

**FACTORS INFLUENCING VALUE ADDED TAX COMPLIANCE IN THE  
CONSTRUCTION FIRMS IN KIAMBU COUNTY.**

**BONFACE MBOGO MUNYAKA**

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

**2018**

## DECLARATION

This research project is my original work and has not been presented for any postgraduate course in any other academic or non- institution.

Signature. ....

Mr. Bonface Mbogo Munyaka                      Date.....

HDB336-C016-2049/2016

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

Signature. ....

Mr. Omar Bwana                      Date.....

## **DEDICATION**

My foremost gratitude goes to our Almighty God for enabling and guiding me through this tedious process of project writing. I dedicate this research to my parents Mr. & Mrs. Munyaka for their undying support and love. I have no doubt in my mind that without their continued support and counsel I could not accomplish this process.

## **ACKNOWLEDGEMENT**

I would like to express my gratitude to God and all persons for their time and energy which has helped to produce this research project. This project would not have been possible to carry out without the participation, support, feedback and guidance of my university supervisor Mr. Omar Bwana.

I would also like to send my sincere gratitude to my work colleagues and especially the DTD East of Nairobi, iTax Sameer Service Centre for their contribution, to my class colleagues and friends who have supported us through this time.

# TABLE OF CONTENTS

<b>DECLARATION</b> .....	<b>i</b>
<b>DEDICATION</b> .....	<b>iii</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>iv</b>
<b>TABLE OF CONTENTS</b> .....	<b>v</b>
<b>LIST OF FIGURES</b> .....	<b>ix</b>
<b>LIST OF TABLES</b> .....	<b>x</b>
<b>OPERATIONAL DEFINITION OF TERMS</b> .....	<b>xi</b>
<b>ABSTRACT</b> .....	<b>xii</b>
<b>CHAPTER ONE</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
1.0 Introduction.....	1
1.1 Background of the Study. ....	1
1.1.1The Concept of Value Added Tax. ....	2
1.1.2 Value Added Tax in the Construction Sector. ....	3
1.1.3 Value Added Tax Compliance.....	4
1.2 Statement of the problem. ....	6
1.3 Objectives of the study.....	8
1.3.1 Specific objectives. ....	9
1.4 Study Questions. ....	9
1.5 Justification of the study. ....	9
1.5.1 Kenyan Government .....	9
1.5.2 Business community .....	10
1.5.3 Academicians and Researchers .....	10
<b>CHAPTER TWO</b> .....	<b>11</b>
<b>LITERATURE REVIEW</b> .....	<b>11</b>
2.0 Introduction.....	11
2.1 Theoretical Literature Review .....	11

2.1.2 Attribution Theory .....	12
2.1.3 Compliance Theory.....	13
2.2 Empirical Literature.....	13
2.2.1 Tax Knowledge .....	14
2.2.2 Compliance Cost.....	16
2.2.3 Penalties and Fines.....	17
2.2.4 Attitudes and Perception.....	17
2.3 Conceptual Framework.....	19
2.4 Research Gap .....	20
2.5 Summary of Literature review .....	20
<b>CHAPTER THREE.....</b>	<b>22</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>22</b>
3.0 Introduction.....	22
3.1 Research Design.....	22
3.2 Population of the study .....	23
3.3 Sampling Procedure .....	23
3.3.1 Sample Size.....	23
3.3.2 Sampling frame.....	24
3.3.3 Sampling technique.....	24
3.4 Data Collection .....	24
3.5 Data Validity.....	25
3.6 Data Reliability.....	25
3.7 Data Analysis .....	25
3.7.1 Analytical Model.....	26
3.8 Operationalization of Variables.....	27
<b>CHAPTER FOUR .....</b>	<b>29</b>
<b>DATA ANALYSIS, PRESENTATION AND INTEPRETATION.....</b>	<b>29</b>
4.1. Introduction.....	29
4.2. Response Rate .....	29
4.3 Data Validity .....	30
4.4 Demographic information .....	30
4.4.1. Business Age.....	31
4.4.2 Monthly Turnover.....	31
4.4.3 Tax Compliance Certificates.....	32

4.5. Factors Influencing VAT Compliance .....	33
4.5.1 Tax compliance cost.....	33
4.5.2 Penalties and fines.....	34
4.5.3 Attitudes and perceptions.....	36
4.5.4 The level tax knowledge and understanding.....	38
4.5 Correlation Analysis .....	40
4.6 Regression Analysis.....	42
4.6.1 Regression Coefficients .....	42
4.6.2 Model Summary.....	43
4.6.3 Analysis of Variance .....	44
4.7 Summary and Interpretation of Findings .....	44
<b>CHAPTER FIVE .....</b>	<b>46</b>
 <b>SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>46</b>
 5.1 Introduction.....	46
5.2 Summary of the study. ....	46
5.3 Conclusion .....	47
5.4 Assumptions of study.....	48
5.5 Limitations of the Study.....	48
5.6 Study recommendation .....	48
5.7 Suggestion for Further Research.....	49
<b>References.....</b>	<b>50</b>
 <b>APPENDIX I: INTRODUCTION LETTER .....</b>	<b>52</b>
 <b>APPENDIX II: QUESTIONNAIRE.....</b>	<b>53</b>
 <b>APPENDIX III: CONSTRUCTION COMPANIES IN KIAMBU COUNTY .....</b>	<b>56</b>

## **LIST OF ABBREVIATIONS AND ACRONYMS**

<b>ANOVA</b>	:	Analysis of variance
<b>BOD</b>	:	Board of Directors
<b>DR</b>	:	Domestic Revenue
<b>DTD</b>	:	Domestic Taxes Department
<b>FY</b>	:	Financial Year
<b>GDP</b>	:	Gross Domestic Product
<b>KESRA</b>	:	Kenya School of Revenue Administration
<b>KeNHA</b>	:	Kenya National Highway Authority
<b>KERRA</b>	:	Kenya Rural Roads Authority
<b>KIPPRA</b>	:	Kenya Institute of Public Policy Research and Analysis
<b>KNBS</b>	:	Kenya National Bureau of Statistics
<b>KRA</b>	:	Kenya Revenue Authority
<b>KURA</b>	:	Kenya Urban Roads Authority
<b>NCA</b>	:	National Construction Authority
<b>OECD</b>	:	Organization for Economic Cooperation and Development
<b>VAT</b>	:	Value Added Tax

## **LIST OF FIGURES**

Figure 2.0 Conceptual Framework

## LIST OF TABLES

- Table 3.1: Cronbach's Alpha Measures.
- Table 4.1: Mugenda and Mugenda (2008) response rate
- Table 4.2: Reliability Coefficients
- Table 4.3: Business age
- Table 4.4: Monthly turnover of the business.
- Table 4. 5. Respondents feeling on compliance cost.
- Table 4.6.Imposition of penalties and fines
- Table 4.7 Effectiveness of penalties and fines
- Table 4.8: paying taxes as a duty
- Table 4.9. Respondent's attitude and perception.
- Table 4.10 Respondents' tax knowledge and understanding.
- Table 4.11: Correlation Analysis
- Table 4.12 Regression coefficient
- Table 4.13: Model Summary
- Table 4.14 ANOVA table

## OPERATIONAL DEFINITION OF TERMS

**Compliance** taxpayers willingly fully abide by the law, rules and regulations requiring them to pay taxes liable to them to tax authorities (Kimungu and Kileva, 2007).

**Compliance costs** is the costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of tax incurred by taxpayers in meeting the tax requirements (Kimungu and Kileva, 2007).

**Revenues** refer to the gross proceeds received from taxes, fees, and other levies.

**Tax** is a financial charge or levy imposed on an individual or a legal entity by the state to finance the government's expenditures (Lymer and Oats, 2009).

**Tax avoidance** is the legal use of tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law (Higgins, 2009).

**Tax evasion** -This is illegal, taxpayers intentional misrepresenting the true state of their business affairs to the tax authorities in order to lower their tax liability and includes dishonest tax reporting (Brealey, Myers and Allen, 2010).

**Tax Knowledge**- This is taxpayer's understanding of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge (Kirchiler, 2009).

**Value Added Tax** is a consumption tax levied on designated local supply of goods and services and on imports in accordance with the provisions of the VAT Act 2013 (VAT Act, 2013).

## **ABSTRACT**

Tax compliance is the degree to which the taxpaying community meets the tax obligations set out in the appropriate legal and regulatory provisions. The construction industry contributes approximately 4.2% to the Gross Domestic Product. The main objective of the study is to establish factors influencing Value Added Tax compliance among the construction firms in Thika District. The researcher employed a descriptive design to collect a large quantity of information about the population being studied. The study targeted all registered construction firms within Thika District. The researcher collected primary data from the sampled construction firms using self administered questionnaires. Data collected was analyzed using Statistical Package for Social Sciences and the study findings presented in the form of tables. The results shows that all the established factors have a significant influence on the Value Added Tax compliance among the construction firms. The findings revealed that tax understanding and knowledge has a significant effect on tax compliance. Better understanding of VAT laws encourages voluntary compliance. Reduced tax compliance cost is associated with high levels of tax compliance. The study findings reveal that effective imposition of fines and penalties play a vital role in improving tax compliance. The findings of the study show that taxpayer perception and attitudes has a significant effect on tax compliance. It is therefore prudent for KRA to enhance their taxpayer education activities to enable businesses have better understanding of various factors affecting tax compliance. These study findings will help KRA and the government develop interventions that will encourage voluntary tax compliance that will lead to increased revenue collection to enable the government provide goods and services to its citizens.

**Key Words:** Tax compliance; construction industry; Value Added Tax.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

This chapter presents the background of the study on factors influencing value added tax compliance in the construction industry in Kenya. It further, presents statement of the problem, research objectives and questions and finally justification for this research.

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

Maxwell, (2003) defines tax compliance as the degree to which the tax paying community meets the tax obligation as set out in the appropriate legal and regulatory provisions. He adds that compliant tax payers make timely, proper and accurate declaration to the tax authority and voluntarily settle all the due tax liabilities. Taxpayer compliance depends on economic incentives embedded in the tax structure and the effectiveness in detecting and penalizing non-compliance. At the margin, people engage in tax evasion when the expected benefits (lower taxes) are equal to the expected costs (bribes, punishment) (Maxwell, 2003).

Taxation is defined in the field of economics as a compulsory contribution of resources from the citizens to the states or government levied on a basis of predetermined criteria and without reference to any specific benefits received by the tax payer ( Lipsey & chrystal, 2007; Lyme and Oats, 2009; kandie, 2011; kinuthia, 2011; OECD, 2013). To the economists, taxation forms the major source of revenue to any state/government all over the world. On this basis, Bhartia (2009) defined tax as a financial charge or other levy imposed upon a taxpayer by a state or any other functional equivalent of a state such that failure or resistance to pay is punishable by

law (Bhartia, 2009). Thus to Bhartia (2009) tax revenue, plays a critical role in securing and delivering most of the financial resources required by Government to provide services and facilities that improve the quality of life of all our citizens.

### **1.1.1 The Concept of Value Added Tax.**

Value Added Tax (VAT) is a tax on estimated market value added to a product or service at each stage of its manufacture or distribution and the additions are ultimately added to the final consumer (Mutua, 2012; Umeora, 2013). The final consumer bears the burden or incidence of this tax because they cannot recover the tax paid on consumption of the goods and services (Mutua, 2012; Umeora, 2013). However, businesses can recover VAT they pay on goods and services because those goods and services are like intermediate goods and services that are used to produce further goods and services that will be sold to other businesses in the supply chain or to final consumers. The Value added tax is levied at each stage on value added in the economic chain of supply and it is a constant rate (Umeora, 2013).

In Kenya, VAT was introduced June 1989 as a replacement to sales tax with effect (Adari, 1997). The introduction of VAT was aimed at enhancing economic growth and improving revenue performance measured in terms of government revenue to Gross Domestic Product (GDP) ratio (Muriithi and Moye, 2003). Since inception, VAT revenue performance appears to be declining due to non-compliance and is low compared to that in neighboring countries. For instance, VAT and other indirect taxes accounted for about 24.2 percent of total tax revenue in the year 2013 in Kenya, while these taxes contributed about 53 percent in Rwanda and 56 percent in Uganda (KRA, 2014).

Prior to the introduction of VAT, Sales Tax was levied on goods manufactured in Kenya or imported into Kenya. With the introduction of VAT the coverage was expanded to include goods

and services and also to cover wholesale and retail supplies. This resulted to a rapid expansion in the number of taxpayers (Mutua, 2012). Despite the fact that Kenya experienced revenue shortfall at the initial VAT introduction period, VAT performance has subsequently contributed to improved revenue collection at lower administrative and compliance cost. Currently, VAT accounts, on average, for 29% of total tax revenue, coming second after income tax (KRA, 2017) and accounted for an average of 6.6 percent of GDP of OECD member countries in 2014 (OECD 2014).

### **1.1.2 Value Added Tax in the Construction Sector.**

The construction sector, basically deals with goods and services that attract Value Added Tax at a rate of 16% hence most of them are eligible for VAT registration (Radhakrishanan, 2008). However, most of the construction firms face numerous challenges in complying with the VAT laws. Some of the most notable challenges include; lack of proper purchase invoices for VAT input claims, delayed payment receipts for timely VAT payments, irregular business transactions, shortage of skilled manpower and record keeping, return submission and paying VAT that requires honesty and greater degree of accuracy (Umeora, 2013).

In Kenya, the construction industry has exhibited a positive growth following the construction of roads, development of the real estate sector and other infrastructural developments being undertaken by the national and county governments as well by private developers. Construction firms like other registered taxpayers are by law required to comply with taxation laws. However, sectorial information available from KRA reveals that the compliance rate in the construction industry in Kenya is low at 32% (KRA, 2017). KRA records shows that the key player in the construction industry are majorly small construction firms engaged in the Small & Medium Enterprises (SME) who are VAT nil and non filers.

In Thika district, contractors are relatively of small and medium size focusing on murram road leveling, buildings, road repairs and maintenance, bridges on murram roads, laying culverts, construction of water pans. Their main customers include; the County government of Kiambu, Kenya Rural Roads Authority, Kenya Urban Roads Authority and Kenya National Highways Authority. However, with the advent of devolution there is an increase in investments in the construction industry. The construction sector, basically deals with goods and services that attract Value Added Tax at a rate of 16% hence most of them are eligible for VAT registration. Construction firms however, face numerous challenges in complying with the VAT laws. Some of the most notable challenges include; lack of proper purchase invoices for VAT in put claims, delayed payment receipts for timely VAT payments, irregular business transactions, shortage of skilled manpower and record keeping, return submission and paying VAT that requires honesty and greater degree of accuracy.

### **1.1.3 Value Added Tax Compliance.**

Tax compliance is the fulfillment of tax laws, declaration of the correct income & expenses and the payment of taxes on time (Mohd *et al*, 2011). Thus it can be deduced from this definition, that it for one to be tax compliant means complying with the tax laws, accurate declaration of income & expenses and timely settlement of tax liabilities. Tax compliance is measured in four ways that is registration, filing, computation and payment compliance. Registration compliance relates to the portion registered taxpayers with the appropriate tax obligation. Filing compliance relates to the proportion of tax returns filed on time (Mohd *et al*, 2011). Computation compliance measures the percent of the correct tax liability that is correctly computed and reported. Tax payment compliance measures the portion of the computed tax liability that is paid within the timelines of tax laws. Taxpayer facilitation involves the provision of taxpayer services

giving proper guidelines, instructions, and simplified ways of filing tax returns, educating taxpayers on their rights, duties and obligations. Another definition of tax compliance is the voluntary & timely registration with the relevant tax obligation(s), submission of accurate tax returns, voluntary & timely settlement of tax and keeping accurate records as required by law.

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. Also a taxpayer can reduce his VAT liability by abusing the credit and refund mechanism. Tax reduction is the legal reduction of tax liabilities by employing tactics like splitting income and postponing payment of taxes (Martinez, 2001). Tax avoidance makes full advantage of loopholes in the taxation. Even though tax avoidance is anti social and not patriotic, it remains legal unless laws are put in place to prohibit it.

Tax compliance in Kenya is still low due to various reasons some of which are structural while others relate to taxpayers' attitude towards taxation (KRA, 2016). It is estimated that tax compliance was rated at 65% and 66.9% for the fiscal years 2014/2015 and 2015/2016 respectively with Value Added Tax being the least complied tax obligation (KRA, 2017). Terkper (2007) advanced the reason that tax payers demonstrate various degrees of voluntary compliance owing to factors such as lack of understanding of the tax laws; improper book keeping and apathy towards government (Terkper, 2007).

In addition, Christina *et al* (2003) determined the economic and behavioral factors affecting tax compliance among taxpayers in the United States of America. They administered questionnaires to participants of amnesty program; their respondents identified factors that made them not to comply with the tax laws, as complexity of the tax laws, ignorance of the tax laws, and the perceptions of unfairness of the tax system (Christina *et al*, 2003). Their research findings showed that a significant portion of non-voluntary compliance was unintentional, caused by the complexity of tax laws and ignorance, as most of the tax payers did not understand their tax liabilities and their tax obligations.

## **1.2 Statement of the problem.**

The study sort to determine factors influencing value added tax in the construction sector in Kenya. Several study have looked at several issues involved in execution of VAT in developing and developed countries, design of VAT together with administrative costs incurred in compliance, influence of VAT on savings as well as labor supply distributional impacts (Gale and Harris, 2011; Lee, 2015; Miller and Oats, 2016) but little is known on the factors influencing Value Added Tax (VAT) compliance and research on this area is inconclusive. Tax noncompliance especially with VAT is high in Kenya and this has contributed to persistent revenue gaps measured by the negative deviation of actual collection and the set targets. Research shows that even though there have been many administrative reforms, VAT compliance level has remained low contributing only 24.2% of the total revenue collection in Kenya. In the sixth corporate plan (2016), KRA expects to achieve VAT compliance rate of 65% and raise the ratio of VAT to total revenue collection to 35% by 2018 (KRA 6<sup>th</sup> Corporate Plan, 2016). According to Macharia (2014), tax evasion is a great contributor to low tax revenues and failure to meet the set targets. Macharia observes that tax evasion in Kenya by

some has led to tax evasion by others thus largely impacting on the distribution of tax burden as well as public resources leading to increase in taxes and revenue loss which may in the long run grind the functioning of the public sector to a halt (Macharia, 2014).

A study by World Bank (2014) revealed that VAT payment compliance was as low as 52% while return filing was 61% as at 2014 (World Bank, 2014). Repercussions relating to non-compliance have contributed to persistent revenue gaps measured by the negative deviation of actual collection and the set targets. Raising enough tax revenue by the government to finance planned activities, has motivated policy makers scholars to put emphasis on tax compliance. Available information indicates that a significant percentage of registered construction firms are Nil or Non-filers, (KRA, 2017). In the month of July 2017 report, a total of 813 VAT registered taxpayers either returned a nil return or did not file a VAT return all while 486 constituting of 59.8% of these nil and non-filers were construction firms. This contradicted KRA iTax reports which indicated that some of these firms had conducted business with withholding tax agents during the same period.

However, with the advent of devolution the construction sector has witnessed massive growth evidenced by the increased budgetary allocations towards infrastructure development with no corresponding growth in VAT collections from the registered construction firms. VAT in general continues to perform below expectations despite the increased taxable business transactions especially among firms in the construction industry. This disparity further confound that tax evasion and tax avoidance activities in the construction sector of economy depriving the government the much need revenue to finance her development agenda. According to Macharia (2014), tax evasion is a great contributor to low tax revenues and failure to meet the set targets. Macharia observes that tax evasion in Kenya by

some has led to tax evasion by others thus largely impacting on the distribution of tax burden as well as public resources leading to increase in taxes and revenue loss which may in the long run grind the functioning of the public sector to a halt (Macharia, 2014).

In Kenya, taxpayers in the construction industries, exhibit varying levels of tax compliance. Apart from unpublished study by Simiyu (2003) whose objective was to identify factors influencing taxpayers' compliance among local authorities which did not translate also to construction industries environment, the researcher is not aware of any other study that has been carried out to establish factors influencing tax compliance in the construction sector. The challenge of lack of knowledge of tax compliance behavior towards a tax system is serious on the grounds that it may have played part failure to meet the targets in the three previous years from 2013/2014 even after aggressive marketing by KRA in the print and electronic media.

This study find little or no documentary evidence of factors affecting value added tax compliance in the construction industries as available literature indicates that scholars have concentrated on KRA's ability to increase revenues from taxation by Murithi and Moya (2003); African Trade Policy Centre, (2004); Kenyan Ministry of Planning and National Development Kenya, (2003); Cheeseman and Griffith's, (2005); have focused on closing the taxation gap, expanding the tax base, tax reform and trade liberalization. No such studies have been conducted to establish factors influencing tax compliance in the construction sector. This study thus aims to fill this gap in literature by establishing the factors influencing value added tax compliance among construction industry in Kenya.

### **1.3 Objectives of the study.**

The generally objective of the study was to establish factors influencing value added tax compliance among construction industry in Thika district.

### **1.3.1 Specific objectives.**

The specific research objectives of the study were;

- I. To find out the influence of tax knowledge by construction firms on value added tax compliance in Thika district.
- II. To examine the effect of compliance cost by taxpayers in the construction sector on value added tax compliance in Thika district.
- III. To investigate the effect of penalties and fines on value added tax compliance among the construction firms in Thika district.
- IV. To evaluate the influence of attitude and perceptions of taxpayers in the construction industries in Thika district on value added tax compliance.

### **1.4 Study Questions.**

The research questions were;

- I. What is the influence of tax knowledge on VAT compliance among construction firms on Thika district?
- II. What are the effect of compliance cost incurred by taxpayers in the construction sector in Thika district on value added tax compliance?
- III. What is the effect of penalties and fines on value added tax compliance among the construction firms in Thika district?
- IV. What is the influence of attitude and perceptions of taxpayers in the construction industries in Thika district on value added tax compliance?

### **1.5 Justification of the study.**

The study is value to the following:

#### **1.5.1 Kenyan Government**

The study will aid in policy making by the government which can improve compliance levels of tax payment by the Kenyan taxpayers. This will help the government raise more revenue and form a basis of what the government can do to improve performance and utility of VAT in the construction industries in Kenya.

### **1.5.2 Business community**

The Kenyan business community in the construction industries will understand the critical role of tax compliance as an engine to economic development and reduce noncompliance costs. This in return is going to improve the performance of the government and they will enjoy the low cost of doing business due to improved services by the government.

### **1.5.3 Academicians and Researchers**

The study will add to the body of knowledge of attention to both researchers and academicians who pursue to discover or examine the factors influencing tax compliance in other sector of economy especially the informal sector. It will provide empirical evidence and lay the basis of other studies to be carried on the same topic.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter covers the theoretical and empirical review on factors influencing value added tax compliance in the construction industry. It also presents the conceptual framework on which the research will be based.

#### **2.1 Theoretical Literature Review**

In the examination of the factors influencing value added tax compliance in the construction industry, this study combines three theories: The theory of planned behavior, the rational choice theory and the compliance theory.

##### **2.1.1 Theory of planned behavior**

Theory of planned behavior is an important theory within the scope of the social psychology and tries to explain human behaviors. This theory was advanced by Ajzen (1991) and it is just the improved form of the Theory of Reason Action suggested by Ajzen and Fishbein (1980) in order to explain conscious behaviors. According to this theory, behaviors of the individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way (Erten, 2002). Nevertheless, the ability to perform a particular behavior depends on the fact that the individual has a purpose towards that behavior. This purpose and intention is the basis of this theory and performance of a behavior or its transformation into a different behavior depend on the intention that the individual has generated towards the behavior. The theory of planned behavior is believed applicable to drive the behavior of taxpayers' to meet their tax obligations (Arum, 2012). However, taxpayers will

have confidence and motivation to meet their tax expectations when they have knowledge and awareness, they have the right attitude and perceptions, perceived compliance cost is fair low and the penalties and fine for evading tax are higher. Therefore the level of taxpayer tax compliance will be determined based on the taxpayer's knowledge and perception of how strong taxes penalties to support the taxpayer's tax obedient (Arum 2012).

The empirical studies carried out within the scope of the Theory of Planned Behavior mostly examine behaviors that individuals report and that the studies examining the behaviors that individuals perform is rather scarce in number (Allen, 2004). This is because of the fact that observing the individual behaviors is rather costly in terms of time and money (Erten, 2002). The aim of this study will be to analyze the behaviors reported by the taxpayers in construction sector instead of observing the behaviors of the individuals with respect to tax compliance.

### **2.1.2 Attribution Theory**

Attribution theory was advance by Harold Kelley (1973) as a progression of creating an impression. The theory reflects the individual as an amateur psychologist who tries to understand the reasons for actions that occurred in the face. Therefore, the theory to tries to discovery what is causing or what motivates the taxpayers to be tax compliant. The motive of this theory is what leads the taxpayer in handling or making tax judgment. Taxes are the key basis of the country's development. If the tax matters are not handled properly, then the problem of tax debts, tax calculation and other related tax administration will give be problematic for both the government and the taxpayers in general. Kenya practices self- assessment tax system, hence factors affecting tax compliance among taxpayer's plays an imperative role in effective tax administration. For instance, taxpayers' tax knowledge empowers well understanding of the country tax system. Previous studies have shown evidence the general tax knowledge has a very close relationship

with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). Further research shows that tax knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. Perceptions of fairness, tax ethics and attitudes to others, tax evasion and prevention of tax evasion schemes utilizes this theory.

experiment methods.

### **2.1.3 Compliance Theory**

The Compliance theory is based on behavioral motivations and answers the question of what leads a state, firm, or individual to act in compliance with laws? March & Olsen (1998) divided the basic logic of human action into the logic of consequences and the logic of appropriateness. The logic of consequences views actors as choosing rationally among alternatives based on their calculations of expected consequences, whereas the logic of appropriateness sees actions as based on identities obligations, and conceptions of appropriate action. According to this theory, views of the taxpayers and tax collectors are that tax compliance means adhering to the tax laws, which are different from one country to another. The goal of tax administration is to foster voluntary tax compliance (Cobham, 2005) and hence reduce tax gap (difference between taxes paid and owed for all taxes and all taxpayers) and compliance gap. In tandem, tax policy and instruments should be guided by the general principles of neutrality, equity, and simplicity. Thus developing tax systems that exploit whatever options are available rather than establishing rational, modern and efficient tax systems.

### **2.2 Empirical Literature.**

Christina *et al* (2003, conducted a study in United States of America, to determine the economic and behavioural factors affecting tax compliance among taxpayers. The study employed

description study design and data was collected using questionnaires. The study respondents identified factors that made them not to comply with the tax laws, as complexity of the tax laws, ignorance of the tax laws, and the perceptions of unfairness of the tax system (Christina *et al*, 2003). Their research findings showed that a significant portion of non-voluntary compliance was unintentional, caused by the complexity of tax laws and ignorance, as most of the tax payers did not understand their tax liabilities and their tax obligations. However there is need to carry out a similar study, because the environment in which the study was carried out is different.

### **2.2.1 Tax Knowledge**

The influence of tax knowledge on compliance behaviour has been proven in various research (Mohamad Ali *et. al.*, 2007). Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Singh, 2003). In Malaysia, Rasshid and Noor (2004) conducted a study to evaluate the influence of tax knowledge on the voluntary tax compliance behaviour among the taxpayers. The objective of the study was to investigate the effect of the presence of tax knowledge and understanding, on the level of voluntary tax compliance behaviour. Data was collected using questionnaires and a comparison of voluntary compliance behaviour of taxpayers with significant level of tax knowledge with those without tax knowledge made. Statistical findings, confirmed that those with tax knowledge, had higher level of voluntary compliance than those without. The results indicated a significant relationship between the level of tax knowledge and the level of tax compliance. Nevertheless, the study only compared the behaviour of those taxpayers with significant level of tax knowledge to those without tax knowledge. It did not incorporate for instance the relationship

between the taxpayer's education and the levels of tax compliance. Compliance could be affected by other factors not necessarily knowledge and awareness. At the same time the environment was different as there have been many changes in the tax systems and business to date. Kenya and Malaysia are two different countries in both geographical and economic conditions. Therefore there is need to carry out similar study presently, notwithstanding, taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohamad et al, 2007).

Nurlis (2015) examined the outcome of taxpayer awareness, knowledge, tax penalties and service provided by tax authorities on voluntary tax compliance in Indonesia. Study employed accidental sampling method and collected data using questionnaires. Result of the study indicated that awareness, knowledge, tax penalties and after sale service has a positive and significant effect on individual taxpayer voluntary compliance (Nurlis, 2015). This indicates that the level of knowledge of good tax really looks for gaps to avoid tax liabilities, tax penalties has a positive and significant relationship to the individual taxpayer voluntary compliance which performs at the tax office in the area.

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment.

### **2.2.2 Compliance Cost**

Compliance costs tend to increase with the number of taxes that an entrepreneur is subject to, the complexity of the tax rules, the frequency of submitting tax returns, and the number of levels of government involved in levying and collecting tax (Tanzi and Zee, 2000). For example, in most countries, businesses must contend with a VAT system (unless the business falls under a VAT exemption threshold) not faced by an employee. Business income tax also introduces complexities not relevant to an employee that pays tax only on labour income and non-business investment income. Complexities may multiply where more than one level of government is involved in levying and/or administering a tax and rules and procedures are not well co-ordinate (Thisen, 2003).

This outcome, with small businesses placed at a competitive disadvantage relative to larger firms, implies an inefficient allocation of capital, with underinvestment in small businesses relative to a situation where the fixed component of compliance burden on small businesses is lessened through simplification measures (Thisen, 2003). Thus, reduced compliance costs can bring improved efficiency resulting from more uniform tax treatment of businesses. A second efficiency consideration is that increased compliance, when resulting in increased tax revenues, may enable reduced effective tax rates on one or more possibly more elastic tax bases, with possible efficiency gains (Adams, 1993).

Simplification provisions of various types can be expected to impact small businesses differently, given the heterogeneity of the small business population. In particular, certain measures may directly encourage business creation and tax compliance for some small businesses, but not others, suggesting the need to analyze a range of measures (Wickerson, 2003). For example, allowing simplified accounting or less frequent filing of tax returns may

be of little practical consequence to small businesses with very low turnover (e.g. street vendors) that may regard the tax compliance burden of a relatively simple regular tax system as excessive (Glenday, 2002).

With assistance of professional tax advisors who know about the loopholes in tax law, businesses engage in tax avoidance (Slemrod, Blumenthal, and Christian, 2001). Tax results depend on definitions of legal terms which are usually vague. For example, vagueness of the distinction between "business expenses" and "personal expenses" is of much concern for taxpayers and tax authorities. More generally, any term of tax law, has a vague penumbra, and is a potential source of tax avoidance (Pasternak and Rico, 2008).

### **2.2.3 Penalties and Fines**

Fines and penalty rates may substitute each other due to their multiplicative linkages as long as neither of them is set to zero (Kirchler *et al* 2007). Higher fines simply make evading taxes more hazardous for taxpayers and should deter them from evasion. Empirically, the deterrent effect of fines could not always be supported. The observed effects were weaker than expected and some studies even suggest that an increase of penalties can have undesirable effect and result in more tax avoidance (Kirchler *et al*, (2007). Alm *et al.*, (1992) supports the evidence that fines do affect tax compliance though the impact was virtually zero. Friedland *et al.*, (1978) compliance was strongly affected by the amount of fines than by audit probabilities. Several studies however found no support for the deterring effects of fines since it was weak (Andreoni, 1998). Some of the findings suggest that a policy based on deterrence is effective only in combination with frequent Audits (Kirchler *et al.*, 2007).

### **2.2.4 Attitudes and Perception.**

Studies on the relationship between the attitude and perception especially the specifics of actual

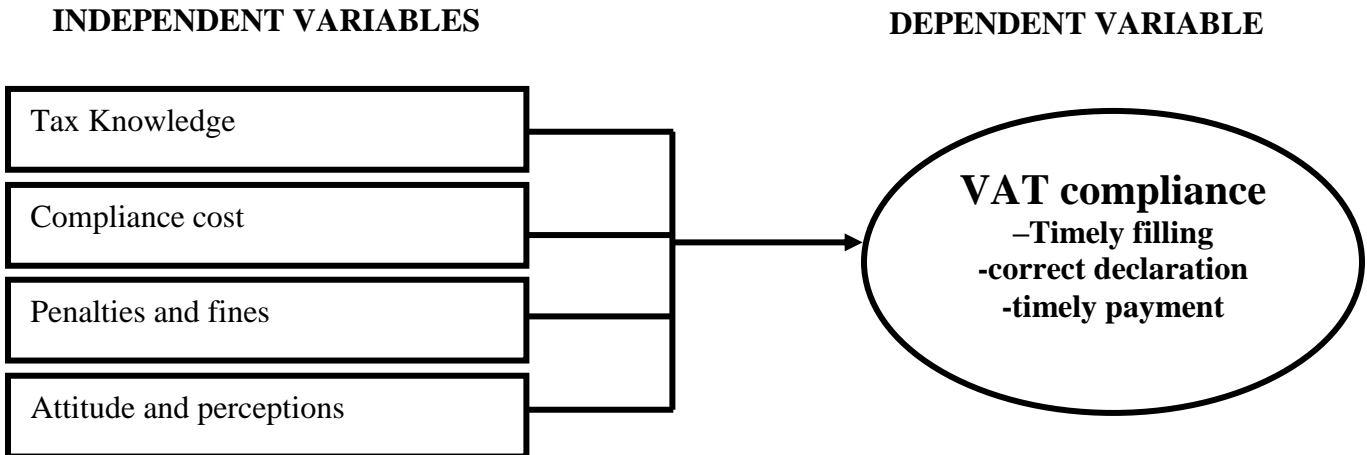
government spending and tax compliance, particularly on tax evasion, are very limited. Logically, taxpayers, and especially those who pay high amounts of tax, will be sensitive to what the government spends their money on. Although there is limited empirical evidence, it is reasonable to assume that taxpayers will tend to evade tax if they perceive that the government spends tax money unwisely. However, in most direct taxes like personal income taxes which are collected through a system of Pay as You Earned (PAYE), it is quite difficult to evade much of their tax liability as deductions are made at source for the majority of many taxpayers' liabilities. Aruwa (2008) did a study on the relevance and the problems of Value Added Tax (VAT) in Nigeria. He surveyed Nigerian organizations dealing in taxable supplies, revenue staff and the public to gain insight into the administration Value Added Tax, its relevance in the revenue generation and problems hindering the efficient administration of VAT. Primary and secondary data was used. Descriptive statistics as a tool of analysis was used in analyzing the collected data. The study findings showed that the Federal Inland Revenue Service (FIRS) staff perceives that they are not adequately armed technically to handle VAT. The study findings concerning organizations revealed that they have inadequate knowledge of the VAT mechanism due to the low VAT education. Businesses treat VAT as a cost contrary to the expected practices. Due to the lack of proper records, unqualified FIRS staff and low level of education among the taxpayers, VAT collection was below average and finally there was a perception among the citizens that there was underutilization of the VAT collected by the government.

Wanjohi (2010) did a study on taxpayers' attitudes and tax compliance behavior in Kenya. The study sort specifically to identify taxpayers' attitudes towards tax systems and to establish relationship between attitudes and tax compliance. The study employed a survey involving

business income earners among small and medium size enterprises to collect data 260 small and medium size enterprises taxpayers and analyzed using descriptive statistics. The study established most taxpayers view the Kenyan tax system as unfair because most respondents differed that they are paying a fair share of tax than their neighbors or friends and that their neighbours are not reporting and paying tax honestly. The study further established that the inability to understand tax laws contributed to noncompliance in Kenya. However, a strong relationship between the taxpayers' attitudes and tax compliance in Kenya was established with a correlation coefficient of 0.846 the taxpayers' attitudes encourage tax compliance in Kenya.

### **2.3 Conceptual Framework.**

Reichel and Ramey (1987) defined a conceptual framework as asset of broad ideas and principals taken from relevant fields of enquiry and used to structure a subsequent presentation. Figure 2.1 below provides a conceptual framework model. The dependent variable was value added tax compliance which is measured by increase in reported VAT revenue as a result of correct declaration, timely return filing, claims correct deductions and refunds. The independent variable of the study were the input that influence tax compliance (tax knowledge, compliance cost, penalties and fines and finally attitude and perceptions). These input are expected to to help taxpayers to produce output such as report their own income freely, calculate tax liability correctly, file tax return on time, comply with tax laws and claim correctly deductions, relief and rebates, see figure 2.1 below.



**Figure 2.0 Conceptual Framework**

**2.4 Research Gap**

From the above literature review, its evidence that there is no documentary or scholarly work on factors influencing value added tax compliance especially the constructions industries in Kenya. Construction is one of the key pillar/sectors that contribute greatly to the economic development of any nation/state thus revenue from the sector is crucial to a country’s tax revenue generation. Clearly, the concentration of the available literature on issues of taxation is along the line of closing the tax gaps without showing much on sectorial contribution on tax revenue. Others are expanding the tax base, tax rates, tax reforms and trade liberalization. No single study either operational or scholarly has been conducted on tax compliance in construction sector of economy. This study thus aims to fill this gab in literature as it will focus on factors influencing VAT compliance in construction industries.

**2.5 Summary of Literature review**

Tax compliance (evasion) has been an important subject of research in a large number of developed and a number of developing countries. Since each country has its own approach to managing tax compliance levels and each has different tax laws and regulations, the factors

impacting tax compliance behaviour appear to vary among countries. This study utilizes theories such as theory of planned behavior; the rational choice theory and the compliance theory which helps understand why firms or individuals comply with the law. From the above literature review, tax knowledge and awareness and taxpayers attitudes and perception are considered to be a vital part of tax voluntary compliance. Rasshid and Noor (2004) posit that knowledge of tax is crucial because when an individual knows what is supposed to be done at any time he/she will always comply. Poor knowledge on taxation can lead to a distrust and negative attitude towards tax; while good tax knowledge, correlates with a positive attitude towards tax (Wanjohi, 2010). Higher levels of tax compliance lead to increased revenue collection. In this particular study, increased VAT compliance rate will significantly help the government collect more VAT and broaden the tax base. This will help the country to realize its goals and objectives. Revenue authorities need to simplify the tax system for taxpayers to have easier and better understanding of it and incur minimal cost in complying. If this is realized then voluntary compliance will be encouraged. Stopping non compliance requires effective application of fines and penalties consistently. Though, care should be taken because in some instances punitive penalties can lead to tax evasion. Regular and effective taxpayer education will encourage voluntary compliance and lead to increased revenue collections. The research will be carried out using descriptive design in soliciting for information. From all the studies reviewed, past research has tried to explore the area of tax compliance as a whole but no one has actually done the research on factors influencing VAT compliance in the construction industry. Therefore, the study will seek solutions to the research problem.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the methodology, which was used to carry out the study. It further describes the type and source of data, the target population and sampling methods, the data collection and analysis method.

#### **3.1 Research Design**

Research design defined by Creswell (2003) as an arrangement of conditions for collection and analysis of data in a way that combines their relationship with the purpose of the research to the economy of procedures (Creswell, 2003). Yin (2013) further expound on this definition and asserts that research design is the scheme, structure, outline, plan or strategy of investigation used to give answers to the research questions (Yin, R.K, 2013)). This study aimed to establish and describe factors influencing VAT compliance in the construction industries and as such adopted a descriptive research design. Yin (2013) defines a descriptive study design as the finding out of the what, where and how of a phenomenon as it is presently (Yin, R. K, 2013). The choice of descriptive research design is informed by Creswell (2003), Mugenda and Mugenda (2008) and Yin (2013) argument that descriptive research design seeks to obtain information that describes existing phenomena as-is by seeking respondents' perceptions, attitude, behaviour or values and has enough provision for protection of bias and maximization of reliability.

### **3.2 Population of the study**

In Mugenda & Mugenda (2008) and Yin (2013) a population is defined as an entire group of individuals, events or objects having a common observable characteristic (Mugenda & Mugenda, 2008; Yin, 2013). The population of interest comprised of registered contraction firms within Thika district. The researcher collected the required information from the sampled construction firms. Available information indicates that there are a total of six hundred and seven five registered contractors as at 30th June 2017 (KRA, 2017).

### **3.3 Sampling Procedure**

According to Mugenda and Mugenda (2008), sampling means selecting a given number of subjects from a defined population as a representative of the whole population (Mugenda, O.M. and Mugenda, A.G., 2008). Procedure in sampling according to Saunders *et al*, (2009) details the activities that will help the researcher in arriving at a representative sample to be used in solving the research problem (Saunders, M., Lewis, P. and Thornhill, A., 2009). The following sampling design was employed in this study;

#### **3.3.1 Sample Size.**

A sample size is the number of study elements or units selected from the population of interest for investigation (Chandan, Singh and Khanna, 2010). Sampling is advantageous in the sense that it saves on time and cost since it is easier to deal with the small group (sample) that represents an entire population than analyzing the whole group of interest. According to Saunders *et al*, (2009) a good sample size minimizes possible sampling errors and increase precision. Thus the bigger the size of the sample, the lower the possible systematic and nonsystematic errors in taking a broad view of the population (Saunders, M., Lewis, P. and

Thornhill, A., 2009). However, Mugenda and Mugenda (2003) contend that a sample size of 10% is appropriate when the population is small and exhibits the same characteristics (Mugenda, O.M. and Mugenda, A.G., 2003). In line with Mugenda and Mugenda (2003), a minimum sample size of 68 respondents from the target population was selected randomly for the study.

### **3.3.2 Sampling frame.**

According to Saunders *et al*, (2009) the sampling frame for any probability sample is the whole list of entire cases in the population from which the sample is derived (Saunders, M., Lewis, P. and Thornhill, A., 2009). The sampling frame for this study clearly comprised of the registered construction firms in Thika district and the KRA compliance officers from the compliance department.

### **3.3.3 Sampling technique.**

The study adopted a systematic sampling technique to select the respondents from the target population. A list of construction firms within Thika district whose VAT compliance was under review by KRA officers in Thika district together with a list of compliance officer was provided. A respondent was systematic chosen from the list where every 3<sup>rd</sup> construction firm was from the list provided.

## **3.4 Data Collection**

The research used both primary and secondary data. Primary data was gathered and generated for the project at hand directly from respondents mainly using questionnaires. Secondary data was mainly obtained from past published statistics, financial and economic reports and budget reports. It was collected and compiled from the Kenya Bureau of Statistics, World Bank Database and the Kenya Revenue Authority. Data collected was checked for reliability and validity and to ensure that valid conclusions are drawn from the data (Saunders et al, 2009). A

research permit was obtained from KESRA registrar office, Nairobi Campus to give permission to the researcher to carry out data collection exercise.

### **3.5 Data Validity.**

Validity is the accuracy and meaningfulness of inferences, based on the research results. Face, construct and content validity will be measured by seeking the opinion of lecturers and other professionals (in tax administration) on the adequacy of the research instruments in achieving the objectives of the study. Based on their opinions, the instrument will adjusted by deleting and adding some questions or by changing the structure or lexical density of questions as appropriate (Kozinets, 2002).

### **3.6 Data Reliability.**

Reliability is the extent to which results are consistent over time and accurately represent the characteristics of the total population under study. The Cronbach's Alpha coefficient was used to test the reliability of the responses from the respondents and the secondary data collected. A study is reliable if the results of a study can be reproduced under a similar methodology (Kozinets, 2002). Crude information from the instruments were subjected to an unwavering quality investigation from which Cronbach's co-efficient alpha was methodically, systematically and consistently computed using Cronbach's Alpha (Tavakol, M., 2011). According to Mugenda and Mugenda (2008), a prescribed unwavering quality of 70% is viewed as dependable for information accumulation (Mugenda and Mugenda, 2008).

### **3.7 Data Analysis**

After all data has been collected, the researcher conducted data cleaning, which involved identification of incomplete or inaccurate responses. This was corrected to improve the quality of the responses. Data was coded and entered in the computer system for analysis using the

statistical package for social sciences (SPSS). Spearman correlation and regression analysis was done and Chi-square test of independence at 95% confidence level was established for quantitative data. Likert scale was used ranking factors in accordance to their weighted means. Tables, charts and graphs were used in presenting the analyzed data. Qualitative data was analyzed using content analysis. That is, the data was categorized into themes and analysis, thereof, based on the prevalence of the themes and subthemes in addition to their relevance to the topic (Gujarati, 2000). This enhanced the descriptive analysis.

### 3.7.1 Analytical Model

In relation to the objectives of the study the researcher used SPSS to estimate the following multivariate regression analysis:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \dots \dots \dots (i)$$

Where Y- Tax compliance by the construction firms.

$\beta_0$  - is the intercept; and reflects the constant of the equation.

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

$X_1$ - Compliance cost- the costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of tax incurred by taxpayers in meeting the tax requirements (Kimungu and Kileva, 2007).

$X_2$ -Penalties and Fines

$X_3$ -Attitudes and perceptions- this is the willingness of the taxpayer to be tax complaint which is homogenous

$X_4$  -Tax knowledge- taxpayer's understanding of taxation with regard to existing laws and administration of such laws regardless of the correctness of such knowledge (Kirchiler, 2009).

$\epsilon$  - is the error term.

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

### 3.8 Operationalization of Variables.

The independent variables of this research were; Compliance cost, Penalties and Fines, Attitudes and perceptions and Tax knowledge. These were perceived to play different roles in tax compliance and hence differently influence the dependent variable of the research as discussed and indicated on the conceptual framework (see figure 2.1). The dependent variable is the output that was expected to help taxpayers to produce output such as report their own income freely, calculate tax liability correctly, file tax return on time, comply with tax laws and claim correctly deductions, relief and rebates. To empirically measure the effect of the independent variables on the dependent variables, this research used various indicators to get both attributed and assimilated aspects. Table 3.1 summarizes the operational variables.

**Table 3.1 Operationalization of Variables.**

Variables Measured	Elements/Indicators	Source	Questionnaire Item
Tax compliance	<ul style="list-style-type: none"> <li>• Timely filing of returns</li> <li>• Correct Declaration</li> <li>• Timely Payment</li> <li>• Maintaining records and books of account</li> </ul>	Terkper, 2007	6
Tax knowledge	<ul style="list-style-type: none"> <li>• Knowledge on correct declaration</li> <li>• Tax computation</li> <li>• Self-assessment</li> </ul>	Kirchiler (2009); Singh, (2003); Mohamad et al, (2007); Nurlis (2015)	7
Compliance cost	<ul style="list-style-type: none"> <li>• Cost of record keeping</li> <li>• Cost of training tax experts</li> </ul>	Kimungu and Kileva (2007); Tanzi and Zee	8

	<ul style="list-style-type: none"> <li>• Cost of hiring tax experts</li> <li>• Cost of computer and internet connectivity</li> </ul>	(2000)	
Penalties and Fines	<ul style="list-style-type: none"> <li>• Weak enforcement</li> <li>• Affordable penalty</li> <li>• Low detection rates</li> </ul>	Glenday (2002);Thisen (2003); Kirchiler (2009);	9
Attitudes and perceptions	<ul style="list-style-type: none"> <li>• Opinion on detection</li> <li>• Opinion on wastage</li> <li>• Self-motivation</li> </ul>	Aruwa (2008); Wanjohi (2010)	10, 11

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND INTEPRETATION.

#### 4.1. Introduction

This chapter presents data analysis, presentation and interpretation of findings on the primary and secondary data collected. The main objective of the study was to evaluate the factors that influence VAT compliance levels in relation to taxpayer level of tax understanding & taxpayer education, compliance costs, fines and penalties and taxpayer perception and attitudes. The study sampled sixth eight (68) construction firms within Thika District and the data analyzed and interpreted as the objective of the study.

#### 4.2. Response Rate

The study targeted a total of 68 respondents on the factors influencing VAT compliance in the construction sector in Thika District. Out of the 68 questionnaires issued, 53 were returned giving a 77.94% response rate. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% is rated good, 70% is rated very good and above 80% is rated excellent as shown in table 4.1 .

Table 4.1: Response rate

Response rate	Description
$\alpha \geq 0.8$	Excellent
$0.7 \leq \alpha < 0.8$	Very Good
$0.6 \leq \alpha < 0.7$	Good
$0.5 \leq \alpha < 0.6$	Adequate

**Source:** *Mugenda and Mugenda (2008)*

In line with table 4.1, a response rate of 77.94% is rated very good based on these assertions.

### 4.3 Data Validity

Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS version 20 for reliability analysis. The value of the alpha coefficient ranges from 0-1 and are used to describe the reliability of factors extracted at 0.5 significance level from dichotomous and or multi-point formatted questionnaires as summarised in table 4.2 below.

*Table 4.2: Reliability Coefficients*

Items	Cronbach's Alpha	Number of items
Compliance rate/level	0.755	4
Compliance Cost	0.724	5
Penalties and fines	0.813	5
Attitude and perception	0.745	8
Tax Knowledge	0.842	5

A higher value shows a more reliable generated scale. Cooper and Schindler (2008) have indicated 0.7 to be an acceptable reliability coefficient. Table 4.2 shows that Tax knowledge had the highest reliability ( $\alpha=0.842$ ) followed by penalties and fines ( $\alpha=0.813$ ), then Compliance level ( $\alpha=0.755$ ), attitude and perception ( $\alpha=0.745$ ) and finally compliance cost ( $\alpha=0.724$ ). This illustrates that all the five instruments were reliable as their reliability values exceeded the prescribed threshold of 0.70 (Cooper and Schindler, 2008) thus the valid inference were drawn from them.

### 4.4 Demographic information

The study found it important to establish the demographic information in order to evaluate the factors that influence the VAT compliance in the construction sector in Thika District. The

respondents' demographic information includes; business age, previous record of tax audit record and previous compliance record.

#### 4.4.1. Business Age

The study sought to determine how long the business has been in operation. The findings are shown in table 4.3 below.

*Table 4.3. Business age*

<b>Business Age</b>	<b>Frequency</b>	<b>Percentage</b>
<2years	8	15.1%
3-5years	13	24.5%
6-8years	22	41.5%
>9years	10	18.9%
<b>Totals</b>	<b>53</b>	<b>100</b>

The study findings reveal that most businesses are 6-8 years old at 41.5%. Followed by those which are 3-5 years old at 24.5%. 18.9% of the businesses are more than nine years old and the remaining 15.1% of the businesses are less than three years old. Its clear from the findings that most of the business (84.9%) have been in operation for more than 3 years. Information obtained from KRA records agrees with the respondents responses.

#### 4.4.2 Monthly Turnover

The study sought to establish the average monthly turnover for the sampled businesses. Turnover is a major factor in the determination for VAT registration threshold. The minimum threshold for VAT registration is annual turnover of about Kshs.5 million for one to register for VAT obligation translating to an average monthly turnover of Kshs.416,666.67. further, turnover helps

to identify and compare the level of business and the amount of VAT paid. Table 4.3 below shows the results of the research findings.

*Table 4.4. Monthly turnover of the business.*

<b>Monthly Turnover(Kshs.)</b>	<b>Frequency</b>	<b>Percentage</b>
<400,000	3	4.9%
400,001 – 600,000	4	6.7%
600,001 – 800,000	27	50.9%
>800,000	20	37.7%
<b>Totals</b>	<b>53</b>	<b>100</b>

27 of the respondents representing 50.9% have monthly turnover of at least kshs. 600,000 translating to an annual turnover of at least Kshs.7.2 million, way above the minimum threshold. 20 of the respondents (37.7%) have a turnover of more than Kshs. 800,000 translating to annual turnover of over Kshs.9.2 million. Although in the construction industry, it is difficult to maintain a consistent turnover, it is noted from the study findings that some respondents did not give true information concerning their business turnover. Further, record from KRA shows that of the 53 sampled firms 33 of them are nil filer while 8 are non filers signifying low compliance level despite having a higher turnover.

#### **4.4.3 Tax Compliance Certificates**

The study sought to determine whether all businesses survey had a KRA compliance certificates. The findings revealed that for all the 53 surveyed respondents, their businesses have a valid KRA PIN, however, but only 12 respondents had a valid tax compliance certificates representing 22.6% . This information was found to agree with KRA records data.

#### 4.5. Factors Influencing VAT Compliance

The objective of the study is to establish factors influencing VAT compliance among the construction firms in Thika District. The researcher sought the opinion of the sampled business firms on the factors affecting their level of Value added tax compliance.

##### 4.5.1 Tax compliance cost.

Tax compliance costs as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. Hiring of professionals to handle tax matters is a cost to businesses and in most instances taxpayers resort to handling their own tax issues even though they may not have proper understanding of the VAT legislation. The cost of book keeping and recordkeeping is also a major expense. In this regard the researcher sought to find out how compliance costs incurred by contractors affect their VAT compliance level. Covered under this are the VAT monthly compliance costs and the various VAT compliance costs. The research findings are as shown in the table below;

**Table 4. 5. Respondents feeling on compliance cost.**

<b>Influence of compliance on VAT compliance.</b>	<b>N</b>	<b>Mean</b>	<b>Std</b>	<b>Mode</b>	<b>Median</b>	<b>Skewness</b>	<b>Kurtosis</b>
The monthly cost of filing a tax return	53	2.26	1.424	2	3.00	1.073	-0.868
The cost of hiring tax professionals	53	4.10	2.424	1	1.00	1.312	1.172
The cost of training on tax matters	53	2.56	1.367	2	2.00	-0.514	-1.661
The cost of proper book Keeping for filing return	53	2.71	1.204	3	3.00	-0.564	-0.513
Tthe cost of computers, networking and internet connections in order to file a return online.	53	1.49	1.153	2	2.00	0.433	-1.033

From table 4.5 below, study mean score of those that prominence of the statement, the cost of hiring a tax professionals with a mean score of 4.10 on five point Likert scale test items while

Standard deviation is 2.424 was the highest. This indicated that, the construction firms on the average spend more on hiring tax professionals.

Compliance costs are hard to measure, but can be significant. Meeting their obligations imposes some cost on taxpayers: the opportunity cost of an owner manager's time, for instance, or those of taking professional advice. Measuring these costs is not easy but much harder because they vary significantly over taxpayers. However, there is a strong consensus that they include substantial fixed components for instance filing a VAT return will cost much the same, whatever the net amount remitted—so are commonly found to be especially large for small businesses, potentially leading to a failure to register (becoming a 'ghost') or a reduction in activities to a level at which tax is not payable. Promoting voluntary compliance by reducing compliance cost has received increased attention, with a focus on improved taxpayer services. Key elements include, for instance, simplifying reporting, providing ready access to information and advice, and an organizational focus on the distinct needs of different taxpayer segments. However, if KRA can effectively train the taxpayers on how to deal with their VAT obligations, then reliance on professionals will reduce hence lowering compliance expenses and this will lead to increased compliance levels.

#### **4.5.2 Penalties and fines**

Fines and penalties are imposed on cases where non compliance issues are discovered by the revenue Authorities. The researcher sought to know whether the sampled firms have ever been fined or penalized by KRA for VAT non compliance issues and additional taxes raised. The study finding is shown in the table below;

**Table 4.6.Imposition of penalties and fines**

	<b>Frequency</b>	<b>Percentage</b>
Penalized	42	79.2
Never penalized	11	20.8
<b>TOTALS</b>	<b>53</b>	<b>100</b>

The study findings reveal that 79.2% of the respondents at some point have been penalized for not complying with VAT laws. 20.8% of the respondent firms have never been penalized for matters relating to VAT compliance. This is a strong indication that VAT compliance in the construction sector is low hence KRA need to develop ways of encouraging voluntary tax compliance. Further, the study sought to establish whether effective imposition of fines and penalties will deter VAT non compliance. The findings are as shown in the table below.

*Table 4.7 Effectiveness of penalties and fines*

<b>Penalties and fines</b>	<b>N</b>	<b>Mean</b>	<b>Std</b>	<b>Mode</b>	<b>Median</b>	<b>Skewness</b>	<b>Kurtosis</b>
The penalty rates are very low and I can afford to pay	53	2.76	0.235	1	1.00	0.069	0.658
The enforcement is very weak	53	2.49	0.290	2	2.00	1.312	1.072
I believe that the penalty is lower than my tax saving	53	1.58	1.267	2	2.00	-0.614	-1.541
Serious enforcement and penalty by the KRA may result if I do not comply	53	3.71	2.204	3	3.00	-0.534	-0.413
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably it will not be penalized.	53	1.49	0.390	1	1.00	1.312	1.172

### 4.5.3 Attitudes and perceptions

Payment of taxes as everyone's duty. When asked whether the respondents thought that payment of taxes is everyone's duty, the responses were as shown in Table 4.8 below.

*Table 4.8: paying taxes as a duty*

<b>Paying tax is a duty?</b>	<b>Frequency</b>	<b>Percentage</b>
Yes	40	75.5
No	13	24.5
<b>Total</b>	<b>53</b>	<b>100</b>

The findings reveal that 75.5% of the respondents' believed that payment of taxes is everyone's duty while 24.5% percent said that they don't think the payment of taxes is everyone's duty. KRA needs to educate the 24.5% thought otherwise. This is believed to be a small percentage that can be eliminated through tax education and training.

The study further sought to establish the perception and attitudes towards the tax system of respondents concerning tax payments. The respondents were asked questions on their belief on supporting the government by paying VAT, motivation of the tax system, ease of application of VAT laws, if they believe the VAT collected was properly used and if KRA has put in place adequate tax measures to encourage VAT compliance. The respondents were expected to rate their perception using a four likert scale ranging from strongly agree to strongly disagree. The findings are shown in table 4.9 below.

Table 4.9. Respondent's attitude and perception.

Attitude and perception	N	Mean	Std	Mode	Median	Skewness	Kurtosis
I believe it's my obligation as a citizen to support the government by paying taxes.	53	3.10	0.324	2	3.00	1.073	0.978
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.	53	3.49	0.892	3	2.00	1.352	1.272
I find it hard to comply with the tax laws as they are complicated	53	2.65	0.637	2	2.00	0.514	1.561
I believe the government misuse the tax collected so no need of paying taxes because they will be misused	53	3.09	0.980	3	3.00	-0.464	-0.513
I believe the tax authority has limited capability to investigate all income reported to them so I have an opportunity not to report my income at all.	53	1.26	0.152	2	2.00	0.343	-1.011
I believe that the probabilities of being detected by the tax authority is minimal.	53	2.14	0.052	1	1.00	1.321	1.161
K.R.A has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance.	53	1.161	0.104	3	2.00	-0.513	-0.564
gain access to the public utilities and services funded by the taxes collected	53	2.121	0.153	2	2.00	-1.033	0.433

From the study findings, it can be concluded that the respondents value the importance of supporting the government through payment of taxes if the revenue collected is put to proper use and taxpayers can access services funded by taxes collected. This is clearly shown by the mean of 3.49 (and standard deviation 0.892) of the respondents that believed there is a lot that can be done on tax systems to ease the work of preparation of tax returns and payment. However, respondents with a mean 3.09 and standard deviation of 0.980 strongly disagreed paying taxes when it is being misused by individuals in government officers. Respondents with a mean of 2.12 disagreed with the opinion that they gain access to the public utilities and services funded

by the taxes collected. This is an indication that majority of the tax payers do not understand how their taxes are spent.

#### **4.5.4 The level tax knowledge and understanding.**

It is believed that if all taxpayers are knowledgeable on tax matters, then tax compliance rates will go up. The researcher sought to establish the level of tax understanding and knowledge of the respondents. Tax understanding and knowledge entail operations of VAT self assessment system, challenges faced in the process of raising tax understanding and the effect of tax understanding and knowledge on tax compliance as discussed below. The responses received are as captured below;

Under the VAT self assessment system, taxpayers assess their personal tax liabilities or credits, declare in their respective tax returns, submit the tax return and make payments where applicable online. The researcher sought to know whether the respondents understood the VAT self assessment tax system, the VAT mechanism of input output and obligations and duties of a VAT registered business. Tax knowledge and understanding is significant in tax compliance. The findings of the study are presented in table 4.10 below;

*Table 4.10 Respondents' tax knowledge and understanding.*

<b>Tax Knowledge</b>	<b>N</b>	<b>Mean</b>	<b>Std</b>	<b>Mode</b>	<b>Median</b>	<b>Skewness</b>	<b>Kurtosis</b>
I know how to declare actual income received from all sources of my income to KRA.	53	3.31	0.424	2	3.00	1.073	-0.868
I know how to keep records/ documents pertaining to income and expenditure for a period of seven years after submission of the tax returns.	53	3.49	0.390	1	1.00	1.312	1.172
I understand that I should pay taxes due within the prescribed period.	53	2.56	0.367	2	2.00	-0.514	-1.661
I know I should obtain a tax payer personal identification number (pin).	53	2.71	0.204	3	3.00	-0.564	-0.513
I know which income should be included or excluded in determining the taxable income.	53	2.26	0.153	2	2.00	0.433	-1.033

From the study findings, it can be concluded that the respondents are knowledgeable and have a good understanding of the VAT-SAS & their duties and obligations as registered VAT businesses. This is clearly shown by the mean of 3.31 (and standard deviation 0.424) of the respondents know how to declare thier actual income received from all sources of my income to KRA and respondents with a mean 3.49 (with a standard deviation of 0.390) knows how to keep records/ documents pertaining to income and expenditure for a period of seven years after submission of the tax returns. It can therefore be concluded that the majority of the respondents are knowledgeable about the VAT self assessment, hence in a better position in making prudent VAT decisions.

#### **4.5 Correlation Analysis**

The study sought to establish the relationship between these factors influencing VAT compliance among the construction firms in Thika district. Pearson Correlation analysis was used to achieve this end at 95% confidence levels. The correlation analysis enabled the testing of study's hypothesis that compliance factors have a significant effect on VAT compliance. A correlation coefficient, denoted by  $r$ , enables one to quantify the strength of the linear relationship between ranked or numerical variables. This coefficient takes the values between -1 and +1 (Saunders et al, Lewis , & Thornhill, 2009) as summarized in table 4.11 below.

Table 4.11: Correlation Analysis

Correlations						
		Tax Compliance	Compliance cost	Penalties and fines	Attitude and perception	tax Knowledge
Tax compliance	Pearson Correlation	1	0.718**	0.634**	0.509**	0.847**
	Sig. (2-tailed)		0.033	0.021	0.035	0.003
	N	53	53	53	53	53
Compliance cost	Pearson Correlation	0.718**	1	0.337	0.423	0.434
	Sig. (2-tailed)	0.033		0.047	0.023	0.036
	N	53	53	53	53	53
Penalties and fines	Pearson Correlation	0.634**	0.337	1	0.012	-0.01
	Sig. (2-tailed)	0.021	0.047		0.031	0.037
	N	53	53	53	53	53
Attitude and perception	Pearson Correlation	0.509**	0.423	0.012	1	0.325
	Sig. (2-tailed)	0.035	0.023	0.031		0.022
	N	53	53	53	53	53
Tax Knowledge	Pearson Correlation	0.847**	0.434	-0.01	0.325	1
	Sig. (2-tailed)	0.003	0.036	0.037	0.022	
	N	53	53	53	53	53

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

As shown in table 4.11 provided above, the findings reveal from the the correlation analysis that, there was a strong positive correlation between VAT compliance and compliance cost which was statistically significant ( $r = .718, n = 53, p < .033$ ). Also results in Table 4.11 above showed that, there was a positive correlation between VAT compliance and imposition of penalties and fines, which was statistically significant ( $r = .634, n = 53, p < .021$ ). VAT compliance and taxpayer attitude and perception showed a moderate positive correlation which was statistically significant

( $r = .509$ ,  $n = 53$ ,  $p < .035$ ). Further, from the findings, there exist a very strong positive correlation between VAT compliance and taxpayers' tax knowledge and understanding of the tax laws which was statistically significant ( $r = .847$ ,  $n = 53$ ,  $p < .003$ ). Further analysis was done using Multiple regression analysis in order to determine relationship and magnitude of relationship between Income tax VAT compliance and four factors namely compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding as described in three tables below:

#### 4.6 Regression Analysis.

##### 4.6.1 Regression Coefficients

Based on objective, the following multivariate regression analysis was estimated from the study.

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

Where Y- Tax compliance by the construction firms.

$\beta_0$  - is the intercept; and reflects the constant of the equation.

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

$\varepsilon$  - is the error term.

Using SPSS, coefficient of regression ( $\beta_i$ ) was established as shown in table 4.13 below.

*Table 4.12 Regression Coefficient.*

Model	Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
	B	Std. Error			
(Constant)	.433	1.247		.347	.03251
Com Cost	.002	.001	-.246	-2.797	.011584
Penalties & Fines	.009	.055	.038	-.170	.025605
Attitude & Perception	.050	.105	.174	.475	.030541
Tax Know & underst.	.241	.021	.251	1.891	.0188

a. Dependent Variable: VAT compliance

b. Independent variables: Compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding.

When actual values of the regression coefficient are established, the error term cancel out to be zero. From the above table the beta ( $\beta_i$ ) are replaced by the actual coefficient established from regression analysis to form the actual equation as Tax Compliance =  $0.433 - 0.246 \text{Compliance Cost} + 0.038 \text{Penalties and Fines} + 0.174 \text{Attitude and Perception} + 0.251 \text{Tax Knowledge and understanding}$ .

$$(TC = 0.433 - 0.246CC + 0.038PF + 0.174AP + 0.251TK)$$

All the explanatory variables are statistically significant at 5% level of significance in explaining the variation in model. All together the influences of explanatory variables captured in the model are significant, and these findings are informative, as they intrigue significant questions regarding determinants of tax compliance in Thika districts.

#### **4.6.2 Model Summary**

R-square values present the strength of the relationship between VAT compliance and independent variables. From the adjusted determination coefficients, generally moderately strong linear relationships were established between dependent and independent variables. Adjusted R-squared value of 0.623 was established and this implies that 62.3 % of the variation in dependent variable is attributed to the changes in the independent variables. Being that the DW statistics were close to the prescribed value of 2.0 for residual independence, it can be concluded that there was no autocorrelation.

Table 4.13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.686	.599	.623	.12928	1.859

#### 4.6.3 Analysis of Variance

Analysis of Variance's (ANOVA) F-test was used to make simultaneous comparisons between two or more means; thus, testing whether a significant relation exists between variables (dependent and independent variables); thus, helping in bringing out the significance of the regression model.

Table 4.14 ANOVA table

Model	Sum of Squares	Df	Mean Square	F	Sig.
• Regression	.290	1	.048	2.770	.038
• Residual	.419	5	.021		
Total					
Total	.708	6			

Since the value ( $p=0.038$ ) were below 0.05, it can be concluded that the regression models were significant.

#### 4.7 Summary and Interpretation of Findings

From the findings on the adjusted R squared the study found that there was variation of 62.3% on tax compliance due to changes in compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding of the tax laws. This shows that 62.3% changes in tax compliance could be accounted for by changes in compliance cost, penalties and

finer, attitude and perception and tax knowledge and understanding of the tax laws. The established regression equation was  $Y = 0.433 - 0.246X_1 + 0.038X_2 + 0.174X_3 + 0.251X_4$ .

From the above regression equation it was revealed that holding compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding of the tax laws to a constant zero, VAT compliance level would be at 0.433. A unit increase in compliance cost would lead to a decrease in tax compliance level by factors of 0.246, unit increase in penalties and fines would lead to increase in tax compliance level by factors of 0.038, a unit positive change in attitude and perception lead to increase in tax compliance level by a factor of 0.174, and further unit increase tax knowledge and understanding of the tax laws lead to increase in tax compliance level by a factor of 0.251.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter covers various sections including the summary of the study, the conclusion and the limitations of the study. The chapter will also cover recommendations for further research as well as implications for policy and practice.

#### 5.2 Summary of the study.

Compliance costs, in form of fees charged by tax consultants, are positively correlated with noncompliance behaviour and thus negatively correlated with tax compliance behaviour. Tax penalties can positively influence timely filing of tax returns by construction taxpayers. The level of education received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration, filing and payment requirements.

In this study period a unit positive change in tax payers` attitude and behaviour of a firm increased the chances of a tax payment or compliant by 0.174 or 17.4%. the study established that, those who engage in tax evasion often justify such behavior by suggesting that the government wastes tax revenue and spends unwisely; such arguments can decrease voluntary compliance in the long run (Braithwaite *et. al.* 2009). It is expected that if the government spends taxpayers` money wisely, for example on basic facilities like education, health and safety and public transportation, it is assumed that voluntary compliance will increase. In contrast, if taxpayers perceive that the government spends too much on something else, taxpayers might feel betrayed and attempt to evade. In judging their own behaviour, people tend to believe the cause is due to external attributes and can not be tax compliant. Therefore, the

government should spend taxpayers' money wisely so that tax compliance will increase, thus the tax collection will also increase.

From the findings on the adjusted R squared the study found that there was variation of 62.3% on financial performance due to changes in compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding of the tax laws. This shows that 62.3% changes in VAT compliance level could be accounted for by changes in compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding of the tax laws. The established regression equation was  $Y = 0.433 - 0.246X_1 + 0.038X_2 + 0.174X_3 + 0.251X_4$ . From the regression equation it was revealed that a unit increase in compliance cost would lead to decrease in VAT compliance level while a unit decrease in compliance cost would lead to an increase in VAT compliance level, a unit increase in penalties and fines would lead to increase in VAT compliance level, a unit positive in attitude and perception lead to increase in VAT compliance level and further unit increase tax knowledge and understanding of the tax laws lead to increase in VAT compliance level.

### **5.3 Conclusion**

The individual taxpayers' perceptions on tax fairness and tax service quality have the power to influence their tax compliance decisions. The level of education received by taxpayers is an important factor that contributes to their understanding of tax responsibilities, especially regarding registration and filing requirements. Compliance costs, in form of fees charged by tax consultants, are positively correlated with noncompliance behaviour and thus negatively correlated with tax compliance behaviour. Tax penalties can positively influence timely filing of tax returns by the taxpayers. Obtaining a tax clearance certificate is the highest motivation to comply with tax laws and regulations for most construction business in Kenya.

#### **5.4 Assumptions of study.**

The main assumption of the study was that there is a relationship between VAT compliance and compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding of the tax laws. The study also assumed that all the respondents' participants gave truthful and honest answers.

Data collected were assumed to be independent and normal distributed. Statistically, the autocorrelation between compliance cost, penalties and fines, attitude and perception and tax knowledge and understanding of the tax laws was assumed not to exist but were assumed to be independent.

#### **5.5 Limitations of the Study**

Time was a limiting factor for the researcher since he is in full time employment and therefore did not have adequate time especially in the collection of data, thus the researcher was faced with the challenge of insufficient data. Limited resources on the part of the researcher were another limitation. The researcher lacked adequate funding for conducting the research owing to the fact that he is a self-sponsored student. Further, the measurement of taxpayer's attitude and perception is more complex thus the study was limited to a few aspect of perceptions.

#### **5.6 Study recommendation**

As a matter of fact Kenya Revenue Authority has the mandate to collect as much tax as possible from those expected to pay tax. This can only be done through taxpayers facilitation and fostering voluntary compliance with tax laws in Kenya. One way of facilitating the taxpayers is through tax education. It is therefore relevant for this study to be carried out to shade more light on the effects of taxpayers education on voluntary compliance. Given the demand for increased efficiency and effectiveness, it becomes more important to undertake research to understand

taxpayer behaviour. As a result of a better understanding of taxpayer behaviour, revenue bodies can make more effective use of their limited resources to develop strategies which will have a true for example outcome-based and sustainable impact on taxpayer compliance. An increase in voluntary taxpayer compliance will put governments on a more sound financial footing.

### **5.7 Suggestion for Further Research**

As a result of the above mentioned limitations the researcher identified the following areas as areas of further researcher. It will be necessary for a study to be carried out on the thoughts of taxpayers' attitudes towards tax systems, the factors which influence taxpayers' attitudes and the relationship between attitudes and voluntary tax compliance behavior among individual taxpayers which has encountered a lot of debate in every economy and regional subdivisions. The researcher recommends studies to be conducted, to evaluate the above concepts in all other KRA offices/stations in Kenya to improve on the revenue collection so as to build the Kenyan developing economy and the achievement of vision 2030.

## References

- Ajzen, I. (1991). *Theory of planned behavior. Organizational Behavior and Human Decision Processes.*
- Alabede OJ, Ariffin ZZ, Kamil MI . (2011). *Individual Taxpayers' Attitudes and Compliance Behaviour in Nigeria: The moderating Role of Financial Condition and Risk Preference* (Vol. Vol 3(5)). Taxat: J. Account.
- Allingham, M.G... & Sandmo , A (1972). Income Tax Evasion: A theoretical analysis. *Journal of Public Economics*, 1: 323 .338
- Alm, James . (2012). *Measuring, explaining, and controlling tax evasion: Lessons from theory, experiments, and field studies.* International Tax and Public Finance.
- Bhartia, H. L. (2009). *Public Finance* (14th ed.). New Delhi: Vikas Publishing House PVT Ltd.
- Chan, C.W., Troutman, C.T., and O'Bryan, D. (2000). An expanded model of taxpayer compliance: Empirical evidence from United States and Hong Kong., *Journal of International Accounting, Auditing and Taxation.* 9(2), 83 -103.
- Fridy,N.(2015).VAT Compliance Costs and VAT Evasion of Small and Medium Enterprises Sectors in Bangladesh:Is there alink?
- Hijattullah, A. and Pope, J. (2008). Exploring the relationship between tax compliance costs and compliance issues in Malaysia. *Journal of applied law and policy.*
- Harrison M.G., A. (2005). *VAT refunds: A review of Country Experience.* International Monetary Fund.
- Kenya Revenue Authority. (2015). *Sixth Corporate Plan.* Kenya Revenue Authority. Nairobi: K.R.A.
- KRA. (2013). *Domestic Taxes department; VAT Act 2013 Laws of Kenya.* Nairobi: Government.
- Leung, G. C. (2009). A critical review of Fischer tax compliance model. A. *Journal of accounting and Taxation, vol. 1 (2),* 34-40.

- Lumumba, M. O., Wanjohi, M. S., Magutu, P. O., and Mokoro, J. M. (2010). *Taxpayers Attitudes And Tax Compliance Behaviour In Kenya: How The Taxpayers Attitudes Influence Compliance Behavior among SMEs Business Income Earners in*.
- Lymer, A.& Oats.L. (2009). *Taxation Policy and practice* (16th ed.). Birmingham: Fiscal Publications.
- Makau, M. M. (2010). *Unlocking the Revenue Potential in Kenya*. parliamentary Service Commission, Parliamentary Budget Office. Working paper series no. 2(2010).
- Martinez-Vazquez, Jorge. (2001). *Mexico: An Evaluation of the Main Features of the Tax system*. International Studies Program Working Paper 01-12 (Atlanta, GA: Andrew Young School of Policy Studies).
- Mohd Rizal Palil and Ahmad Fariq Mustapha. (2011). Determinants of Tax Compliance in Asia: A case of Malaysia. *European Journal of Social Sciences, Vol 24 No 1*.
- Mugenda, M. &. (2003). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: African Centre for Technology Studies.
- Mugenda, O.M. and Mugenda, A.G. (1999). *Research Methods: Quantitative and Qualitative Approaches*. Nairobi: Acts Press.
- Saunders, M., Lewis, P. and Thornhill, A. (2009). *Research Methods for Business Students*. (Fifth ed.). Pearson Education Limited.
- Terkper, S. (2007). *African Tax Reform, African Development BankWorkshop*. The state of the Ghanaian Economy. U G,Legon ISSER Publications.
- Wanjohi, M. S. (2010). *Taxpayer's Attitude and Tax Compliance Behaviour in SMEs*.

## **APPENDIX I: INTRODUCTION LETTER**

Bonface Mbogo Munyaka,  
P.O Box 268-00200,  
NAIROBI.

December 10, 2017.

Dear Sir/Madam,

### **RE: REQUEST FOR DATA COLLECTION**

I am requesting to seek some information from your esteemed organization by answering simple questions attached to this questionnaire. I am a Post Graduate Diploma student at Kenya School of Revenue administration (KESRA) and currently i am undertaking an academic research on “Factors Influencing Value Added Tax Compliance In The Construction Industries (in Thika District)”.

The following questionnaire has been designed to capture the views and information from target respondents for the purpose of this study. The information given by the respondent shall be handled in strict confidentiality.

I humbly request you to spare a few minutes of your time to answer the following questions as objectively as possible. I would also like to thank you in advance for taking part in assisting me to complete my course in Tax Administration.

I appreciate the assistance and cooperation..

**Sincerely**

**BONFACE MBOGO.**



**SECTION C: TAX KNOWLEDGE**

7. Please rate the extent to which you agree with the following statement. Where 1= Strongly Agree 2= Agree 3= Neutral 4= Disagree 5= Strongly Disagree.

Tick Appropriately.	1	2	3	4	5
I know how to declare actual income received from all sources of my income to KRA.					
I know how to keep records/documents pertaining to income and expenditure for a period of seven years after submission of the Tax returns.					
I understand that I should pay taxes due within the prescribed period from the date of issue of the Notice of Assessment or within the stipulated period.					
I know I should obtain a tax payer personal identification number (pin).					
I know which income should be included or excluded in determining the taxable income.					

**SECTION D: TAX COMPLIANCE COST**

8. Please rate the extent to which you agree with the following statement. Where 1= Very expensive 2= Expensive 3= Accommodative 4= Cheap/Affordable 5= Very cheap/Affordable.

Tick Appropriately.	1	2	3	4	5
The cost of filing a tax return					
The cost of hiring tax professionals					
The cost of training on tax matters					
The cost of proper book Keeping for filing return					
The cost of computers, networking and internet connections in order to file a return online.					

**SECTION D: FINES AND PENALTIES**

9. Have you ever been penalized for VAT non compliance related behavior?

- (i) Yes  (ii) No

Please rate the extent to which you agree with the following statement. Where 1= Strongly Agree 2= Agree 3= Neutral 4= Disagree 5= Strongly Disagree.

Tick Appropriately.	1	2	3	4	5
The penalty rates are very low and I can afford to pay					
The enforcement is very weak					
I believe that the penalty is lower than my tax saving					
Serious enforcement and penalty by the KRA may result if I do not comply					
If detected not reporting my exact income, I believe that the tax authority is tolerant towards my offence and most probably it will not be penalized.					

**SECTION E: ATTITUDE AND PERCEPTION**

10. Do you think payment of taxes is everybody’s obligation?

- (i) Yes  (ii) No

11. How do you rate the following statement on a scale of 1-5. Where 1= Strongly Agree 2= Agree 3= Neutral 4= Disagree 5= Strongly Disagree.

Tick Appropriately.	1	2	3	4	5
I believe it’s my obligation as a citizen to support the government by paying taxes.					
I feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment.					
I find it hard to comply with the tax laws as they are complicated					
I believe the government misuse the tax collected so no need of paying taxes because they will be misused					
I believe the tax authority has limited capability to investigate all income reported to them so I have an opportunity not to report my income at all.					
I believe that the probabilities of being detected by the tax authority is minimal.					
K.R.A has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance.					
I find it hard to comply with the tax laws as they are complicated					

12. What are the reasons for tax compliance and tax non-compliance among the tax payers and the government?

- (i) .....
- (ii) .....
- (iii) .....
- (iv) .....

13. Any other comment concerning this that you feel should be addressed?

.....  
 .....

**THANKS FOR YOUR COOPERATION**

**APPENDIX III: CONSTRUCTION COMPANIES IN KIAMBU COUNTY**

1. Nichim Construction Company
2. Don Penn Construction Ltd
3. Capital Home Solutions Ltd
4. Chosen Commercial Agencies Ltd
5. Goodlands Africa Limited
6. Vesture Heritage
7. Nejo Contractors Ltd.
8. Thika Concrete Products
9. Kirimabogo House Developers
10. Cax Investments
11. Mawe Masters 1994 Ltd
12. Landsites Logistics
13. Garo - Trace Construction
14. Mutta Services
15. Rkins & Sons Holdings Ltd
16. Njuca Consolidated Co. Ltd
17. Multi-Mug Consultants Ltd
18. Juliko Geospatial
19. Bremer Limited

20. Felikan Building & Civil Engineering Consultants Ltd
21. Juliko Geospatial Consultants
22. Technology Automation Concepts Ltd
23. Twofold Building & Civil Engineering Contractors
24. Rhombus Concrete Limited
25. Prokon Limited
26. Greenersol Landscape Limited
27. Ss Meta & Sons
28. Jenns Multiple Contractors
29. Kabuito Contractors Ltd
30. Gojuon Enterprises Limited
31. Avant-Garde Construction
32. Douglas Projects Ltd.
33. Jongonga Contractors
34. Pecka Memorial Ents
35. Next Group Solutions Ltd
36. Italbuild Imports Ltd
37. Ujenzibora Investment Ltd
38. Haussmann Group
39. Equinox Construction
40. Proshade Kenya
41. Edarns Enterprises Ltd
42. Port Florence House
43. Foxel Ltd
44. Stramax General Construction Ltd
45. Eleven Contractors Ltd
46. Gestol Limited
47. Rock Tower Ent.
48. Eboyo Contractors Ltd
49. Rwaconsult Limited
50. Mavji Construction Company

51. Nyoro Construction Company Ltd
52. Prowatt Enterprises Ltd
53. Pleng Limited
54. Lee Construction Ltd
55. Hk Builders And General Contractors Ltd
56. China Civil Engineering Construction Corporation Ltd
57. Ihiga Building & Civil Engineering Contractors
58. Marcann Contractors Co. Ltd
59. Ryanic Engineering and Contractors Ltd
60. Manacon Construction Company Ltd