cheating on their income tax and would be inclined to do so under any tax system.

Similarly, the taxation of SMEs faces several major policy challenges. The first one concerns compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses. Given that small start-ups and research-oriented SMEs are generally considered as important factors for economic growth, tax compliance cost may slow down the economy.

The influence of tax knowledge and training on compliance behavior has been described in various past studies. The level of education or training received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of

taxation (Eriksen & Fallan, 2000). Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation and their ability to comply (Singh & Bhupalan, 2001).

Previous literature supports the direct, positive relationship between educational level and taxpayer compliance. Chan, Troutman and O'Bryan (2000) postulated that education level is directly linked to a likelihood of compliance. In addition, compliance costs involved in taxation are major impediments to elicit compliance behavior of taxpayers. It is also believed by most tax policy researchers that compliance costs for tax payment are quite high especially for SMEs, which lack knowledge and skills of the tax laws and regulation (Shome, 2004).

Besides, Richardson (2008) suggested that the role of a government has a significant positive impact on determining attitudes toward tax and tax compliance levels by its citizens. Tax compliance determinants from a social perspective relates to taxpayers' willingness to comply with tax laws in response to other people's behavior and their social environment (Torgler, 2007). In the US, for instance, 40% of Americans, most of who are mostly in the informal sector, are not in compliance with income tax. The reasons for non-compliance are instructive.

For instance, taxpayers lack the requisite knowledge of the tax law, taxpayers interpret the law differently from the Internal Revenue Service of the USA, taxpayers lack record keeping ability sufficient to satisfy the Internal Revenue Service and the taxpayers International Journal of Economics, Commerce and Management, United Kingdom Licensed under Creative Common

Sometimes the administration of income tax creates problems for business taxpayers when it imposes burdensome reporting and record keeping requirements. This has led to increased costs of tax for those who try to comply with the tax law (Baurer, 2005). Likewise most governments in

developing economies have not adequately taken taxpayer compliance costs into account when designing tax rules, yet such expenses fall on to the taxpayers in form of reduced work effort or saving (Bankman, 2005), time spent on tax compliance process and monetary expenditures on salaries, overheads and seeking assistance from experts (Munnich, 2004). Consequently, developing countries are still characterized by the low tax compliance levels, in the face of the numerous advocacies for voluntary compliance (Ayoki, 2008). Many governments as a result have adopted tax compliance administrative measures like penalties, rates and tax audits to ensure tax enforcement instead of compliance (Kayaga, 2007).

In countries where income redistribution is not satisfying, the higher income group tends to evade more (Mohani, 2001) because the high-income earner might feel betrayed and unfairly treated. Loo (2006) found that high income earners in Malaysia are prone to evading tax while Torgler (2007) reported that lower income earners in Western Germany. At the same time, special responses targeted at SMEs are conceivable.

For example, a widely observed measure to reduce the cost for small businesses are exemption thresholds under value added taxation (Weichenrieder, 2007). Nkote and Luwugge (2010) studied the effect of automation and customs tax administration in the case of Uganda. The researchers investigated the adoption of automation in URA in achieving efficiency and increased revenue collection. They established that there was inconsistency of the automation in improving efficiency in tax administration. The result generally showed that automation predicted the cost of tax administration and effectiveness of revenue collection though predicted clearance time negatively.

This means that the cost of tax administration increased with increasing automation and the time taken to clear tax declarations reduced with increased computerization of tax administration at URA. Lumumba et al., (2010) studied the effectiveness of Electronic Tax Registers in Processing

of Value Added Tax Returns in Kisii Town. Their finding showed that ETR has a significant positive impact on timely filling of the monthly VAT returns. Further the introduction of ETR has assisted in cutting costs that the business used to incur in processing VAT.

Moreover, it was found that ETRs have enhanced the revenue collection resulting from stock sales and stock audits. The challenges faced by KRA as identified by the authors in this study were problems related to the cost and classification of the business which need to use ETRs to file tax returns. Tax non-compliance and low compliance levels are serious challenges facing income tax collection and tax revenue performance in Kenya as it does in some other developing countries. Tax revenue plays a significant role in the economic growth of the country. Tax evasion and tax avoidance hampers revenue collection which leads to inefficiency in government operations.

Tax evasion refers to the illegitimate intentional actions by taxpayers taken in order to reduce their tax liability. (Alm, 2012).

Tax evasion is achieved through criminal acts of omission e.g. failure to register for VAT and acts of commission e.g. under declaration of sales, overstating expenses, claiming of personal expenses as if they are business expenses and misclassifying supplies to lower rates of tax. The use of technology to foster tax compliance by the United States Internal Revenue Service (IRS) shows that more developed economies also face challenges in increasing the use of e-filing. The IRS introduced e-filing of federal tax returns in 1986.

Though this system predated Singapore's, it was initially less comprehensive. In fact, even though the number of electronic returns filed increased over time, the potential savings from that increase were partly offset by the ongoing use of paper filings for complex returns. But by 2012 the IRS

achieved 80% e-filing of major returns. (Electronic Tax Administration Advisory Committee, 2012).

Initially, e-filing was not entirely paperless. Until 1999 electronic filers still had to submit signed paper documents. The IRS realized that when taxpayers switched to seeking the benefits of electronic tax systems and reflecting the government's vision of leveraging online technology, Malaysia's Inland Revenue Board (IRB) launched its electronic system for taxes in 2004. IRB aimed to increase revenue collection by improving taxpayer services. The goal was to cut time and cost and to allow taxpayers to comply with tax obligations more easily, enabling IRB to maintain a good reputation with taxpayers even as it widened its tax base. (Doing business, 2014)

Tax systems in developing economies, like those in more developed ones, face both new challenges and new possibilities because of technological change.

Malaysia's ongoing reform of its electronic tax filing and payment system describes how technology can benefit both tax authorities and taxpayers. Singapore was one of the first economies to adopt electronic systems in its public administration.

In 1992, the Inland Revenue Department was replaced by the Inland Revenue Authority of Singapore, which developed an integrated, computerized tax administration system (World Bank, 2000). The authority's first step was shifting from a hard copy filing system to paperless imaging.

Going electronic made administrative processes more efficient by freeing staff from unproductive paper shuffling, enabling better taxpayer service. The time needed to issue assessments dropped from 12–18 months to 3–5 between 1992 and 2000 This change allowed staff to work more on auditing and investigation. (World Bank, 2000).

According to Gebre (2006), tax revenue is one of the most important sources of government income. Thus, tax is compulsory payment to government without expectation of direct return or benefit to taxpayers. Taxation is a powerful instrument in the hands of the government for transferring purchasing power from individuals to government. It imposes a personal obligation on the taxpayer. Tax refund claims can also be easily handled using ETR and as result reduces costs of businesses (IMF, 2005). The results of ETR implementation indicate that using ETRs shorten time taken for preparation of VAT returns as compared to previous time when preparation of VAT returns was done manually. Nisar (2013) argued that recent trends in public taxation stress the need of developing a system of tax assessment and collection that involves internet services. Several factors explain this, including the potential benefits of taxation for state building and independence from foreign aid.

However, governments in developing countries face great challenges in collecting tax revenues, which result gaps between what they could collect and what they actually collect. Muita (2011) indicated that the embracing of emerging technologies and tax payment methods are more efficient in reducing wastage. According to Cobham (2010), the electronic tax system has been around, globally, for the last 30 years. According to Friedman, Kaufmann and Zoido-Lobaton (2000), those SMEs and persons that are inclined to cheat on their sales tax are probably already cheating on their income tax and would be inclined to do so under any tax system. Similarly, the taxation of SMEs faces several major policy challenges.

The first one concerns compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses. Given that small start-ups and research-oriented SMEs are generally considered as important factors for

economic growth, tax compliance cost may slow down the economy. At least two policy responses to the problem of compliance costs are conceivable. Governments could try to generally simplify tax administration for businesses.

For every tax filing or payment, taxpayers had to log in, select and complete the appropriate forms, sign and submit them digitally. An acknowledgment is received immediately. The e-filing system automatically calculates the necessary payment details. It also curbs deductions that taxpayers are entitled based on deduction rules—enabling taxpayers to avoid mistakes that would result in penalties (Doing business ,2014).

Tax evasion is different from tax avoidance in that, tax avoidance is done within the confines of the tax laws (Sandmo, 2005).When there is ambiguity in the tax laws, this in some cases provides a tax saving opportunity for a business. A business can also evaluate their business model, transactions and financial profile to align themselves in such a way that they benefit from paying lower taxes the use of automated systems has been proven to be capable of introducing massive efficiencies to business processes at a minimal cost (Wasao, 2014). Information system has helped organizations to be highly efficient and to stay competitive in its environment; therefore, it has been widely used in public sector and business organizations (Gupta, 2012).

Technology is transforming the ways governments deliver services and interact with citizens across various sectors, from public financial management to social programs to elections and many others (World Development Report, 2016). These e-government initiatives typically seek to improve service delivery and efficiency. Often, they also aim to combat corruption by automating systems and reducing officials' discretion.

The tax compliance literature has provided evidence suggesting that compliance is influenced by numerous factors (Brook, 2001). Scholars identified these factors as economic, social and psychological (Brook, 2001; Devos, 2008; Kirchler, 2007). According to Kirchler (2007) and Loo (2006), tax compliance determinants are classified in four categories based on an interdisciplinary perspective representing a wider perspective of tax compliance determinants: economic factors (tax rates, tax audits and perceptions of government spending); institutional factors (the role of the tax authority, simplicity of the tax returns and administration and probability of detection); social factors (ethics and attitude, perceptions of equity and fairness, political affiliation and changes on current government policy, referent groups); and individual factors (personal financial constraints, awareness of offences and of penalties). The role of the tax authority in minimizing the tax gap and increasing voluntary compliance is clearly very important.

The influence of tax knowledge and training on compliance behavior has been described in various past studies. The level of education or training received by taxpayers is an important factor that contributes to the understanding about taxation especially regarding the laws and regulations of taxation (Eriksen & Fallan, 2000). Previous studies have evidenced that tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation and their ability to comply (Singh & Bhupalan, 2001). Previous literature supports the direct, positive relationship between educational level and taxpayer compliance. Chan, Troutman and O'Bryan (2000) postulated that education level is directly linked to a likelihood of compliance.

It is imperative that users of a technology system have the necessary skills to use it to perform the desired functions. This section focuses on key technical skills and knowledge needed to take advantage of the online systems. These required skills and knowledge are information technology literacy, knowledge of the taxation system and tax laws as well as having an existing

A study by Alam (2009) in Klan valley area in Malaysia aimed at establishing the factors that influenced internet adoption by the SMEs. A sample of 465 SMEs was used. The results of the study revealed that the computer knowledge and experience of the individual determined the adoption of the web application.

The study recommended that the government agencies responsible for implementation of IT innovations should ensure that they address the issue of computer literacy of the people adopting the innovation. Computer literacy could be achieved through subsidised seminars and trainings.

There are external factors predicting perceived usefulness. In particular, Miller & Khera (2010) established several external factors that are critical to the perceived usefulness of the information system. These included relevance, visibility, subjective norm, domain knowledge and trust in content. Miller and Khera defined visibility as “the degree to which a given system is known within an organization” (p. 5). Thong et al. (2002) observed that with higher visibility, the benefits of using the information system would be known by potential users. This would help them perceive the functions of the system as more useful hence increasing their intention to adopt it. They therefore postulated that higher visibility leads to higher perceived usefulness of the technology innovation. Alraja, Hammami, & Alhousary (2015) on the other hand argued that governments should increase the awareness of the electronic services and the benefits of the services through using social media and not traditional mediums to be able to reach its targets with real time information. Subjective norm is defined as “the person’s perception that most people who are important to him think he should or should not perform the behavior in question” (Fishbein & Ajzen, 1975, p. 302). Fishbein and Ajzen (1975)

1.1.2 Kenya Perspective

The Kenya revenue Authority (KRA) was established by an Act of parliament, chapter 468 of the laws of Kenya, which became effective on 1st July 1995. The authority is charged with the responsibility of collecting revenue on behalf of the Government of Kenya. Since 2000, KRA has been undergoing several reforms all geared towards enhancing tax collection.

KRA funds over 70% of the Kenya National Budget and hence the need to increase revenue through continuous improvement on tax collection processes. As part of the reforms, KRA embarked on a project in 2004 whose aim was to tighten grip on revenue sources by introducing the iTax system.

The KRA identified the use of technology as a major factor of success in revenue administration reforms and overall improvement of their service delivery (KRA, 2010). Other benefits expected to be realised were reduced lead times, costs savings and reduced interaction between KRA employees and taxpayers. This would guarantee the transparency and credibility of the tax transactions and thus lower corruption between the KRA employees and taxpayers (KRA, 2010). In response to this, they launched a technology platform known as the Integrated Tax Management System (ITMS) in 2003. In October 2013, they introduced the iTax online system.

The iTax online system was an improved version of the ITMS allowing additional tax processes and payments in addition to filing of tax returns. As at 2015 over 2 million taxpayers were registered on the iTax online system (KRA, 2015). SMEs are non-subsidary, independent firms which employ less than a given number of employees.

The Kenya Revenue Authority was established by the KRA Act, Chapter 469 of the Laws of Kenya. The KRA's main mandate is to act as the revenue collection agency of the government (KRA, 2015). In carrying out its mandate, the KRA administers and enforces various written laws relating to revenue which include the Income Tax Act (ITA), Value Added Tax (VAT) Act, Customs and Excise Act, Traffic Act, Transport Licensing Act, Sugar Act, Stamp Duty Act, Second- Hand Motor Vehicles Purchase Tax Act among others.

The Authority also acts as an advisor of the Government in revenue administration matters (The Republic of Kenya, 2015). Section 3 (1) of the ITA provides that income tax shall be charged upon the income of a person which accrued in or was derived from Kenya (Income Tax Act Chapter 470, 2012). Income taxes in Kenya include corporation tax, Pay As You Earn (PAYE), capital gains tax, rental income tax, advance tax on commercial vehicles, fringe benefit tax, withholding tax and turnover tax. Companies pay corporation tax on the gains and profits from their businesses. Sole proprietors and partnerships pay PAYE on the gains and profits from their businesses, calculated based on the individual graduated scale rates. Furthermore, businesses are required to pay VAT, customs and excise duties charged under the VAT Act, Customs Act and Excise Duty Act respectively. The iTax online system is used to facilitate payment of all income taxes, VAT and excise duty.

Additionally, monthly and annual self-assessment returns for these taxes are filed on the iTax online system. Once the payment is made and tax returns filed, the company's iTax ledger is updated automatically to reflect the company's tax position.

The iTax online system also allows for online Personal Identification Number (PIN) registration, amendment of PIN details, applications for waiver of penalties and interest, assessment dispute resolution, application for tax compliance certificates and applications for tax refunds. The system

also facilitates e-communication with the KRA. In the Sixth Corporate Plan, the KRA recognized that its goal was to enable the government of Kenya achieve revenue independence by the year 2018 which would effectively eliminate its reliance on financing its budget deficit through loans. In this Plan, the importance of using technology to enhance tax compliance was emphasized. This was seen as a way to deal with tax evasion and fraud (KRA, 2015). 5 Tax evasion is the deliberate failure to pay taxes as provided in the tax laws.

A business can also evaluate their business model, transactions and financial profile to align themselves in such a way that they benefit from paying lower taxes (Mgammal & Ismail, 2015). Hira (2016) notes that the most positive aspect of the year 2015 was the introduction of the iTax online system. Hira asserts that though the iTax system has been experiencing teething problems, he believes it was a good move as it would revolutionize how tax affairs would be conducted. The iTax online system was initially introduced in phases.

After successful piloting, it was made a mandatory requirement for filing of tax returns online from 1 August 2015 (KRA, 2015). In essence, this meant that all taxpayers including SMEs, were required to use iTax only and abandon the manual process.

1. 1.3 Effect of iTax System

The manual system used before the adoption of iTax had a lot of loopholes as compared to the current system which requires taxpayers to register, file returns and pay their dues online. The manual system allowed unscrupulous taxpayers to under declare tax.

The automation of all the procedures is good for enhancing the level of compliance and push up government revenue collection. Professionals who do not declare their taxes as required, it is very easy to identify them using the iTax system. This is because, under the iTax system there is a lot of corroborating evidence in the declarations made in the tax returns which once is generated, it

automatically raising the standards of compliance. For example, withholding tax system has been significantly changed by itax. (Business Daily, 2015).

Manual returns are tedious to file on the part of the taxpayer and difficult to reconcile on the part of KRA hence the adoption of iTax system which aims at ensuring accuracy and timely reconciliation of the data contained, as it does automatic reconciliation and validation of the returns.(Muita, 2011).

Throughout the years, the Kenya government has attempted different income tax reforms aimed at enhancing revenue collection (Masinde and Makau, 2010).

One of the measures that have been actualized with the goal to expand income tax collection in Kenya was the presentation of self-assessment frameworks (SAS) in 1992.The objectives of this system was to increase voluntary compliance, reduce tax authorities' burden of assessing tax returns and increase tax collection efficiency through reduction of tax collection costs (Masinde and Makau, 2010).

However, in spite of different tax reforms, levels of compliance have remained very low. A study led by KRA, KIPPRA and the Treasury, in view 2012 information uncovered that VAT installment consistence was as low as 55% while return lodgment consistence was 65% (Masinde and Makau, 2010).

Kenya's tax code is still complex and cumbersome, characterized by uneven and unfair taxes, a narrow tax base with very high tax rates and rates dispersions with respect to trade, and low compliance.

Additional challenges include tax systems with rates and structures that are difficult to administer and comply with are unresponsive to growth and discretionary policy hence low productivity; raise

little revenue but introduce serious economic distortions; treat labour and capital in similar circumstances differently; and are selective and skewed in favour of those with the ability to defeat the tax administration and enforcement system (Karingi, Wanjala, Nyamunga, Okello, Pambah, and Nyakang, 2005). This led to the birth of itax in Kenya Revenue Authority. This is a web enabled system that enables the taxpayer file returns, make payments and monitor their profiles online.

Taxpayers' behaviour towards tax system has evoked great attention among many revenue authorities in the world especially in developed countries. However, it is debatable on what has been done towards the study of taxpayers' behaviour towards tax system in developing countries (Lumumba et al., 2010).

Despite all the efforts aimed at developing better and easier automated systems, these tax-filing systems has remained unnoticed by the public or are seriously underused in spite of their availability.

Kenya is ranked among low compliance countries with the hard task of ensuring efficient and effective tax administration, in order to ensure tax compliance, hence raising more revenue (Mandola, 2013).

Therefore, there is a need to understand the acceptance by the users of the automated systems and identify the factors that can affect their decision to use or not use these automated systems. This issue is important in that the answer could help the government to plan and promote new forms of electronic tax-filing systems in the future.

From this definition, there are three dimensions of tax compliance: filing, reporting, and payment compliance. Therefore, a taxpayer would be called non-compliant if the three dimensions are not

properly accomplished. The aim of tax reforms in many countries is to achieve higher voluntary compliance and one way to do this is by introducing electronic filing system (Khadijah, 2013). No matter what the justifications advanced, a tax fails to the extent that it is avoided or evaded (Shultz and Harris, 2004). The aim of tax reform in many countries is to achieve higher voluntary compliance and one way to achieve this is by introducing a self-assessment system (SAS) (Khadijah, 2014

The manual system used before the adoption of *iTax* had a lot of loopholes as compared to the current system which requires tax payers to register, file returns and pay their dues online. The manual system allowed unscrupulous taxpayers to under declare tax. The automation of all the procedures is good for enhancing the level of compliance and push up government revenue collection. Professionals who do not declare their taxes as required, it is very easy to identify them using the *iTax* system. This is because, under the *iTax* system there is a lot of corroborating evidence in the declarations made in the tax returns which once is generated, it automatically raising the standards of compliance. For example, withholding tax system has been significantly changed by *iTax*. (Business Daily, 2015).

Manual returns are tedious to file on the part of the taxpayer and difficult to reconcile on the part of KRA hence the adoption of *iTax* system which aims at ensuring accuracy and timely reconciliation of the data contained, as it does automatic reconciliation and validation of the returns. (Muita, 2011).

Kenya's tax system has performed better than average for Africa in the past three decades. In 1989/90, Kenya's tax revenue collection was 23.3% of GDP. Revenue collection peaked in

1995/96 at 30.4% of GDP, and thereafter, declined to 20.5% of GDP in 2002/03, before increasing to 22.0% in 2007/08 (IMF, 2008). Empirical analysis by Muriithi and Moyi (2003) suggest that tax reforms in Kenya under the Tax Modernization Program have led to improved productivity of direct taxes. In particular, administrative reforms aimed at eliminating avenues for tax evasion and corruption. However, Kenya's performance effectiveness indicators suggest that whilst the tax effort is high, there is potential to increase tax revenue collection as a percentage of GDP by reducing the tax gap.

Kenya government has undertaken various revenue administration reforms aimed at enhancing revenue collection (Masinde & Makau, 2010). One of the measures that have been implemented in order to increase revenue collection in Kenya was the introduction of self-assessment systems (SAS) in 1992. The objectives of this system was to increase voluntary compliance, reduce tax authorities' burden of assessing tax returns and increase tax collection efficiency (reduce tax collection costs). However, despite various administrative reforms, levels of tax compliance have remained quite low. A study conducted by KRA, KIPPRA and the Treasury, based on 1999/2000 data revealed that VAT payment compliance was as low as 55% while return lodgment compliance was 65% (Masinde & Makau, 2010).

Tax noncompliance is a substantive universal phenomenon that transcends cultural and political boundaries and takes place in all societies and economic systems.

There are many studies that explain the behavior of tax compliance in a more realistic situation. They focus on the determinants of tax compliance, respectively on economic and non-economic factors (Nicoleta, 2011). Wasao (2014) described electronic tax system as an online platform whereby the taxpayer is able to access through internet all the services offered by a financial authority such as the registration for a personal identification number, filing of returns and

application for compliance certificate, a perfect example of such system is the Electronic taxation system that was rolled out in 2013 by the Kenya Revenue Authority. According to Atika (2012), electronic tax system forms part of the revenue collection reforms by Kenya Revenue Authority whose main motive is enhancing tax collections and tax efficiency. Thus, tax revenues have been increasing rapidly due to the country's rapid economic development accelerated by the new systems.

1.2 Statement of the Problem

An analysis of the achievements so far as per the KRA's Sixth Corporate Plan showed that the use of iTax in tax compliance procedures is still low and underperforming. Underperformance was recorded specifically in electronic filing of annual corporate tax returns individual tax returns and making payments electronically. Some of the reasons put across by the KRA to try and explain the underperformance include late rollout of these modules, Kenyans been ranked poorly compared to other countries on degree of uptake of ICT and inadequate knowledge amongst taxpayers of these functionalities (KRA, 2015).

Additionally, tax compliance levels still remain low and tax collections are below the set targets as noted by KRA. The perception of tax fairness influences tax compliance behaviour. An inefficient tax system correlates positively with propensity to evade tax by SMEs and other tax payers. SMEs compliance decisions are affected by many factors including the tax morale among taxpayers, tax knowledge and penalties.

Joint studies carried out by KIPPRA, KRA and the ministry of finance, revealed that VAT payment compliance was as low as 55% while return filing was 65% (Masinde and Makau,2010).Repercussions relating to non-compliance of raising enough tax revenue by the government to finance planned activities, has motivated researches and policy makers to put

emphasis on tax non-compliance. Since the introduction of the iTax online system and subsequent mandatory requirement of its use by all taxpayers, no studies have been conducted to determine the factors influencing the adoption of the iTax online system by SMEs.

This could also shed light on any challenges they may be facing in adopting the online system hence necessitating this study. There was therefore the need to establish the factors influencing the adoption of the iTax online system among SMEs.

1.3 Research Objectives

1.3.1 General Objective

To establish the factors affecting iTax system on Revenue collection among small and medium enterprises in Bungoma town, Kenya

1.3.2 Specific Objective

- i. To assess the effect of technical skills and knowledge of iTax system on revenue collection among SMEs in Bungoma, Kenya.
- ii. To find out the effect of Perceived ease of use of iTax system on revenue collection by small and medium enterprises in Bungoma, Kenya.
- iii. To examine the effect of Perceived usefulness of iTax system on revenue collection among small and medium enterprises in Bungoma town, Kenya.

1.4 Research Questions

- i. Does technical skills and knowledge affect iTax system on revenue collection among SMEs in Bungoma town, Kenya?
- ii. Does Perceived ease of use affect iTax system on revenue collection by small and medium enterprises in Bungoma, Kenya?
- iii. Does Perceived usefulness affect iTax system on revenue collection among small and medium enterprises in Bungoma town, Kenya?

1.5 Significance of the Study

1.5.1 Government of Kenya

The government relies on revenue inflows to finance its expenditure in an economy. The study will go a long way to assist in demonstrating the factors affecting adoption of technology in improving revenue inflows. This will consequently serve as a guide or reference for other government departments and ministries as they undertake modernization programs to enhance revenue inflows.

1.5.2 KRA Management

This study will give insight to KRA on the progress made so far in bringing on board tax payers to the iTax online platform for ease of delivery of services and improved tax compliance. It will enhance the understanding of the Revenue Authority of the SME sector, which will enable them develop strategies to enhance compliance.

It will also point out the challenges faced by taxpayers, hence providing guidance on the issues to deal with for greater efficiency in the adoption of the iTax system. KRA will be able to use the findings from this study to critically assess the implementation and utilizations of iTax system by SMEs in Kenya and Bungoma in particular.

This will help in promoting effective implementation and utilization of iTax system by SMEs as well as ensure adequate revenue collection for the government to meet public service demands.

1.5.3 SMEs

Entrepreneurs will use the findings to understand the financial benefits associated with electronic recording of transactions and filing of VAT returns on time. This will help them in addressing problems facing the implementation and utilization of ETR machines and maintenance costs.

1.5.4 Future Researchers

The study will add knowledge to readers and researchers pursuing the factors influencing the uptake of technology to access tax services and meet tax obligations required by the tax laws. The study will in essence lay a basis for further studies of adoption of technology in enhancing tax compliance. Researchers on automated tax collection will benefit from the findings of this the study for a reference purpose especially on electronic tax registers implementation and utilization by SMEs in Kenya.

1.6 Scope of the Study

This study focused on factors affecting iTax system on revenue collection among Small and Medium enterprises in Bungoma town. The respondents were registered SMES in Bungoma town.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented review of literature on VAT collection. It first discussed three theories that provide the theoretical background of the study. These theories are prospect theory, deterrence theory and the ability to pay theory of taxation. The chapter also discussed other studies conducted that are relevant to this study. Furthermore, it developed a conceptual framework for the research variables and showed the gaps that the study sought to fill.

2.2 Theoretical Literature Review

2.2.1 Theory of Technology Acceptance Model

This theory was initially proposed by Davis (1989) and tries to explain the model of how users accept technology when it is imposed on them. The model describes two major factors that influence the uptake of the technology by the users including;

Perceived usefulness- this is interpreted as the degree to which the user of the new technology believes that using that particular technology will help them enhance their job performance. If the user believes that the technology will help them to a great extent in enhancing their performance, then they are more likely to use that technology and adopt it in a shorter span of time. However, if the user feels the technology won't help enhance their performance, they will tend to avoid it unless forced to do so, may be in their workplaces.

Perceived ease of use – this is the degree to which a potential user of a new technology believes it would require minimal effort to use it.

If the user thinks the technology will be easy to use at minimal effort, then they are more likely to adopt technology as opposed to a user who believes that it would require a lot of effort to use the technology.

The theory was later theorized further and extended to different models such as “An extension of the Technology Acceptance Model in hospital in the home units” but the new models still borrowed heavily from the principles of the original model.

KRA has targeted to make their systems to be user friendly (KRA ICT Strategy 2014) endeavouring to entice taxpayers. This is by making it easier for taxpayers to interact with KRA more easily (online wherever they are and therefore avoiding long queues at KRA premises) and also making the systems such as iTax as simple as possible to use for most of the Kenyans. The two main issues being: ease of use and usefulness.

2.2.2 Unified theory of acceptance and use of technology

This theory was formulated by Venkatesh et al (2003), and aims to explain user intentions while using an information system and the subsequent usage behaviour. The theory claims that there are four main factors that will influence usage of a new information system and they include: performance expectancy, effort expectancy, social influence and facilitating conditions. The four factors are moderated by gender, age, experience and voluntariness of the targeted user. For example, for a user who is young and with an IT background, they are more likely to find a new system highly useful in performing their duty, easy to use as they are already technical and will most likely influence their peers in using the same information system. The theory was developed by reviewing and consolidating the principles of eight earlier models which include the one above i.e. Technology Acceptance Model and others.

The model has been used by various researchers in their studies but has also received criticism from various quarters as many compare it with the theory of technology acceptance model (Venkatesh, & Zhang, 2010).

The Unified theory of acceptance and use of technology involves the economic environment of the firm, the structures of the industry and the internal structure of the firm is one of the most important components for the growth and development of the firm. The unified theory involves the change from manual to use of computerised technology which makes work easier and faster. The information system is introduced to the firm by the management according to the various tasks they need to be performed successfully in an automated way. Most of the organisations have changed from the use of manual system to the Modern information system which is a good example of automation. (Venkatesh, 2016).

The growth of the firm involves the stages which are followed in the cycle of the growth and include the introduction stage the growth, peak and decline stage, these stages are also used in the introduction of information technology to perform the various tasks. The capital increases in the growth stage but in the peak stage it remains constant then it starts going down in the decline stage and at this stage of decline most firms are forced close down. The expenditure increases as the capital and the output increases at the same rate. Some of the information systems used in modern technology include the business systems which processes the data and produces the output (Venkatesh, 2016)

The theory of acceptance and use of technology was earlier demonstrated by other scholars who performed more research work to support their work and shows how the small firms starts and grows to big firms with more growth in output, capital and expenditure as a result of the use of advanced technology by the use of computerised systems. The business continues to expand its

market it produces more products and increases the labour costs and those are indicators for the growth of the firm in the industry. The firm acts as one union to attain the goals of the organisation by using different processes to attain the objectives (Gupta A. , 2008)

The entrepreneurs of the business start with the idea of the business and organises the idea and put it into working and the business starts and there is growth in the development of the business idea which was the main aim of the entrepreneur is successful. The entrepreneur is the inventor of the business idea and the processes of business development and should take the feedback. The introduction of information system affects the organisation but mostly the positive effects (Gupta B. , 2011)

In Kenya, use of information systems will be influenced by such factors as age, education level and voluntariness of the users. This is all put into mind while developing such information systems so that they can cater for as many users as possible and also not receive a lot of resistance when introduced to the users.

2.2.3 Deterrence Theory

The primary theoretical framework in economics for the study of noncompliance has been deterrence theory. This framework assumes that taxpayers rationally perform a cost- benefit analysis of noncompliance taking into consideration the value of the marginal tax dollar and the risks of sanctions (Carroll, 1992).

Since deterrence theory emphasizes cost-benefits that are based on expected outcomes of choices, it can be considered an outcome- processing theory (Carroll, 1992). Consequently, taxpayers make compliance maximize their utility.

Within this classical view of decision making, choices are considered to be motivated by Self-interest (Hodgson, 1998). That is, individuals are thought to promote their own interests instead of the interests of others. Ethical values are seen as interfering with rational behaviour and utility maximization (Etzioni, 1998). Sociological research, however, has broadened the notion of utility to include concern for social duty as well as self -interested goals. Thus, in classical deterrence theory, taxpayers choose a compliance level that maximizes utility (What is best for the taxpayer), and in sociological models, this choice also considers the social obligations and self-image of the taxpayers as well (Scholz, 1995).

2.2.4 Ability to Pay Theory

According to this theory, tax liability in its true form is a compulsory and an unconditional payment to the state. The theory posits that there is no commercial or semi-commercial relationship between the state and the citizens. A citizen is to pay taxes just because he or she can and his or her relative share in the total tax burden is to be determined by the relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay. This theory suggests that the payers of VAT should pay unconditionally and according to paying capacity (Chigbu, Eze and Ebimobowei, 2012).

Ayala and Palacio-Vera (2014) posits that this theory can be viewed as an attempt to provide neoclassical theory of expectations and beliefs formation that is priori consistent with the optimization hypothesis. Its original formulation is owed to Muth (1961) who suggested that expectations should be modelled in a way that allows them to change endogenously when the structure of the system changes. According to Au and Kauffman (2005), the rational expectations

theory of technology adoption suggests that under certain conditions we can expect to observe clustered adoption, defined as the adoption of a technology by multiple firms at about the same time

2.3 Conceptual Framework

From the conceptual framework, Revenue collection was the dependent variable while technical skills and knowledge, perceived ease of use and perceived usefulness are independent variables.

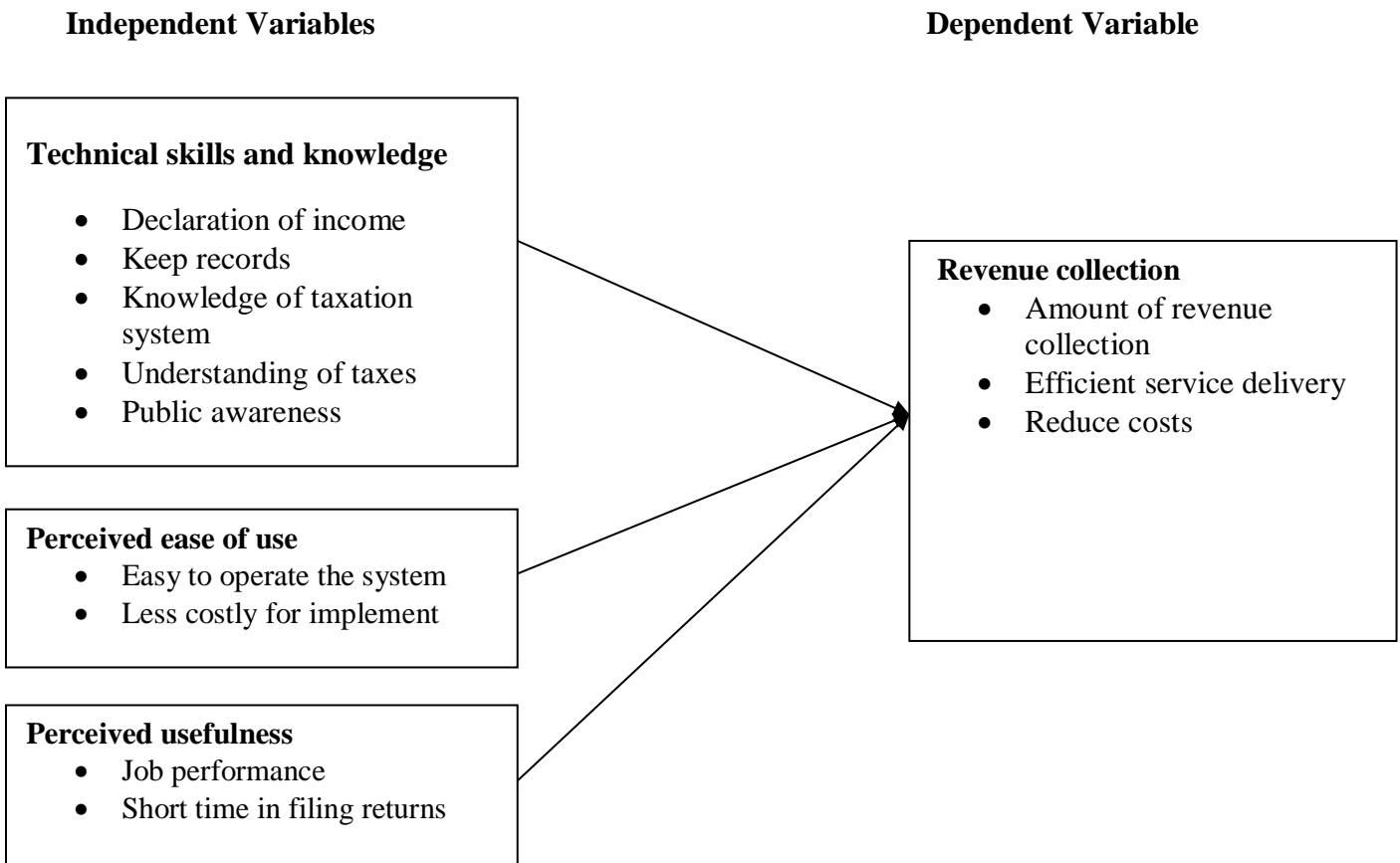


Figure 2.1 Conceptual Framework

2.4 Empirical Literature

Technology is transforming the ways governments deliver services and interact with citizens across various sectors, from public financial management to social programs to elections and many others (World Development Report, 2016). These e-government initiatives typically seek to improve service delivery and efficiency. Often, they also aim to combat corruption by automating systems and reducing officials' discretion.

Gupta. (2012) stated in his study that all the reforms in Rwanda's tax base system were aimed at improving tax collections, administrations, and above all tax compliance. In a bid to improve tax compliance, Rwanda Revenue Authority (RRA) decided to opt for electronic tax management system which includes e payment, e filling and electronic tax education in order to improve on tax collection in the country. This research analysed the effect of an electronic tax management system on tax collection in Rwanda. Muita (2011) indicated that the embracing of emerging technologies and tax payment methods are more efficient in reducing wastage.

According to Cobham (2010), the electronic tax system has been around, globally, for the last 30 years. According to Friedman, Kaufmann and Zoido-Lobaton (2000), those SMEs and persons that are inclined to cheat on their sales tax are probably already cheating on their income tax and would be inclined to do so under any tax system. Similarly, the taxation of SMEs faces several major policy challenges. The first one concerns compliance costs of taxation. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses.

Given that small start-ups and research-oriented SMEs are generally considered as important factors for economic growth, tax compliance cost may slow down the economy. At least two policy responses to the problem of compliance costs are conceivable. Governments could try to generally simplify tax administration for businesses.

2.4.1 Technical skills and knowledge of use of the iTax online system

It is imperative that users of a technology system have the necessary skills to use it to perform the desired functions. This section focuses on key technical skills and knowledge needed to take advantage of the online systems.

These required skills and knowledge are information technology literacy, knowledge of the taxation system and tax laws as well as having an existing support system to support and enhance these skills and knowledge.

SMEs' Information Technology Literacy Azmi & Kamarulzaman (2010) note that taxpayers who are not IT literate and are required to use the online filing system will be frustrated or anxious as they have to spend a lot of time learning the system. The Institute of Economic Affairs (2012) brought to light the fact that majority of the workers in the SME sector lack the computer skills to enable them utilize the online tax services. In a study done by Nathan Associates Inc. (2013) on the internet's role in the performance of India's SMEs, it was established that 18 most SMEs lacked digital literacy.

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).

Taxpayer education activities are meant to enhance the level of taxpayer understanding of the tax systems and empower taxpayers in fulfilling their tax obligations. On compliance 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. Knowledge is categorized on the basis ordinary or official education received and knowledge towards the opportunity to evade tax (Groenland & Veldhoven 1983). Tax knowledge as one of the key factor in tax compliance has a very close relationship with the taxpayers' ability to understand the tax law & regulations, and their ability to comply (Singh, 2003). 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).

This, according to the study was the reason why majority of small firms do not use internet. Further, according to Ofcom (2015), SMEs lacked the skilled resources to manage their relationships with their internet service providers for technical and IT support.

Additionally, the SMEs were not able to solve basic connectivity problems on their own. This lack of basic technical skills on internet usage acted as a barrier in the using the internet and internet-based applications. A study by Alam (2009) in Klan valley area in Malaysia aimed at establishing the factors that influenced internet adoption by the SMEs. A sample of 465 SMEs was used. The results of the study revealed that the computer knowledge and experience of the individual determined the adoption of the web application. The study recommended that the government agencies responsible for implementation of IT innovations should ensure that they address the issue of computer literacy of the people adopting the innovation. Computer literacy could be achieved through subsidised seminars and trainings.

2.2.2 Perceived Usefulness of iTax system

Perceived usefulness- this is interpreted as the degree to which the user of the new technology believes that using that particular technology will help them enhance their job performance. If the user believes that the technology will help them to a great extent in enhancing their performance, then they are more likely to use that technology and adopt it in a shorter span of time. However, if the user feels the technology won't help enhance their performance, they will tend to avoid it unless forced to do so, may be in their workplaces.

As depicted in the diagram above, there are external factors predicting perceived usefulness. In particular, Miller & Khera (2010) established several external factors that are critical to the perceived usefulness of the information system. These included relevance, visibility, subjective norm, domain knowledge and trust in content. Miller and Khera defined visibility as "the degree to which a given system is known within an organization" (p. 5). Thong et al. (2002) observed that with higher visibility, the benefits of using the information system would be known by potential users.

This would help them perceive the functions of the system as more useful hence increasing their intention to adopt it. They therefore postulated that higher visibility leads to higher perceived usefulness of the technology innovation. Alraja, Hammami, & Alhousary (2015) on the other hand argued that governments should increase the awareness of the electronic services and the benefits of the services through using social media and not traditional mediums to be able to reach its targets with real time information. Subjective norm is defined as “ the person’s perception that most people who are important to him think he should or should not perform the behavior in question”(Fishbein & Ajzen, 1975, p. 302) Fishbein and Ajzen (1975) further stated that according to the Fishbein’s Model for the Prediction of Intentions “the general subjective norm is determined by the perceived expectations of specific referent individuals or groups and by the person’s motivation to comply with those expectations” (p. 302). Additionally, according to Miller & Khera (2010), the influence of subjective norms is culturally specific. Relevance is described by Thong et al. (2002) as a match between the systems capability and the tasks of the user of the system. Miller and Khera (2010) noted that relevance is a critical predictor of perceived usefulness of the information technology system. Additionally, non-users and low users of the system complain about the absence of their specific requirements not being met. Relevance is therefore consistent with TAM in that, the system should have the ability to enhance the user’s job performance.

Miller & Khera (2010) further observed that trust in the information systems’ content is key though this is not as strong a predictor as relevance. They defined trust as “the degree of validity attributed by a user to a given database or set of knowledge content” (p. 6).

They also noted that domain knowledge is a predictor of perceived usefulness but it’s not a significant predictor.

“Domain knowledge is defined as the person’s knowledge of the respective discipline, domain, or area that is relevant to the database search” (p. 6). 2.2.3 External Factors Predicting Perceived Ease of Use There are also several external factors that are critical to the perceived ease of use of the information system. Miller & Khera (2010) listed these external factors as computer literacy, level of infrastructure, availability of assistance, ease of access, English literacy and self-efficacy.

They noted that where users have computer usage knowledge and have had prior interaction with internet, this positively affects their perceived ease of use of the information system thereby aiding its adoption. Miller and Khera (2010) further explained several preconditions to the perception of an information system’s ease of use. These were the existence of support infrastructure, availability of assistance when needed, easy accessibility of the system, knowledge of the English language and the degree of self-ability to utilise a system. Extended TAM In his study on the adoption of electronic tax filing systems in Taiwan, Wang (2002) used the extended technology acceptance model. The extended TAM is basically the original TAM model with an additional factor of “perceived credibility”. “Perceived ease of use”. Wang introduced the new factor based on the belief that a person’s intention to use an electronic tax filing system could be affected by his perception of the security and privacy concerns.

The study was based on a sample of 260 users in Taiwan who had filed income tax returns. Wang (2002) defined security as “protection of information or systems from unsanctioned intrusions or outflows” (p. 340). He further notes that security breach fears affect the growth of online systems. “Privacy on the other hand, refers to the protection of various types of data that are collected, with or without the knowledge of the users, during the 14 user’s interaction with the electronic tax filing system” (p.340).

The findings of the study were that, perceived credibility had a stronger influence on the intention to adopt an online system than perceived ease of use and perceived usefulness. The recommendation from the study was that the system provides the necessary security and privacy for the intended users for a successful adoption.

2.4.2 Perceived Ease of use of iTax system

Perceived ease of use is defined as a degree to which a potential adopter views the usage of target technology to be relatively free of effort (Davis, 1989). PEOU is also indicates how ease individual learn how to operate or use new technology or information system (Davis et al., 1989; Gefen et al., 2003).

If taxpayers perceived online tax system to be easy to use and is less complex, there is a high likelihood of it being accepted and used by potential users (Agarwal & Prasad, 2000). Hence, this will lead to increase in tax compliance and increase in revenue generation because the self-employed taxpayers feel the ease of using the online tax system in filling in their tax return. It has been widely examined as a determinant of BI in technology acceptance (Lai, Obid & Meera, 2004).

Davis, (1989) identified PEOU as a primary determinant of information system adoption at the pre-implementation stage. Several studies have found the direct effect of PEOU on BI (Dwivedi & Butcher, 2008; Ojha, Sahu & Gupta, 2009; Zakaria et al., 2009). However, few studies establish no direct effect of PEOU and technology acceptance or online tax system (Hernandez, Jimenez, & Jose Martin, 2009; Wu & Wang, 2005).

Therefore, studies on adoption of an online tax system have found PEOU to have significant influence on the use of technology (Carter & Belanger, 2004).

Studies on factors affecting consumers' BI in adopting broadband in Pakistan (Dwivedi, Williams, Weerakkody, Lal, & Bhatt, 2008) researchers use PEOU as one of the control constructs and found it to have a significant effect on the use of Information System (IS).

Also, in a survey of the perceptions of 97 respondents in Sungai Petani, Kedah towards e-filing Zakaria & Hussin (2010), PEOU was found to be significant in a single stage model. A similar finding was found in the earlier reported by Ojha et al. (2009). The finding shows that young Indian professionals' effort in using e-tax filing was determined by the PEOU, compatibility, and relative advantage, perceived innovativeness of information technology and performance of the e-filing system.

2.5 Critiques of the Study

Miller and Khera (2010) further explained several preconditions to the perception of an information system's ease of use. These were the existence of support infrastructure, availability of assistance when needed, easy accessibility of the system, knowledge of the English language and the degree of self-ability to utilise a system

Extended TAM In his study on the adoption of electronic tax filing systems in Taiwan, Wang (2002) used the extended technology acceptance model.

The extended TAM is basically the original TAM model with an additional factor of "perceived credibility". "Perceived ease of use". Wang introduced the new factor based on the belief that a person's intention to use an electronic tax filing system could be affected by his perception of the security and privacy concerns. The study was based on a sample of 260 users in Taiwan who had filed income tax returns.

Wang (2002) defined security as “protection of information or systems from unsanctioned intrusions or outflows” (p. 340). He further notes that security breach fears affect the growth of online systems. “Privacy on the other hand, refers to the protection of various types of data that are collected, with or without the knowledge of the users, during the 14 user’s interaction with the electronic tax filing system” (p.340). The findings of the study were that, perceived credibility had a stronger influence on the intention to adopt an online system than perceived ease of use and perceived usefulness. The recommendation from the study was that the system provides the necessary security and privacy for the intended users for a successful adoption

Further, according to Ofcom (2015), SMEs lacked the skilled resources to manage their relationships with their internet service providers for technical and IT support. Additionally, the SMEs were not able to solve basic connectivity problems on their own. This lack of basic technical skills on internet usage acted as a barrier in the using the internet and internet-based applications.

A study by Alam (2009) in Klan valley area in Malaysia aimed at establishing the factors that influenced internet adoption by the SMEs. A sample of 465 SMEs was used. The results of the study revealed that the computer knowledge and experience of the individual determined the adoption of the web application. The study recommended that the government agencies responsible for implementation of IT innovations should ensure that they address the issue of computer literacy of the people adopting the innovation. Computer literacy could be achieved through subsidised seminars and trainings.

2.6 Research gap

An important point to note is that the iTax online system was introduced at a time when the KRA was under increasing pressure to seal tax loopholes and widen its tax net. There was also the need to increase efficiency in tax collection procedures by automating these procedures in order to

improve revenue inflows from taxes. The iTax rollout also came at a time when there was renewed and specific focus on the SMEs' tax compliance. The introduction was a welcome initiative, with the KRA aiming to promote equity among taxpayers by standardizing tax procedures

2.7 Summary

Governments today are under an increasing pressure to improve the delivery of public services in cost-effective ways. To meet this challenge for example tax authorities are turning to e-government led solutions like electronic tax filing and other ITAX systems functions (Muturi & Kiarie, 2015).

To date, the use of ICT is prominent in business and tax settings. Notably, tax authorities around the world are using electronic tax administration systems to interact with taxpaying public in tax collection, administration and compliance settings.

Technology has influenced the way we work, play, and interact with others. The use of technology to improve the effectiveness of tax administration, expand taxpayer services, and enhance tax compliance has come to attract increasing attention in developed and developing countries (Mutur & Kiarie, 2015). Worldwide; taxpayers' resistance, underutilization and reluctance to use electronic filing system remain a great concern and still plague various tax agencies which are embracing electronic tax administration systems.

The importance of understanding and influencing taxpayer's acceptance and embrace of ITAX system is critical, given the investment in technology and the potential for cost saving. Despite the increasing need to increase revenue collection and enforcement so as to provide public services, KRA still face the challenges of low tax compliance and tax administration. In view of this identified conceptual gap, this study aims to fill the void by discussing some of the teething effects of ITAX systems on revenue collection.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter specifically highlights the methods used in carrying out the study in an attempt to answer the research questions. The various methodological issues discussed include population, sampling technique, and sampling frame, sampling size, data collection and analysis of the methods adopted in conducting the study. It also gives the data validity and reliability statement

3.2 Research Design

The study adopted a descriptive research design. This research design will be preferred because it helps to identify any causal links between the factors or variables that pertain to the research problem. Explanatory research attempts to clarify why and how there is a relationship between two or more aspects of a situation or phenomenon under study.

3.4 Sampling Frame

According to Thompson (2012), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research, a researcher must rely upon a sampling frame to represent all of the elements of the population of interest.

According to Silverman (2005), the sampling frame should be large to allow the researcher to make inferences of the entire population. The sample frame for this study comprised of 657 SMEs operating in Bungoma town.

3.3 Target Population

A population includes all entities belonging to certain parameters which can be identified and categorized. The entities are specific items which are used for the purpose of the research and all the entities have equal chance of being selected. A target population is that which the researcher wants to generalize the results of the study. A population also refers to an entire group of individuals, events or objects having common observable characteristics. (Mugenda & Mugenda, 2003)

Cooper & Schindler (2003) define target population as the entire group of people events or objects that a study focuses on as the subject of analysis. The target population of this study was 1400 SMEs operating business in CBD , Bungoma county and registered .

Table 3.1 Target Population

Type of Enterprise	Target Population
Small Scale Enterprise	1,000
Medium Scale Enterprise	400
Total	1,400

3.3 Sample and Sampling technique

3.3.1 Sample Size

Cooper and Schindler (2003) describe sample or sample size as a subject of a population that is studied through a research study and generalized into the entire populations. The study adopted a systematic sampling technique.

Sample size is important primarily because of its effect on statistical power. Statistical power is the probability that a statistical test will indicate a significant difference when there truly is one.

(Morgan, 2001)

The researcher used the following formula;

N/k :

Where; N = Total number of companies in any given sector

k item = every tenth organisation selected in succession from N to form the sample. E.g. If the target population is 1,400 firms divided by 10 = 140 respondents.

The respondent selected the first sample unit at random and then the remaining units were automatically selected in a definite sequence of the 10th. Hence the respondents were 140.

Table 3.2 Sample Size

Type of Enterprise	Target Population	Sample Size 10%
Small Scale Enterprise	1,000	100
Medium Scale Enterprise	400	40
Total	1,400	140

Where N is population size, n sample size and e is margin error of 0.05 based on 95% confidence level. Therefore, the sample size was 140 SMEs. Simple random sampling method was adopted.

3.6 Data Collection Methods

Data collection instruments are tools or methods use to collect data from participants in a study (Cooper & Schindler, 2003). This study relied on primary data. Primary data was collected by use of questionnaires which were administered to the sampled respondents.

3.5.1 Primary Data

This study used primary data collection through questionnaires. The questionnaires were used because of its economy, its ability to ensure anonymity and use of standardized questions. It also provides time for subjects to think about responses. The questionnaires were made up of closed ended questions in the form of likert scale.

3.5 Data Collection Instruments

The main data collection instruments were the questionnaires. Questionnaires were preferred because they are effective data collection instruments that allow respondents to give much of their opinions pertaining to the researched problem. The questionnaires used the five Likert scale (from strongly agree to strongly disagree). The questionnaires were self-administered to the personnel who handle taxes in the sampled taxpayers. The questionnaires had an introductory letter introducing the researcher to the respondents and explaining the purpose of the research. Respondents were assured of strict confidentiality of the information they will share with the researcher and that the information is strictly for research purposes.

3.6 Data Collection Instrument and Procedure

The study adopted closed structured questionnaire to collect data from the respondents. Questionnaires are research instruments used to collect information geared towards addressing specific objectives (Kombo et al., 2002).

The questionnaire items comprised of questions scaled on a five point Likert scale as well as open ended questions. The questionnaires were self-administered on a drop and pick later basis.

3.7 Pilot Study

The study carried out a pilot test to pre-test the validity and reliability of data collected using the questionnaire. A pilot group of 8 individuals from the target population was selected to test the reliability of the research instruments. The major purpose for pilot testing was to test whether the questionnaires could obtain the required results. The pilot study was used to find out the clarity and objectivity of the selected questions.

3.7.1 Reliability of Research Instruments

Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures. In order to test the reliability of the instruments, internal consistency techniques will be applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. According to (Mugenda, 2008), a coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability.

3.7.2 Validity of Research Instruments

According to Berg and Gall (1989), validity is the degree by which the sample of test items represents the content of test is designed to measure.

3.8 Data Analysis and Presentation

Qualitative and quantitative approaches was applied in this study as advocated for by Neuman (2000); and Babbie and Mouton (2001). These two main research approaches will be examined with respect to their suitability to the current research.

3.8.1 The Qualitative Analysis

Qualitative data collected through questionnaires was edited and response rate calculated. The data was then categorized into different themes according to research variable and descriptive statistics such as mean, standard deviation and frequency distribution which according to Kothari (2012) measures the point about which items have a tendency to cluster and describe the characteristics of the data collected will be computed.

3.8.2 The Quantitative Analysis

Quantitative data from the questionnaire was coded and entered into the computer for statistical analysis. The Statistical Package for Social Sciences (SPSS version 20) was used for analysis. Frequencies mean and standard deviation was used to summarize the data.

Regression model was used to assess variables that are considered in assessing the factors that influence taxation of the informal sector.

Regression Analysis is a statistical modelling technique was used to identify meaningful, stable relationships among sets of data. The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist. Regression measures the causal relationship between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable.

The study also adopted a multi regression model

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon$$

Where:

- Y = Revenue collection
- β_0 = Constant Term
- β_1 = Beta coefficients
- X1 = Technical skills and knowledge
- X2 = Perceived usefulness of
- X3 = Perceived ease of use
- ε = Error term

3.10 Measurement of variables

Table 3.2: Measurement of Variables

Variable	Indicators	Likert scale
Technical skills and knowledge	Number of trainings	5 points
	Type of trainings	
	Taxpayer's awareness of laws	
Perception ease of use	Job performance	5 points
	Short time for filing returns	
Perception usefulness	Easy to operate the system	5 points
	Less costly to implement	

Watson R.R (2010), identified a 5-point Likert scale as a psychometric response scale in which respondent specify their level of agreement to a statement typically in five points; (1) strongly disagree; (2) disagree; (3) neutral; (4) agree; (5) strongly agree.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.0 Introduction

This chapter represents the analysis, presentation and interpretation of the findings. In addition, the findings are also discussed in relation to literature reviewed. It gives the empirical findings and results following the application of the variables using the techniques mentioned in chapter three in methodology. The general objectives of this study were to establish the factors affecting effective implementation of itax among SMEs in Bungoma County, Kenya. In an attempt to address the specific objectives of the study, this chapter provides details description of descriptive and inferential statistics and research findings and discussions.

4.1 Response Rates

The study targeted a sample size of 140 participants out of which 135 questionnaires were filled and returned and therefore they were used for data analysis giving a response rate of 95%. Cooper and Schindler (2003) argued that a response rate exceeding 30% of the total sample size provides enough data that can be used to generalize the characteristics of a study problem as expressed by the opinions of a few participants in the target population. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for analysis and reporting but a response rate of 70% and above is excellent. The high response rate was occasioned by appropriate study design, proper timing and consistent follow up of the participants.

Table 4.1: Response Rate

Response Rate	Frequency	Percent
Returned	135	95%
Unreturned	5	5%
Total	140	100

4.2 Reliability test results

Table 4.3 Reliability test results

		Cronbach's Coefficients	Alpha
Technical skills and knowledge	5	.733	
Perceived ease of use	5	.756	
Perceived usefulness	5	.765	
Revenue collection	5	.745	

The response rate was 95%. The questionnaires were coded and Cronbach's Alpha analysis was then conducted. All the 4 variables gave Cronbach's Alpha coefficient values greater than 0.7 as shown in Table 3. From the study results, the variables had Cronbach Alpha values of 0.733, 0.726, 0.765 and 0.745 respectively. Therefore, training, perceived ease of use and perceived usefulness and effective implementation of itax among SMEs in Bungoma County, Kenya all had Cronbach values which were greater than 0.7.

A correlation coefficient greater or equal to 0.7 is acceptable (George & Mallery, 2003). Field et al., (2012) observes that a Cronbach's $\alpha > 0.7$ implies that the research instrument provides a relatively good measure. The results of the pilot study were not included in the final data analysis.

4.4 Descriptive Statistics

4.4.1 Technical skills and knowledge

This section covers statistics on the technical skills and knowledge variable of the study. Table 4.4 presents statistics on descriptive analysis results for various components of Technical skills and knowledge of tax laws variable which was a key subject of the current study.

Table 4.4 Technical skills and knowledge

Statements	Mean	Standard Deviation
SME's have adequate knowledge on tax rate, basis of taxation and compliance requirements under residential rental income tax regime	4.60	1.244
Knowledge about tax laws plays a major role in determining revenue collection	4.35	1.075
KRA has created a lot of public awareness on and this has enhance revenue collection	4.05	1.280

From the findings in table 4.4 the respondents agreed that they have adequate knowledge on tax rate, basis of taxation and compliance requirements on revenue collection as shown by a mean score of 4.60 and a standard deviation of 1.244.

Additionally, the respondents agreed that Knowledge about tax laws plays a major role in determining their tax compliance as shown by a mean score of 4.35 and a standard deviation of

1.075. Moreover, the respondents agreed that KRA has created a lot of public awareness on as shown in table above by a mean score of 4.05 and a standard deviation of 1.280. The findings of this study agreed with the study conducted by Groenland & Veldhoven 1983).

4.4.1 Perceived ease of use

This section covers statistics on the Perceived ease of use variable of the study. Table 4.4 presents statistics on descriptive analysis results for various components of perceived ease of use variable which was a key subject of the current study.

Table 4.4 Perceived ease of use

Statements on Taxpayer's knowledge of tax laws	Mean	Standard Deviation
Its easy for me to become skillful at using technology in tax management	4.34	1.253
Technology easy to use in tax management	4.23	1.063
Learning to operate technology in tax management is easy for	4.34	1.233

From to the findings in table 4.4 the respondents agreed that they have its easy for me to become skilful at using technology in tax management as shown by a mean score of 4.34 and a standard deviation of 1.253. Additionally, the respondents agreed that Technology is easy to use in collecting revenue as shown by a mean score of 4.23 and a standard deviation of 1.063.

Moreover, the respondents agreed that learning to operate technology in tax management is easy as shown in table above by a mean score of 4.34 and a standard deviation of 1.233. The findings of this study agreed with the study conducted by (Masinde & Makau, 2010).

4.4.1 Perceived usefulness

This section covers statistics on the Perceived usefulness variable of the study. Table 4.4 presents statistics on descriptive analysis results for various components of perceived usefulness variable which was a key subject of the current study.

Table 4.4 Perceived usefulness

Statements	Mean	Standard Deviation
Technology Improves performance in tax filing.	4.22	1.234
Technology enhances my effectiveness tax filing	4.43	1.067
Overall, I find online tax filing system useful	4.23	1.243

From to the findings in table 4.4 the respondents agreed that Technology Improves performance in tax filing.as shown by a mean score of 4.22 and a standard deviation of 1.234.

Additionally, the respondents agreed that Technology enhances effectiveness tax filing as shown by a mean score of 4.43 and a standard deviation of 1.067. Moreover, the respondents agreed that

Overall, online tax filing system useful as shown in table above by a mean score of 4.23 and a standard deviation of 1.243. The findings of this study agreed with the study conducted by (Nicoleta, 2011) and Wasao (2014)

4.4.1 Revenue collection

This section covers statistics on Revenue collection variable of the study. Table 4.4 presents statistics on descriptive analysis results for various components revenue collection variable which was a key subject of the current study.

Table 4.4 Revenue collections

Statements	Mean	Standard Deviation
ITax system reduces cost on revenue collection among SMEs	4.32	1.222
Itax system enhances Revenue collection among SME	4.34	1.013
KRA meets its targets after introduction of iTax system	4.35	1.223

From to the findings in table 4.4 the respondents agreed that ITax system reduces cost on revenue collection among SMEs as shown by a mean score of 4.32 and a standard deviation of 1.222. Additionally, the respondents agreed that Itax system enhances Revenue collection among SME as shown by a mean score of 4.34 and a standard deviation of 1.013.

Moreover, the respondents agreed that KRA meets its targets after introduction of iTax system *as* shown in table above by a mean score of 4.35 and a standard deviation of 1.223. The findings of this study agreed with the study conducted by Cobham (2010),

4.5 Correlation Analysis

4.5.1 Correlation results on independent variables

Correlation shows the relationship existing between variables in the study. The study's dependent variable is Revenue collection and the independent variables consist of technical skills and knowledge, perceived ease of use and perceived usefulness.

The results depicted in table 4.9 below

Table 4.9: Correlation between independent variable and dependent variable

Variables		Revenue collection	Technical skills and knowledge	Perceived ease of use	Perceived usefulness	Tax rate	Penalties and interest
Revenue collection	Pearson Correlation	1					
	Sig. (2-tailed)						
Technical skills and knowledge	Pearson Correlation	0.456	1				
	Sig. (2-tailed)	0.002					
Perceived ease of use	Pearson Correlation	0.431	.3421		1		
	Sig. (2-tailed)	0.001	.0014				
Perceived usefulness	Pearson Correlation	0.458	.1240		.0621	1	
	Sig. (2-tailed)	0.003	.0120		.0043		

In an attempt to show the relationship between the study variables and their findings the study used Karl Pearson's coefficient of correlation (r). According to the findings as indicated in table 4.9, it is clear that there was a positive correlation between revenue collection and technical skills and knowledge as depicted by a correlation value of 0.456. This implies that tax compliance cost was linearly related to revenue collection. The study also depicted that there is a positive correlation between perceived ease of use and revenue collection with a correlation value of 0.431. Another positive correlation between perceived usefulness and revenue collection with a correlation value of 0.458 and a positive correlation between penalties and interest and revenue collection with a correlation value of 0.431. The findings show that there was a positive correlation between technical skills and knowledge, perceived ease of use and perceived usefulness and revenue collection. The findings of this study agreed with the study conducted by (Mukur & Kiarie, 2015).

4.6 Regression Analysis

A multiple regression analysis was conducted to investigate the joint causal relationship between the independent variables and dependent variable. This is represented by the overall model

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \epsilon \dots$$

a) Technical skills and knowledge

To evaluate the influence of technical skills and knowledge on revenue collection

Table 4.10: Model Summary of technical skills and knowledge

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.513 ^a	.156	.145	.76526	1.954

a. Predictors: (Constant), Technical skills and knowledge

b. Dependent Variable: Revenue collection

The R square value in table 4.10 in this case is 0.156 which clearly suggests that there is a strong relationship between technical skills and knowledge and revenue collection as indicated in table above. This indicates that technical skills and knowledge share a variation of 15.6% of revenue collection.

Table 4.11: ANOVA of Technical skills and knowledge

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.776	5	12.543	10.123	.000 ^b
	Residual	35.767	135	.755		
	Total	45.43	140			

a. Dependent Variable: revenue collection

b. Predictors: (Constant), Technical skills and knowledge

The ANOVA result in Table 4.11 showed that the overall model was a good fit since (F-value =12.123 and p-value=0.000<0.05).

Table 4.12: Coefficients of Technical skills and knowledge

Model		Unstandardized		Standardized		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.342	.144	-	2.266	.022
	Technical skills and knowledge	.352	.122	.456	3.672	.000

a. Dependent Variable: revenue collection

Table 4.12 indicates that the regression weight for tax compliance cost was positive and significant ($\beta = 0.456$, $t = 3.672$ $p < .05$). Therefore, the null hypothesis was rejected at $P < 0.05$ level of significance implying that technical skills and knowledge has a significant relationship with revenue collection.

The regression estimate for technical skills was 0.456; this indicates that a unit increase in technical skills would result in 45.6% increase in revenue collection

b) Perceived ease of use. Dependent Variable: revenue collection

To find out the influence of perceived ease of use on revenue collection in Kenya.

Table 4.13: Model Summary of perceived

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.434 ^a	.244	.232	65515	2.012

a. Predictors: (Constant), Perceived ease of use

b. Dependent Variable: revenue collection

The R square value in Table 4.13 was 0.244 which clearly suggested that there is a strong relationship between perceived ease of use and revenue collection. This indicates that perceived ease of use shares a variation of 23.2% of revenue collection.

Table 4.14: ANOVA of perceived ease of use

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.886	5	10.987	11.011	.000 ^b
	Residual	32.643	135	.711		
	Total	43.648	140			

a. Dependent Variable: Revenue collection

b. Predictors: (Constant), Perceived ease of use

The ANOVA Table in 4.14 indicates that the overall model was a good fit since (F-value=11.011 and p-value=0.000<0.05)

Table 4.15: Coefficients of perceived ease of use

Model		Unstandardized		Standardized		
		Coefficients		Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.234	.103	-	2.022	.000
	Perceived ease of use	.321	.113	.532	2.001	.000

a. Dependent Variable: revenue collection

Table 4.15 indicates that the regression weight for perceived ease of use was positive and significant ($\beta = 0.532$, $t = 2.001$, $p < .05$). Therefore, the null hypothesis was rejected at $P < 0.05$ level of significance implying that perceived ease of use has a significant relationship with revenue collection. The regression estimate for perceived ease of use was 0.532; this indicates that a unit increase perceived ease of use would result in 53.2% increase in revenue collection in Kenya

c) Perceived usefulness

To investigate the influence of perceived usefulness on revenue collection in Kenya.

Table 4.16: Model Summary of perceived usefulness

Model	R	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.455 ^a	.167	.88887	1.876

a. Predictors: (Constant), Perceived usefulness

b. Dependent Variable: Revenue collection

The R square value in Table 4.16 is 0.167 which clearly suggests that there is a strong relationship between perceived usefulness and revenue collection as indicated in table above. This indicates that perceived usefulness share a variation of 16.7% of revenue collection.

Table 4.17: ANOVA of perceived usefulness

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.617	5	22.634	10.732	.00 ^b
	Residual	33.035	135	.722		
	Total	43.647	140			

a. Dependent Variable: Revenue collection

b. Predictors: (Constant), Perceived usefulness

The ANOVA able in 4.17 indicates that the overall model was a good fit since (F-value=10.732 and p-value=0.000<0.05)

Table 4.18: Coefficients of Perceived usefulness

Model		Unstandardized		Standardized		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	.258	.115	-	2.235	.000
	Training	.434	.144	.433	2.708	.000

a. Dependent Variable: Revenue collection

Table 4.18 indicates that the regression weight for Tax rate was positive and significant ($\beta = 0.434$, $t = 3.708$, $p < .05$). Therefore, the null hypothesis was rejected at $P < 0.05$ level of significance implying that Perceived usefulness has a significant relationship with revenue collection. The regression estimate for perceived usefulness was 0.433 this indicates that a unit increase in perceived usefulness would result in 43.3% increase in revenue collection.

Table 4.19: Model Summary for independent and dependent variables

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.755 ^a	.534	.435	.71567	2.001

a. Predictors: (Constant), technical skills and knowledge, perceived ease of use and perceived usefulness

b. Dependent Variable: Revenue collection

From the model summary The R square value in Table 4.19 is 0.534 which clearly suggests that there is a strong relationship between technical skills and knowledge, perceived ease of use and perceived usefulness and revenue collection as indicated in table above. This indicates that technical skills and knowledge, perceived ease of use and perceived usefulness share a variation of 53.4% of revenue collection.

The researcher conducted a correlation analysis to investigate the nature of the relationship between technical skills and knowledge on revenue collection in Table 4.6. From the correlation analysis results, a very strong and significant positive correlation ($r = 0.755$, $P < .0001$) exist between technical skills and knowledge and revenue collection. The p-value is less than 0.05 ($P < 0.000$) implying that the relationship between technical skills and knowledge and revenue collection is statistically significant. The findings are consistent with those of Whitherever (2007) who posited that the taxation of SMEs faces several major policy challenges that include technical skills and knowledge, perceived ease of use and perceived usefulness.

The study further wanted to establish the relationship between perceive ease of use and effective revenue collection.

The results in Table 14 established the existence of a very strong significant and positive relationship ($r = 0.755$, $P = < .0001$) between perceive ease of use and revenue collection. The p-value $< .0001$ was less than the conventional value of 0.05. This implies that the relationship between perceived ease of use and revenue collection is statistically significant. Therefore, the study rejected the null hypothesis and concludes that perceived ease of use has a statistically significant influence on revenue collection among.

The study further wanted to establish the correlation between perceived usefulness and revenue collection. The results in Table 14 established the existence of a very strong significant and positive relationship ($r = 0.824$, $P < .0001$) between perceived usefulness and revenue collection. The p-value (significance level) of $< .0001$ was less than the conventional value of 0.05. This implies that the correlation between perceived usefulness and revenue collection was statistically significant. Therefore, the study rejected the null hypothesis and concluded that perceived usefulness had a statistically significant influence.

Table 4.19: ANOVA for independent and dependent variables

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	28.376	5	2.422	12.333	.000 ^b
	Residual	20.262	135	.523		
	Total	48.629	140			

a. Dependent Variable: Revenue collection

b. Predictors: (Constant), Technical skills and knowledge, perceived ease of use and perceived usefulness

The overall model significance was presented using the ANOVA test table. The results in Table 4.19 shows that the overall model was a good fit since (F-value=12.333 and p-value=0.000<0.05) for all independent variables meaning that null hypothesis is rejected and concludes that there is a relationship between different independent and dependent variables. The findings there imply that all independent variables were statistically significant in explaining revenue collection. ANOVA

was used to test whether the regression analysis model used is fit or the relationship of the variable just occurred by chance.

Significance of F ratio is used to determine whether model used was fit or not. If the F ratio is significant the model used is considered fit and vice versa. A P - value of less than 0.05 indicates that the F statistics is high and that the null hypothesis of independent needs to be rejected since it's not true. In this case the F ratio (F=12.333, P=.000^b) was found to be significant hence the model used for analysis was fit.

The overall goodness of fit was obtained through regressing the goodness of fit for all the independent variables. The results of the multiple regression indicate $R^2 = .544$ and adjusted $R = .453$ as shown in Table 4.19. This is an indication that there is a strong relationship between independent variables and revenue collection.

Table 4.20: Coefficients of Overall Regression Model

Model		Unstandardized		Standardized		
		Coefficients		Coefficients	Sig.	
		B	Std. Error	Beta	t	
1	(Constant)	.144	.087	-	2.033	.022
	Technical skills and knowledge	.312	.067	.255	2.453	.034
	Perceived ease of use	.234	.078	.323	2.545	.043
	Perceived usefulness	.223	.078	.334	3.034	.032

a. Dependent Variable: revenue collection

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \dots \dots \dots$$

$Y = 0.144 + 0.312X_1 + 0.234X_2 + 0.223X_3$ were significant with p- values of 0.022, 0.034, 0.043 + 0.032 respectively.

The regression equation above has established that taking all factors into account (Technical skills and knowledge, perceived ease of use and perceived usefulness) the findings reveals that assuming other variables are at zero a unit change (increase) in technical skills and knowledge a 0.334 increases revenue collection; a unit increase in technical skills and knowledge will lead to a 0.034 increases revenue collection.

The regression coefficient results indicate a positive significant effect between training, perceived ease of use and perceived usefulness and revenue collection.

4.7 Discussion of key Findings

The key findings of the study are discussed in this section as per study objectives.

4.7.1 Technical skills and knowledge

Technical skills and knowledge was assessed using five measures and the overall mean score or responses regarding Technical skills and knowledge were 2.1 on a 5-point scale which indicates that majority of the respondents agreed that training on revenue collection.

The average overall standard deviation of 0.6 infers that 68% of the response was spread within one standard deviation of the overall mean.

Further collinearity analysis was done and the results showed technical skills and knowledge had positive and significantly related to revenue collection ($r = 0.456$, $p\text{-value}=0.00<0.05$).

4.7.2 Perceived ease of use and revenue collection

Perceived ease of use was assessed using five measures and the overall mean score or responses regarding perceived ease of use were 1.6 on a 5-point scale which indicates that majority of the respondents agreed that perceived ease of use affects the revenue collection. The average overall standard deviation of 0.66 infers that 66% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results revealed that perceived ease of use had a positive and significantly related to perceived ease of use ($r = 0.431$, $p\text{-value}=0.00<0.05$).

4.7.3 Perceived usefulness and revenue collection

Perceived usefulness was assessed using four measures and the overall mean score or responses regarding perceived usefulness were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that perceived usefulness affects revenue collection. The average overall standard deviation of 0.74 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done, and the results showed that technical skills and knowledge had a positive and significantly related to revenue collection ($r = 0.453$, $p\text{-value}=0.00<0.05$).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

Introduction

Chapter five outlines the summary of this research, conclusions and recommendations based on research findings and suggestion of areas which may require further consideration as far as future research is concerned.

5.1 Summary of the findings

The findings of the study have been summarized below as per the study objectives. The findings were supported by the frequencies of the responses

5.1.1 Technical skills and knowledge

The first objective of the study was to evaluate the effect of technical skills and knowledge on revenue collection. Methods used to arrive at the findings included descriptive statistics, analysis of variance and regression analysis. The study found out that technical skills and knowledge had a significant positive influence on the revenue collection this indicated that majority of the respondents agreed that technical skills and knowledge affects the revenue collection.

The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

5.1.2 Perceived ease of use

The second objective of the study sought to find out the effect of perceived ease of use on the effective revenue collection. Descriptive statistics, regression analysis and analysis of variance were conducted.

The study found out that perceived ease of use had a significant positive influence on the revenue collection.

The overall mean score of response regarding level of perceived ease of use indicated that majority of the respondents agreed that perceived ease of use affects the revenue collection. Correlation results indicated that there was a positive and significant relationship between perceived ease of use and the revenue collection. It was therefore concluded that level of perceived ease of use has significant positive effect on the revenue collection.

5.1.3 Perceived usefulness

The third objective of the study sought to establish the effect of perceived usefulness on the revenue collection. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that perceived usefulness had a significant positive influence on the revenue collection.

The overall mean score of response regarding perceived usefulness and the revenue collection indicated that majority of the respondents agreed that perceived usefulness affects the revenue collection, Correlation results indicated that there was a positive and significant relationship between perceived usefulness and the revenue collection. It was therefore concluded that perceived usefulness has significant positive effect on revenue collection.

5.2 Conclusions

The aim of the study was to establish the factors influencing the revenue collection. Data collected and analysed through both descriptive and inferential statistics established that all independent variables had significant effects on the revenue collection.

5.2.1 Technical skills and knowledge

Study concludes that technical skills and knowledge have increased affect revenue collection significantly. The study concludes technical skills and knowledge had a significant positive influence on the revenue collection.

5.2.2 Perceived ease of use

The study concludes that the overall mean score of response regarding level of perceived ease of use indicated that majority of the respondents agreed that perceived ease of use affects the effective revenue collection. Correlation results indicated that there was a positive and significant relationship between perceived ease of use and the revenue collection. It was therefore concluded that level of perceived ease of use has significant positive effect on the revenue collection.

5.2.3 Perceived usefulness

The study concludes that the overall mean score of response regarding perceived usefulness and the revenue collection indicated that majority of the respondents agreed that perceived usefulness affects the revenue collection. Correlation results indicated that there was a positive and significant relationship between perceived usefulness and the revenue collection. It was therefore concluded that perceived usefulness has significant positive effect on revenue collection.

5.3 Recommendation

There should be regular training and capacity building on technical skills, systems and processes. Taxpayers should be trained on tax laws, procedures and responsibilities to enhance compliance levels. The government should strive to build public confidence in the taxation systems. Trainings on iTax system should be enhanced to benefit more SMEs in submitting tax returns through provision of training on servicing of iTax system and utilization of by KRA to foster compliance levels.

The taxpayers should be given opportunities to access adequate information, skills, proper record keeping and risk assessment to effectively enhance their compliance level.

5.4 Suggestions for Further Research

The study recommends that further research to ascertain the extent to which the prevailing political environment affects revenue collection as well as the interdependence of political situation and revenue collection. It also recommends further research on the tax laws and policies in place and their suitability to the people they govern. The study also recommends research on taxpayers as stakeholders of KRA for the purposes of devising ways of ensuring compliance and satisfaction for our stakeholders.

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APPENDICES

APPENDIX I: Letter to Respondents (Introduction Letter)

PATRICK KAHURA KAMAU

P.O Box 2576-50200,

BUNGOMA.

To the respondent

RE: QUESTIONNAIRE

The above named is a second-year student at JKUAT, Nairobi campus. In order to fulfil the requirements of the School, I am undertaking a research on factors influencing implementation and utilization of itax system by small and medium enterprises in Bungoma County, Kenya. You are among the chosen respondents of my study.

I hereby, kindly ask you to respond to the questionnaire to the best of your knowledge. Confidentiality of the information given will be guaranteed.

Your cooperation will be highly appreciated.

Yours Sincerely,

PATRICK KAHURA KAMAU

APPENDIX 2: QUESTIONNAIRE

Introduction

This questionnaire is designed for the sole purpose of gathering information on Factors Affecting Value Added Tax Compliance in SMEs in Bungoma CBD. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions. Use the space at the back of this questionnaire if you need more space for your responses.

SECTION A: BIO DATA

1. Gender

Male

Female

2. Number of years the business has existed

Below 2 years

3-5 years

6- 10 years

10 years and above

SECTION B

1. TECHNICAL SKILLS AND KNOWLEDGE

II) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statement	1	2	3	4	5
iTax requires continuous improvement of skills, systems and processes to realize its objectives					
iTax require extensive training and capacity building of SMEs to enhance efficiency					
Training SMEs on tax laws procedures and responsibilities lowers non-compliance levels					
Training SMEs on iTax and compliance instills public confidence in the taxation system					
Tax administration authorities in Kenya have prioritized training SMEs to enhance revenue collection					

2. PERCEIVED EASE OF USE

I11) evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statement	1	2	3	4	5
It is easy for me to become skillful at using technology in tax management.					
find technology easy to use in tax management					

Learning to operate technology in tax management is easy for me					
The technology in tax administration flexible to interact with.					
Learning to operate on-line tax filing system is easy					

3. PERCEIVED USEFULNESS

1) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statement	1	2	3	4	5
Technology Improves my performance in tax filing.					
Technology enhances my effectiveness tax filing					
I think using technology in tax filing is valuable to me					
The content on online tax filing system is useful to me					
Overall, I find online tax filing system useful					

4. REVENUE COLLECTION

1) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

	<i>Statement</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>
1.	ITax system reduces cost on revenue collection among SMEs					
2.	Itax system enhances Revenue collection among SME					
3.	KRA meets its targets after introduction of iTax system					
4	iTax system improves services delivery					

THANK YOU FOR YOUR ASSISTANCE AND COOPERATION

APPENDIX 111: BUDGET

DESCRIPTION	COST PER ITEM	TOTAL AMOUNT (Kshs)
Stationery		30,000.00
Photocopying papers	10 reams @600/=	
Pens, pencils, rubbers		
Ink cartridge (Printer)		
Files (12 rim binders)		
Personnel		40,000.00
Questionnaires administrators		
Stastician		
Transport and subsistence		5000.00
Vehicles		
Subsistence allowance		
Communication		20,000.00
Telephone		
Internet		

Other Services		20,000.00
Library services		
Purchase of periodicals and books		
<u>Total expected cost</u>		<u>140,000.00</u>

APPENDIX 1V: WORK PLAN

ACTIVITY (2018)	DECEMBER (2017)	MARCH (2018)	SEPTEMBER (2019)
Draft proposal			
Proposal presentation			
Designing the research instrument			
Proposal defense			
Field work & data Collection			
Data Entry / Analysis			
Report Writing			
Presentation of 1 st draft			
Presentation of 2 nd draft			
Submission of final report			