EFFICIENCY OF iTAX ON TAX REVENUE PERFORMANCE BY SMEs IN NAIROBI CENTRAL BUSINESS DISTRICT

ANTHONY ONGONDI

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

2020

DECLARATION

This research project is my original work and has not been presented for the fulfilment of any Post-Graduate Degree in any other University.

Signature…….. Date……..

ANTHONY ONGONDI

HDB336/C016/2227/2019

This project has been submitted for examination with my recommendation and approval as a supervisor.

Supervisors name: **DR. MARION NEKESA**

Signature……..Date……...

DEDICATION

I would like to dedicate this project to my family particularly my loving wife Rose whose words of encouragement, challenge, prayers and push for tenacity rings in my ears. Kudos for your support throughout the time of my study. A special feeling of gratitude to my children Adrian, Ruby & Caleb for your unwavering support.

ACKNOWLEDGEMENT

I would like to thank the Kenya School of Revenue Administration in collaboration with JKUAT for giving me an opportunity to undertake this course. Special thanks to my supervisor, Dr. Marion Nekesa whose professional guidance and advice enabled me to successfully undertake and complete my study. I appreciate the support and encouragement received from all other individuals that I interacted with in the course of my study that has led to the successful completion of this PGD programme.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ACRONYMS AND ABRAVIATIONS

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

Technical skills : The understanding of and proficiency in, a specific kind of activity, particularly one involving methods, processes, procedures or techniques (Katz, 1974)

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: Tax A compulsory levy made by public authorities for which nothing is received in return (James, 1998, p. 142)

Tax computerized system: Tax computerized system means any software or hardware for use in storing, retrieving, processing or disseminating information relating to tax.(The Republic of Kenya, 2012, p. 17).

Tax Compliance Procedures: Tax compliance procedures include all formal procedures and related activities that taxpayers have to observe to comply with tax obligations (European Commission (EU), 2007, p. 11).

ABSTRACT

The study aims to investigate the factors affecting adopting of itax system by small and medium enterprises in Nairobi County, Kenya. The study was guided by the following specific objectives: -. To establish the influence of SMEs cost of internet on adopting itax system among small and medium enterprises at CBD Nairobi, to assess the technical skills and knowledge on adopting itax system at CBD, Nairobi and to evaluate the influence of SMEs Perception on adopting of itax system, among small and medium enterprises at CBD, Nairobi. The study adopted descriptive research design. The study target population was 1500 Small and Medium taxpayers at CBD, Nairobi. The study sample size was 150. This study used primary data collected through questionnaires. A pre-test on a different sample were carried out to give a Cronbach's alpha greater than 0.7 for all the variables as a rule of thumb. Data analysis was conducted 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 was conducted using the statistical package for social sciences (SPSS Version.24). Analysis of variance (ANOVA) was 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 and the study will use inferential and descriptive statistics to analyse data. SMEs cost of internet and adopting of iTax system as depicted by a correlation value of 0.455. This implies that SMEs cost of internet was linearly related to adopting of iTax system. The study also depicted that there is a positive correlation between SMEs technical skills and adopting iTax system with a correlation value of 0.434 and another correlation was between SMEs perception and adopting of iTax system which shows that there was a positive correlation value of 0.423.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

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).

1.1.1 Global Perspective

One of the earliest users of online filing was the United States of America (USA), through its Internal Revenue Service (IRS).The IRS, in recognition of the need to effectively and efficiently collect taxes with minimum disruption to taxpayers employed the use of modernized Information Technology infrastructure (IRS, 2007). According to eFile LLC (2016), online filing of tax returns in the USA began as early as 1986. Initially, efiling in the USA began as a small test program with only 25,000 tax returns being filed electronically.

The system also allowed a tax refund to be wired directly to the taxpayers' bank account. 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. The transition from manual to online tax systems in countries such as Singapore began in early 1990s. In other countries such as Mexico, its revenue authority began implementing online filing systems in 1998. As at 2004, the online system supported online tax payments and other tax transactions (Bhatnagar, 2004). 2 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 lauched in 2013, its main aim was to use technology to enhance tax compliance with automation of all core processes of tax administration (PwC, 2015). The East Africa region was not left behind; Uganda and Tanzania were early reformers of their revenue administration systems in the Eastern Africa Region (KRA, 2010). 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. 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-subsidiary, independent firms which employ less than a given number of employees. SMEs bring dynamism and innovation and are responsible for creation of employment opportunities in emerging and developing economies. They account for a large percentage (95% to 99%) of the businesses in all countries (OECD, 2009). The World Bank (2015) places the contribution of SMEs towards total employment at 45 3 percent and 33 percent contribution to the Gross Domestic Product (GDP) in emerging countries. In Kenya, SMEs are estimated to account for over 25% of the GDP and account for 77% of the employment statistics (Institute of Economic Affairs, 2012). The Budget Focus Report by the Institute of Economic Affairs (2012) further noted that as at 2005 the potential tax accruable from the SMEs stood at 4% of the GDP. The OECD (2007) noted that annual turnover, number of employees and net assets were the categories used to define SMEs. In Kenya, the MSME bill has defined SMEs in general, using the number of employees and company's annual turnover criteria. The SME definition however for manufacturing companies has two additional criteria;i) investment in plant and machinery and ii) registered capital. The table below illustrates the definition further (Kushnir, Mirmulstein, & Rarmalho, 2010).

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). In addition, prefilled online tax returns have been available since 2006, starting with taxpayer's basic information and later extended to include their incomes and reliefs. In 2012 IRB enhanced its e-filing system by introducing smartphone.

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.

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). Automation argues Katsuya-Takii (2003) is a catalyst and stimulus for customs modernization. Baurer (2005) argues that in carrying out their responsibilities, tax administrations can also create problems for the business community when they impose burdensome reporting and record keeping requirements; conduct excessive inspections and audits; fail to deal with corrupt tax administration employees; and fail to provide transparency in tax administration operations.

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. 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). The IRS, in recognition of the need to effectively and efficiently collect taxes with minimum disruption to taxpayers employed the use of modernized Information Technology infrastructure (IRS,2007). According to eFile LLC (2016), online filing of tax returns in the USA began as early as 1986. Initially, efiling in the USA began as a small test program with only 25,000 tax returns being filed electronically. The system also allowed a tax refund to be wired directly to the taxpayer's bank account. 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.

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 tax payers 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 tax payer. 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. 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. At least two policy responses to the problem of compliance costs are conceivable. Governments could try to generally simplify tax administration for businesses.

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. Hasseldine and Li (1999) illustrated tax compliance is placing the government and the tax authority as the main party that need to be continuously efficient in administering the tax system in order to curtail tax evasion.

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.

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).

Aryeetey and Ahene (2004) posited that most large companies have their roots in Small and Medium Enterprises suggesting that the future large corporations are the Small and Medium Enterprises of today that that must be nurtured to ensure their growth. Thus, tax non-compliance by Small and Medium Enterprises are likely to be continued to future corporations if proper training and tax administration is are not adequately carried out. 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 were less compliant. © Nyareru, Kibati & Ragama Licensed under Creative Common Page 730. 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.

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.

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 . This change allowed staff to work more on auditing and investigation. (World Bank, 2000). 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). In addition, prefilled online tax returns have been available since 2006, starting with taxpayer's basic information and later extended to include their incomes and reliefs. In 2012 IRB enhanced its e-filing system by introducing smartphone.

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.

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.

1.1.2 Kenya Perspective

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.

1.1.3 Usage of itax system

An accurate central taxpayer registry is paramount for ensuring proper management of taxpayer obligations. In many rapidly growing markets, this task can be especially challenging, as much of the economy is likely to comprise "informal" and small-scale businesses, and the tax authorities lack most of the external controls that ensure a taxpayer stays within the system. Given that such administrations do not have the resources to effectively control all taxpayers, it is all too easy for a potential taxpayer to effectively fall off the radar in these circumstances—either by not registering in the first place or by stopping declarations and to do so without facing any major consequence

Sagas, Nelimalyani and Kimaiyo (2015), did an assessment of the impact of electronic tax register on revenue collection by Kenya Revenue Authority western region, Kenya. Findings from their study indicated that indicated that 75% of the respondents were of the opinion that ETR machines have helped to curb cases of tax evasion 86% of the respondents were of the opinion that ETRs have helped increase revenue collection due to their efficient nature.

(Wang'ombe ,2014)

There have been several studies concerning the electronic tax payments across the globe. Automation of tax payment was first implemented in US. Australia is among the countries

that had implemented the system in the management of their municipalities (Turner et al, 2004). However, the purpose of the tax strategy in Turkey is to simplify tax laws and regulations and to harmonize the tax law with European Union law. The development and utilization of modern technology in revenue mobilization has become a critical feature of every country particularly developing countries.

This is as a result of the numerous usefulness modern technology offers in the development of the municipalities. For every tax filing or payment, taxpayers have to log in, select and complete the appropriate forms, sign and submit them digitally. An acknowledgment is received immediately (Turner et al, 2004).

The e-filing system automatically calculates the necessary payment details. It also limits deductions that taxpayers are entitled to base on deduction rules—enabling taxpayers to avoid mistakes that would result in penalties (Doing business, 2014). In many rapidly developing economies, mobile and Internet penetration is often comparatively high. Tax administrations can exploit this infrastructure by introducing electronic channels such as Internet portals, mobile payment options, and ATMs as a powerful lever for improving service levels. By using these channels for simple taxpayer transactions, such as tax declarations and payments, and while conveying a strong sense of its public purpose. Such approaches not only help reduce the length of queues at tax offices, but by so doing remove a barrier to compliance.

They also enable the databases to be of much better quality and, as a result, provide the basis for more effective audit and collection processes in the medium term. (Pereira, Hoekstra, & Queijo, 2013**)**. Seelmann, Lerche, Kiefer and Lucante (2011) did a study Benefits of a computerized integrated system for taxation in Tanzania, they argued that Taxation is often the most important source of state revenue. However, many developing countries lack effective tax administration structures and processes. Technological innovations have not filtered through to the daily working reality of tax officials.

A number of governments have responded by adopting electronic filing (henceforth e-filing) of taxes. E-filing refers broadly to online submission of tax declarations, typically replacing in-person submission to tax officials. As of 2015, 32 percent of developing countries had introduced e-filing and its prevalence continues to grow rapidly (World Development Report, 2016)

The iTax system has simplified the various tax processes, shortening the time taken to file returns and increased revenue collection. Taxpayers can use the iTax system to file returns for Pay As You Earn (PAYE), Value Added Tax (VAT), Individual annual Income Tax Return (IT1), Corporate Tax returns and agency revenue that includes Sugar Development Levy, Stamp Duty and Kenya Bureau of Standards. (KRA press release ,2015)

Mandola (2013) defines electronic filing as an internet-based system that enables the taxpayers to register and submit their tax returns over the internet. A number of governments have responded by adopting electronic filing (henceforth e-filing) of taxes. E-filing refers broadly to online submission of tax declarations, typically replacing in-person submission to tax officials. As of 2015, 32 percent of developing countries had introduced e-filing and its prevalence continues to grow rapidly (World Development Report, 2016)

The most common feature of tax reforms reported in the 2015 World Bank Doing Business Indicators was the introduction or enhancement of electronic systems for filing and paying taxes, with 26 economies implementing such changes on e-filing contribute to system-wide efficiency gains by removing the need for physical collection of forms and data entry. Lastly, by making tax information submitted by taxpayers immediately available electronically, e-filing may increase the ease of data analysis for monitoring. (World Development Report, 2016) .

Electronic filing allows taxpayers to submit their tax declarations online instead of in person at the tax office thereby eliminating the need for time-consuming visits to the tax office and frequent interactions with tax officials (and the potential unofficial behaviors that may arise from these

interactions) (Okunogbe, 2017). E-filing or online return filing of income tax refers to successful filing of Tax Returns through the internet or web-based tax systems. Electronic systems for filing returns and paying the due taxes, if accepted and adopted by most businesses and individual taxpayers, result in tangible advantages to both the taxpayers and the government.

The iTax system has simplified the various tax processes, shortening the time taken to file returns and increased revenue collection. Taxpayers can use the iTax system to file returns for Pay As You Earn (PAYE), Value Added Tax (VAT), Individual annual Income Tax Return (IT1), Corporate Tax returns and agency revenue that includes Sugar Development Levy, Stamp Duty and Kenya Bureau of Standards. (KRA press release ,2015)

An accurate central taxpayer registry is paramount for ensuring proper management of taxpayer obligations. In many rapidly growing markets, this task can be especially challenging, as much of the economy is likely to comprise "informal" and small-scale businesses, and the tax authorities lack most of the external controls that ensure a taxpayer stays within the system. Given that such administrations do not have the resources to effectively control all taxpayers, it is all too easy for a potential taxpayer to effectively fall off the radar in these circumstances—either by not registering in the first place or by stopping declarations and to do so without facing any major consequence

Sagas, Nelimalyani and Kimaiyo (2015), did an assessment of the impact of electronic tax register on revenue collection by Kenya Revenue Authority western region, Kenya. Findings from their study indicated that indicated that 75% of the respondents were of the opinion that ETR machines have helped to curb cases of tax evasion 86% of the respondents were of the opinion that ETRs have helped increase revenue collection due to their efficient nature.

(Wang'ombe ,2014). There have been several studies concerning the electronic tax payments across the globe. Automation of tax payment was first implemented in US. Australia is among the countries that had implemented the system in the management of their

municipalities (Turner et al, 2004). However, the purpose of the tax strategy in Turkey is to simplify tax laws and regulations and to harmonize the tax law with European Union law.

The e-filing system automatically calculates the necessary payment details. It also limits deductions that taxpayers are entitled to base on deduction rules—enabling taxpayers to avoid mistakes that would result in penalties (Doing business, 2014). In many rapidly developing economies, mobile and Internet penetration is often comparatively high. Tax administrations can exploit this infrastructure by introducing electronic channels such as Internet portals, mobile payment options, and ATMs as a powerful lever for improving service levels. By using these channels for simple taxpayer transactions, such as tax declarations and payments, and while conveying a strong sense of its public purpose. Such approaches not only help reduce the length of queues at tax offices, but by so doing remove a barrier to compliance.

1.2 Statement of the Problem

ITax system technical problems bears high compliance cost for SMEs while at the same time, they are not sufficiently trained to handle technical issues. This has greatly influenced the cost compliance. 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.

There have been incidences of unallowable expenses due to lack of consistency and transparency. Though iTax was introduced to reduce the burden of cross checking records, some SMEs are yet to embrace the idea. Challenges on payment, filing of returns and compliance costs have been cited. There have been inconsistencies of the automation in improving efficiency for SMEs. KRA has experienced inconsistency in business

classification which has made measurement of taxation compliance costs and identifying costs difficulty.

A study done by OECD (2009) on taxation of SMEs in twenty OECD countries established that tax compliance costs are a burden to the SMEs. This is becausethe SMEs' turnover is low which translates to low profits. As a result, the cashflows may not be sufficient to meet these tax compliance costs.Tax compliance costs are fixed costs which in essence means they will always form part of the total expenses incurred.

This imposes a relatively higher burden on SMEs considering their small size (lower turnover, fewer assets and few employees) as compared to larger firms. Furthermore, the study by OECD (2009) noted that tax compliance costs include bookkeeping costs and costs of hiring an employee capable of calculating taxes due monthly, quarterly and annually and is able to file tax returns.

Since the introduction of the iTax online system and subsequent mandatory requirement of its use by all taxpayers, no studies have been conducted on efficiency of itax on tax revenue performance among SMEs in Kenya. This could also shed light on any challenges they may be facing in adopting the online system hence necessitating this study. There is therefore the need to investigate the determinants of usage iTax system among small and medium enterprises at Central Business District, Nairobi.

1.3 Research Objectives

1.3.1 General Objective

To investigate the efficiency of itax on tax revenue performance among small and medium enterprises at Central Business District, Nairobi

1.3.2 Specific Objective

i. To establish the effect of SMEs' cost of internet on usage of iTax online system among small and medium enterprises at Central Business District, Nairobi.

ii. To determine the effect of SMEs' technical skills and knowledge of on usage of iTax system among small and medium enterprises at Central Business District, Nairobi

iii. To evaluate the effect of SMEs' perceptions on usage of iTax system among small and medium enterprises at Central Business District, Nairobi.

1.4 Research Questions

i. Does SMEs' cost of internet affect usage of the iTax online system among small and medium enterprises at Central Business District, Nairobi?

ii. Does SMEs' technical skills and knowledge affect usage of the iTax system among small and medium enterprises at Central Business District, Nairobi?

iii. Does SMEs' perception affect usage of iTax online system among small and medium enterprises at Central Business District, Nairobi?

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 usage 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 Nairobi 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 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.

1.5.5 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 usage 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 the factors affecting the usage of iTax system among small and medium enterprises at Central Business District, Nairobi. The study was guided by the following specific variables: - SMEs' cost of internet, SMEs' technical skills and knowledge and SMEs' perceptions. The study target population was 1500 registered SMEs and a sample size of 150 SMEs in Central Business District, Nairobi.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presented review of literature on the usage of iTax system. 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

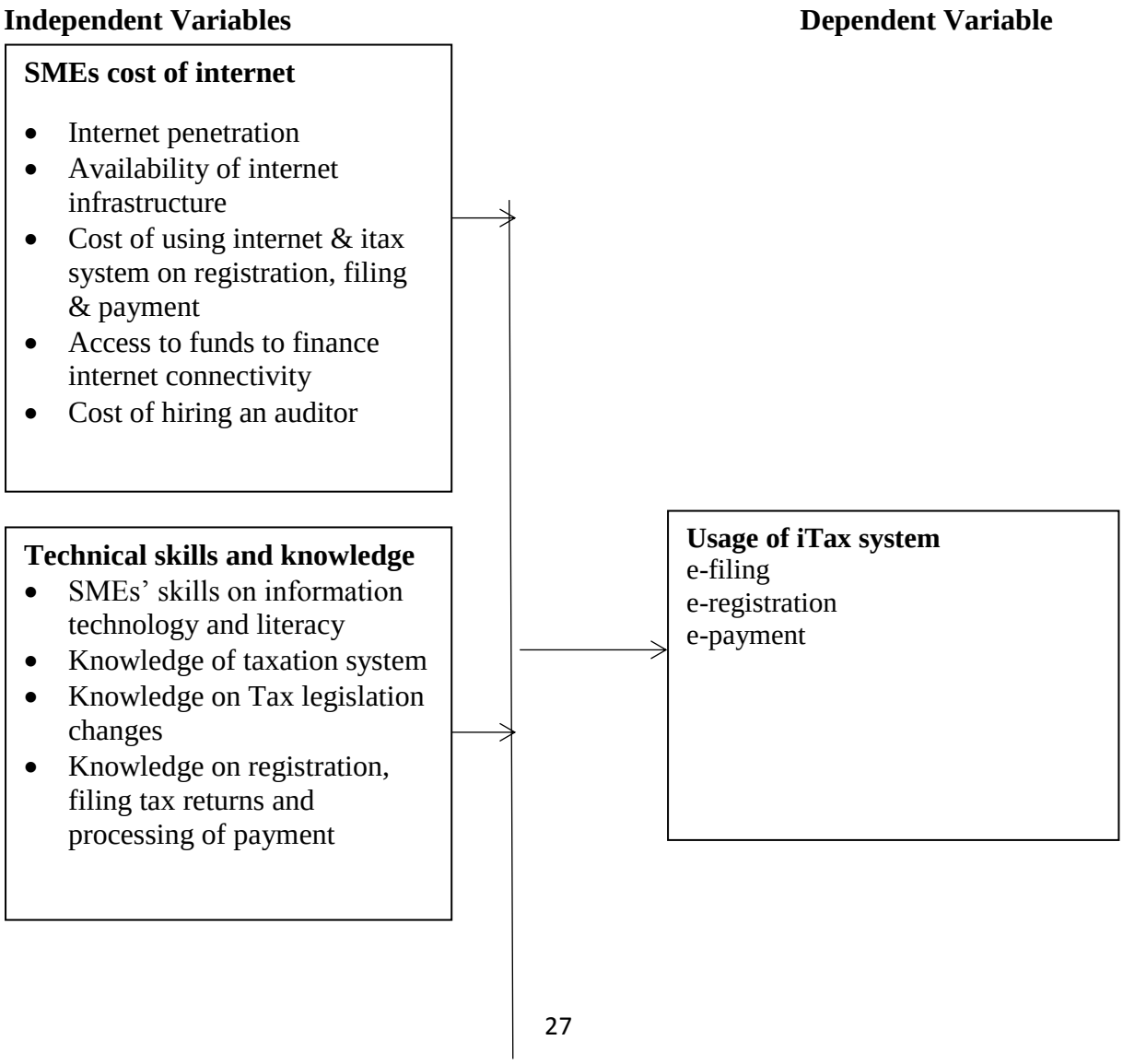
According to this theory, tax liability in its true form is a compulsory and an unconditional payment to the state. The theory posits that there is no commercial or semi-commercial

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).

2.3 Conceptual Framework

From the conceptual framework, usage of itax system was the dependent variable while SMEs cost of internet, technical skills and SMEs perception are independent variables.



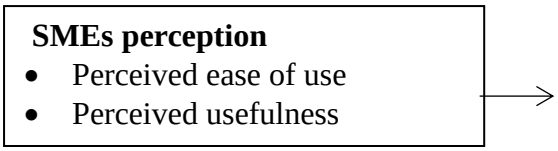


Figure 2.1 Conceptual Framework

2.4 Empirical Literature

Mukabi (2014) carried out a study on "factors influencing Turn over Tax compliance and concluded that, taxpayers' perception of the tax system, level of awareness, enforcement efforts and compliance costs have an effect on compliance level. Osebe (2013) carried out a study on the analysis of factors affecting tax compliance in the real estate sector. He concluded that the established factors (compliance costs, available opportunity for tax evasion, taxpayer knowledge, fines and penalties) greatly affect the tax compliance level in the industry.

The study of Mwangi (2013) on the establishment of factors affecting tax compliance among the small and medium enterprises reached a conclusion that rates of tax, availability of information, compliance costs and taxpayer attitude towards tax payments have a direct effect on tax compliance. The essence of leadership in modern organizations nowadays is that leadership must be for the benefit of the followers and not necessarily for the enrichment of the leaders, (Kuppers, 2007). An individual will support an organization if he believes that through it his personal objectives and goals could be met; if not, the person's interest will decline. Managerial style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization. However, the authors do not specifically portray the exact effect of leadership on the stability of the labor force, specifically in public sector organizations.

2.4.1 SMEs' cost of internet

Enterprises in business, whether small or big, strive to survive and prosper in the market. To help achieve these goals, businesses must adopt proper strategies. "One of the major developments of our time that could provide the means for businesses to arrive at their desired goals is information and communication technology (ICT) and the Internet"(Hassen & Svensson, 2014, p. 1).

This section reviewed various dimensions of cost of internet namely: internet penetration, cost element, infrastructure and access as well as access to funds to finance internet connectivity.

2.4.2 Technical skills and knowledge

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.

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 usage 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.

Broadly, the activities involved in tax compliance are tax registration, filing of tax returns and payment of taxes due by the due dates, good bookkeeping and keeping abreast with any tax changes in laws and procedures (EU, 2007). In essence, a taxpayer needs to be familiar with the existing tax legislations, tax law changes and have the necessary skills required to use the online tax system. It is also paramount that a taxpayer understands the various penalties imposed for non-compliance.

2.4.3 SMEs' perceptions

The perception of the intended user towards information technology predicts the user's acceptance and intention to adopt the information technology. This is in line with the principles pronounced in the Technology Acceptance Model (TAM) theory. The TAM theory discusses the perceptions of the intended users of the technology and how their perceptions impact their adoption of the technology. The TAM theory was developed by Fred Davis in 1989 as a model that explains and predicts user acceptance of information (Thong, Hong, & Tam, 2002).

2.4.4 Usage of ITax system

Electronic filing allows taxpayers to submit their tax declarations online instead of in person at the tax office thereby eliminating the need for time-consuming visits to the tax office and frequent interactions with tax officials (and the potential unofficial behaviors that may arise from these interactions) (Okunogbe, 2017). E-filing or online return filing of income tax refers to successful filing of Tax Returns through the internet or web-based tax systems. Electronic systems for filing returns and paying the due taxes, if accepted and adopted by most businesses and individual taxpayers, result in tangible advantages to both the taxpayers and the government.

The iTax system has simplified the various tax processes, shortening the time taken to file returns and increased revenue collection. Taxpayers can use the iTax system to file returns for Pay As You Earn (PAYE), Value Added Tax (VAT), Individual annual Income Tax Return (IT1), Corporate Tax returns and agency revenue that includes Sugar Development Levy, Stamp Duty and Kenya Bureau of Standards. (KRA press release ,2015)**.** An accurate central taxpayer registry is paramount for ensuring proper management of taxpayer obligations. In many rapidly growing markets, this task can be especially challenging, as much of the economy is likely to comprise "informal" and small-scale businesses, and the tax authorities lack most of the external controls that ensure a taxpayer stays within the system. Given that such administrations do not have the resources to effectively control all taxpayers, it is all too easy for a potential taxpayer to effectively fall off the radar in these circumstances either by not registering in the first place or by stopping declarations and to do so without facing any major consequence

Sagas, Nelimalyani and Kimaiyo (2015), did an assessment of the impact of electronic tax register on revenue collection by Kenya Revenue Authority western region, Kenya. Findings from their study indicated that indicated that 75% of the respondents were of the opinion that ETR machines have helped to curb cases of tax evasion 86% of the respondents were of the opinion that ETRs have helped increase revenue collection due to their efficient nature.
(Wang'ombe ,2014)

There have been several studies concerning the electronic tax payments across the globe. Automation of tax payment was first implemented in US. Australia is among the countries that had implemented the system in the management of their municipalities (Turner et al, 2004). However, the purpose of the tax strategy in Turkey is to simplify tax laws and regulations and to harmonize the tax law with European Union law.

The e-filing system automatically calculates the necessary payment details. It also limits deductions that taxpayers are entitled to base on deduction rules—enabling taxpayers to avoid mistakes that would result in penalties (Doing business, 2014). In many rapidly developing economies, mobile and Internet penetration is often comparatively high. Tax administrations can exploit this infrastructure by introducing electronic channels such as Internet portals, mobile payment options, and ATMs as a powerful lever for improving service levels.

By using these channels for simple taxpayer transactions, such as tax declarations and payments, and while conveying a strong sense of its public purpose. Such approaches not only help reduce the length of queues at tax offices, but by so doing remove a barrier to compliance.

They also enable the databases to be of much better quality and, as a result, provide the basis for more effective audit and collection processes in the medium term. (Pereira, Hoekstra, & Queijo, 2013**)**. Seelmann, Lerche, Kiefer and Lucante (2011) did a study Benefits of a computerized integrated system for taxation in Tanzania, they argued that Taxation is often the most important source of state revenue. However, many developing countries lack effective tax administration structures and processes. Technological innovations have not filtered through to the daily working reality of tax officials.

2.5 Critiques of the Study

Chilipunde and Shakantu (2010) further argue that the SMEs‟ management have inadequate training and business skills and hence have a high prevalence of unethical conduct of non-compliance. Information available indicates that non-compliance among business firms is critical and therefore the greatest challenge towards realization of revenue collection targets by tax authorities. It is difficult to get the actual picture, but it is clear from few studies that

have been published that non compliance is widespread and involves large revenue loses, though the extent varies considerably across countries (Webley et al., 2002).

Torgler (2005) found that people who knew or had heard about tax avoidance appear to have lower tax morale than others. In addition, trust in public officials, the belief that other people obey the law and a pro-democratic attitude significantly improve or raise tax morale and compliance level. The VAT act Cap 476 (Laws of Kenya) requires that once a tax payer is registered, he/she should always display VAT certificate, issue ETR generated receipts, declare correct returns and submit returns on time. Failure to adhere to these requirements attracts heavy fines and penalties. However, businesses with turnover of less than five million per annum are under no obligation to register for VAT and as such, are not legally compelled to use ETRs.

According to Ritsema et al. (2003), The tax policy is concerned about the impact of taxes on economic efficiency, aggregate demand and income distribution. However, whenever there are taxes, there will be tax evasion. Though tax policy cannot be concerned solely or even primarily with minimizing evasion, the fact of evasion and its consequences, it alters the way in which taxes impact on economic efficiency and income distribution. Therefore, the informal economy needs to be taken into account in predicting the impacts of tax changes (Giles & Tedds, 2001).

Feld and Frey (2002) found evidence that tax morale is also significantly influenced by interactions between taxpayers and tax authorities, with more respectful behavior from tax authorities associated with higher rates of tax compliance. Using survey-based evidence and experimental results from Botswana, South Africa, and the United States, Cummings et al. (2004) came to similar conclusions. Tax morale and compliance levels appear to be influenced by the fairness of the tax administration, perceived fiscal exchanges, and overall

attitudes toward governments. In South Africa, Nkote and Lilian (2010) studied the effect of automation and customs tax administration in the case of Uganda. The researchers investigated the usage of automation in URA in achieving efficiency and increasing revenue collection. Some of the results they reported showed 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 it predicted clearance time negatively. This means that the cost of tax administration was increased with increasing automation and the time taken to clear tax declarations reduced with increased computerization of tax administration at URA. The implications were that URA achieved the computerization of customs tax administration at an increasing rate of costs due to incomplete automation of all the systems.

According to Cowell (1992), there are five crucial likely determinants of VAT compliance: sanctions and punishments (deterrence), equity, personality, satisfaction with the tax authorities and mental accounting. Economic models clearly predict that higher penalties and audit probabilities should discourage non-compliance. Though both have some deterrence effect, higher audit probabilities probably have more impact than higher penalties (Andreoni et al, 1998). Surveys have indicated that self-reported non-compliers are less likely than compliers to believe that such acts would result in apprehension and punishment. De Mello (2008) observes that deterrence is not solely a matter of legal sanctions; a belief that one's reputation may suffer as a result of being caught evading tax is also a deterrent and may be relevant in a business context.

Government should improve the equity with which tax laws are enforced, such that all taxpayers are equally subject to existing tax laws. Deterrence is based on the concept that the risk of detection and punishment will improve compliance behavior.

Serem et al. (2017) conducted a study on the effect of tax system simplicity and tax compliance among the rental income earner in Eldoret. The study was based on causal descriptive research design with a sample population of 181 respondents who were provided with questionnaires.

The study adopted descriptive and inferential statistic where it was evidenced that there was a positive correlation between tax system simplicity and tax compliance. The study recommended that for effective revenue collection from rental income earners, there is need to simplify the process that makes it not necessary for tax experts to interpret but a one step process. This is very instrumental in increasing revenue collection not only to the rental income earners but also from vast majority of taxpayers with taxable income who rely on other professionals to support their tax filling process.

According to Budak and James (2018), noted that increase in the level of tax complexity leads to noncompliance among taxpayers which leads to the tax system that is more complex is attributed to many factors at national and international level. Borrego, Lopes and Ferreira (2018) asserts that VAT framework and tax complexity among local authorities where there is misuse of exemptions and no subjections imply no payment of taxes by citizens. The study had an in-depth analysis on the qualitative and quantitative tax complexity perceived in the local tax administration in Portugal by involving in binding tax information that organizations request.

The results indicated presence of top-level complexity in tax perception that is uncertain and coupled with lack of transparency relating to tax framework of the activities of the local authority. Further, the study noted that perceived complexity is essentially legal. The study recommended a shift from more complex legal changes in tax impact and increase in number of binding tax information that is simplified.

Celimene, Dufrenot and Mophou (2016) conducted a study on tax evasion, tax corruption and stochastic growth influences on the level of investment and public spending hindering growth in the economy in Michigan States. The study stressed on the several channels through which volatility are impacted in equity market that aren't regulated and tax cheaters sheltering their proceeds of illegal activities from official financial and tax recognition. This creates low productivity of public spending leading to tax evasion and tax corruption with contribution of the development of private capital investment from the illegal activities in the equity markets.

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.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This section provided a systematic description of the research methodology that was used to answer the research questions in chapter one of the research proposal. The methodology in this research study entail research design, target population, sampling design, data collection and analysis methods.

3.2 Research Design

Cooper & Schindler (2014) define a research design as a blueprint or framework for collection, measurement and analysis of data, a plan or procedural outline that enables a researcher obtain answers to research questions. Krishnaswami & Satyaprasad (2010) on the other hand define a research design as a "logical and systematic plan prepared for directing a research study, it specifies the objectives of the study, the methodology and techniques to be adopted for achieving the objectives" (p. 40). The study employed descriptive research design.

3.3. Sampling Frame

Cooper and Schindler (2014) deem a sample frame to be a "listing of all population elements from which the sample was drawn (p. 338). According to Thompson (2012), a sampling frame comprises of a list of people from comprised segmented taxpayers from the Small and Medium Enterprises at Central Business District, Nairobi.

3.4 Target Population

Population according to Kothari, (2013) is the universe of interest. It is the total number of subjects or the total environment of interest to the researcher. According to Castillo (2009), a

research population is generally a large collection of individuals or objects that is the main focus of a scientific query.

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 1500 registered SMEs operating business within CBD, Nairobi.

Table 3.1 Target population

Statement	Target Population
Small scale Enterprises	1000
Medium scale Enterprises	500
TOTAL	**1500**

3.5 Sample and Sampling technique

3.5.1 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 employed 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 indicated a significant difference when there truly is one. (Morgan, 2001)

The researcher adopted the following formula;

N/kith:

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

Kith item = Every tenth organisation selected in succession from N to form the sample. E.g. If the target population is 1,500 firms divided by 10 = 150 respondents. The respondent selected the first sample unit at random and then the remaining unit was automatically selected in a definite sequence of the 10th. Hence the respondents will be 150.

Table 3.2 Sampling Frame and Sample Size

Type of Enterprises	Target Population	Sample Size 10%
Small scale Enterprises	1000	100
Medium scale Enterprises	500	50
TOTAL	**1500**	**150**

3.6 Data Collection Instruments

In data collection, the researcher should describe the major method(s) for collecting data from the subjects, Maxwell (2012). .In this study the main data collection instruments was questionnaire. Questionnaire was preferred because they are effective data collection instruments that allow respondents to give much of their opinions pertaining to the researched problem.

The questionnaire 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 shared with the researcher and that the information is strictly for research purposes.

3.7 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 was administered to the sampled respondents.

3.7.1 Primary Data

This study was primary data collection through questionnaires. The questionnaire was 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.

3.8 Data Collection Procedures

The relevant data was collected from the field with the aid of a research assistant, as the questionnaires were distributed on a drop and pick later method to allow the respondents time to sufficiently go through them and give feedback.

3.9 Pilot Study

The study was conducted a pilot test to pretest 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 carried out to test whether the questionnaires could obtain the required results. The pilot study was conducted to find out the clarity and objectivity of the selected questions.

3.9.1 Reliability of the research instruments

Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Cooper, 2003). Instrument reliability is the dependability, consistency or trustworthiness of a test. Cronbach's Coefficient Alpha approach was used to measure internal consistency of the research instruments. Cronbach's Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches as recommended by Cohen, Manion and Morrison (2007).

Computation of Cronbach's Alpha was done using statistical package for social sciences (SPSS Version.24).

3.9.2 Validity of the research instruments

Kothari (2008) defines validity as a sound measurement that indicates the degree to which an instrument measures what it purports to measure. This study employed content validity which is the extent to which a measuring instrument provides adequate coverage of the topic under study. So as to establish content validity and make adjustments to the research instruments, consultations and discussions with the supervisor was done.

3.10 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 were examined with respect to their suitability to the current research.

3.10.1 The Qualitative Analysis

Qualitative data collected through questionnaires were 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 was 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 modeling 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

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

Where:

Y = Usage iTax system
β0 = Constant Term
β1 = Beta coefficients
X1 = SMEs cost of internet
X2 = Technical skills and knowledge
X3 = SMEs perception
ε = Error term

3.11 Measurement of Variables

Table 3.1 gives a summary of research objectives, variables of study, their indicators, level of measurement, tools of analysis for each objective and type of tool employed for each objective.

Table 3.2: Measurement of Variables

variable	Indicators/measures	Likert scale
SMEs cost of internet	Internet penetration Availability of internet Cost of using internet Access to funds to finance internet	5 points
Technical skills and knowledge	SMEs information technology Knowledge of taxation system Tax legislation changes Knowledge of filing returns	5 points
SMEs perception	Perceived ease of use Perceived usefulness	5 points

Usage of iTax system	Number of tax policies and reforms e-filiing e-registration e-payment	5 points

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 determinants of usage of iTax system among SMEs in Nairobi 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 150 participants out of which 148 questionnaires were filled and returned and therefore they were used for data analysis giving a response rate of 98.6%. 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. The use of the drop and pick later method also improved the response rate because it gave adequate time to the participants to fill the questionnaire.

Table 4.1: Response Rate

Response Rate	Frequency	Percent
Returned	148	98.6%
Unreturned	2	1.4%
Total	150	100

4.2 Reliability test results

Table 3. Reliability Test Results	**No. of Items**	**Cronbach's Alpha Coefficients**
SMEs access to internet	5	.748
SMEs technical skills	6	.729
SMEs Perception and knowledg	6	.733
Usage of iTax system	6	.726

A pilot study was conducted in Naivasha town. 10% of the study sample (20 participants) as recommended by Mugenda and Mugenda (2003) was randomly selected and administered with questionnaires. The response rate was 90%. 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 5, 6, 6 and 6 items with Cronbach Alpha values of 0.748, 0.729, 0.733and 0.726 respectively. Therefore, SMEs access, SMEs technical skills and SMEs perception and using of iTax system 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.

4.4. Descriptive statistics

The study sought to establish factors affecting usage of itax among SMEs Central Business District, Nairobi Kenya. Descriptive statistics results for SMEs access were conducted and presented on table 4.6 below; -

4.4.1 SMEs cost of internet

This section sought to evaluate several statements on SMEs cost of internet on using iTax system. Table 4.2 shows the results obtained.

According to the results on table 4.2 below show that, highest mean values were 3.40, 3.33 and 2.40, which correspond to the likert scale value of 2. This indicates that the respondents agree that I find the cost of maintaining a computer for accessing internet to file tax returns too expensive, Accessing finance from financial institutions to equip my business with internet is expensive for my business and I find the monthly cost of internet access affordable. The lowest mean value was 2.34, which indicates that the respondents agreed that SMEs accessing to internet is costly. The study findings are supported by a number of studies which includes Mukabi (2014)

Table 4.2 SMEs cost of internet

I find the cost of maintaining a computer for accessing internet to file tax returns too expensive	**3.40**	**1.345**

Accessing finance from financial institutions to equip my business with internet is expensive for my business.	**3.33**	**1.344**
Monthly cost of internet access affordable.	**2.40**	**1.367**
SMEs accessing to internet and Itax system is costly	**2.34**	**1.267**

4.4.2 SMEs technical skills

This section sought to evaluate several statements on SMEs technical skills on using iTax system. According to the results on table 4.3 the highest mean values were 3.34 and 3.23 which corresponds to the scale value of 3. The results indicate that how to register my business on the iTax online system, the SMEs pay taxes using the iTax online platform, the SMEs know how to file returns in the iTax online system and they do not know when tax laws change. The study findings are supported by a number of studies which includes Fjeldstad (2004)

Table 4.3 SMEs technical skills

Statement	**Mean**	**Std. deviation**
I know how to register my business on the iTax online system.	**3.23**	**1.345**
I can pay taxes using the iTax online platform	**3.34**	**1.433**
I know how to file returns in the iTax online system	**2.43**	**1.064**
I do not know when tax laws change	**2.23**	**1.045**

4.4.3 SMEs perception

This section sought to evaluate several statements on SMEs perception on using iTax system. According to the results on table 4.4 below, the highest mean values were 3.60 and 2.88 which corresponds to the scale value of 3. The results indicate that The introduction of iTax online system has motivated me to voluntarily comply with my tax obligations, SMEs prefer the online services in comparison to the manual system of tax registration and submission of tax returns, The idea of submitting my tax returns online makes me uncomfortable and The idea of submitting my tax returns online makes me uncomfortable. The study findings are supported by a number of studies which includes Shome, et al., (2014).

According to the results on table 4.4 below, the highest mean values were 3.60 and 2.88 which corresponds to the scale value of 3. The results indicate that The introduction of iTax online system has motivated me to voluntarily comply with my tax obligations, SMEs prefer the online services in comparison to the manual system of tax registration and submission of tax returns. The idea of submitting my tax returns online makes me uncomfortable and The idea of submitting my tax returns online makes me uncomfortable. The study findings are supported by a number of studies which includes Wang (2002)

Table 4.4 SMEs perception

Statement	**Mean**	**Std. deviation**
The introduction of iTax online system has motivated me to voluntarily comply with my tax obligations	**2.33**	**1.065**
Online services in comparison to the manual system of tax registration and submission of tax returns.	**2.13**	**1.056**

The idea of submitting my tax returns online makes me uncomfortable.	**3.60**	**1.335**
The idea of submitting my tax returns online makes me uncomfortable.	**2.88**	**1.455**

4.4.4 Usage iTax system

This section sought to evaluate several statements on the usage of iTax system. According to the results on table 4.5 the highest mean values were 3.60 and 2.88 which corresponds to the scale value of 3. The results indicate the respondents agreed that the introduction of iTax online system has motivated me to voluntarily comply with my tax obligations, online services in comparison to the manual system of tax registration and submission of tax returns, the idea of submitting my tax returns online makes me uncomfortable and The idea of submitting my tax returns online makes me uncomfortable. The study findings are supported by a number of studies which includes Friedland et al, (1978

Table 4.5 Usage of ITax system

Statement	**Mean**	**Std. deviation**
Usage of iTax system has enabled KRA to authenticate taxpayer e-returns and assess tax liabilities	**3.44**	**1.085**
Since introduction of iTax system the number of e-registration has tremendously increased	**2.21**	**1.082**
Electronic e-Payment has enabled tax payers to file and pay using their mobile phones	**2.43**	**1.033**
iTax system has enabled taxpayers to see real-time transactions and e-payments details in taxpayer's ledger account and act accordingly	**3.33**	**1.342**

iTax has enabled taxpayers to see real-time transactions and e-payments details in taxpayer's ledger account and act accordingly	**3.23**	**1.355**

4.5 Inferential Analysis

4.5.1 Correlation Analysis

Correlation shows the relationship existing between variables in the study. The study's dependent variable usage iTax system and the independent variables consisted of SMEs cost of internet, SMEs technical skills and SMEs perception of iTax system. The results depicted in table 4.6 below

Table 4.6: Correlations Statistics of Independent and Dependent Variables

		Usage of iTax system	**SMEs access internet**	**SMEs Technical skills**	**SMEs perception**
Usage of iTax system	Pearson Correlation	1			
SMEs access internet	Pearson Correlation	.455	1		

SMEs technical skills	Pearson Correlation	.434	.212	1	
SMEs perception	Pearson Correlation	.423*	.315*	.806*	1

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

In an attempt to show the relationship between the study variables and their findings the study used the Karl Pearson's coefficient of correlation (r). According to the findings as indicated in table 4.6, it was clear that there was a positive correlation between SMEs cost of internet and usage of iTax system as depicted by a correlation value of 0.455. This implies that SMEs cost of internet was linearly related to usage of iTax system. The study also depicted that there is a positive correlation between SMEs technical skills and usage iTax system with a correlation value of 0.434 and another correlation was between SMEs perception and usgage of iTax system which shows that there was a positive correlation value of 0.423. The study findings are supported by a number of studies which includes (Baum & Gupta, 2017)

4.7 Regression Analysis

The broad objective of the study was to establish the efficiency of itax on tax revenue performance among SMEs in Central Business District. To achieve this objective, three objectives and were set and formulated respectively. Subsequently, to achieve the set objectives and to answer the questions, the study used various inferential statistical tools and Multiple regression analyses.

Model Summary

The results in Table 4.14 indicated that SMEs cost of internet had a positive correlation with usage of iTax system up to 71.8% or (R= 0.718). The results reveals that SMEs cost of internet caused a variation of 51.5% or (R^2=0.515 and adjusted R^2 =0.509) on Usage of iTax system. This implies that the remaining 48.5 % of the change was caused by other factors not included in the model

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.7 show an F value of 28.846 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that SMEs cost of internet contributes significantly to changes the usage of iTax system

Table 4.7: Effect of SMEs cost of internet on usage of iTax system

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718[a]	.515	.509	.74269

a. Predictors: (Constant), SMEs cost of internet

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.864	1	3.864	28.846	.000[b]
	Residual	37.334	149	0.250		
	Total	**41.198**	**150**			

a. Dependent Variable: Usage of iTax system

a. Predictors: (Constant), SMEs cost of internet

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.784	0.418		6.660	.000
	SMES cost of internet	.576	0.104	.718	5.538	.000

a. Dependent Variable: Usage of iTax system

Régression Equation

$Y= 2.784B + 0.576\mathbf{X_1} + e$

Model Summary

The results in Table 4.8 indicated that SMEs technical skill s had a positive correlation with usage of iTax system up to 51.6% or (R= 0.516). The results reveals that SMEs technical skills caused a variation of 26.6% or (R^2=0.266 and adjusted R^2 =0.262) on usage of iTax system . This implies that the remaining 73.4% of the change was caused by other factors not included in the model.

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.8 show an F value of 57.513 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that SMEs technical skills contributes significantly to changes in the usage of iTax system.

Table 4.8: Effect of SMEs technical skills on usage of iTax system

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.516[a]	.266	.262	.13617

a. Predictors: (Constant), SMEs technical skills

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.731	1	8.731	57.513	0.000
	Residual	53.362	149	.358		
	Total	62.093	**150**			

a. Dependent Variable: Usage of iTax system

b. Predictors: (Constant), SMEs technical skills

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.486	.373		3.983	.006
	SMEs technical skill s	.317	0.049	.516	6.469	.000

a. Dependent Variable: Usage of iTax system

Régression Equation

$Y= 1.486B + 0.317\mathbf{X_2} + e$

Model Summary

The results in Table 4.9 indicated that SMEs perception had a positive correlation with usage of iTax system up to 82.8% or (R= 0.828). The results reveals that SMEs perception caused a variation of 68.5% or (R^2=0.685 and adjusted R^2 =0.679) on usage of iTax system. This implies that the remaining 31.5% of the change was caused by other factors not included in the model.

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.16 show an F value of 69.742 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that SMEs perception contributes significantly to changes in the usage of iTax system.

Table 4.9 : Effect of SMEs perception on usage of iTax system

Model Summary

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate
1	.828[a]	.685	.679	.93618

a. Predictors: (Constant), SMEs perception

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.669	1	5.669	69.742	0.000
	Residual	44.672	149	0.03.299		
	Total	**50.341**	**150**			

a. Dependent Variable: Usage of iTax system

b. Predictors: (Constant), SMEs perception

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.892	.265		7.139	.000
	SMEs perception	.325	0.069	.828	4.710	.000

a. Dependent Variable: Usage of iTax system

Régression Equation

$Y = 1.892B + 0.325\mathbf{X_3} + e$

Table 4.10: Coefficients of Overall Regression Model

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	.155	.066	-	3.051	.022
	SMEs cost of internet	.356	.075	.223	3.233	.032
	SMEs technical skills	.287	.078	.344	3.545	.025
	SMEs perception	.277	.056	.325	3.032	.033

a. Dependent Variable: Ado

$Y=\beta_0+ \beta_1 \mathbf{x_1} +\beta_2 x_2 + \beta_3 x_{3+\beta_3 x_3} +\varepsilon$…….

$Y = 0.155 +0.356X_1 +0.287X_2 +0.277X_3$ were significant with p- values of 0.022, 0.32, 0.025 + 0.33 respectively.

The regression equation above has established that taking all factors into account (SMEs access internet, SMES technical skills and SMEs perception) the findings reveals that assuming other variables are at zero a unit change (increase) in SMEs cost of internet will lead to a 0.322 increases usage of iTax system; a unit increase in SMEs technical skills will lead to a 0.287 increases usage of iTax system; a unit increase in SMEs perception will lead to a 0.277 increases usage of iTax system .

The regression coefficient results indicate a positive significant effect between SMEs cost of internet, SMEs technical skills, SMEs perception and usage of system.

4.7 Discussion of key Findings

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

4.7.1 SMEs cost of internet on usage of iTax system

SMES cost of internet on usage of iTax system was assessed using five measures and the overall mean score or responses regarding SMEs cost of internet were 2.2 on a 5-point scale which indicates that majority of the respondents agreed that SMEs cost of internet on usage of iTax system among SMEs in Central Business District, Nairobi, Kenya. The average overall standard deviation of 0.7 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 tax SMEs cost of internet had positive and significantly related to usage of iTax system ($r = 0.356$, p-value=0.00<0.05). This finding is also in line with a study done by Nathan Associates Inc. (2013) that found that when IT equipment costs are too high, coupled with high internet initial connection costs, the SMEs do not use the internet.

4.7.2 SMEs technical skills

SMEs technical skills was assessed using five measures and the overall mean score or responses regarding SMEs technical skills were 1.6 on a 5-point scale which indicates that majority of the respondents agreed that SMEs technical skills affects on the usage of iTax system among SMEs in Central Business District, Nairobi, Kenya. The average overall standard deviation of 0.0.66 infers that 68% of the response was spread within one standard deviation of the overall mean. The findings showed that a significant number of the respondents understood the tax obligations of their businesses at 90%. In the same breadth, 77% could calculate taxes due to KRA. This finding concurs with the findings of a study done by the EU (2007) that noted that the frequent changes in tax laws is a challenge for SMEs, it takes time for the SMEs to adjust to the new changes and it also leads to a lot of uncertainty on tax treatment of transactions

Further collinearity analysis was done and the results revealed that SMEs technical skills had a positive and significantly related to SMEs technical skills ($r = 0.287$, p-value=0.00<0.05).

4.7. SMEs perception

SMEs perception was assessed using four measures and the overall mean score or responses regarding SMEs perception were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that SMEs perception affect usage of iTax system among SMEs in Nairobi County, Kenya. 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 conducted and the results showed that SMEs perception had a positive and significantly related to usage of iTax system ($r = 0.277$, p-value=0.00<0.05).

The respondents also confirmed that they felt that the iTax online system did not infringe on their privacy. Therefore, submitting tax returns online would not make them uncomfortable. This can be interpreted to have a positive influence on the usage of the iTax online system as

when the SMEs are comfortable submitting information requested online then it is much easier. This is confirmed by the findings of a study done by Wang (2002) on the usage of electronic tax filing systems in Taiwan. Wang found that where users have confidence in an online system's credibility with regard to offering the necessary protection and privacy to their data then this has a strong influence on the intention to adopt the system.

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 SMEs cost of internet

The first objective of the study was to evaluate the effect of SMEs cost of internet on usage of itax among SMEs in Nairobi County, Kenya. Methods used to arrive at the findings included descriptive statistics, analysis of variance and regression analysis. The study found out that

SMEs access internet had a significant positive influence on usage of iTax system among SMEs in Nairobi County, Kenya. The overall mean score of responses regarding SMEs cost of internet indicated that majority of the respondents agreed that SMEs cost of internet affects the effective usage of iTax among SMEs in Central Business District, Nairobi, Kenya. The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

5.1.2 SMEs technical skills

The second objective of the study sought to find out the effect of SMEs technique skills on the effective usage of iTax system among SMEs in Central Business District, Nairobi, Kenya. Descriptive statistics, regression analysis and analysis of variance were conducted.

The study found out that SMEs technical skills had an influence on the usage of iTax system among SMEs in Central Business District, Nairobi, Kenya. The overall mean score of response regarding SMEs technical skills indicated that majority of the respondents agreed that SMEs technical affects the effective usage of iTax system among SMEs in Nairobi County, Kenya. Correlation results indicated that there was a positive and significant relationship between SMEs technical skills and the effective usage of iTax system among SMEs in Nairobi County, Kenya. It was therefore concluded that SMEs technical has significant positive effect on usage of iTax system among SMEs in Central Business District, Nairobi, Kenya

5.1.3 SMEs perceptions

The third objectives sought to find out the opinion of the SMEs on the introduction of iTax online system in a bid to understand how they perceive the online system. The study found that a significant number of respondents strongly believed that the introduction of iTax was a beneficial idea. Further, a significant percent of respondents preferred the iTax online system

to the manual system of tax registration and submission of tax returns. These two findings point to a positive effect of the usage of iTax online system by the SMEs. This is in line with the TAM theory that postulates that when a person perceives that using a system will enhance their job performance, this has a direct impact on the intention to adopt the system (Davis, 1989). . Therefore, submitting tax returns online would not make them uncomfortable. This can be interpreted to have a positive influence on the usage of the iTax online system as when the SMEs are comfortable submitting information requested online then it is much easier. This is confirmed by the findings of a study done by Wang (2002) on the usage of electronic tax filing systems in Taiwan. Wang found that where users have confidence in an online system's credibility with regard to offering the necessary protection and privacy to their data then this has a strong influence on the intention to adopt the system.

5.2 Conclusions

The aim of the study was to establish the factors affecting usage of iTax system among SMEs in Central Business District, Nairobi. Data collected and analysed through both descriptive and inferential statistics established that all independent variables had significant effects on usage of iTax system among SMEs in Central Business District, Nairobi, Kenya.

5.2.1 SMEs access internet

The study concluded that dealing with a small number of transactions makes iTax system cumbersome for SMEs. Moreover, the study concludes that iTax system SMEs cost of internet has increased for over 35% of the registered VAT tax payers. The study also concludes that online VAT submission has eliminated the costs of manual filing.

5.2.2 SMEs technical skills

The study concluded that in order to achieve iTax system efficiency, extensive training and capacity building of SMEs is paramount. Similarly, the study concluded that training SMEs on tax laws, procedures and responsibilities lowers non-compliance levels.

Furthermore, the study concludes that training SMEs on ETR and SMEs cost of internet fosters public confidence in the taxation system. The study also concludes that tax administration authorities in Kenya have not prioritized training of SMEs to enhance revenue collection. The study further concluded that trainings on be enhanced to benefit more SMEs in submitting tax returns through provision of training on servicing of iTax system by KRA to foster compliance levels.

5.2.3 SMEs' perception

The study concludes based on the findings that the SMEs have perceived usefulness, perceived credibility and perceived ease of use of the iTax online system.

These three elements of the extended TAM theory have a strong influence on the SMEs' intention to 48 adopt the iTax online system. In this case, the SMEs' perceptions positively affect the usage of the iTax online system. The study further concludes that the SMEs' perceptions have in turn motivated them to voluntarily comply with their tax obligations.

5.3 Recommendations.

The study recommends that a mechanism should be developed to enhance the handling of small transactions using iTax system by SMEs. Filing of VAT returns online should be simplified to improve efficiency. KRA should provide sufficient technical skills on management of iTax system. There should be regular SME training and capacity building on iTax system, technical skills, systems and government should strive to build public confidence in the taxation systems. Training of SMEs should be geared towards tax compliance and increased revenue collection. Trainings on iTax system should be enhanced to benefit more SMEs in submitting. Technical skills, systems and processes. SMEs 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.

Technical skills, systems and processes. SMEs 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 iTax system by KRA to foster compliance levels.

The study recommends that though there is a positive perception by the SMEs of the iTax online system, more awareness, publicity and training needs to be done to bring more SMEs onboard. When the SMEs are sensitized on the advantages of using the iTax system as opposed to the manual system, this will encourage usage. As a result, more tax payers will be looped into the iTax online system and tax compliance enhanced.

5.4 Suggestions for Further Research

The study suggests that further research should be conducted on the influence of cost of information on usage of iTax system by SMEs in Kenya. Research should also be done on the usage of iTax system and its effectiveness on specific tax heads. Further research should be done on SMEs in a different location including other counties other than Nairobi. Further studies can also be done on the impact of the usage of the iTax online system on the revenue collected by Kenya Revenue Authority.

Whereas itax system has greatly improved tax administration in the country, there are still cases of tax evasion. One of the schemes used include the missing traders scheme. Under this scheme, unscrupulous traders register on itax system persons who do not exit in real life. The unscrupulous traders then do business using the non-existing persons or even trade with non-exiting traders for purposes of evading paying the correct taxes. This in most cases as resulted

to massive loss of revenue. Thus there is need for further study on the use of itax by such traders to evade payment of taxes.

Largely itax system concerns itself with domestic taxes, there has been attempts to have the itax system be linked with the customs system for ease of administration of taxes and customs. There is therefore need for a study to be conducted on the integration of the two systems and its impact on tax administration.

REFERENCES

Alraja, M. N., Hammami, S., & Alhousary, T. (2015). Factors affecting e-government services adoption:Field study. *Journal of Theoretical and applied information technology*, 65-69.

Azmi, A. A., & Kamarulzaman, Y. (2010). Usage of tax e-filing:A conceptual paper. *African Journal of Business Management, 4*, 599-603.

Barati, A., Moradi, P., Ahmadi, B., & Azizpour, P. (2014). A study of the models for Usage of e-tax returns from the perspective of taxpayers. *Indian Journal of Fundamental and Applied Life Sciences, 4*, 1923-1939

Bauer, T., & Erdogan, B. (2012). An Introduction to Organizational Behavior. Retrieved June 2016, from http://2012books.lardbucket.org

Beck, T., Kunt, A. D., & Peria, M. S. (2008). *Bank Financing for SMEs around the World: Drivers, Obstacles, Business Models, and Lending Practices.* Policy Research Working Paper 4785. Retrieved April 12, 2016, from http://www-wds.worldbank.org

Bhatnagar, S. C. (2004). *E-government : from vision to implementation : a practical guide with case studies.* New Delhi: Sage Publications, 2004

.

Boo, D. M. (2011). Situationer on Estate Taxation in the Philippines:Issues and Prospects. *NTRC Tax Research Journal, XXIII*, 1-24.

Camp CPA. (2016). *Theory and basis of Taxation*. Retrieved from http://campcpa.org
Communications Authority of Kenya. (2015). *First Quarter Sector Statistics Report for the Financial Year 2015/2016.* Nairobi. Retrieved April 06, 2017, from http://www.ca.go.ke

Cooper, D. R., & Schindler, P. S. (2014). *Business Research Methods* (12 ed.). Singapore: McGraw-Hill/Irwin.

Davis, F. D. (1989). Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology. *MIS Quarterly, 13*(3), 319-340. 52

eFile LLC. (2016). *efile History- Electronic Tax Filing in the United States.* Retrieved June 6, 2016, from efile.com: http://www.efile.com

European Commission (EU). (2007). Simplified tax compliance procedures for SMEs. Retrieved March 17, 2016, from http://ec.europa.eu

Fishbein, M., & Ajzen, I. (1975). *Belief, Attitude, Intention, and Behavior: An Introduction to Theory and Research.* Reading, Massachusetts: Addison-Wesley Publishing Company.

Freud, S. (2016). Defense mechanisms. Retrieved July 5, 2016, from http://changingminds.org
Galliano, D., & Roux, P. (2008). Organisational motives and spatial effects in Internet. *The Annals of Regional Science, 42*(2), 425-448

Graham, M., & Sabbata, S. D. (2014). *Broadband Affordability.* Internet Geographies at the Oxford Internet Institute. Retrieved April 6, 2017, from http://geography.oii.ox.ac.uk

Grassi, C. M. (2015). Status and impact of the ability to pay principle in the ECJ's case law concerning tax benefits based on personal and family circumstances. Retrieved from http://www.cfe.lu.se

Hall, B. H., & Khan, B. (2002). *Adoption of New Technology.* Retrieved April 4, 2016, from https://eml.berkeley.edu

Halonen, R. (2012). *Social Dynamics of Information and Communication Technology.* Ashgate.

Hasseldine, J., & Bebbington, J. K. (1991). Blending economic deterrence and fiscal psychology models in the design of responses to tax evasion: The New Zealand experience. *Journal of Economic Psychology*, 299-324.

Hassen, Y. A., & Svensson, A. (2014). The Role of E-commerce for the growth of Small Enterprises in Ethiopia. *The Electronic Journal of Information Systems in Developing Countries, 65*, 1-20

Hira, N. (2016). What we should expect on the taxation front. *Business Daily*.
Institute of Certified Public Accountants of Kenya (ICPAK). (2015). *iTax-Presentation.* Retrieved April 4, 2016, from https://www.icpak.com

Institute of Economic Affairs. (2012). Informal sector and Taxation in Kenya. *The Budget Focus*.
Internal Revenue Service (IRS). (2007). *IT Modernization Vision & Strategy.* Retrieved April 9,

James, S. (1998). *A dictionary of taxation.* Cheltenham: Edward Elgar Publishing Limited.

Katz, R. L. (1974). Skills of an Effective Administrator. *Harvard Business Review*. Retrieved April 9, 2016, from https://hbr.org

Kinuthia, P. (2016). Auditing, Tax and Advisory Services, 2016 Going Forward. *Nairobi Business Monthly, 4*(10), p. 20.

KRA. (2010). *Revenue Administration Reforms in Kenya: Experience and Lessons.* Nairobi: Kul Graphics Limited.

KRA. (2013). *Domestic Taxes Department*. Retrieved from http://kra.go.ke
KRA. (2013). *Fifth Corporate Plan 2012/13 - 2014/15.* Retrieved February 27, 2016, from http://www.kra.go.ke

KRA. (2013). Kenya Revenue Authority Fifth Corporate Plan 2012/13 - 2014/15. Retrieved February 27, 2016, from http://www.kra.go.ke

KRA. (2015). *Kenya Revenue Authority Sixth Corporate Plan 2015/16-2017/18.* Retrieved from http//www.kra.go.ke

KRA. (2015). *Notices: KRA.* Retrieved March 04, 2016, from http://www.kra.go.ke

KRA. (2016). *LTO Mandate.* Retrieved February 27, 2016, from KRA Website: http://www.kra.go.ke
KRA. (2016). *MTO Mandate.* Retrieved February 27, 2016, from KRA Website: http://www.kra.go.ke

Krishnaswami, O., & Satyaprasad, B. (2010). *Business Research Methods.* Mumbai, India: Himalaya Publishing House
.
Kushnir, K., Mirmulstein, M. L., & Rarmalho, R. (2010). How Do Economies Define Micro, Small and Medium Enterprises (MSMEs). Retrieved February 28, 2016, from http://www.ifc.org

Manuere, F., Gwangwava, E., & Gutu, K. (2012). Barriers to the adoption of ICT by SMEs in Zimbambwe: an exploratory study in Chinhoyi District. *Interdisciplinary Journal Of Contemporary Research In Business, 4*(6), 1142-1156.

Masinde, J. (2015). 1.6 million taxpayers now on KRA online tax payment system. *Daily Nation*.

Maumbe, B. M., & Okello, J. (2013). *Technology, Sustainability, and Rural Development in Africa.* United States of America: Idea Group Inc (IGI). 54 McLeod, S. (2009). Defense Mechanisms. Retrieved July 5, 2016,

Mgammal, M. H., & Ismail, K. N. (2015). Corporate Tax Planning Activities:Overview of Concepts,Theories,Restrictions,Motivations and Approaches. *Meditterranean Journal of Social Sciences, 6*, 350-358.

Miller, J. A. (2000). Equal Taxation: A Commentary. *Hofstra Law Review, 29*(2).

Miller, J., & Khera, O. (2010). Digital Library Adoption And The Technology Acceptance Model: A Cross-Country Analysis. *The Electronic Journal of InformationSystems in Developing Countries, 40*, 1-19.

Miniwatts Marketing Group. (2015). *Internet World Stats.* Retrieved March 22, 2016, from http://www.internetworldstats.com/stats1.htm

Mungai, N. (2015). *KRA To Register SMEs On Taxpayers' List.* Retrieved February 28, 2016, from Kenyan Biz4Afrika Community: https://kenya.biz4afrika.

Muwonge, H. L. (2011). *The Influence of Electronic Tax Filing System on Tax Compliance And Tax Collection.* Retrieved February 27, 2016, from http://www.academia.edu

Nathan Associates Inc. (2013). *Internet's Role in the Performance of India's Small and Medium Enterprise.* Retrieved March 22, 2016, from http://www.nathaninc.com

Ndunda, J., Ngahu, S., & Wanyoike, D. (2015). Analysis of factors influencing optimal revenue collection by county governments in Kenya. (5, Ed.) *International Journal of Economices,Commerce and Management, III*, 1114-1129.

Njau, J. N. (2015). Factors affecting the adoption of Information and Computer Technology in Small and Medium enterprises in Kenya:A Case of Matatu Saccos in Thika Town. *The Strategic Journal of Business & Change Management, 2*, 343-368.

OECD. (2009). Taxation of SMEs: Key Issues and Policy Considerations. *OECD Tax Policy Studies, No18*. Paris: OECD Publishing.

OECD. (2015). Taxation of SMEs in OECD and G20 Countries. *OECD Tax Policy Studies, No 23*. Paris: OECD Publishing.

Ofcom. (2015). Broadband services for SMEs: assessment and action plan. Retrieved from http://stakeholders.ofcom.org.uk

Okauru, I. O. (2012). *Federal Inland Revenue Service and Taxation Reforms in Demcratic Nigeria.* Safari Books Ltd. 55

Organisation for Economic Co-operation and Development (OECD). (2007).

PwC. (2015). *FIRS introduces electronic filing of tax returns and online payment of taxes.* Retrieved June 6, 2016, from http://pwcnigeria.typepad.com

Sandmo, A. (2005). The Theory of Tax Evasion: A Retrospective View. *National Tax Journal, LVIII*(4), 643-663.

Saunders, M., Lewis, P., & Thornhill, A. (2003). *Research Methods for Business Students* (3rd ed.). England: Pearson Education Limited.

Souter, D., & Kerretts, M. (2012). *Internet Governance in Kenya- An Assessment.* Retrieved April 11, 2016, from https://www.internetsociety.org

Sreekantaradhya, B. (2000). *Structure and Reform of Taxation in India.* New Delhi:

Sri Lankan Citizens' Use Behaviour towards E-Government Services. (2015). *European Journal of Business and Management, 7*.

Stein, P., Ardic, O. P., & Hommes, M. (2013). *Closing the Credit Gap for Formal and Informal Micro,Small, and Medium Enterprises.* Washington: International Finance

The Republic of Kenya. (2012). Income Tax Act Chapter 470. 10. National Council for Law Reporting. Retrieved March 17, 2016, from http://www.kenyalaw.org

The Republic of Kenya. (2015). Kenya Revenue Authority Act Chapter 469. Retrieved from http//:www.kenyalaw.org

The Republic of Kenya. (2015). *The Tax Procedures Act.* The Government Printer.

APPENDICES

APPENDIX I: Letter to Respondents (Introduction Letter)

ANTHONY ONGONDI

P.O Box 430-00100,

Nairobi.

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 **AFFECTING USAGE OF ITAX SYSTEM AMONG SMALL AND MEDIUM ENTERPRISES AT**

CENTRAL BUSINESS DISTRICT, NAIROBI, 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,

ANTHONY ONGONDI

APPENDIX 2: QUESTIONNAIRE

Introduction

This questionnaire is designed for the sole purpose of gathering information on Factors Affecting **S AFFECTING USAGE OF ITAX SYSTEM AMONG SMALL AND MEDIUM ENTERPRISES AT CENTRAL BUSINESS DISTRICT, NAIROBI.** 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 B

1. SMEs COST OF INTERNET

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**
Registration on itax is easy and affordable					
I find it easy to access a computer and internet to file my business returns					
I find the cost of making payments on itax too expensive					
I find the cost of maintaining a computer for accessing internet to file tax returns and payments too expensive					
Accessing finance from financial institutions to equip my business with internet is expensive for my business.					
I find the monthly cost of internet access affordable.					

2. SMEs TECHNICAL SKILLS

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 Agre

Statement	**1**	**2**	**3**	**4**	**5**
I know how to register my business on the itax online system.					
I can pay taxes using the itax online platform.					
I know how to file returns in the itax online system.					
I do not know when tax laws change.					
I understand the tax obligations of my business					
I can correctly calculate the taxes I should pay to KRA.					

3. SMEs PERCEPTION

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**
The introduction of iTax online system has motivated me to voluntarily comply with my tax obligations by registering, filing returns and making payments.					

I prefer the online services in comparison to the manual system of tax registration and submission of tax returns.					
The idea of submitting my tax returns online makes me uncomfortable.					
I feel that the online system will not ease the work of preparation of tax returns and payments.					
My knowledge of computer usage has motivated me to adopt the iTax online system.					

4. USAGE OF ITAX SYSTEM

IV) 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

Table 4.5 Usage of ITax system

Statements	**1**	**2**	**3**	**4**	**5**
Usage of iTax system has necessitated taxpayers make payments and enabled KRA officers to raise additional assessment with regards to e-payments					
Registration of the obligation is simple and easy on itax hence this has encouraged voluntary compliance.					
itax system has enabled taxpayers to conveniently file their returns as required by the law and make necessary amendments.					
iTax system has enabled taxpayers to see real-time transactions and e-payments details in taxpayer's ledger account and act accordingly					
Electronic e-Payment has enabled tax payers to file and pay using their mobile phones					
iTax has enabled KRA officers to raise additional assessment with regards to e-payments					
Electronic generation of payment slip has reduced chances of evading payment of tax					
iTax system has enabled to tax payers to amend their e-registration details to incorporate tax obligation when need arise					