

**EFFECT OF TECHNOLOGY ACCEPTANCE ON TAX COMPLIANCE AMONG
SMALL AND MEDIUM ENTERPRISES IN NAKURU TOWN**

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DECLARATION

This project is my original work and has not been presented for a degree in any other College, Institution or University other than Kenya School of Revenue Administration for academic credit.

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HDB-336-C016-4076/2016

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I wish to sincerely thank my supervisor who accepted to guide me and mentor me, her encouragement and constructive critiques that have made me a better researcher, God bless her. Lastly, I wish to acknowledge and thank my classmates and friends for their continuous support.

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LIST OF ABBREVIATIONS

ASTCUDA	Automated System Customs Data
BI	Behavioral Intentions
CSI	Client Satisfaction Index
DOI	Diffusion of Innovation Theory
FIRS	Federal Inland Revenue Service
ICMS	Integrated Customs Management System
IS	Information System
ITMS	Integrated Tax Management System
IT	Information Technology
IBT	Institute of Business Technology
ICPAK	Institute of Certified Public Accountants of Kenya
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
PEOU	Perceived Ease of Use
PU	Perceived Usefulness
SAO	Sub-District Administrative Organization
SPSS	Statistical Package for Social Sciences
TAM	Technology Acceptance Model
TPB	Theory of Planned Behavior
TRA	Theory of Reasoned Action
UTAUT	Unified Theory of Acceptance and Use of Technology

ABSTRACT

Tax revenue is the main source of government income in Kenya. It constitutes over 88% of total government revenue. The government through KRA has to institute measures and systems to collect tax revenue to support government operations. KRA has tried over the years to modernize its tax systems to curb tax leakages and tax evasion by introducing Itax, ICMS among others. This study, therefore aims to establish the effect of technology acceptance on tax compliance among SMEs in Nakuru town. The objective of the study is to determine the effect of ease of use, usefulness and risk of use on tax compliance. The study employed descriptive research design. Target population of 271 respondents was considered for the study. A sample size of 80 respondents was selected using stratified random sampling technique. Primary data was collected using closed ended questionnaires administered to respondents. A pilot study was conducted to test for reliability of data instruments and validity of research instruments. Data was analyzed using descriptive and inferential statistics by use of Statistical Package for Social Science Software (SPSS). Measurement of variables was carried out by use of a 5-point Likert scale. The R^2 of the regression model was 0.619. The findings indicated that usefulness had a positive and significant relationship with tax compliance ($\beta=0.351$, $p=0.000$). ease of use had a positive and significant relationship with tax compliance ($\beta=0.435$, $p=0.006$) and risk of use had a negative and significant relationship with tax compliance ($\beta= -0.399$, $p=0.003$). The study concluded that there was a significant relationship between technology. The KRA management should also invest in training KRA employees on IT skills. This will make it easy for employees to adopt and use tax information technology systems. Further, the management should find ways of eliminating possible risks associated with use of technology including financial risks, privacy risk and performance risk.

CHAPTER ONE

INTRODUCTION

1.0. Background of the Study

The acceptance and use of information technology is a topic which has received attention from researchers and professionals in computer science area, information systems and information science, since they work on the perspective that a well-developed system will be used, because of the assumption that good solutions in software, may bring competitive advantages to companies and/or the individuals (Bueno et. al., 2004; Saleh, 2004). However, a perceptible problem which disturbs the management activities of information systems is in the inability in measuring the quality of the delivered systems as well as in the users' behavior in using it (Bueno et al., 2004). To understand and create the conditions under which information systems are adopted by the human organizations remain, however, being a research area of high priority (Venkatesh; Davis, 2000).

According to Venkatesh et al. (2003) the technological innovations need to be accepted and actually used. For Dias (2002) the electronic way represents a new model in the dissemination of the information and should be explored fully. Franzoni (2000), highlights that a taxpayer report the real tax base to tax authorities, compute correctly the tax liabilities, file the tax returns on time, and pay the amounts due on time in order to be fully compliant with tax law. If one of the rules is broken, then the taxpayer becomes non-compliant. Non-compliance can be in two forms, tax avoidance and tax evasion. Tax avoidance is legal as it assumes the use of legislative loopholes with the purpose of reducing taxes therefore committing no crime (James and Alley, 2002; Webley, 2004); It is within the letter of the law but not the spirit of the law.

This study was guided by Technology Acceptance Theory (TAT). The theory postulates that the usage of technology is stimulated by perceived usefulness (PU), perceived ease of use (PEOU) and perceived risks. Perceived usefulness is defined as the degree to which an individual believes that using a particular system such as mobile banking will enhance services making them fast, reliable and convenient. Perceived ease of use is defined as the degree which an individual believes that the service will be free of effort (Davis, 1989).

In technology acceptance attitude towards the adoption of a particular technology such as mobile banking is affected by perceived usefulness, perceived ease of use and perceived risk

of the technology. It is also believed that, there is a positive correlation between perceived usefulness and the intention to use a technology, as confirmed by some researchers (Cheong and Park, 2005; Venkatesh et al., 2003).

Tax evasion on the other hand is illegal because it refers to deliberately breaking the law with the purpose of reducing taxes, therefore committing a crime (Elffers, Weigel and Hensing, 1987); It is neither in the letter of the law nor in the spirit of the law. Venkatesh, Morris, Davis and Davis (2003) evaluated theories done by other scholars and came up with Unified Theory of Acceptance and Use of Technology (UTAUT). The UTAUT has four predictors of users' behavioral intention and they are performance expectancy, effort expectancy, social influence and facilitating conditions. The five related concepts including perceived utility, extrinsic inspiration, job-suitability, comparative benefit and resultant expectations form the performance in the UTAUT principle while effort expectation captures the ideas of perceived ease of use and complexity. As for the social context, Venkatesh et al. (2003) validation tests found that social influence was not significant in voluntary contexts.

The element of design characteristics is important in influencing individual to accept or adopt any new technology. Lack of attention on this element not only failed to attract a new adopter but also could reduce the number of existing adopter (Lu, Yu, & Liu, 2009). Scholars (Hong, Thong, Wong, and Tam, 2002; Igarria, Guimaraes, & Davis, 1995; Lim & Benbasat, 2000; Venkatesh & Bala, 2008) suggest that information- related characteristics and system related characteristics of a system would influence the determinants of PU and PEOU respectively. Thus if a structure could give users with appropriate data on time, precise, comprehensible and aid in decision making (Speier,

Valacich, & Vessey, 2003), obviously users could see the structure as significant, output of good quality and certainty of better outcome. In addition, user friendly system could make users to feel great control over the system, thus could enhance users' self-efficacy towards accepting the system (Wixom & Todd, 2005). Indirectly, the design of the tasks and context of technology could influence the performance and effort expectancy which in turn could influence the adoption and use of the system (Brown, Dennis, & Venkatesh, 2010). In addition to the design characteristics which ease of use and useful users would alternatively choose the system if the value offered benefited them (Anckar & D'Incau, 2002; R.E. Anderson & Srinivasan, 2003).

1.1.1 Global Perspective of Technology Acceptance and Tax Compliance

A study done in Europe in Italy and United Kingdom by Library of Science, 2016, revealed that complete compliance- 44.1% of participants declares 100% of their earned income, partial evasion- 27.5% of participants under report their income to some degree and complete Evasion: 28.4% of participant's report that they earn 0 income. The study further noted that gender, economics training, risk attitudes, and beliefs about others behaviors are correlated with compliance. Also, individuals who believe that others are dishonest are themselves likely to comply (importance of social norms on tax compliance). The study also found out that men and economists are less compliant.

Another study done Cheutong (2007) on the antecedents of taxpayer's compliance behavior and the effectiveness of Thai Local Government Levied tax', by institute of business, found out that the government should design the tax system in such a way that tax collectors and taxpayers have no chance to cooperate for tax evaders' gain nothing from tax evasion (Kewpradit, 2009). Julphanthong (2010) indicated that, honest paying tax involves filling out tax assessment forms truthfully, continuous paying annual tax, and persuading other people to do so accordingly to tax calendar. People's complete tax payment will strengthen their Sense of Belonging to SAO. Lack of participation among people was due to being unrealized that many facilities built by SAO with gets provided by central government, actually, are revenues from their own tax payment (Punagngam, 2009; Krueathep, 2012). People participant behaviors include following the SAO's regulations, supporting SAO's development schemes, joining SAO's election as a candidate, examining and watching SAO's performances, joining SAO's team for public relation in seeking participation of people and paying tax honestly (Puang-ngam & Chotchuang, 2001; Yolau & Kasemnet, 2008).

A study done in Malaysian Inland Revenue Board on perceived risk and the adoption of tax e-filing showed that perceived risk significantly affects the behavioral intention of current and potential users of the e-services. However, the perceived risk measured the effect of overall risk on behavioral intention. According to the study, five facets of perceived risk influence an individual's decision to adopt or reject e-filing system: performance risk, time risk, psychological risk, privacy risk and overall risk. Results from the study confirm that perceived risk of e-filing adoption is affected by performance risk, time risk, psychological risk, privacy risk and overall risk. The study also found out that different facets of perceived

risk have contributed to the positive relationship between perceived risk and adoption of e-filing. An early study by Che Azmi et al., (2010) on Malaysian tax e-filing system found that perceived risk is negatively related to e-filing adoption. This was due to the age of respondents and different facets of risk which have different associations with adoption of e-filing.

In South Korea User evaluation of technology acceptance in tax filing was done by Lee et al. (2005), to compare the design and the complexity of the web sites and the ease with which taxpayers are able to file tax returns and queries on their tax status. While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use and that was attributable to the fact that they relied on accounting professionals to do their tax returns online. On the other hand, South Korean system was considered less complex but few taxpayers were using it as expected. Having in place an electronic tax filing system is one thing, but being able to be used by taxpayers is another thing.

Enquiries on factors influencing consumers' BI in accepting broadband in Pakistan (Dwivedi, Williams, Weerakkody, Lal, & Bhatt, 2008) scholars use PEOU as one of the control concepts and found it to have a major impact on the use of Information System (IS). A survey of the perceptions of 97 respondents in Sungai Petani, Kedah towards e-filing Zakaria & Hussin (2010), PEOU was discovered to be significant in a single stage model. Ojha et al. (2009) found that young Indian professionals' effort in using e-tax filing was determined by the PEOU, compatibility, and relative advantage, perceived innovativeness of information technology and performance of the e-filing system.

1.1.2 Regional perspective of Technology Acceptance and Tax Compliance

Technology acceptance in tax administration systems has gained prominence in Sub Saharan Africa (SSA) in the 21st century. This has been spurred on by the need for improved efficiency and accountability in taxation systems, and inherently the adoption of information technology (IT) tax based systems (Organization for Economic Cooperation and Development [OECD], 2009). Population growth and demands for transparency in tax administration policy has further emphasized the need for better revenue collection systems and policy in East African countries (Khadka, 2015).

Olaoye Clement Olatunji (Ph.D.) & Kehinde Busayo Ayodele (2017) looked at the impact of technology acceptance on tax administration in southwest, Nigeria, the study revealed that

technology acceptance in online tax filing, online tax registration and online tax remittance affect tax productivity. The study concluded that information technology enhances the level of tax productivity and administration. It is therefore recommended that the respective agencies (federal, state and local government) responsible for tax collection should carry out one on one awareness in the form of seminars and sensitization of the process and suitability of information technology on tax administration.

Berger (2011) said that South Africa improved its ranking on tax payments from number 32nd to 11th, largely due to the success of e-filing and the way in which returns are filed. She further points out that in South Africa it takes 200 hours for a company to complete and file its tax return, compared to a global average of 268 hours. He further argues that most of the SMEs in South Africa are capable of using e-filing. Mongwaketse (2015) in a study on the effects of e-filing on tax compliance found that only 58.3% of the respondents said they know and understand how to use e-filing indicating a lack of knowledge on the part of the taxpayer. The findings also revealed that the majority of respondent had basic tax knowledge, though an unusually big percentage still opted for the use of tax consultant as opposed to e-filing personally (Berhane, 2012).

In Uganda, with the commencement of an e-filing system code named 'e-Tax' in June 2009, at least US\$ 7 trillion worth of revenue resulting from 1.4 million payments has been receipted through electronic tax payments. This revenue is a result of over 360,000 tax returns that have been received online (Mwonge, 2011). The web-based application was developed to automate Uganda Revenue Authority's services enabling taxpayers to access tax services such as registration, returns, payments and objections, and appeals through the online platform daily from any part of the world. In 2011, e-Tax was linked to the customs' Automated System for Customs Data (ASYCUDA) to further ease transactions. According to URA's Manager Business Analysis, Myra Ochwo, "Countrywide, taxpayers have embraced the e-Tax system and to date over 130,000 electronic Taxpayer Identification Numbers (TINs) have been issued." (Mwonge, 2011).

1.1.3 Kenyan Perspective of Technology Acceptance and Tax Compliance

In Kenya, especially in Kenya Revenue Authority, different studies have been done on the subject of technology and tax compliance with specific reference to tax filing. Muita (2010) and Makanga (2010). Makanga did a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on Large

Taxpayers which included companies with a turn over Kshs. 750 million and above, or government ministries and corporations. The objective of the study was to evaluate the role Technology would play in Kenya to enhance tax compliance among large taxpayers. The study found that in the fast changing business world, technology has become part and parcel of any business growth.

Either KRA or Large Taxpayers must embrace modern technology to enhance efficiency in tax compliance. Muita (2010) in her MBA thesis has also done a related study on the factors that influence adoption and use of e-filing system among Large Taxpayers in Kenya. The study examined the skills required by the users of e-filing, the technology required and the tax authority's preparedness in enhancing the adoption of tax compliance based technology. The study found that for e-filing to effectively take off in Kenya skills, infrastructure and a conducive business environment are needed. Kamau (2014), sought to determine the impact of adoption of technology as a strategic tool in enhancing tax compliance in Kenya. The study focused on the large taxpayers of Kenya Revenue Authority. The study concludes that indeed the adoption of technology does impact on the tax compliance levels of the large taxpayers.

The objective of the study was to determine the role Technology would play in Kenya to enhance tax compliance among large taxpayers. The study found that in the fast-changing business world, technology has become key component in performance of business and the economy. Either KRA or Large Taxpayers must adopt new technology to improve efficiency in tax compliance. Muita (2010) also, did a study on the factors that affect acceptance and use of technology system among Large Taxpayers in Kenya.

The study examined the skills required by the users of e-filing, the technology required and the tax Authority's preparedness in enhancing the adoption of tax compliance-based technology. The findings were that for technology to be accepted in Kenya skills, infrastructure and a favorable business environment are necessary. Another local study on how the Taxpayers' Attitudes Influence Compliance Behavior among SMEs Business Income Earners in Kerugoya Town, Kirinyaga District confirms a very strong relationship between taxpayers' attitude and tax compliance (African Journal of Business & Management (AJBUMA), 2010). The findings were that there is a very strong relationship between the taxpayers' attitudes and tax compliance in Kenya i.e. taxpayers' attitudes encourage tax compliance in Kenya since there is a correlation of 0.846. And all that influence the

taxpayers' attitudes, equally affect the taxpayers' compliance with the tax requirement i.e. taxpayers' attitudes encourage tax compliance in Kenya.

Vivian Mandola (2013), conducted a study on factors influencing the adoption and use of Integrated Tax Management System by medium and small taxpayers in Nairobi central Business District, Kenya. The findings from the study reveal that all the identified factors have a direct influence on the adoption of ITMS by taxpayers as well as the frequency of its usage. The perceptions of taxpayers towards the e-filing technology as well as its perceived ease of use and perceived usefulness greatly determine their adoption and usage of the system. Majority of the interviewed taxpayers consider the e-filing technology a beneficial idea and its availability motivates them to comply with their tax obligations, particularly because they find the online system efficient as compared to the manual system.

However, they feel K.R.A has not put in place enough measures to ensure that taxpayers know how to use the system. This could also be a reason as to why those who do not feel the e-filing technology is a necessary or efficient system are yet to appreciate it and use it. User friendliness of a system is a crucial factor in determining its adoption by targeted users. The study reveals that majority of the respondents have indeed used ITMS and mostly for e-registration. However, their use of the system has not been without challenges and this greatly frustrates their efforts in learning to use the system. Taxpayers feel the system is not easy to use and there are no instructions provided on K.RA's website so as to guide them. Consequently, taxpayers use it for e-registration as for PIN application it is mandatory to use ITMS. When it comes to filing of tax returns, they prefer to do it manually so as to avoid the challenges experienced in using the system such as system downtime, tedious and long procedure as well as lack of step by step procedures indicated and moreover, e-filing is not mandatory (KRA, 2019)

Access to internet has a direct influence on adoption and use of the e-filing system especially with regard to cost of internet access, internet penetration and internet knowledge and skill. Taxpayers in Nairobi's Central Business District are computer literate and have the privilege of having a computer and internet connectivity at their business premises and daily access to internet. They are therefore able to easily access the online filing service from the comfort of their desks and coupled with their internet knowledge and skills and hence use the system. From the findings of the study, it is evident that government policies and regulations do influence taxpayers' use of the system. The mandatory requirement to have a PIN for

particular transactions is the most likely reason that causes taxpayers to use ITMS as PIN application can only be done on ITMS (Azmi and Bee, 2010).

1.2. Statement of the Problem

Kenya Revenue Authority has heavily invested in technology as strategic tool to enhance tax compliance in Kenya since the year 2003 (KRA, 2009). New technological advancements by KRA include (e-invoicing, e-accounting, e-reporting and e-auditing), along with advanced tax-focused analytics, are top of mind for tax authorities and tax executives, and technology has dramatically changed the landscape (KRA, 2019). KRA as part of its agenda to enhance service delivery as well as promote tax compliance has introduced systems that leverage on technology to simplify tax operations. Some of these systems include; Integrated Tax Management System (iTax) which is a system that allows taxpayers to update their tax registration details, file tax returns, register tax payments and make status enquiries with real time monitoring of their ledger account, Integrated Customs Management System (ICMS) which replaced the Simba system to streamline customs operations as well as automate manual operations and Regional Electronic Cargo Tracking System (RECTS) to facilitate end to end monitoring of transits along the Northern corridor. Despite such an investment and government support for technology, the expected outcome seems to portray contrary. For example, there are always long queues at KRA offices on due dates for taxpayers to file their returns. In addition, sometimes those who successfully file tax returns online still must queue to be issued with KRA official receipts, while KRA officers must always confirm with various commercial banks whether the taxes filed online were actually remitted. This therefore, begs the question as to whether technology has been effective in enhancing tax compliance in Kenya and whether there is any significant impact it has brought in tax administration in Kenya.

Tax non-compliance in Kenya is still very high irrespective of use of technology being mandatory in registration, filing tax returns and paying taxes due by taxpayers. This is manifested in failure by KRA to meet its targets over years. Statistics from National Treasury analyzed by Kenya National Bureau of Statistics (KNBS) in their annual economic surveys between 2014 and 2018 show that KRA did not achieve its projections for that period. The Year 2013/2014 KRA collected Kshs. 911.8B against projection of Kshs.945.2B, year 2014/2015 collection of Kshs.1, 022.1B against projection of Kshs.1, 130.1B, and year 2015/2016 collection of 1,136.9B against projection of 1, 289.1B. Year 2016/2017 actual

collection of Kshs. 1,277.2B against Kshs.1, 338.3B projected and year 2017/2018 a provisional collection of Kshs.1, 341.4B against a budget of Kshs.1, 466.2B.

Past studies have indicated that taxpayers' motivation to file tax returns on time and correctly highly depends on their willingness to cooperate (Kirchler, Niemirowski & Wearing, 2006). Indeed, willingness to cooperate was reported intent to file tax returns timely and correctly and through the IT system. Taxpayers accepting technology will ease the challenges and increase tax compliance. However, the study endeavored to bridge the gap on the effect of technology acceptance on tax compliance among taxpayers.

1.3 General objective

The general objective of the study was to establish the effect of technology acceptance on tax compliance among SMEs in Nakuru town.

1.3.1 Specific objectives

The specific objectives of the study were as follows:

- i. To find out the effect of ease of use (EOU) on tax compliance among SMEs in Nakuru town.
- ii. To evaluate the effect of risk of use (ROU) and tax compliance among SMEs in Nakuru town.
- iii. To determine the effect of usefulness (U) on tax compliance among SMEs in Nakuru Town.

1.4 Research questions

- i. What was the effect of ease of use on tax compliance among SMEs in Nakuru Town?
- ii. What was the effect of risk of use on tax compliance among SMEs in Nakuru Town?
- iii. What was the effect of usefulness on tax compliance among SMEs in Nakuru Town?

1.5 Significance of the Study

1.5.1 The Government

The Kenyan government heavily relies on taxes collected by KRA to fund its expenditures. The study may assist KRA in its quest to bridge revenue deficits. It will give suggestions on how to fully employ technology and continuously automate its operations to ensure it curbs tax leakages which will in turn assist KRA to meet its revenue targets. Through automation of

its operations, KRA will spend less in compliance costs through audits and investigations. The vision 2030 sees IT as key pillar and KRA as single revenue collector in Kenya. Therefore, for KRA to achieve this, technology acceptance is key.

1.5.2 SMEs

This study may assist in educating taxpayers on the benefits of technology adoption on tax compliance. Technology acceptance in tax filing is likely to increase operational efficiency in terms of costs and time taken to process returns, increase service quality and time. Technology also reduces a lot of paper work and provides a mechanism where information can be stored for future reference. Tax compliance will assist taxpayers to avoid penalties and interest that arise due to non-compliance, it reduces compliance costs and time that arise from tax audits and inspections from tax authorities, reduces costs and time that arise due to disputes from assessed taxes by tax authorities, litigation procedures that are rigorous and time consuming.

1.5.3 Future Researchers

The study will highlight the key areas which need further research in future and create a pool of knowledge with regard to technology usage and tax compliance. It will also guide researchers and scholars who will have interest in this area of study in future.

1.6 Scope of the Study

The study focused on the effect of Technology Acceptance on Tax Compliance among SMEs in Nakuru town. The study independent variables were based on Technology Acceptance Theory (TAT). These include ease of use, risk of use and usefulness while tax compliance is the dependent variable. The target population of the study was 240 and the sample size of 71 registered SMES in Nakuru town.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter views the study on a wider perspective by reviewing previous studies related to technology acceptance by examining how prevailing literature relates to tax compliance.

2.2 Theoretical Framework

2.2.3 Theory of Technology Acceptance Model

Technology Acceptance Model (TAM) was proposed by Davis (1989), being an adaptation of the model Theory of reasoned Action (TRA). However, according to Davis (1989), for being so universal, the TRA was modified specifically, to create models of acceptance in information technology, as in the specific case of TAM.

The intention of the development of the model TAM resulted from an IBM Canada contract with the Massachusetts Institute of Technology (MIT), in the 80s to evaluate the market potential to new products of the brand and to make it possible an explanation of the determinants of computers use (Davis; Bagozzi; Warshaw, 1989). Davis (1989) proposed the TAM to focus in the reason the users accept or reject the information technology (IT) and how to improve the acceptance, offering, this way, a support to foresee and explain the acceptance. Davis (1989) conducted a survey of 112 users at Canada IBM and in 40 MBA students of Boston University. The validation of the TAM model was based in the acceptance of a software text editor (Davis, 1989; SA, 2006)

Silva (2006) adds that Davis (1989) on this sample found out that the perceived use had the higher impact in the behavior than the perceived facility. The TAM has the advantage of being specific to IT and has a strong theoretical base, besides the wide empirical support, as claims Davis (1989). The model TAM was designed to comprehend the causal relation between external variables of user's acceptance and the real use of computer, trying to understand the behavior of this user through the utility knowledge and use facility perceived by him (Davis, 1989). For Davis (1989) the people tend to use or not certain technology with the objective to improve his performance at work- perceived use. However, even if this person understands that determined technology is useful, its use may be damaged if it is too complicated, in a way that the effort is not worthwhile the use- perceived facility. This way, the TAM is based basically in two constructs: the perceived utility and perceived facility,

seeing that both measured completely the effects of external variables, such as features systems, development process, and training in the use intention (Davis 1989). The intention of this model is to represent the impact of external factors related to information system, under those internals of individual, as the attitudes and use intentions (Davis; Bagozzi; Warshaw, 1989; Dillon; Morris, 1996; Lee et al., 2003; Venkatesh et al., 2003). Davis (1989) defines the two main determinants of TAM on the following way:

Perceived utility- degree in which a person believes that the use of particular system may improve his performance. Facility of perceived use- degree in which a person believes that the use of an information system will be free of effort. The exposed in the diagram suggests that the individuals will use a determined technology if they believe that this use will provide positive results, focusing in the perceived ease of use and in the perceived usefulness.

2.2.2 Diffusion of Innovations (DOI) Theory

Diffusion of innovations is a theory profound by Everett Rodgers that seeks to explain how, why and at what rate new ideas and technology spread. Rodgers argues that diffusion is the process by which an innovation is communicated over time among the participants in a social system. For Rogers (2003), acceptance is a choice of full use of an invention as the best course of action accessible and refusal is a choice not to accept an invention. He defines innovation as an idea, practice, or object that is perceived to be new by an individual or other unit of adoption. Communication is a process in which participants create and share information with one another to reach a mutual understanding (Rodgers, 1995).

Diffusion study has concentrated on the features of an invention which may affect its acceptance, the decision making procedure that takes place when people think about accepting new invention on products or technology, the features of people that make them likely to accept an invention, the effects for people and society of accepting an invention and communication ways used in acceptance process.

Rodgers proposes that four main elements influence the spread of new idea: the innovation itself, communication channels, time and social system. Invention diffusion study has attempted to explain the variables that impact how and why users accept a new information system, such as the internet. Opinion leaders exert the influence on audience behavior via their personal contact, but additional intermediaries called change managers and caretakers are also included in the procedure of diffusion. According to Rodgers, there are five adopter

categories; innovators, early adopters, early majority, late majority, laggards. The criterion for adopter categorization is innovativeness. Innovativeness is defined as the degree to which an individual adopts a new idea.

Inventions are often accepted by organizations through two invention-choices: collective invention decisions and authority invention decisions. Collective decision occurs when adoption is by consensus. The authority decision occurs by accepting among very few people with high positions of command within an organization. Unlike the discretionary invention choice procedure, these decision procedures only occur within an organization. Within an organization certain individual are termed as “champions” who stand behind an innovation and break through opposition. The champions play a very similar role as the champion used within the efficiency business model Six Sigma.

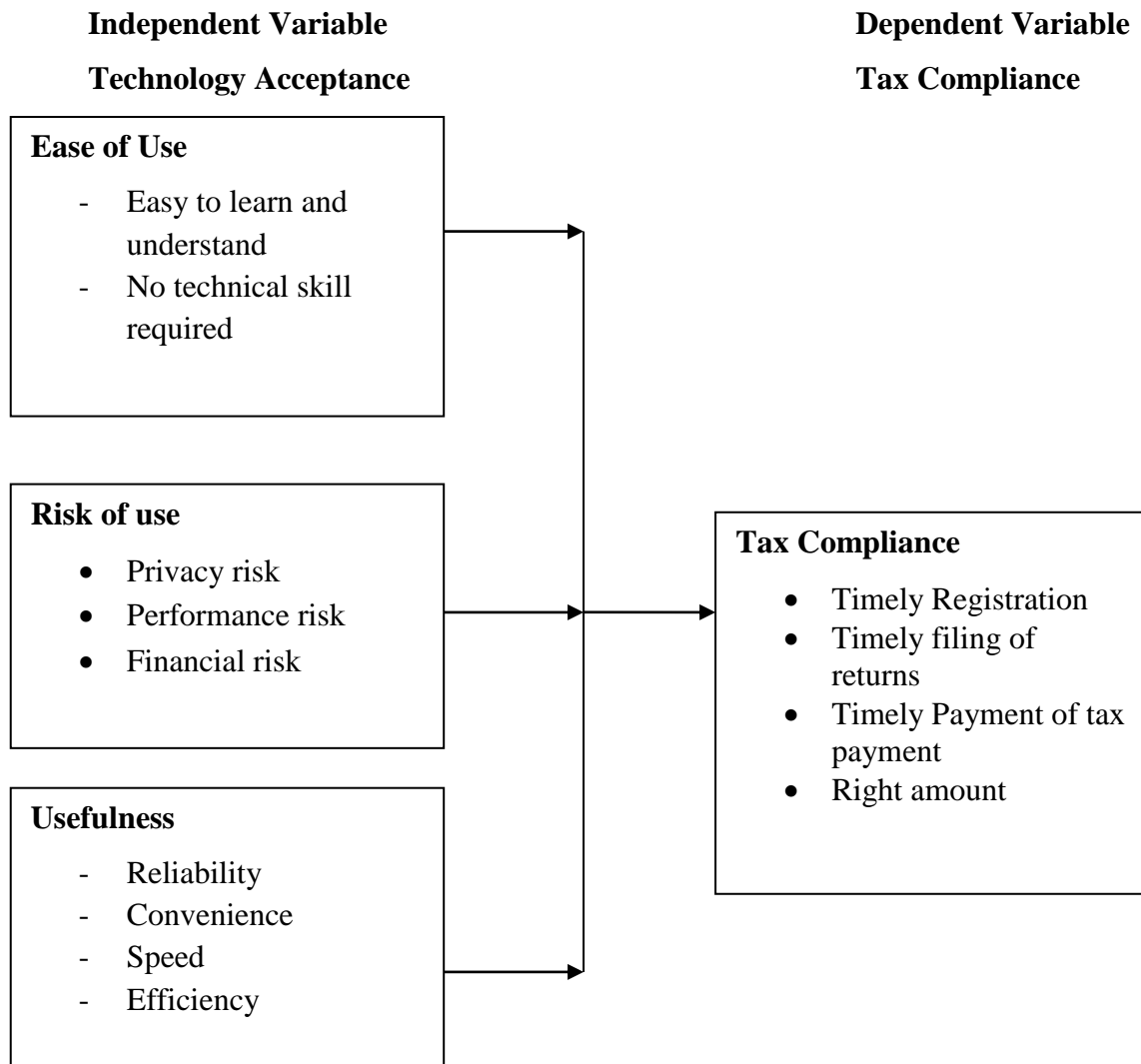
2.2.3 Behavioral theory

The theory is built on the grounds of sociological and psychological determinants. Taxpayers are no longer seen as selfish utility maximizers but as human beings motivated to pay taxes on the basis of different attitudes, norms, beliefs, perceptions, feelings, social characteristics, cultural backgrounds like age gender, religion etc. (Schmolders, 1960; Fishbein and Ajzen, 1975; Meier and Johnson, 1977; Lewis, 1978; Jackson and Milliron, 1986; Ajzen, 1997; Frey 1997; Mumford, 2001; Wenzel, 2003; Wenzel, 2004a; Wenzel, 2004b; Wenzel, 2005a; Wenzel, 2005b).

One such behavioral model of tax compliance which encompasses these socio-psychological determinants is the ‘slippery slope’ framework proposed by Kirchler, Hoelzl and Wahl (2008). According to the ‘slippery slope’ framework, trust in authorities and power of authorities are two main dimensions shaping tax compliance. Trust in authorities is defined as the general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for common good’ and power of authorities is defined as ‘taxpayers’ perception of the potential of tax officers to notice criminal tax dodging and to penalize tax dodging (Kirchler, Hoelzl and Wahl, 2008). Both trust in authorities and power of authorities’ increase tax compliance, but the quality of compliance differs: voluntary tax compliance is achieved by increasing levels of trust; enforced tax compliance is achieved by increasing levels of power. When talking about tax behavior, the attitude towards taxpayers is of great importance as it can enhance either compliance or non-compliance. A service and client climate between tax authorities and taxpayers is meant to foster trust in authorities.

2.3 Conceptual Framework

From the literature review, the study intends to conceptualize the effect of technology acceptance on tax compliance. The independent variables include Ease of Use, Risk of Use and Usefulness, the study aims to establish relationship between the Independent variables and dependent variables as shown below:



Source: Researcher, 2019

Figure 2.1: Conceptual Framework Adopted from Technology Acceptance Theory (TAT).

2.4 Empirical Review

A study done in Malaysian Inland Revenue Board on perceived risk and the adoption of tax e-filing showed that perceived risk significantly affects the behavioral intention of current and potential users of the e-services. However, the perceived risk measured the effect of overall risk on behavioral intention. According to the study, five facets of perceived risk

influence an individual's decision to adopt or reject e-filing system: performance risk, time risk, psychological risk, privacy risk and overall risk. Results from the study confirm that perceived risk of e-filing adoption is affected by performance risk, time risk, psychological risk, privacy risk and overall risk. The study also found out that different facets of perceived risk have contributed to the positive relationship between perceived risk and adoption of e-filing. An early study by Che Azmi et al., (2010) on Malaysian tax e-filing system found that perceived risk is negatively related to e-filing adoption. This was due to the age of respondents and different facets of risk which have different associations with adoption of e-filing.

Rotchanakitumnuai (2007), investigated the effect of three risk factors-privacy risk, performance risk, and fair financial audit risk on the tax e-payment system in Thailand and the results showed that only performance risk was significant to the adoption of the e-payment method. Studies on adoption of an online tax system have found PEOU to have significant influence on the use of technology (Carter & Belanger, 2004). Enquiries on factors influencing consumers' BI in accepting broadband in Pakistan (Dwivedi, Williams, Weerakkody, Lal, & Bhatt, 2008) scholars use PEOU as one of the control concepts and found it to have a major impact on the use of Information System (IS). A survey of the perceptions of 97 respondents in Sungai Petani, Kedah towards e-filing Zakaria & Hussin (2010), and PEOU was discovered to be significant in a single stage model. Ojha et al. (2009) found that young Indian professionals' effort in using e-tax filing was determined by the PEOU, compatibility, and relative advantage, perceived innovativeness of information technology and performance of the e-filing system.

2.4.1 Ease of Use and Tax Compliance

Ease of use is defined as a degree to which a potential adopter views the usage of target technology to be relatively free of effort (Davis, 1989). EOU also indicates how ease individual learn how to operate or use new technology or information system (Davis et al., 1989; Gefen et al., 2003). If taxpayers perceived online tax structure to be easy to use and is less complicated, there is a high possibility of it being adopted and used by prospective users (Agarwal & Prasad, 2000). Hence, this will lead to increase in tax compliance and increase in revenue generation because the self-employed taxpayers feel the ease of using the online tax system in filling in their tax return.

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

Studies on adoption of an online tax system have found EOU to have significant influence on the use of technology (Carter & Belanger, 2004). Enquiries on factors influencing consumers' BI in accepting broadband in Pakistan (Dwivedi, Williams, Weerakkody, Lal, & Bhatt, 2008) scholars use EOU as one of the control concepts and found it to have a major impact on the use of Information System (IS). A survey of the perceptions of 97 respondents in Sungai Petani, Kedah towards e-filing Zakaria & Hussin (2010), EOU was discovered to be significant in a single stage model.

Ojha et al. (2009) found that young Indian professionals' effort in using e-tax filing was determined by the EOU, compatibility, and relative advantage, perceived innovativeness of information technology and performance of the e-filing system.

2.4.2 Risk of Use and Tax Compliance

Azmi and Bee (2010) risk of use as taxpayers' perception on the reliability of the systems usefulness/functionality and control of their personal data information in online environment. They further defined privacy risk as the concerns over the safeguard of various types of data that are collected during taxpayers' interaction with the e-filing system due to concerns on third parties accessing their personal information. The performance risk refers to the possibility of the system failing to deliver on its promises. In the study on the interaction between the perceived risk and the traditional perceived usefulness and the perceived ease of use, Azmi & Bee (2010) argue that complex systems that take time to learn are considered risk to adopt and use.

The dependence on the third parties to assist a tax payer undertake online tax returns has the effect of the tax payer losing data privacy (Lai & Choong, 2010). The taxpayer needs to reveal personal financial details about his business such as the income derived from the business (Lukwata, 2011). A majority of the taxpayers may not be comfortable divulging such information to third parties who are not connected to their business (Ramoo, 2006). This is because it exposes them to security risk of being robbed. In this context, the taxpayer may

opt to fill the manual tax returns in a bid to protect the privacy of his data (Ssetuba, 2012). The lack of the computer literacy in general and the lack of confidence around the online filing system may lead to psychological predispositions that may influence the adoption of electronic filing (Muhangi, 2012). For example, Mandola (2013) argues that a feeling of increased anxiety and stress due to lack of experience or comfort with using technology or feeling threatened by technology could prevent a customer being inclined to adopt the e filing system.

Concerns over security issues or perceived risks on the usage of the online filing services inhibit its adoption. Ramoo (2006) argues that perceived risk influences the adoption and usage of the online filing. The perceived risk is defined as the taxpayers' perception on the reliability of the system's usefulness/functionality and the control of their personal data information in an online environment (Ramoo, 2006). In this context, taxpayers using the online system could be concerned on whether third parties can access their personal tax information without their knowledge or permission (Geetha & Sekar, 2012). The failure of the system to deliver on its objectives due to either technical issues or other reasons affects the potential users' adoption of the system. In this context, Kamarulzaman & Azmi (2010) argues that the risk factor that taxpayers perceived to have towards the system, which promise to complete their transaction securely and to maintain the privacy of their personal information, will affect their voluntary adoption of the e-filing system.

A study done in Malaysian Inland Revenue Board on perceived risk and the adoption of tax e-filing showed that perceived risk significantly affects the behavioral intention of current and potential users of the e-services. However, the perceived risk measured the effect of overall risk on behavioral intention. According to the study, five facets of perceived risk influence an individual's decision to adopt or reject e-filing system: performance risk, time risk, psychological risk, privacy risk and overall risk. Results from the study confirm that perceived risk of e-filing adoption is affected by performance risk, time risk, psychological risk, privacy risk and overall risk. The study also found out that different facets of perceived risk have contributed to the positive relationship between perceived risk and adoption of e-filing. An early study by Che Azmi et al., (2010) on Malaysian tax e-filing system found that perceived risk is negatively related to e-filing adoption. This was due to the age of respondents and different facets of risk which have different associations with adoption of e-filing. Rotchanakitumnuai (2007), investigated the effect of three risk factors-privacy risk,

performance risk, and fair financial audit risk on the tax e-payment system in Thailand and the results showed that only performance risk was significant to the adoption of the e-payment method.

2.4.3 Usefulness and Tax Compliance

Usefulness is defined as a prospective user's which is subjective or with the likelihood of using a specific innovation to enhance its processes. Jiang, Hsu, Klein, and Lin (2000) expanded PU as the development and utilization of the internet technology model to explore the ways by which it is been implemented. PU is also defined as individual belief to improve the degree of job performance through using particular new technology and information system (Davis et. al., 1989; Gefen et.al., 2003). Usefulness may be described as the degree at which the user believes that the use of a particular system will support his work"(Davis, 1989).

In this research work, PU denotes the perception of tax payers on the usefulness of using an electronic system of paying taxes(e-filing). usefulness has been empirically verified by researchers on the adoption of new technology. These empirical researches were done by Mustapha (2013); Mamta (2012); Othman (2011); Ozgen & Turan (2007) and so on. Perceived usefulness has also been examined in relation to the ability of the system to increase performance, productivity, and effectiveness. The studies found that perceived usefulness is a significant determining factor of intention to use a particular system. The significance of PU has been well discussed indifferent fields. It has also been gathered in the previous studies that perceived usefulness has a direct effect on behavioral intention to utilize internet shopping, real-time training on the web, internet banking, e-commerce, and electronic government services like e-filing (Ashoori, Noorhosseini, & Alishiri, 2015; Ibrahim, 2012; Mustapha, 2013). E-filing system has been introduced by FIRS in Nigeria to reduce the taxpayers' effort that is needed for the manual process of tax filing.

2.5 Critiques of Literature

Davis (1989) proposed the TAM to focus in the reason the users accept or reject the information technology (IT) and how to improve the acceptance, offering, this way, a support to foresee and explain the acceptance. For Davis (1989) the people tend to use or not certain technology with the objective to improve their performance at work- perceived use. However, even if this person understands that determined technology is useful, its use may be damaged if it is too complicated, in a way that the effort is not worthwhile the use- perceived facility.

This way, the TAM is based basically in two constructs: the perceived utility and perceived facility, seeing that both measured completely the effects of external variables, such as features systems, development process, and training in the use intention (DAVIS 1989).

Theory of reasoned Action (TRA) has its genesis in the social psychology that searches to identify the determinant factors of the consciously intentional behavior (Fishbein; Ajzen, 1979). It defines the relationship between beliefs, attitudes, norms, intentions and behavior that is, a determined behavior for example, technology use or rejection is the result of an intention in making the behavior, and this intention is influenced conjointly by the individual attitudes been this attitude determined by beliefs and subjective norms in relation to the aimed behavior (Quintella; Pellicione, 2016). From the two theories above, TAM works on the basis that perception is the driver to adoption or rejection of technology while TRA identifies beliefs and social psychology to drive technology acceptance or rejection.

Mustapha (2013); Mamta (2012); Othman (2011); Ozgen & Turan(2007) and so on. Perceived usefulness has also been examined in relation to the ability of the system to increase performance, productivity, and effectiveness. The studies found that perceived usefulness is a significant determining factor of intention to use a particular system. The significance of PU has been well discussed indifferent fields. It has also been gathered in the previous studies that perceived usefulness has a direct effect on behavioral intention to utilize internet shopping, real-time training on the web, internet banking, e-commerce, and electronic government services like e-filing (Ashoori, Noorhosseini, & Alishiri, 2015; Ibrahim, 2012; Mustapha, 2013). E-filing system has been introduced by FIRS in Nigeria to reduce the taxpayers' effort that is needed for the manual process of tax filing.

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In this context, taxpayers using the online system could be concerned on whether third parties can access their personal tax information without their knowledge or permission (Geetha & Sekar, 2012). The failure of the system to deliver on its objectives due to either technical issues or other reasons affects the potential users' adoption of the system. In this context, Kamarulzaman & Azmi (2010) argues that the risk factor that taxpayers perceived to

have towards the system, which promise to complete their transaction securely and to maintain the privacy of their personal information, will affect their voluntary adoption of the e-filing system.

2.6 Research Gap

A critical review of past literature show that several conceptual and contextual research gaps existed in the relationship between technology acceptance and tax compliance. KRA has over time upgraded its tax management systems. From ITMS to ITAX, from SIMBA 2005 to Integrated Customs Management System (ICMS) among others with the aim of curbing non-compliance so as to meet its revenue targets, but there is still tax non-compliance among taxpayers making KRA not to achieve its projections. There is therefore, a gap in knowledge as to whether there is a relationship between technology acceptance and tax compliance.

2.6 Chapter Summary

Tax is the burden that people do not like to pay (Prajubmoa, 2001, Cheutong, 2007). The government should design the tax system in such a way that tax collectors and taxpayers have no chance to cooperate, for tax evaders' gain nothing from tax evasion (Kewpradit, 2009).

Technology has become a very important and key element to success of most tax authorities in the world in both developed and developing economies in terms of speedy delivery of products and services. Most organizations including tax authorities are taking advantage of technological advancements. In Kenya, KRA has shown tremendous improvements in its revenue collection due to automation of its systems. However, tax evaders are also working round the clock to ensure they manipulate the system to evade taxes. There is therefore, need for increased efforts by KRA and other government agencies to ensure technology is continuously improved and used to ensure maximum tax compliance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This Chapter describes the methodology that was used in the study. It discusses research design, the target population and sample and sampling techniques. It also addresses data collection methods, piloting, data analysis and presentation and measurement of variables

3.2 Research Design

According to Kothari (2004) research design is a plan, a roadmap and blueprint strategy of investigation conceived so as to obtain answers to research questions, it is the heart of any study. The study design employed descriptive research design.

3.3 Sampling Frame

The sampling frame was 240 registered SMEs in Nakuru town. A sampling frame is a list of population from which a sample was drawn (Leary, 2001; Sarndal, Swensson & Wretman, 2003. Bailey (2008) argues the sampling frame facilitates formation of a sampling unit that refers to one member of a set of entities being studied which is the material source of the random variable. The sampling frame was drawn from registered SMEs in Nakuru town.

3.4 Target Population

A target population is the group of individuals selected for the study or research. The study was 240 registered SMES in Nakuru town.

Table 3.1: Target Population

Categories	No. of Respondents
Small Enterprises	150
Medium Enterprises	121
Total	271

Source: Nakuru County License Department (2019).

3.5. Sample and sampling techniques

3.5.1 Sample Size

The study employed Nassiuma's (2009) formula to calculate the size of the sample. The formula to scientifically derive the sample from the target population is illustrated hereunder.

$$n = \frac{NC^2}{C^2 + (N-1)e^2}$$

Where

n = Sample size

N = Size of target population

C = Coefficient of variation (0.5)

e = Error margin (0.05)

Substituting these values in the equation, estimated sample size (n) was:

$$= \frac{271(0.5)^2}{(0.5)^2 + (271-1)(0.05)^2}$$

$$n = 80 \text{ respondents.}$$

The study sample size was 80 registered SMEs derived through the use of Nassiuma's (2009) formula. Therefore, 80 questionnaires will be distributed to the respondents.

3.5.2 Sampling Techniques

The study employed stratified and simple random sampling to select respondents from the population.

3.6 Data Collection Methods

The study adopted primary data. Primary data are those which are collected afresh and for the first time and thus happen to be original in character.

3.7 Data Collection Instruments

The study used closed structured questionnaire to collect primary data. The questionnaire was administered by trained research assistant to sampled taxpayers.

3.8 Data Collection Procedures

Data was collected using questionnaires administered to the respondents. The questionnaires were circulated with the help of research assistants. The research assistants were trained prior to the distribution. The training assisted them to understand the contents of the questionnaire to be able to guide the respondents in case of any questions during circulation.

3.9 Pilot Study

A pilot study is a pre-test study using questionnaires to help determine effectiveness of questions and type of responses from the participants before actual study. According to Cooper (2010), a pilot test is necessary for testing the reliability of data collection instruments. The pilot test was conducted to test reliability and validity of the research instrument.

3.9.1 Reliability of research Instruments

Reliability concerns the extent to which a research instrument produces consistent data or results after recurrent trials (Mugenda, 2003). Reliability implies the extent which measures were free from random error. The Cronbach's alpha was used to test the reliability of measures as well as the internal consistency of measurement items. Cronbach's alpha was used since it will be widely recommended for social science research (Hair, Black, Babin & Anderson, 2010).

3.9.2 Validity of the research instruments

Validity refers to the extent to which the instrument measures what it is intended to measure (Engel & Schutt, 2005). In this regard, validity is the extent to which a questionnaire asks the right questions pertaining accuracy. For a research tool to be considered valid, the substance chosen and included in the questionnaire must be applicable to the variable being examined (Kothari, 2004).

3.10 Data Analysis and Presentation

Data was entered into Statistical Package for Social Sciences (SPSS) for statistical analysis. Data was analyzed using descriptive statistics to generate frequency distributions, mean comparisons and standard deviation. Purpose of conducting descriptive statistics was to summarize data and analyze items and constructs. The data was also analysed through inferential statistics using multiple regression analysis. A multiple regression model was used to establish the relationship between technology acceptance and tax compliance.

The multiple regression was as follows

$$Y_i = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon_i$$

Where:

Y = Tax compliance

α = Constant

X1= Ease of use

X2 = Risk of use

X3= Usefulness

β1, β2 and β3= Coefficients of independent variables

ε = Error term

3.11 Measurement of Study Variables

Table 3.1: Measurement of Study Variables

Variable	Source Indicator	Measurement Scale
Ease of Use Vankatesh & Davis (1996)	<ul style="list-style-type: none">● System Implementation● Operation of the system● Computation of tax	5-pt Likert Scale
Risk of us Featherman & Pavlou (2003)	<ul style="list-style-type: none">● Privacy Risk● Performance risk● Financial Risk	5-pt Likert Scale
Tax Compliance Chau & Hu (2001)	<ul style="list-style-type: none">● Timely registration● Timely filing of tax returns● Timely payment of tax	5-pt Likert Scale
Usefulness Davis (1989), Agarwal & Prasad (1999)	<ul style="list-style-type: none">● Job Performance● File returns quickly	5-pt Likert Scale

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter shows response rate, the results of data reliability, and descriptive statistics of the study variables, regression analysis and an interpretation of the study findings.

4.2 Response Rate

The researcher administered a total of 80 questionnaires and 77 were completed and returned. This represents a response rate of 96% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

Table 4.1 Response rate

Category	Frequency	Percentage
Completed and returned	77	96
Not returned	3	4
Total	80	100

Source: Research Data (2020)

4.3 Reliability test results

Reliability is measure of the degree to which a research instrument yields consistent result after repeated trials (Mugenda & Mugenda, 2003). The results are depicted in tale 4.2 below

Table 4.2: Reliability tests results

Constructs	Reliability Cronbach's alpha	No of Items	Comment
Ease of use	0.711	4	Accepted
Risk of use	0.844	4	Accepted
Usefulness	0.714	4	Accepted
Tax compliance	0.732	4	Accepted

The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.7 while specific findings indicated that, ease of use had a coefficient of 0.711, risk of use had a coefficient of 0.844, tax compliance had a coefficient of 0.732 and usefulness had a coefficient of 0.714. Table 4.2 shows that all the study variables yielded Cronbach alpha coefficients values of more than 0.7, which is the recommended value. This indicates that the instrument was reliable to obtain data on the effect of technology acceptance on tax compliance in Nakuru town.

4.4 Descriptive Statistics

This section presents descriptive statistic results relating to the study variables

4.4.1 Ease of Use

Table 4.3: Descriptive Results; Ease of Use

	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. dev
It is easy for me to become skillful in using technology in tax management.	30.6%	45.9%	4.9%	6.6%	12.0%	1.8	0.8
I find technology easy to use in tax management	10.0%	70.5%	11.5%	0.0%	8.0%	1.9	0.5
Learning to operate technology in tax management is easy for me	19.7%	55.7%	13.1%	11.5%	0.0%	2.2	0.9
I find technology in tax administration flexible to interact with.	4.9%	54.4%	32.8%	4.9%	3.0%	2.4	0.7
I find it easy to access technology in tax administration.	4.9%	75.2%	9.8%	10.0%	0.0%	2.1	0.4
Aggregate mean						2.1	0.7

Source: Research Data (2020)

The aggregate mean of 2.1, with a standard deviation of 0.7 as shown in table 4.9 revealed that majority of the respondents were in agreement in most of the statements on Ease of Use. In particular, most of the respondents noted that it was easy for them to become skillful in using technology in tax management, they find technology easy to use in tax management, they find technology in tax administration flexible to interact with, they find it easy to access technology in tax administration and learning to operate technology in tax management was easy for them.

4.4.2 Risk of Use

Table 4.4: Descriptive Results; Risk of Use

	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std.d ev
Filing returns and paying taxes online may not perform as expected	21.3%	20.6%	24.6%	29.5%	4.0%	2.6	1.1
Filing returns and paying taxes online may not adequately protect my financial details.	4.9%	15.0%	27.9%	49.2%	3.0%	3.2	0.9
I may lose money by installing expensive internet which may fail to assist in filing and paying taxes due to poor connectivity	0.0%	55.7%	4.9%	34.4%	5.0%	2.7	0.9
I am concerned that my business strategies may be exposed to competitors if I file returns and pay taxes	11.5%	11.5%	9.8%	62.3%	4.9%	3.4	1.1

using internet.

I am concerned that data processed during online filing of returns and payment of taxes may not be accurate, leading to penalties and interest

16.4% 36.1% 18.0% 29.5% 0.0% 2.6 1.1

I am concerned that system hang-ups may lead to delay in submission of returns and payment of tax during tax filing periods

24.2% 55.7% 13.1% 4.9% 2.0% 2.0 0.8

Aggregate mean

2.8 1.0

Source: Research Data (2020)

The aggregate mean of 2.8, with a standard deviation of 1.0 as shown in table 4.10 revealed that majority of the respondents moderately agreed with most of the statements on Risk of Use. In particular, most of the respondents noted that they were concerned that data processed during online filing of returns and payment of taxes may not be accurate, leading to penalties and interest, the system hang-ups may lead to delay in submission of returns and payment of tax during tax filing periods, filing returns and paying taxes online may not perform as expected and they may lose money by installing expensive internet which may fail to assist in filing and paying taxes due to poor connectivity.

4.4.3 1 Usefulness

Table 4.5: Descriptive Results; Usefulness

	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. dev
--	-----------------------	--------------	----------------	-----------------	--------------------------	-------------	-----------------

Technology Improves my performance in tax filing.	50.5%	40.6%	4.9%	2.0%	2.0%	1.5	0.6
Technology enhances my effectiveness in tax filing	38.6%	50.5%	4.9%	4.0%	2.0%	1.6	0.6
I think using technology in tax filing is valuable to me	44.3%	50.8%	0.0%	4.9%	0.0%	1.7	0.7
The content on KRA online tax filing system is useful to me	41.9%	29.5%	19.7%	4.9%	4.0%	1.8	0.9
Online tax filing system is functional	14.7%	40.5%	32.8%	5.0%	7.0%	2.1	0.7
Overall, I find online tax filing system useful	29.5%	60.6%	0.0%	4.9%	5.0%	1.8	0.7
Aggregate mean						1.8	0.7

Source: Research Data (2020)

The aggregate mean of 1.8, with a standard deviation of 0.7 as shown in table 4.8 revealed that majority of the respondents were in agreement in most of the statements on usefulness. Notably, most of the respondents observed the following: technology improves performance in tax filing, technology enhances effectiveness in tax filing and online tax filing system is useful functional.

4.4.4 Tax Compliance

Table 4.6: Descriptive Results; Tax Compliance

	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree	Mean	Std. dev
It is unfair for KRA to charge penalize tax for late filing of returns	34.4%	19.7%	21.3%	24.6%	0.0%	2.4	1.2

It is in order to inflate allowable expenses or claim disallowable expenses to reduce tax liability	4.9%	6.6%	4.9%	57.4%	26.2%	3.9	1.0
It is important to maintain proper accounting records for tax purposes.	60.9%	31.1%	0.0%	8.0%	0.0%	1.3	0.5
It is always important to use tax management systems to file returns and pay taxes	36.0%	50.0%	0.0%	9.0%	5.0%	1.6	0.5
It is the responsibility of tax payers to register for tax obligations on i-tax	30.3%	45.9%	5.8%	14.0%	4.8%	1.7	0.7
Aggregate mean						2.2	0.8

Source: Research Data (2020)

The aggregate mean of 2.2, with a standard deviation of 0.8 as shown in table 4.11 revealed that majority of the respondents agreed with most of the statements on tax compliance. The respondents observed that it is unfair for KRA to charge penalize tax for late filing of returns, it is important to maintain proper accounting records for tax purposes, it is always important to use tax management systems to file returns and pay taxes and it is the responsibility of tax payers to register for tax obligations on i-tax.

4.5 Correlation Analysis

This section presents findings on the correlation between technology acceptance aspects and tax compliance.

Table 4.7: Correlation Results

		TC	U	EOU	ROU
TC	Pearson Correlation	1			

	Sig. (2-tailed)				
	N	77			
U	Pearson Correlation	.435**	1		
	Sig. (2-tailed)	0.000			
	N	77	77		
EOU	Pearson Correlation	.342**	.588**	1	
	Sig. (2-tailed)	0.000	0		
	N	77	77	77	
ROU	Pearson Correlation	-.437**	-.605**	-.796**	1
	Sig. (2-tailed)	0.001	0	0	
		77	77	77	77

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

Source: Research Data (2020)

The findings in Table 4.12 indicated that there was a positive and significant relationship between usefulness and tax compliance. This was supported by a correlation value of 0.435 and a p value of $0.000 < 0.05$ at 95 per cent confidence level. This implied that an increase in usefulness was associated with increase in tax compliance.

The results also revealed that there was a positive and significant relationship between ease of use and tax compliance. This was supported by a correlation value of 0.342 and a p value of $0.000 < 0.05$ at 95 per cent confidence level. This implied that an increase in ease of use was associated with increase in tax compliance.

Further, results showed that there was a negative and significant relationship between risk of use and tax compliance. This was supported by a correlation value of -0.437 and a p value of $0.001 < 0.05$ at 95 per cent confidence level. This implied that an increase in risk of use was associated with decrease in tax compliance

4.6 Regression Analysis

This section presents regression results on combined effect of usefulness, ease of use and risk of use on tax compliance in the hotel sector. Results on model summary, ANOVA and regression coefficients are presented in Tables respectively.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.787a	0.619	0.615	0.184965

a Predictors: (Constant), Ease of Use, Risk of Use, Usefulness

Source: Research Data (2020)

The findings revealed an R square of 0.619, which denoted that jointly, ease of use, risk of use and usefulness accounts for 62% of total variations in tax compliance. The remaining 38% can be attributed to other factors not included in this study model.

Table 4.9: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3.157	1	3.157	31.732	.000b
	Residual	33.951	79	0.429		
	Total	37.108	80			

a Dependent Variable: Tax Compliance

b Predictors: (Constant), Ease of Use, Risk of Use, Usefulness

Source: Research Data (2020)

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 4.9 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 internal audit contributes significantly to changes in the revenue collection

The findings indicated that the model was accurate (a good data fit) as supported by F statistic of 31.732 and reported p value of $0.000 < 0.05$. This meant that usefulness, ease of use and risk of use were significant predictors of tax compliance among SMEs in Nakuru town.

Table 4.10 : Overall regression coefficients

	Unstandardized Coefficient		Standardized Coefficient		
	B	Std Error	Beta	T	Sig
(Constant)	0.470	0.419		1.169	0.057
EOU	0.435	0.068	0.117	3.735	0.006
ROU	0.399	0.096	0.535	3.114	0.003
U	0.351	0.139	0.590	3.798	0.000
R		0.722			
R Square		0.521			
Adjusted R Square		0.518			
F		34.843			
Sig		0.000			

Dependent Variable: Tax compliance

Source: Research Data (2020)

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

$$\text{Tax Compliance} = 0.470 + 0.435 \text{ Ease of Use} - 0.399 \text{ Risk of Use} - 0.351 \text{ Usefulness}$$

Findings in Table 4.10 indicated that usefulness had a positive and significant effect on tax compliance. This was supported by a coefficient of 0.351 and a p value of $0.000 < 0.05$ at 95% confidence interval. This implied that a unit increase in usefulness of the managers would result to increase in tax compliance by 0.351 units.

The study findings were consistent with what previous studies also found. usefulness has a direct effect on behavioral intention to utilize internet shopping, real-time training on the web, internet banking, e-commerce, and electronic government services like e-filing (Ashoori, Noorhosseini, & Alishiri, 2015; Ibrahim, 2012; Mustapha, 2013)

Results also indicated that ease of use had a positive and significant effect on tax compliance. This was supported by a coefficient of 0.435 and a p value of $0.006 < 0.05$ at 95% confidence interval. This implied that a unit increase in ease of use of the managers would result to increase in tax compliance by 0.435 units.

The study findings were similar to those from previous research. If taxpayers online tax structure to be easy to use and is less complicated, there is a high possibility of it being adopted and used by prospective users (Agarwal & Prasad, 2000). Hence, this will lead to

increase in tax compliance and increase in revenue generation because the self-employed taxpayers feel the ease of using the online tax system in filling in their tax return. Studies on adoption of an online tax system have found PEOU to have significant influence on the use of technology (Carter & Belanger, 2004).

Further, the findings revealed that risk of use had a negative and significant effect on tax compliance. This was supported by a coefficient of -0.399 and a p value of $0.003 < 0.05$ at 95% confidence interval. This implied that a unit increase in risk of use of the managers would result to decrease in tax compliance by 0.399 units.

The findings concurred with those of previous studies as Ramoo (2006) who observed that a majority of the taxpayers may not be comfortable divulging such information to third parties who are not connected to their business. The lack of the computer literacy in general and the lack of confidence around the online filing system may lead to psychological predispositions that may influence the adoption of electronic

4.7 Discussion of key Findings

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

4.7.1 Ease of use

Ease of use was assessed using five measures and the overall mean score or responses regarding ease of use were 2.2 on a 5-point scale which indicates that majority of the respondents agreed that ease of use affect tax compliance in Nakuru town. The average overall standard deviation of 0.72 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 ease of use had positive and significantly related to tax compliance ($r = 0.435$, $p\text{-value} = 0.00 < 0.006$).

4.7.2 Risk of use

Risk of use was assessed using five measures and the overall mean score or responses regarding internal audit were 1.66 on a 5-point scale which indicates that majority of the respondents agreed that risk of use affects the tax compliance in Nakuru town. 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. Further collinearity analysis was done and the results revealed that risk of use had negative and significantly related to tax compliance ($r = 0.399$, $p\text{-value} = 0.00 < 0.003$).

4.9.3 Usefulness

Usefulness was assessed using four measures and the overall mean score or responses regarding usefulness were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that usefulness affects the tax compliance. The average overall standard deviation of 0.74 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that usefulness had a positive and significantly related revenue collection in Kenya ($r = 0.351$, $p\text{-value} = 0.00 < 0.000$).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the findings, conclusions, recommendations and suggestions for further research. This is done in line with the study objectives.

5.2 Summary of Findings

5.2.1 Ease of Use

The first objective of the study was to determine the relationship between ease of use (PEOU) on tax compliance in Nakuru town. The findings revealed that there was a positive and significant association between ease of use and tax compliance. Further, regression results indicated that ease of use had a positive and significant effect on tax compliance.

5.2.2 Risk of Use

The second objective of the study was to determine the relationship between risk of use and tax compliance in Nakuru town. The findings revealed that there was a negative and significant association between risk of use and tax compliance. Further, regression results indicated that risk of use had a negative and significant effect on tax compliance.

5.2.3 Usefulness

The third objective of the study was to determine relationship between usefulness (PU) on tax compliance in Nakuru town. The findings revealed that there was a positive and significant association between usefulness and tax compliance. Further, regression results indicated that usefulness had a positive and significant effect on tax compliance.

5.3 Conclusions

Based on the findings, the study concluded that there was a significant relationship between technology acceptance and tax compliance. Further, the study concluded that usefulness and ease of use had a positive and significant effect on tax compliance. The implication is that an increase in taxpayers' usefulness and ease of use of technology is likely to increase their tax compliance. In addition, the study concluded that risk of use had a negative and significant effect on tax compliance. The implication is that an increase in taxpayers' risk of use of technology is likely to discourage tax compliance.

5.4 Recommendations

Based on the findings, the study makes several recommendations. The study established a significant positive relationship between usefulness and tax compliance. Therefore, the study recommended that KRA should educate taxpayers on the importance and usefulness of using technology. They should create an environment that allows employees to accept technology such as investing in the best IT infrastructure.

The study also established a significant positive relationship between ease of use and tax compliance. Therefore, the study recommended that KRA should invest in training their taxpayers and employees on IT skills. This will make it easy for taxpayers and employees to adopt and use tax information technology systems.

Finally, the study established a significant negative relationship between risk of use and tax compliance. Therefore, the study recommended that KRA should find ways of eliminating possible risks associated with use of technology including financial risks, privacy risk and performance risk. The government should also put measures and policies in place that protect users of electronic tax systems such as i-tax.

5.5 Areas for Further Studies

The study focused on the relationship between technology acceptance and tax compliance in Nakuru town. Also, the elements included in the study accounted for 62 percent variations in tax compliance. Future studies should consider other factors that may account for the remaining 38 percent and not included in this study.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

COLLINS CHEROGONY

P.O Box 5022

Nairobi, Kenya

Dear Respondent,

RE: **DATA COLLECTION**

I am a student at KESSRA currently undertaking a research study to fulfill the requirements of the Award of Post Graduate Diploma in Tax Administration on **THE EFFECT OF TECHNOLOGY ACCEPTANCE ON TAX COMPLIANCE AMONG SMES IN NAKURUTOWN**)

Kindly note that the study will be conducted as academic research and the information you provide will be treated as confidential. Your participation in the exercise is voluntary and so you are free to choose to or not to participate. But it would be helpful if you could participate fully. Kindly spare a few minutes from your busy schedule to complete the attached questionnaire.

Thank you in advance for your co-operation.

Yours Faithfully,

COLLINS CHEROGONY

APPENDIX 11: QUESTIONNAIRE

Section A: Ease of Use

No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		1	2	3	4	5
1	It is easy for me to become skillful in using technology in tax management.					
2	I find technology easy to use in tax management					
3	Learning to operate technology in tax management is easy for me					
4	I find technology in tax administration flexible to interact with.					
5	I find it easy to access technology in tax administration.					

Section B: Risk of Use

No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		1	2	3	4	5
1	Filing returns and paying taxes online may not perform as expected					
2	Filing returns and paying taxes online may not adequately protect my financial details.					
3	I may lose money by installing expensive internet which may fail to assist in filing and paying taxes due to poor connectivity					

4	I am concerned that my business strategies may be exposed to competitors if I file returns and pay taxes using internet.					
5	I am concerned that data processed during online filing of returns and payment of taxes may not be accurate, leading to penalties and interest					
6	I am concerned that system hang-ups may lead to delay in submission of returns and payment of tax during tax filing periods					

Section C: Usefulness

No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		1	2	3	4	5
1	Technology Improves my performance in tax filing.					
2	Technology enhances my effectiveness in tax filing					
3	I think using technology in tax filing is valuable to me					
4	The content on KRA online tax filing system is useful to me					
5	Online tax filing system is functional					
6	Overall, I find online tax filing system useful					

Section E: Tax Compliance

No.	Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
		1	2	3	4	5
1	It is unfair for KRA to charge penalize tax for late filing of returns					
2	It is in order to inflate allowable expenses or claim disallowable expenses to reduce tax liability					
3	It is important to maintain proper accounting records for tax purposes.					
4	It is always important to use tax management systems to file returns and pay taxes					
5	It is the responsibility of tax payers to register for tax obligations on i-tax					

APPENDIX 111: BUDGET

DESCRIPTION	COST PER ITEM	TOTAL AMOUNT (Kshs)
Stationery		10,000.00
Photocopying papers	10 reams @ 600/=	
Pens, pencils, rubbers		
Ink cartridge (Printer)		
Files (12 rim binders)		
Personnel		20,000.00
Questionnaires administrators		
Stastician		
Transport and subsistence		10,000.00
Vehicles		
Subsistence allowance		
Communication		10,000.00
Telephone		
Internet		
Other Services		10,000.00
Library services		
Purchase of periodicals and books		
<u>Total expected cost</u>		<u>90,000.00</u>

APPENDIX 1V: WORK PLAN

ACTIVITY (2020)	MAY (2020)	JUNE (2020)	JULY (2020)	AUG. (2020)	SEPT (2020)	OCT. (2020)	NOV (2020)
Draft proposal							
Proposal presentation							
Designing the research instrument							
Proposal defense							
Field work & data Collection							
Data Entry / Analysis							
Report Writing							
Presentation of 1 st draft							
Presentation of 2 nd draft							
Submission of final report							