

**FACTORS AFFECTING TAX COMPLIANCE OF MOTOR VEHICLE DEALERS
IN MOMBASA COUNTY**

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DECLARATION

Declaration by the Student

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

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Declaration by the Supervisor

This research project has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate my work to my family; My husband Stephen Nganga and children Kayle and Keysha for their love and support during the time of my studies.

ACKNOWLEDGEMENT

I would like to pass my appreciation to God, my family for their support, my supervisor Andrew Sululu for taking time to guide me to achieve the best. My classmates for their assistance during class discussions, the library for always availing the necessary materials to conduct my research and the whole KESRA Mombasa campus fraternity for making this each role they played to enable me achieve this.

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LIST OF ACRONYMS AND ABBREVIATIONS

EGMS	Excisable Goods Management System
ICMS	Integrated Customs Management Systems
ICT	Information Communication and Technology
KESRA	Kenya School of Revenue Administration
KRA	Kenya Revenue Authority
SPSS	Statistical Package for Social Sciences
TIMS	Transport Integrated Management System

DEFINITION OF TERMS

Compliance cost	refers to consumption of time or cash in fitting in with government guideline in tax administration (Thirsk, 2011).
Information Communication and Technology (ICT)	refers to innovations that offer access to information by media communications. It is similar to Information Technology (IT), nevertheless centres primarily on communication innovations (Redae & Sekhon, 2016).
Tax compliance	refers to fulfilling all tax obligations as specified by the law freely and completely (Harold, 2011).
Tax Incentives	refers to tax provision granted to a qualified investment project that represents a favourable deviation from the provisions applicable to investment projects in general (Dharma & Ketut 2014).

ABSTRACT

Despite many tax changes, code of tax in Kenya is still complex, described by irregular and insufficient tax collection, a small tax base with high tax rates and low compliance. This study sets out to determine the factors influencing tax administration among motor vehicle dealers in Mombasa County. The study specifically established the effects of tax incentives on tax compliance, determine the effects of compliance costs on tax compliance, examine the effects of Information, Communication and Technology on tax compliance and establish the effects of tax incentives on tax compliance among motor vehicle dealers in Mombasa County. The study is based on three theories. The theories were technology determinism theory, transactional cost theory and Psychological and Economic Theory. The study analysed other studies used in this field, critique the studies and come up with research gaps that were beneficial for future studies. Data analysis was the instruments used for collecting data. This was a descriptive study. The target population were 221 respondents. The study adopted a stratified random sampling technique to involve 142 respondents. Reliability of the instruments was determined by piloting the instrument and validity was enhanced by discussion with supervisors and reliability was tested by figuring Cronbach's Alpha coefficient. Data was subjected to descriptive statistics and analysed using SPSS and frequency tables and graphs were used for presentation. From the results, an R of 0.621 shows that there is a positive correlation between factors influencing tax compliance among motor vehicle dealers in Mombasa County. The adjusted R square of 0.380 indicates that taxpayer incentives, compliance costs and Information Communication Technology in exclusion of the constant variable explained the change in tax compliance by 38%, and the remaining percentage can be explained by factors not included in the model. The study recommends that the KRA should enhance taxpayers' knowledge on tax compliance among motor vehicle companies. This can be done through training by attending workshops and seminars. KRA should enhance tax incentives in order to enhance tax compliance among motor vehicle companies. This can be enhanced through strict rules and regulations formulation. The Information Communication Technology should be enhancing in motor vehicle companies in tax compliance. Opportunities for further research still exist in this area. The study assessed factors affecting tax compliance of motor vehicle dealers in Mombasa County. Therefore, further research should be carried out in types of companies in other counties.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tax Compliance can be characterized as how much a taxpayer goes along or neglects to go along with nation tax rules, for instance, income declaration, return filing, and paying assessment due in time. While Tax evasion can be characterized as the failure by a man or business to follow the tax commitments. It is a genuine test to tax authorities in both the developing and developed nations. It decreases assets mobilization that administrations need to put resources into basic regions of social and self-improvement including wellbeing, training and infrastructure advancement (Le, Tuyet, Hanh, & Do, 2020).

One of the most useful means to deter the tax non-compliance behaviour is tax audit (Abd Hamid, Ibrahim, Ibrahim, Ariffin, Taharin, & Jelani 2019). Tax authorities can increase the level of compliance, by increasing audit probability and field audit through visiting the taxpayer's premises as this may induce the 'fear factors' towards taxpayers. However, the fear factors have both advantages and disadvantages which may create an up-to- date tax obligation over the system inwards that affect taxpayers in a positive way, whilst create the pressure of honesty and integrity on taxpayers negatively.

One of the important elements in the existence of perceived unfairness in tax system is corruption. The impact of fines towards the level of compliance is significantly positive under normal circumstances (Redae & Sekhon, 2016). However, the relationship between fines and level of compliance is distracted if corruption exists. This is because the taxpayer would be given a second chance and discharged from the wrongdoing if tax officers tend to receive bribery even with the implementation of higher fines or penalties.

Putri and Siswanto (2013) argues that the factors that affect the tax revenue of a country include the level of taxpayer compliance in the country. Taxpayer compliance is where the taxpayer meets his tax obligations and implements taxation rights properly and correctly in accordance with applicable tax laws and regulations. Several factors that influence taxpayer compliance in paying motor vehicle tax that is, service quality and taxpayer satisfaction. Several types of services performed in the office of one roof system, there are types of services where taxpayers feel satisfied with the services provided. Government efforts to

simplify the service of online vehicle letters are quite helpful. Moreover, the stewardship process is conducted transparently. The owner of the vehicle can access it easily.

Local taxes and user charges are an important source of local revenue to finance the implementation of regional and regional development orders to obtain real, dynamic, harmonious and responsible regional autonomy (Dharma & Ketut 2014). Provision of authority in the imposition of local taxes and levies, is expected to further encourage local governments continue to work to optimize local revenue (PAD), especially Vehicle Tax (PKB) and Pajak Bea Balik Nama Kendaraan Bermotor (BBNKB) which is one of the local taxes has considerable potential in financing regional development (Dharma & Ketut 2014).

Motor vehicle taxes are very influential on local revenue sources, which are useful to finance the implementation of routine tasks of local governments. The growth of the number of vehicles acquired from the region has increased considerably from year to year. However, the increase in the number of motor vehicles from year to year is not matched with the awareness and compliance of taxpayers against the fulfillment of its obligations in paying taxes. Public concerns in paying taxes due to the many cases of taxation that occurred in this country. Such conditions may affect taxpayer compliance, because the taxpayer does not want the tax paid to be misused by the irresponsible apparatus (Arum, 2012). So needed knowledge about good taxation, so that taxpayer better understand tax benefit. Both for the welfare of self and for the development of the State.

Kenya presented Tax Modernization Program in 1986 with the expectation this would, in addition to other things, upgrade income accumulation, enhance tax organization and diminish compliance and gathering expenses (Wangeshi & Kaplelach, 2018). Despite many tax changes, code of tax in Kenya's is as yet intricate and lumbering, described by uneven and out of line taxes, a thin tax base with high tax rates and rates scatterings as for exchange, and low compliance. Extra difficulties incorporate tax frameworks with structures and rates that (1) taxes are hard to oversee and consent to; (2) are inert to development and optional approach thus low profitability; (3) raise little income yet present genuine monetary bends; (4) treat work and capital in comparable conditions in an unexpected way; and (5) are particular and skewed for those with capacity to defeat tax organization and requirement framework.

The rapid industrialization and modernization in Kenya has resulted in an increased demand for capital goods such as machinery, lubricants, spare parts, ball bearings and other mechanical goods and accessories. The market for automobile spare parts, in particular, has been an attractive sector (Maina, 2016). With the liberalization of the economy, used imported motorcars from Japan and Dubai far outnumber the new motor cars registered annually (Gachie, 2013). About 70% of vehicles on our Roads are second hand. Maintenance of this huge number of second hand vehicles lead to increased demand for second hand spares. As a result, the Kenyan economy has become flooded with these parts that are usually imported from different countries (KEBS, 2017).

The inquiry with respect to why a few people pay regulatory tax while others don't, has raised a great deal of worry among financial experts, governments and tax executives alike. Revenue collection have, for a long while, stayed low in respect to the quantity of both enrolled and non-enlisted firms and people who are lawfully fit the bill to make good on paying tax. Proceeded with low revenue collection levels for government is negative to financial advancement of this country (Dharma & Ketut 2014). A huge fragment of the business sector, particularly the motor vehicle dealers in Mombasa County show low tax compliance levels. This is an incredible loss of revenue implied for public use. It is therefore that exploration should be attempted to recognize the foundations for low duty consistence among the assembling firms. It is likewise informative to take note of that there is little research that has been done here. In this setting motor vehicle dealers in Mombasa County display low tax compliance levels and this requires a comprehension on the variables impacting tax administration among motor vehicle dealers in Mombasa County.

1.2 Statement of the Problem

Tax evasion resulting from tax noncompliance hampers Kenya's government revenue collection, thus inefficiency in government spending because it diminishes the capacity of the state to mobilize domestic revenues, resources that are needed for investments. In 2018, for example the amount lost to tax evasion represented about twice the amount the country spent on health care. Tax evasion also damages the country's growth capacity by discouraging both local and foreign investors. The high tax rate and burden in Kenya, which is related to the high levels of tax evasion, is the leading disincentive to business activity (Thiga & Muturi 2015).

Low tax compliance is a major concern for the policy makers in many developing countries. This is because it limits the capacity of governments to raise revenue for developmental and recurrent expenditure purposes (Babajide, 2011). This means that the higher the revenue to the government, the more likely the government will provide more services to enhance the standard of living of the people. In order to increase compliance, the government has endeavoured to map out various key stakeholder in different part of the country in terms of their income generation activities to make it easy for the revenue authority to collect taxes. In Mombasa one of the key income generation activities is the sale of motor vehicles however there is a huge laxity by the stakeholders in this sector to comply to the various tax obligations. Tax payer education is a tool designed to enable taxpayers to understand tax laws and procedures. It involves training of special units within the revenue departments; for providing education, counselling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars and front desk help, these create more room to disseminate key information to the taxpayers (Bett, 2013).

A number of studies have been accomplished in developing nations in regard to tax compliance, more so in Kenya. The list of these studies includes studies by Lumumba, Wanjohi and Magutu (2010) analyzed how taxpayer's attitude and influences impacts compliance conduct among SMEs in Kerugoya town and reasoned that majority taxpayers see Kenyan tax framework as out of line. This on grounds that majority respondents varied payment of decent amount of tax; which neighbours and companions were filing. Magiya (2016) directed an examination on tax compliance determinants amongst little and medium estimated undertakings in Nairobi east tax district and found that an expansion in the taxpayers comprehension of the assessment laws and the tax framework as well as an increase in government accountability with regards to provision of public good and services results into higher compliance levels, thus more of funds through revenue collection. Thiga and Muturi (2015) conducted a study on Factors That impacts Tax Laws compliance amongst Kenyan SMEs and found tax rates and tax compliance expenses are highest tax compliance contributing factor. These studies, there has not been one that focused on establishing the factors affecting tax compliance among motor vehicle dealers in Mombasa County. The business environment of Mombasa County is unique and hence motor vehicle dealers may have a variety of reasons for not complying with tax.

1.3 Objectives

This study had the following general and specific objectives;

1.3.1 General Objective

This study set out to determine the factors affecting tax compliance of motor vehicle dealers in Mombasa County.

1.3.2 Specific Objectives

- i. To establish the effect of tax incentives on tax compliance among motor vehicle dealers in Mombasa County.
- ii. To establish the effect of compliance costs on tax compliance among motor vehicle dealers in Mombasa County.
- iii. To establish the effect of Information, Communication and Technology on tax compliance among motor vehicle dealers in Mombasa County.

1.4 Research Questions

- i. What are the effects of taxpayer incentives on tax compliance among motor vehicle dealers in Mombasa County?
- ii. To what extent does compliance costs affect tax compliance among motor vehicle dealers in Mombasa County?
- iii. What is the effects of Information, Communication and Technology on tax compliance among motor vehicle dealers in Mombasa County?

1.5 Significance of the Study

This study may be helpful to a number of stakeholders. Foremost, the Kenya Revenue Authority management might find it valuable as an indicator and useful to assist in making decisions concerning the factors influencing tax administration among motor vehicle dealers.

This study is of enormous significance to taxpayers if the recommendations of this study are implemented. Improved service delivery by employees and tax compliance systems that the taxpayers use is beneficial to taxpayers.

If the references of this research are adopted by the pertinent authorizes, the nation will gain a lot from a better tax reforms in ways of establishing improved restructurings for improved performance in revenue collection.

The scholars, students and policy makers may find this study as a valuable guide in regarding more studies on factors influencing tax compliance. It may consequently form a foundation of more research from fascinated individuals on the subject of transformations and revenue administration.

1.6 Scope of the Study

The research focused on the factors influencing tax compliance among motor vehicle dealers in Mombasa County. This was the conceptual scope. The contextual scope includes, KRA Mombasa County offices and the motor vehicle dealers in the county. The study was done for 5 months between March 2020 to September 2020.

1.7 Limitations of the Study

The main limitation experienced was that most respondents considered some information as confidential and did not want to reveal everything. However, confidentiality and protection of information was assured to the organizations' management and the respondents. Information was coded to avoid direct reference to particular companies and individuals.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The part presents the theories adopted and describe the factors influencing tax administration, in addition to empirical studies that has been undertaken in the area. There is also a summary of the review of literature and the gaps filled by this research.

2.2 Theoretical Review

Theoretical framework alludes to the way analyst or researcher of the reported questions, yet contemplates and creates musings or hypotheses on what the conceivable responses, at that point this considerations and speculations are assembled together into topics that outline the subject (Jwan, 2010). This research was steered by technology determinism theory, transactional cost theory and Psychological and Economic Theory.

2.2.1 Technology Determinism Theory

Technological determinism theory views the technology of the society as determining the growth of its cultural values and structure socially. The originated from Thorstein Veblen in 1857 to 1929. Technological determinism attempts to understand how technology has had an influence on human action. Growth in technology as the main source for change the society.

Technological determinism is a theory that expect that the public innovation indicated that the growth of the social qualities and structure. Technology determinism attempts to see how innovation has affected human activity and thought. Changes in innovation are the essential hotspot for changes in the public arena. The term begun from Thorstein Veblen 1857 to 1929.

The principal real explanation of a technological determinist perspective on financial growth is developed by Marx, whose theoretical system was based in the view that adjustments in innovation, and explicitly gainful innovation, are the significant influence on hierarchical structure and human social relations, and that social relationships and practices around the technological and financial state of the society. Marx position has been embraced in the contemporary society, where that quick growing innovations adjust human lives is all-pervasive. Although a number of creators property a technological perspective on history of mankind to Marx's knowledge, not all Marxists are technological determinists, and creators questions the extent that Marx is a determinist. There are different kinds of technological

determinism. KRA has employed a number of Information Communication Technology systems aimed at improving tax compliance like ICMS system to fast track clearance of motor vehicle at the port reducing the occurrence of demurrages, iTax to facilitate payments of taxes and various online payment platforms to enhance timely payments of taxes. This can be related to the extent to which Information Communication Technology influences tax compliance among motor vehicle dealers in Mombasa County.

2.2.2 Transactional Cost Theory

As indicated by transaction cost theory the link between resource particularity and internalization is a symbiotic kind. At the point when the level of benefit explicitness is low (for instance when standard innovation is utilized), the firm encounters a production cost in the event that it completes business exercises inside the firm as opposed to securing them from outside providers. An outside provider can serve a bigger number and a more extensive assortment of clients utilizing a similar kind of innovation, and along these lines accomplish scale, degree, and learning economies all the more effectively. Alternately, when resources are exceptionally quirky, there are never again any degree and additionally scale motivators to externalize the exchanges, and creation can happen inside the firm without a generation cost discipline (Riordan & Williamson, 1985). What's more, exchange costs will be diminished because of better control with advantage (Williamson, 1975; 1985). Tax laws keep changing and can be very complex for the average taxpayers making creating a need for hiring professional services to ensure correctness and timeliness in to tax compliance obligations which result in an increase in cost of compliance . The effect of asset specificity on internalization can be related to the influence of the system of compliance costs on tax compliance among motor vehicle dealers in Mombasa County.

2.2.3 Psychological and Economic Theory

The use of both psychology and economic theories is critical in informing this study. Based on the psychological theories on tax compliance, the assumption is that psychological factors such as ethical and moral concerns heavily influence the behavior of taxpayers. Thus, taxpayers are likely to pay their taxes even if penalties are absent. These theories de-link the element of tax compliance from the punitive measures advanced against non-compliance.

Shifting focus to the economic theories, the main idea revolves around deterrence. (Trivedi & Shehata, 2005) observed that taxpayers are rational individuals who engage in calculations to

determine the economic effects of the way they conduct their businesses. Based on this idea, taxpayers would review the existing compliance alternatives before making choices. Therefore, a taxpayer may avoid paying taxes in instances that they feel that they can do so undetected. On this evidence, it is discernible that taxpayers are amoral and issues of ethics do not influence the decisions that they make. As such, the theories advocate for the use of punitive measures to deter taxpayers from attempting to evade tax payments.

The two schools present diametrically opposed views on taxation; hence, the one to use in assessing how taxpayers respond to tax policy depends on the preferences of the assessor. It appears that the two elements of morality and ethics play a role. At times, it is necessary to combine both the psychological and the economic schools in order to get an enlarged view on the issue of tax administration and compliance, an aspect that this study embraces. Over the years KRA has noted that taxpayers are always rushing to file their tax returns a few days to the deadline for fear of being penalized, Furthermore, in order to enhance tax compliance, the deployment of tax amnesties by KRA has proved fruitful if we take into consideration the rental income tax amnesty between July 2015& June 2016 that saw many landlord register for the simplified monthly rental income tax regime. For this reason, both the psychological and economic theories are important in tax determining how they affect tax compliance. For the economic theory, an increase in audit and penalties is a solution to tax compliance.

2.3 Conceptual Framework

A conceptual framework is an arrangement of variables the investigator operationalized in order to achieve the set objectives (Sekaran & Bougie, 2016). Independent variables attempt to specify the entire impact in the study. Tax compliance was the dependent variable while taxpayer knowledge, compliance costs and Information, Communication and Technology were the independent variables. The study presumed that there exists a relationship between these variables which the study intends to explore as summarized in Figure 2.1.

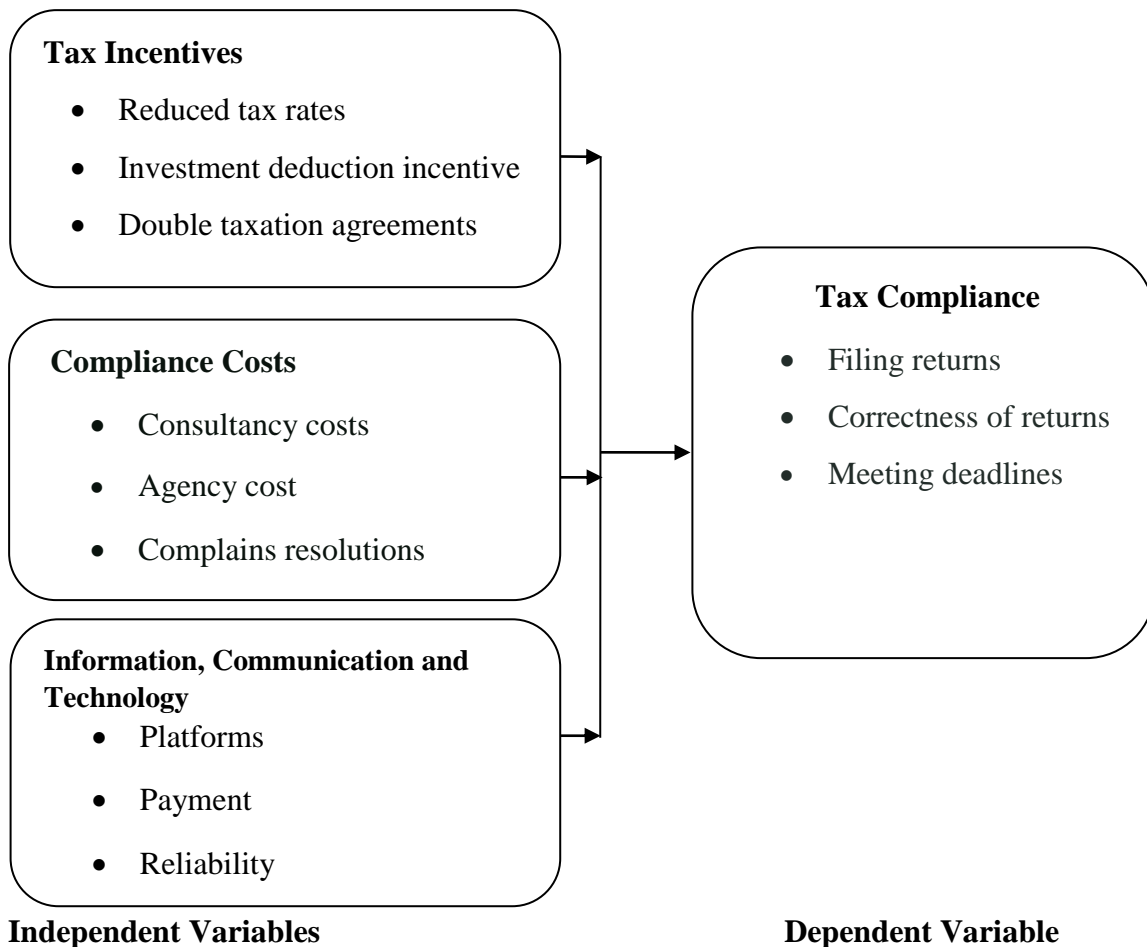


Figure 2.1: Conceptual framework

The independent variables were taxpayer incentives, compliance costs and Information, Communication and Technology while tax compliance is the dependent variable. Tax incentives was characterized by the reduced tax rates, investment deduction incentive and double taxation agreements. Compliance cost was measured by agency costs/tax agents, consultancy costs and cost of complains resolution. Tax compliance in the motor vehicle dealers in Mombasa County is the dependent variable.

2.4 Review of Variables

This section reviews literature on the main variables of the study which includes; taxpayer knowledge, compliance costs and Information, Communication and Technology as discussed herein.

2.4.1 Tax Incentives

Tax incentives are a prominent feature of many tax codes in both developed and developing countries. Developed countries tend to use targeted investment incentives, generally embodied in the income tax law. Developing countries tend to use a combination of targeted

and more general incentives, which may be embodied in the income tax law, the investment and other laws, or simply government decrees (Wallis, 2012).

Countries with residence-based tax systems typically effect double taxation relief through the provision of credits against domestic tax liabilities for taxes paid in foreign countries (generally referred to as foreign tax credits). Hence, tax incentives that reduce the investors' tax liabilities in the host countries would also reduce their available foreign tax credits in their home countries, unless a "tax-sparing" clause is included in the bilateral tax treaties between the host and home countries.

A study by CIAT (2011) on Tax and development established that inadequate attention has been paid to the cost effectiveness of the various incentives offered in terms of the overall impact on tax revenues lost, credibility and economic sustainability of the tax system and therefore the tax policy and risks of corruption. It established that improved transparency in the provision and delivery of tax incentives for investment may help increase governments fiscal accountability and rationalize the use of such incentives. This will also help in improving investor and taxpayer confidence in the system, support good governance, reduce lobbying pressures for increased or new incentives, and promote economic development.

An investment policy study conducted in Botswana by the OECD (2013) on its investment policy supports the view that tax incentives are not a major FDI attraction factor. Botswana was one of the poorest countries of the world but after few decades it had one of the fastest economic growth rates in the world and its now an upper middle- income developing economy with its growth progress catalysed by the discovery of rich and profitable deposits of diamonds in 1967, which initiated a process of structural change that is, from an economy heavily dependent on low productivity in agriculture to an economy dependent on mining and services sectors. Its growth performance is owed to the good management of natural resources and good governance which have created a good and stable political and economic environment Most of its mineral revenue as well as foreign aid was invested in health, education and infrastructure which created proper foundations for long-term growth and also a strong saving culture was established for any excesses and this has ensured a long-term macroeconomic environment conducive to a sound investment climate, a rare fete for any developing country.

A study done by GRIPS (2006) on Public Finance Policy in developing nations showed that although Multinational Corporation (MNCs) contribute to government revenue in form of taxes, they generally tend to pay much less than what they ought to pay due to long tax concession periods, transfer pricing practices, huge investment allowances, disguised public subsidies and tariff protection from the government. These companies use their economic power to lobby for policies that are unfavourable for development and they can avoid local taxation and shift profits to affiliates in low tax jurisdictions. This has a negative effect on the revenues collected by the government from taxation and therefore developing countries are unable to effectively fund their development goals.

The OECD (2013), research on Tax Incentives and FDI performance in the MENA region showed that there are various incentives offered in MENA countries. The research established that tax incentives were not very effective in attracting investment but rather, investors preferred transparency, simplicity, stability and certainty in taxation policies. The ability of tax incentives to attract foreign investment is relatively low compared to the possible negative effects.

Kandie (2011) in his study on the effects of tax incentives on exchequer revenue a case of the Top 25 taxpayers in the country concluded that tax incentives have negative effects on exchequer revenues. This research will study the effect these tax incentives have on the overall economic performance over the last decade. Kiongo, (2011) in his study on the analysis of factors determining the success of FDI in Kenya researched on how some variables that had been assumed to have an effect on FDI's success. He focused on four variables including the entry strategy, market size, operations cost and entry costs. FDI is a key factor that affects economic growth. Tax costs may affect the investments decisions of foreign investors and therefore, affect the level of FDI flows in a country. The researcher did not analyze the tax costs separately as an independent variable and the effects of the tax planning opportunities that may arise, an area that this study will consider. Kinuthia, (2011) analyzed the impact of tax incentives on the flow of FDI in the manufacturing sector in Kenya. He concluded that there was a very weak correlation between tax incentives and FDI's. In his study, the researcher focused specifically on one sector of the economy to analyze the effects and did not show the overall impact on revenue collection. This study will take a step further to analyze effects of tax incentives on revenue collection.

2.4.2 Compliance costs

Tax compliance costs constitute one of the most important elements in general regulatory compliance costs. The disparity in the regulatory burden borne by small and large companies can also be seen with tax related compliance costs. The European Tax Survey finds that European SMEs have a cost to tax revenue ratio (i.e. the ratio between total tax related compliance costs and all paid taxes) of 30.9%. Large companies on the other hand have a cost to tax revenue ratio of only 1.9%.

In a study by Mohd (2010), on tax knowledge and tax compliance determinants in Self-Assessment System in Malaysia, determined that in the self-assessment structure in Malaysia, tax knowledge has a substantial influence on tax compliance and the level of tax knowledge differs amongst participants. Tax compliance can be characterized as how much a tax payer complies or neglects to conform with the tax regulations of his nation, for instance by declaring income, recording returns and settling the regulatory obligation in time. While Tax avoidance can be characterized as the disappointment by an individual or business to agree to the tax commitments. It is a genuine test to assess experts in both the developing and developed nations. It reduces the preparation of resources that administrations need to put resources into basic zones of social and self-awareness including wellbeing, training and framework advancement.

A study conducted by evaluated deterrence and morale on taxation in Switzerland. In their empirical analysis, they used cross section time series data from 26 cantons over the period 1975-1995. The study found that compliance of tax was higher by and large in an endogenous fine handling in that persons are permitted to endorse or dismiss the proposition of a fine when contrasted with an exogenous fine dealing where the fine is forced. The primary clarification why individuals show higher tax compliance on the off chance that they are permitted to cast a ballot on a fine is authenticity. Compliance rates are greater if the fine is acknowledged than for the situation the fine is disallowed. Subjects who dismiss the proposition of the fine demonstrate a greater consistency rate than matters in the exogenous acceptable treatment regardless of whether they realize that the predominant technique under the presence of the low fine is resistance.

A descriptive study by Omondi and Theuri (2019) found out that tax compliance is low among SMEs because of a few factors. For example, poor administration and inside control

rehearses the same number of the endeavors are just attempting to make a decent living. Additional factor contributing to low compliance in tax amongst SMEs is the casual way to deal with foundation, task and disintegration which makes a simplicity of portability, thusly making it troublesome for the assessment organization to keep pace with them. Money based economies have likewise had lacking bookkeeping records and review trails. Tax compliance is too low amongst Small and Medium Enterprises additionally in light of the fact that consistence costs for the SMEs are a lot higher with respect to bigger business tasks that they are going up against. Moreover, private companies have constrained resources and specialized limit. Regularly, the need of a tax administration is to concentrate on large tax payers in view of the high wrongdoing rate and low revenue yields related with private ventures, with next to no authorization activity. This eventually empowers noncompliance.

2.4.3 Compliance Costs

The cost of non-compliance refers to the additional tax cost that is expected to be incurred in future where a taxpayer engages in non-compliance activities and is charged for tax evasion. Some of the factors that affect tax non-compliance include; tax penalty, opportunity to evade tax, social responsibility, ethics, enforcement moral reasoning and tax deduction (Frey & Fled, 2019).

Any extra tax costs that is expected to be incurred in future, if a taxpayer engages in non-compliance activities, for example, fines, penalties or even imprisonment might be charged towards evasion. When tax non-compliance activities are detected and the possibility of the non-compliance is being detected by tax authority, it is necessary for taxpayers to know the consequences of future tax costs if he/she intends to engage in tax non-compliance activities (Hai & See, 2011). Tax audit will be conducted by tax authorities to find out those who have engaged in non-compliance activities and transactions. The taxpayer will then be penalized if caught engaging in non-compliance activities once the audit is complete.

Before taxpayers decide to engage in non-compliance activities, it is a norm that they weigh the benefits to be derived from it and find out whether they are greater than the fines or punishment when caught later based on the economic model (Bărbuță-Mișu, 2011). The models of tax non-compliance, the deterrence model and the pure gamble model explain this concept better. Future tax costs, which include fines, penalties and imprisonments, are related to the deterrence theory in tax non-compliance. In order to maximize the expected utility derived from the benefits after tax penalty, the taxpayers have to make the decision whether

to evade and how much to evade. It also depends on the level of risk preference of the taxpayers. On the other hand, the considerations from various aspects and moral constraints are neglected by the pure gumble model. Under this model, the taxpayer who engages in tax non-compliance merely wants to evade tax, assuming as a game against nature.

2.4.4 Information, Communication and Technology

The electronic filing or online filing of tax returns is a general term for electronic filing or electronic lodgment or electronic declaration of tax returns through submission of tax data to a taxing authority in a computer file format through an internet connection (Ibrahim, 2012). On the other hand, Mandola (2013) defines electronic filing as an internet based system that enables the taxpayers to register and submit their tax returns over the internet. The platform or system could have an inbuilt software that has been pre-approved by the relevant tax authority to assist the taxpayers in calculating and consequently submit the correct amount of tax due (Mandola, 2013). The e-filing incorporates the process of registration, tax reparation, tax filing and tax payment (Lukorito, 2012). The taxpayer requires access to a computer, the tax software, a reliable internet connection and the knowledge to utilize the electronic filing (Hussein, Mohamed, Ahlan, Mahmud, & Aditiawarman, 2010).

Nakiwala (2010) argues that computer anxiety affects the adoption of the electronic filing of tax returns. The computer anxiety is defined as the fear and the apprehension felt by an individual when considering the utilization of the computer technology or when actually using it (Nakiwala, 2010). There are two components of computer anxiety that is the cognitive and the emotive components. The cognitive component underlies the negative expectancies and the emotional expectancy leads to negative physiological reactions.

The computer anxiety has been shown to impact on the perceived ease of use, computer use and computing skills which leads to the low adoption of the electronic filing system. The computer anxiety is most likely to be an issue among the illiterate, semi illiterate and the elderly taxpayers (Hussein et al., 2010). Some of the traders in the SME sector have relatively low education levels which may reduce their confidence around computer technologies such as the online filing system.

In Kenya, the earliest form of the online filing of tax returns was through the implementation of the Integrated Tax Management System (ITMS) in 2013. This was to facilitate the online payments of Value Added Tax (VAT), Cooperate Tax amongst others (Lukorito, 2012). The

ITMS also connected the Electronic Tax Registers (ETR) devices (registers) to enable simplification of the VAT declarations. The ITMS enabled the taxpayers to undertake electronic filing. In the context of the system requirements, the ITMS required internet explorer or higher or Mozilla Firefox 3.0.3 (Mandola, 2013). Kenya Revenue Authority (KRA) was to later phase out the ITMS and replaced it with the iTax system. The iTax enabled the taxpayer to undertake internet based registration, filing, paying and status inquiries with real time monitoring of the accounts (Mandola, 2013).

2.4.5 Tax Compliance

According to Ssetuba (2012), tax compliance is the ability to pay taxes on time and timely reporting of the correct tax information. Other definitions of tax compliance concentrate on the accuracy of the information contained in the tax returns and the cost of making the tax returns. For example, Auyat (2013) defines tax compliance as the supply of accurate and timely lodgment of income tax return together with the required payments whenever due. There are two types of tax compliance; voluntary and involuntary tax compliance (Mandola, 2013). The voluntary tax compliance requires no state enforcement for the taxpayers to comply with the tax requirements in contrast to the involuntary tax compliance (Hussein et al., 2010).

Tax compliance is concerned on the timely and accurate submission of tax remittance information to the revenue authority. The online filing system has a direct impact on the tax compliance levels (Nakiwala, 2010). The system ensures that the taxpayer has filled all the required mandatory fields before allowing him to proceed to the next level. This has the effect of ensuring that the revenue authority receives relatively high quality data compared to the manual returns of the data (Nakiwala, 2010). The online filing of the tax returns ensures that there is lack of inconsistencies, missing information and unintentional errors (Mandola, 2013).

There are challenges associated with the tax compliance levels among the SMEs in Kenya due to the nature of the firms (Simiyu, 2013). The turnover tax in Kenya introduced through the Finance Act of 2007 specifically targets the SMEs especially those with less than 5 million annual gross income (Osebe, 2013). Some of the challenges facing the taxation of the SMEs in Kenya include the fact that small businesses are normally owned by the owners who

are also in charge of the accounting book (Muhangi, 2012). There is thus less incentive to comply with tax requirements.

2.5 Empirical Review

Mararia (2014) evaluated the effect of Integrated Tax Management System (ITMS) on tax compliance by the Small and Medium Enterprises in Nairobi central district. The study employed a descriptive design. The target population for the study comprised of 200 taxpayers out of which 100 taxpayers were picked as a representative sample. Data was analyzed by use of SPSS. Although the study was mainly on ITMS effect on tax compliance, Mararia (2014) found that fines had a significant positive relationship with tax compliance. This resulted to an overall increase in collections as penalties and fined deterred tax evasion by taxpayers.

A study conducted by Waema (2015) on the effect of Information Systems on Revenue Collection by Local Authorities in Homa Bay County Kenya. The study employed a survey design. The study found out that concentration in ICT is significant to counties. This is because computer data frameworks have valuable impact on revenue collection. Automation of county activities, for example, revenue collection enhances effectiveness because of suitable revenue accumulation; expanding the board respectability and arrangement of clear records. Data frameworks likewise advance the tasks that are sped up by the inside control structures which thus improve productivity and viability of the counties.

A descriptive study by Ondiek (2013) analyzed the reactions by Kenya Revenue Authority on the difficulties experienced in the usage of the structural changes and modernization. In his investigation tried to set up how KRA actualized the CRM program. Discoveries of the examination showed that the greatest difficulties unearthed by KRA were absence of imperative aptitudes, protection from change, absence of resources, and absence of a steady telecommunication framework.

Ngeno (2018) conducted a study on factors affecting compliance of tax among Small and Medium Enterprises in Mombasa County The study employed a descriptive research design targeting a population of 200 SMEs. Data was analyzed using a regression model. The Study concluded that financial recording keeping affected compliance of the SMEs, the study also found that tax payer costs such as agent's costs affected completion of tax activities. In

addition, Ngeno (2018) found that psychological aspects such as moral values affected tax compliance.

Kioko (2018) carried out a study on the effect of social media advertising on tax administration. The study used descriptive research, targeting a population of 127 officers. Data was analyzed using descriptive research statistics technique. The study concluded that there existed a positive correlation between Facebook, twitter and YouTube advertising.

2.6 Critique of the Existing Literature to the Study

A study by Frey and Fled (2019) indicated that the cost of non-compliance refers to the additional tax cost that is expected to be incurred in future where a taxpayer engages in non-compliance activities and is charged for tax evasion. Some of the factors that affect tax non-compliance include; tax penalty, opportunity to evade tax, social responsibility, ethics, enforcement moral reasoning and tax deduction. This study did not examine the influence of ICT and employee competence in tax administration.

Ondiek (2013) analyzed the reactions by Kenya Revenue Authority on the difficulties experienced in the usage of the structural changes and modernization. In his investigation tried to set up how KRA actualized the CRM program. Findings of the study showed that the greatest difficulties unearthed by KRA were absence of imperative aptitudes, protection from change, absence of resources, and absence of a steady telecommunication framework. This study did not involve motor vehicle dealers and did not examine tax compliance.

Simiyu (2010) led an examination on difficulties influencing collection of turnover tax in Nairobi County, Kenya. He initiated that tax employees were involved in bribes when introduced to them to lessen tax obligations. This circumstance immensely influenced revenue gathering. This study did not examine the influence of ICT and employee competence in tax administration.

Tax compliance is concerned on the timely and accurate submission of tax remittance information to the revenue authority. The online filing system has a direct impact on the tax compliance levels (Nakiwala, 2010). The system ensures that the taxpayer has filled all the required mandatory fields before allowing him to proceed to the next level. This has the effect of ensuring that the revenue authority receives relatively high quality data compared to

the manual returns of the data (Nakiwala, 2010). This study did not examine the influence of ICT and employee competence in tax administration.

2.7 Research Gaps

In a study by (Feld, 2002) it was indicated that tax compliance was high and large in an endogenous fine treatment. The primary clarification why individuals show higher tax compliance on the off chance that they are permitted to cast a ballot on a fine is authenticity. Compliance rates are greater if the fine is acknowledged than for the situation the fine is disallowed. Subjects who dismiss the proposition of the fine demonstrate a greater consistency rate than matters in the exogenous acceptable treatment regardless of whether they realize that the predominant technique under the presence of the low fine is resistance. This study did not examine the influence of ICT, employee's competence.

Mohd (2010) contends that, deficiencies in revenue collection and occasion deficient tax combinations. Developing states as indicated by the scholastic faces an issue of bumbling tax supervision. The former issue is credited to with insufficient authoritative work with fundamental abilities, and abnormal state of lack of education among tax collectors and tax payers. This study did not examine the influence of ICT, employee's competence and tax compliance levels on tax administration.

Ngeno (2018) studied the factors that affect small and medium enterprises. The study focused on Small and medium enterprise. The theories used in this study were economic deterrence theory, psychology theory and economic based theory, giving this study the chance of exploring other theories in this field such as the compliance cost theory, technological determinism theory and the human capital theory. This study did not focus on the motor vehicle dealers sector and did not study employee competence in relation to tax administration.

2.8 Summary of Literature

This study examined literature by researchers on the topic of the factors influencing tax compliance among motor vehicle dealers in Mombasa County. This was done by explaining the applicable theories guiding the research: The Technology Determinism theory, Human capital theory and Transaction cost theory. This opened the gaps for this study in that the researcher set out to operationalize the variables in the study by seeking to fill in the gaps under the following such as: the extent to which ICT has influence tax compliance, effect of

tax incentives, Information, Communication and Technology and compliance cost on tax compliance. The researcher noted their little information that has concentrated on the factors influencing tax compliance in Mombasa motor vehicle dealers hence this study therefore seeks to fill this research gap.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that the researcher intends to use to carry out the study.

3.2 Research Design

Saunders, Lewis and Thornhill (2019) characterizes research design as the structure that manages the execution of an exploration technique, and the consequent investigation of gained information. It gives a system to the age of proof that is fit both to a specific arrangement of criteria and to the exploration question in which the researcher is intrigued. This investigation utilized cross sectional survey design. It looked to set up components linked with specific conditions, results, events, or kinds of conduct. Descriptive research is a rational technique for inspection in which information is collected so as to depict the flow conditions, terms or relating regarding a matter (Saunders, Lewis & Thornhill (2019).

3.3 Population

Target population is alluded by Saunders, Lewis, and Thornhill (2019) to be a global set of all members of the research of theoretical set of individuals, events that a researcher uses to get results. This study targeted the 58 motorcar dealers in Mombasa County and 163 staff in various departments in KRA Mombasa Office (KRA HRM, 2018).

3.4 Sampling Frame

This is at the stage of the sampling process where a list of available sampling units is available for selection (Jwan, 2010). This study sample frame involved different departments at KRA. 1 Manager Mombasa North, 6 Assistant Managers Mombasa North, 58 Officers Mombasa North, one Manager Mombasa South, 6 assistant managers, 45 officers in Mombasa South, 45 assistant manager in marketing, 2 marketing Officers and 58 motor vehicle dealer's companies officers giving a total of 221 respondents (KRA HRM, 2018). In this study, the sampling frame consisted of 221 respondents.

3.5 Sample Size and Sampling Technique

Saunders, Lewis, and Thornhill (2019) referred to sampling as a selection a somewhat small number of parties, object or event and analyzed in order to probe something about a

population from which the selection is done. This study adopted Slovin's formula to determine the sample.

$$\text{Sample size} = \frac{N}{1 + Ne^2} \quad \text{Where N is the target population, e is the error margin}$$

$$= \frac{221}{1 + 221 (0.05^2)}$$

= 142 respondents

Stratified random sampling was used to get the respondents from various strata.

Table 3.1 Sample size

Respondents	Target
Manager Intelligence & Strategic Operations	1
Supervisors Intelligence & Strategic Operations	4
Manager Customs & Border Control	1
Officers Mombasa Customs	1
Manager Investigations & Enforcement	1
Supervisor Investigations & Enforcement	4
Manager Mombasa North	1
Assistant manager Mombasa North	4
Officer Mombasa North	43
Officers Mombasa South	29
Supervisor Marketing & Communication	2
Marketing Officers	1
Motor vehicle dealers officers	40
Total	142

3.6 Data Collection Instruments

Questionnaires were used to collect data. A questionnaire as method of data collection, was most suitable instrument for this study for it is a set of structured questions to be employed by the investigator to get needed data from the participants (Oppenheim, 2010). Questionnaires were classified as structured, unstructured and semi-structured. Structured questionnaires had multiple answers, while open ended questionnaires allowed the respondent to give more information while answering the questions. The researcher used a structured questionnaire

because of the nature of information she was seeking. The questionnaires were given to the 187 respondents as a way of acquiring data on the factors influencing tax compliance among motor vehicle dealers in Mombasa County. Questionnaires has the advantage of enabling the researcher to collect information from various people simultaneously and the ability to maintain anonymity (Sekeran & Bougie, 2016).

According to Jwan (2010) questionnaires are generally less expensive and do not waste time in management. Questionnaires were designed with research objectives in mind in order to elicit responses on each objective. Questionnaires contained both open and closed-ended questions to permit for collection of qualitative and quantitative data.

3.7 Data Collection Procedure

The researcher self-administered the questionnaire. This is where the researcher visited the KRA Mombasa office and gave the questions to the respondents, explained to them the reason she is carrying out the study, waited as they answer and picked the questionnaires for analysis. Notwithstanding, where the participants were busy to fill the questionnaire right then, drop and pick later strategy was embraced. A due date was set by which the finished questionnaires were picked. To guarantee high reaction rates, the researcher interpreted every one of the segments of the questionnaire to the respondents to guarantee that they completely comprehend the inquiries before replying. Data and the information was gathered from respondent dealt with privately and was utilized only for the study.

3.8 Pilot Study

This pilot study was done at the neighboring Kilifi office. The study involved 10% of the sample size as advocated by (Jwan, 2010). Therefore the study randomly sampled 12 respondents to participate in the piloting. This took into consideration pre testing of the tool with a little delegate of the sample of the population. This empowered the researcher to be acquainted with the study and its organization methods just as distinguishing things that required change. This guaranteed validity and reliability of the instrument.

3.8.1 Validity

Jwan (2010) contends that reliability in psychometrics and insights is the measure of general consistency. A measure is thought to have a high unwavering quality on the off chance that it produces comparable findings under steady conditions. The pilot helped the researcher to know whether the instrument have reliability.

Pilot testing was done where the questionnaire was administered to a number of the respondents and the responses were checked against the research objectives. The results and recommendations of the pilot test was used to further develop the questionnaire.

3.8.2 Reliability

Saunders, Lewis, and Thornhill (2019) indicated that validity estimates the exactness of the instruments in getting the foreseen information that can meet the goals of the study. The reliability of the investigation measures were evaluated by figuring Cronbach's Alpha coefficient for the items in the tool. The coefficient which runs in the range of 0 and 1 with higher being taken as being extra reliable. All questions that had a coefficient of 0.7 or more was viewed as reliable thus fit for the investigation while a lower coefficient prompted inspection of the questions to change them and remedying the blunders that was found, uncertain questions were clarified and applicable places amended to make them reliable. This was done by running the test again until the point that the coefficient was 0.7 or more.

3.9 Data Analysis

As indicated by (Saunders, Lewis, & Thornhill 2019) data analysis incorporates the way toward making meaning of the data gathered collecting and consolidating its important sections such that the findings can be effectively and successfully presented. After the data collection, before analysis, all questionnaires were checked for unwavering quality. Editing, coding and tabulation was done. The descriptive statistics was used. Qualitative data involved thematic analysis while quantitative method involved descriptive statistics. The study used SPSS version 25 as a tool to analyze the data. Descriptive statistics was presented using frequency tables and graphs. Inferential statistics involved regression analysis.

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

Where: Y = Tax compliance,

$\{\beta_i; i=1,2,3\}$ = The coefficients for the various independent variables.

X_i for; X_1 = Tax incentives, X_2 = compliance costs,

X_3 = Information, Communication and Technology, ε = Error term.

CHAPTER FOUR DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter deals with data analysis, presentation and interpretation. Data analysis and presentation is based on the three study objectives: establish the effects of taxpayer incentives on tax compliance among motor vehicle dealers, determine the effects of compliance costs on tax compliance among motor vehicle dealers, and establish the effects of Information Communication and Technology on tax compliance among motor vehicle dealers in Mombasa County.

4.2 Response Rate

This study involved the 142 respondents that included manager Mombasa North, assistant manager Mombasa North, officers Mombasa North, manager Mombasa North, assistant manager, officers Mombasa South, assistant manager marketing, marketing officers and 24 manufacturing companies officers. 135 respondents out of 142 returned their questionnaires making a 95.07 per cent return rate. As indicated by Mugenda and Mugenda (2003) in his studies 50 per cent of reaction rate of above 70% rated is very good. This means that a response of 95.07 per cent was very good for data analysis.

Table 4.1 Response rate

Items	Frequency	Percentage
Sampled	142	100.00
Respondents	135	95.07

4.3 Reliability Results

Cronbach coefficient was used to assess the internal consistency or average correlation of items within the test.

Table 4.2: Reliability Results

Variables	Cronbach alpha coefficient	
Taxpayer incentives	0.710	Reliable
Compliance costs	0.792	Reliable
Information Communication and Technology	0.706	Reliable

The results of the reliability tests carried out in Table 4.2 show that Information Communication Technology had the lowest coefficient ($\alpha = 0.706$). Compliance costs had a reliability coefficient score of 0.792 while taxpayer incentives had 0.710. The measurement scale thus had high consistency and the decision points were that all the study constructs were reliable.

4.4 Demographic Analysis

The researcher started by a general analysis on the demographic data got from the respondents which included: education level and length dealt with motor vehicle dealers in Mombasa of the respondents. This was followed by a description of the study variables under various sections of the questionnaire.

The respondents were asked to specify their education level. The data is presented in Table 4.3.

Table 4.3: Highest education level of the respondents

Education Level	Frequency	Percentage
Primary school	0	0
High/secondary school	2	1
Professional diploma /Tertiary college	33	24
University degree	92	68
Post graduate education	8	7
Total	135	100

Majority 92 (68%) of the respondents had university level of education while an 8 (7%) had Professional diploma /Tertiary college. Therefore, the information on the factors affecting tax compliance of motor vehicle dealers in Mombasa County was from an informed people.

Table 4.4: Length dealt with motor vehicle dealers in Mombasa

Length of	Frequency	Percentage
Less than 1 year	7	5
1 - 2 years	10	7
2 - 3 years	20	15
More than 3 years	98	73
Total	135	100

The findings indicate that majority 98 (73%) of the respondents revealed that they had worked for more than 3 years while 20 (15%) indicated had worked for between 2-3 years. A few 10 (7%) revealed that they had worked for between 1-2 years. This implies that the respondents had enough experience to understand the factors affecting tax compliance of motor vehicle dealers in Mombasa County.

4.4 Effects of tax incentives on tax compliance among motor vehicle dealers

The study investigated the taxpayers' knowledge influence on tax compliance by probing statements on influence of tax incentives on tax compliance.

Table 4.5: Statements on influence of tax incentives on tax compliance

Statements	Mean	Standard deviation
Income tax incentive has increased revenue collection	4.12	0.01
Tax amnesties has increased compliance	4.25	0.14
Foreign tax credit incentives has increase the collected revenue	4.35	0.45
Reduced taxes has attracted more compliance in tax collection	4.85	0.85
Incentives has made the relationship with clients better for tax compliance	4.36	0.64

A large number of respondents agreed that income tax incentive has increased revenue collection as revealed by a mean of 4.12 and a standard deviation of 0.01 while majority agreed that tax amnesties had increased compliance as shown by a mean of 4.25 and a standard deviation of 0.14. Many agreed that foreign tax credit incentive has increase the collected revenue as indicated by a mean of 4.35 and a standard deviation of 0.45 while majority agreed that reduced taxes has attracted more compliance in tax collection as revealed by a mean of 4.85 and a standard deviation of 0.85. A large number agreed that incentives had made the relationship with clients better for tax compliance as shown by a mean of 4.36 and a standard deviation of 0.64.

Tax incentives are a prominent feature of many tax codes in both developed and developing countries. Developed countries tend to use targeted investment incentives, generally embodied in the income tax law. Developing countries tend to use a combination of targeted

and more general incentives, which may be embodied in the income tax law, the investment and other laws, or simply government decrees (Wallis, 2012). It assists taxpayers in meeting their tax obligations to the government. This means that the primary existence of taxpayer incentives is to encourage voluntary compliance amongst taxpayers.

4.5 Effects of compliance costs on tax compliance among motor vehicle dealers

Table 4.6: Statements on influence of compliance costs on tax compliance

Statements	Mean	Standard deviation
The cost incurred to hire tax consultants is affordable	4.05	0.59
Fee paid to tax agents is affordable	4.15	0.28
Changes in tax laws increase tax consultancy fee	4.09	0.17
KRA has put in place various support for motor vehicle dealers to comply on their own.	4.53	0.96
Tax issues arising are resolved with minimal visits to KRA premises reducing the incidental expenses such as travel	4.75	0.71

Majority agreed that the cost incurred to hire tax consultants is affordable as indicated by a mean of 4.05 and a standard deviation of 0.59 while a large number agreed that fee paid to tax agents is affordable as revealed by a mean of 4.15 and a standard deviation 0.28. A large number agreed that Changes in tax laws increase tax consultancy fee as shown by a mean of 4.09 and a standard deviation of 0.17 while majority agreed that KRA has put in place various support for motor vehicle dealers to comply on their own.as revealed by a mean of 4.53 and a standard deviation of 0.96. A large number agreed that tax issues arising were resolved with minimal visits to KRA premises reducing the incidental expenses such as travel as revealed by a mean of 4.75 and a standard deviation of 0.71.

Any extra tax costs that is expected to be incurred in future, if a taxpayer engages in non-compliance activities, for example, fines, penalties or even imprisonment might be charged towards evasion. When tax non-compliance activities are detected and the possibility of the non-compliance is being detected by tax authority, it is necessary for taxpayers to know the consequences of future tax costs if he/she intends to engage in tax non-compliance activities (Hai and See, 2011).

4.6 Effects of Information Communication Technology on tax compliance among motor vehicle dealers

This study probed if Information Communication Technology influenced tax compliance among motor vehicle dealers. It looked at various statements on the influence of filling procedure on tax compliance.

Table 4.7: Statements on the influence of Information Communication Technology on tax compliance

Statements	Mean	Standard deviation
Use of ICT has made compliance easy through ICMs & Itax systems	4.59	0.23
Auto linking between <i>i</i> tax systems and TIMS will enhance compliance	4.75	0.11
Increased payment platforms has enhanced tax compliance	4.19	0.85
Strict deadlines for tax payments affects tax compliance	4.78	0.15
System downtimes are not frequent enough to disrupt compliance	4.19	0.16
KRA systems are user friendly and accessible to the taxpayer	4.12	0.21

Majority of the respondents agreed that use of ICT had made compliance easy through ICMs & Itax systems as revealed by a mean of 4.59 and a standard deviation of 0.23 while majority agreed that auto linking between *i* tax systems and TIMS will enhance compliance as shown by a mean of 4.75 and a standard deviation of 0.11. A large number agreed that increased payment platforms had enhanced tax compliance as indicated by a mean of 4.19 and a standard deviation of 0.85 while majority agreed that strict deadlines for tax payments affects tax compliance as revealed by a mean of 4.78 and a standard deviation of 0.15. Majority agreed that system downtimes are not frequent enough to disrupt compliance as revealed by a mean of 4.19 and a standard deviation 0.16 while a large number agreed that KRA systems are user friendly and accessible to the taxpayer as shown by a mean of 4.12 and a standard deviation of 0.21.

Mugisha, (2001), in a descriptive study in the utilization of ICT improves opportune access to exact and pertinent data, which is an essential for good arranging, programming, usage just as checking and assessment which shapes the key segment being developed. He contends that computer produced returns, transmitted by electronic means are less demanding to process than paper returns; meanwhile the data on the structures does not need to be entered in physically by IRS workers into the Service's PCs, henceforth there is less possibility of mistakes. Electronic transmittal is quick, by-passing the baffling ideas of the postal framework and the customer gets affirmation with-in a day or two that the arrival not exclusively was gotten by the IRS, however was gotten precisely.

In Kenya, the earliest form of the online filing of tax returns was through the implementation of the Integrated Tax Management System (ITMS) in 2013. This was to facilitate the online payments of Value Added Tax (VAT), Cooperate Tax amongst others (Lukorito, 2012). The ITMS also connected the Electronic Tax Registers (ETR) devices (registers) to enable simplification of the VAT declarations. The ITMS enabled the taxpayers to undertake electronic filling. In the context of the system requirements, the ITMS required internet explorer or higher of Mozilla Firefox 3.0.3 (Mandola, 2013). Kenya Revenue Authority (KRA) was to later phase out the ITMS and replaced it with the iTax system. The iTax enabled the taxpayer to undertake internet based registration, filing, paying and status inquiries with real time monitoring of the accounts (Mandola, 2013).

4.8 Tax Compliance

Table 4.8: Revenue collected in the years

	2018/2019	2019/2020
Amount of revenue collected	Sh 1.580 Trillion	1.607 Trillion

From the findings, it was revealed that KRA collected Sh 1.580 Trillion revenues in 2018/2019 financial year recording a shortfall of Sh50bn. In the just concluded financial year 2019/2020 KRA collected 1.607 Trillion recording a performance rate of 97%.

Table 4.9: Performance of revenue collection

Statements	Mean	Standard deviation
The Authority has achieved its target	4.18	0.36
Compliance has improved	4.27	0.47
Has performance appraisals brought about results based management in customs department	4.38	0.22
Penalties imposing has been enhanced leading increased revenue collection	4.39	0.85
Efficient auditing has improved revenue collection	4.33	0.14

A large number of the respondents agreed that the authority has achieved its target as revealed by a mean of 4.18 and a standard deviation 0.36 while majority agreed that compliance had improved as indicated by a mean of 4.27 and a standard deviation 0.47. Majority agreed that performance appraisals brought about results based management in customs department as shown by a mean of 4.38 and a standard deviation 0.22 while a large number agreed that penalties imposing has been enhanced leading increased revenue collection as revealed by a mean of 4.39 and a standard deviation 0.85. Majority agreed that efficient auditing had improved revenue collection as revealed by a mean of 4.33 and a standard deviation 0.14.

A descriptive study by Ondiek (2013) analyzed the reactions by Kenya Revenue Authority on the difficulties experienced in the usage of the structural changes and modernization. In his investigation tried to set up how KRA actualized the CRM program. Discoveries of the examination showed that the greatest difficulties unearthed by KRA were absence of imperative aptitudes, protection from change, absence of resources, and absence of a steady telecommunication framework.

4.9 Correlation Analysis

This study established the relationship between the factors affecting tax compliance by conducting a correlation analysis.

Table 4.10: Correlation analysis

	Taxpayer incentives	Compliance costs	Information Communication Technology	Tax compliance
Tax incentives	1			
Compliance costs	.364*	1		
Information Communication Technology	.418*	.190*	1	
Tax compliance	.435*	.172*	.574	1

*. Correlation is significant at the 0.05 level (1-tailed).

The correlation matrix indicates that tax compliance is correlated with ICT at 5 percent significance level (.418). The table also indicates that there is a positive correlation between tax incentives and compliance cost at (.364). There is also a positive correlation between tax incentives and ICT at (.435). Correlation was done to confirm the findings from the descriptive statistics.

This findings are reflected in a study by CIAT (2011) that established that improved transparency in the provision and delivery of tax incentives for investment may help increase governments fiscal accountability and rationalize the use of such incentives. This will also help in improving investor and taxpayer confidence in the system, support good governance, reduce lobbying pressures for increased or new incentives, and promote economic development.

4.10 Regression Analysis

To determine whether independent variables affect the dependent variable, multiple regression was used. To achieve this, tax compliance as the dependent variable was regressed against four variables namely tax incentives, compliance costs, and Information Communication Technology. This section examined whether the multiple regression equation can be used to explain the factors influencing tax compliance among motor vehicle dealers in Mombasa County.

Table 4.11: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621 ^a	.386	.380	.56860

a. Predictors: (Constant), Tax incentives, Compliance costs, and Information Communication Technology

From the results obtained, an R of 0.621 shows that there is a positive correlation between factors influencing tax compliance among motor vehicle dealers in Mombasa County. The adjusted R square of 0.380 indicates that tax incentives, compliance costs and Information Communication Technology in exclusion of the constant variable explained the change in tax compliance by 38%, and the remaining percentage can be explained by factors not included in the model.

The coefficient of determination (r-squared) of 0.386 indicates that 38.6% of tax compliance can be explained by tax incentives, compliance costs, and Information Communication Technology. The findings on ANOVA results on factors influencing tax compliance among motor vehicle dealers are presented in Table 4.12.

Table 4.12: ANOVA results

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	85.206	4	21.302	65.888	.000 ^b
	Residual	135.787	131	1.0365		
	Total	220.993	135			

a. Dependent Variable: Tax compliance

b. Predictors: (Constant), Tax incentives, compliance costs, Information Communication Technology

The Analysis of Variance (ANOVA) indicated a p-value of 0.000. This, therefore, means that the relationship between various factors and tax compliance was significant at 95% confidence level. The F statistics of 65.888 was large enough to conclude that the set of variables have a significant influence on tax compliance among the motor vehicles dealers.

This implies that X_1 = Taxpayer incentives, X_2 = Compliance costs, X_3 = Information Communication Technology, are significant predictors at explaining tax compliance among motor vehicle dealers and that the model is significantly fit at 95% confidence level.

Table 4.13: Model Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	1.653	.129		12.835	.000
Tax incentives	.140	.047	.186	2.994	.003
Compliance costs	.144	.055	.183	2.621	.009
ICT	.173	.044	.210	3.941	.000

a. Dependent Variable: Tax compliance

Further analysis as shown in Table 4.13 shows that tax incentives had a coefficient of 0.140, compliance cost had a coefficient of 0.144 and Information Communication Technology a coefficient of 0.173.

From the coefficients, the model developed was as follows; Tax compliance = 1.653 + 0.140 Tax incentives + 0.144 Compliance costs + 0.173 Information Communication Technology.

The beta Coefficients in the regression shows that all of the tested variables had positive relationship with tax compliance. The findings show that all the four variables tested were statistically significant with positive beta coefficients.

These findings agree with the findings in a study by Ondiek (2013) which indicated that the greatest difficulties unearthed by KRA were absence of enough incentives, protection from change, absence of resources, and absence of a steady telecommunication framework.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter summarizes the findings of the study and presents conclusions, recommendations and suggestions for further research.

5.2 Summary of Findings

The study sought to assess factors affecting tax compliance of motor vehicle dealers in Mombasa County. The study was guided by the following objectives; establish the effects of taxpayer incentives on tax compliance among motor vehicle dealers, determine the effects of compliance costs on tax compliance among motor vehicle dealers, and establish the effects of Information Communication and Technology on tax compliance among motor vehicle dealers in Mombasa County.

5.2.1 Influence of Taxpayer Incentives Influences Tax Compliance

From the findings, a large number of respondents agreed that income tax incentive has increased revenue collection as while majority agreed that profit tax incentive had led to a higher amount of revenue collection compliance. Many agreed that foreign tax credit incentive has increase the collected revenue while majority agreed that reduced taxes has attracted more compliance in tax collection. A large number agreed that incentives had made the relationship with clients better for tax compliance.

5.2.2 Influence of Compliance Cost on Tax Compliance

Majority of the respondents revealed that tax compliance levels influenced tax administration while a few indicated that it did not. Majority agreed that agency cost influences the compliance of tax while a large number agreed that consultancy costs influence tax administration as. A large number agreed that there was a lot of time taken by a business person to acquire appropriate knowledge to deal with tax obligations while majority agreed that tax consultation positively influence tax administration. A large number agreed that incidental expenses incurred in completion of tax activities, such as travel.

5.2.3 Influence of Information Communication and Technology Tax Compliance

Majority of the respondents agreed that use of ICT had made compliance easy through ICMs & Itax systems while majority agreed that auto linking between *i* tax systems and TIMS will enhance compliance. A large number agreed that increased payment platforms had enhanced tax compliance while majority agreed that strict deadlines for tax payments affects tax compliance. Majority agreed that system downtimes are not frequent enough to disrupt compliance while a large number agreed that KRA systems are user friendly and accessible to the taxpayer.

5.2.4 Tax Compliance

The finding on tax compliance indicated that a large number of the respondents agreed that the authority has achieved its target while majority agreed that compliance had improved. Majority agreed that performance appraisals brought about results based management in customs department while a large number agreed that penalties imposing has been enhanced leading increased revenue collection. Majority agreed that efficient auditing had improved revenue collection.

5.3 Conclusions

The study investigated the influence of taxpayer knowledge on tax compliance among motor vehicle companies. The employees were found to have the required expertise but they were not experience enough to oversee tax compliance.

The study on the influence of compliance costs on tax compliance led to conclusion that there are loop holes that negatively influence tax compliance. Consultancy costs influenced tax compliance. There was a lot of time taken by a business person to acquire appropriate knowledge to deal with tax obligations.

The study concludes Information Communication Technology has a positive influence towards tax compliance. It enhances accountability, efficiency and transparency among the KRA staff who collect revenue.

5.4 Recommendations

Based on the basis of the study, the researcher recommends the following;

- i. KRA should enhance tax incentives in order to enhance tax compliance among motor vehicle companies. This can be enhanced through strict rules and regulations formulation that enhance issuance of incentives to clients that are tax compliant.
- ii. KRA should reduce the cost of compliance and technical tax regulation requirements among motor vehicle companies. This can be enhanced through simplify the tax regulations requirements and streamline the compliant resolutions process to further reduce the cost of compliance among motor vehicle dealers.
- iii. The Information Communication Technology should be enhanced for systems used by motor vehicle companies to increase tax compliance. This can be done by KRA working with NTSA to achieve an auto linking between iTax, ICMS and TIMS system

5.5 Area for Further Research

Opportunities for further research still exist in this area. The study assessed factors affecting tax compliance of motor vehicle dealers in Mombasa County. Therefore, further research should be carried out in types of companies in other counties.

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APPENDIES

APPENDIX I: QUESTIONNAIRE

I am conducting a research for my Post Graduate Diploma in Tax Administration in Jomo Kenyatta University of Agriculture and Technology. The study is on the factors influencing tax compliance among motor vehicle dealers in Mombasa County. Kindly participate in this research by filling this questions that suits you based on the simple instructions provided.

Section A: General Information (Indicate with an x or √ to indicate your response)

1. What is your highest education level?

Education Level	
Primary school	
High/secondary school	
Professional diploma /Tertiary college	
University degree	
Post graduate education	

2. How long have you dealt with motor vehicle dealers in Mombasa?

Duration of dealing with motor vehicle dealers	
Less than 1 year	
1 - 2 years	
2 - 3 years	
More than 3 years	

Section B: Effects of tax incentives on tax compliance among motor vehicle dealers

Please rate your agreement with the following statements on influence of tax incentives on tax compliance. (Scale: 1= 'strongly disagree', 2= 'disagree', 3= 'neutral', 4= 'Agree' and 5= 'strongly Agree')

	Statements	1	2	3	4	5
B1	Income tax incentives has increased revenue collection					
B2	Tax amnesties has increased compliance					
B3	Foreign tax credit incentives has increase the collected revenue					
B4	Reduced taxes has attracted more compliance in tax collection					

B5	Incentives has made the relationship with clients better for tax compliance					
B6	Capital deduction allowance has increased compliance					

Section C: Effects of compliance costs on tax compliance among motor vehicle dealers

Please rate your agreement with the following statements on influence of compliance costs on tax compliance. (Scale: strongly disagree, 2= disagree, 3= neutral, 4= Agree and 5= strongly Agree)

	Statements	1	2	3	4	5
C1	The cost incurred to hire tax consultants is affordable					
C2	Fee paid to tax agents is affordable					
C3	Changes in tax laws increase tax consultantancy fee					
C4	KRA has put in place various support mechanism for motor vehicle dealers to comply on their own.					
C5	Tax issues arising are resolved with minimal visits to KRA premises reducing the incidental expenses such as travel					
C6	The introduction of alternative dispute resolution by KRA has increased compliance					

Section D: Effects of Information, Communication and Technology on tax compliance among motor vehicle dealers

Please rate your agreement with the following statements on the influence of Information, Communication and Technology on tax compliance: (Scale: 1= strongly disagree, 2= disagree, 3= neutral, 4= Agree and 5= strongly Agree)

	Statements	1	2	3	4	5
D1	Use of ICT has made compliance easy through ICMs & Itax systems					
D2	Auto linking between <i>i</i> tax systems and TIMS will enhance compliance					
D3	Increased payment platforms has enhanced tax compliance					
D4	Strict deadlines for tax payments affects tax compliance					

D5	System downtimes do not frequently enough to disrupt compliance					
D6	KRA systems are user friendly and accessible to the taxpayer					

Section E: Tax compliance

Please indicate the revenue collected in the years indicated

	2018/19	2019/20
Amount of revenue collected		

Please rate your agreement with the following statements on revenue collection. (Scale: strongly disagree, 2= 'disagree', 3= 'neutral', 4= 'Agree' and 5= 'strongly Agree')

	Statements	1	2	3	4	5
E1	Frequent changes of tax laws are effected on <i>i</i> tax systems on time to enhance tax compliance					
E2	Reports generated by the ICT systems are verifiable and useful in ensuring transparency and accountability of tax returns					
E3	Performance appraisals brought about results based management in customs department					
E4	Penalties imposing has been enhanced leading to increased revenue collection					
E5	Efficient auditing has improved revenue collection					
E6	The KRA offices have the necessary tools, equipment for revenue collection					

APPENDIX II: LIST OF MOTOR VEHICLE DEALERS IN MOMBASA COUNTY

1.	DT Dobie & Co (K) Ltd
2.	Ryce Ea Ltd
3.	Aisha Motor Dealers
4.	Fahari Cars Ltd
5.	Panij Automobiles (K) Ltd
6.	Bhavin Motors Ltd
7.	Canon Motors Ltd
8.	Car & General (Trading) Ltd
9.	Elegant Cars Ltd
10.	Euroken Automobiles Ltd
11.	Overseas Vehicle Import Services Ltd
12.	Panjatani Auto Spares
13.	Pyramid Autocare Ltd
14.	Wheeler Dealer
15.	Al Khaba Trading Co. Ltd
16.	Maheer Motors Ltd
17.	Afriken Impex Ltd
18.	Al - Malik Brothers Motor Ltd
19.	Alphat Engineering Works
20.	Anas Motors Ltd
21.	Asia Trans Trading Co (KENYA) Ltd
22.	Bhinder Trading Co Ltd
23.	Brands Motors Ltd
24.	Bustan Motors Ltd
25.	Cars For Africa Ltd
26.	Cgm Trading Company
27.	Chania Auto Spares
28.	Chatha Motors
29.	Czar Motors
30.	Daitoku Cars (Osaka) Ltd
31.	Day Nova Automobile Ltd

32.	Delight Car Dealers
33.	Diani Motors Ltd
34.	Dodhia Motors Ltd
35.	Doughty Ltd
36.	Dracko Haulage Ltd
37.	E A Motor Industries Ltd
38.	Far East Car Bank Ltd
39.	Fuji Trading Co Ltd
40.	Gorgeous Trading Co
41.	Gulf Auto Parts Ltd
42.	Hewa Auto
43.	Jodalu Motors Ltd
44.	Joeva Motors Co
45.	Ken Banc Inv
46.	Kent Car Land Trd Ltd
47.	Kilimanjaro Ventures (EA) Ltd
48.	Marshalls (ea) Ltd
49.	Milestone Trading Ltd
50.	Mospar Enterprises
51.	Mulkan Motors
52.	Nafas World Auto K Ltd
53.	Quality Trucks & Equipment Ltd
54.	Scania Kenya Grange Vehicle Industries Ltd
55.	Smart Autos
56.	Tryon Car Imports
57.	Yuasa Motors
58.	Yatal Automobile Ltd

Source: KRA database, 2020

Appendix III: Work plan

	Feb 2020	March 2020	March 2020	April 2020	June 2020	June 2020	July 2020	Aug 2020	Sep 2020
Writing of research proposal									
Proposal correction and piloting									
Data collection									
Data analysis									
Research report writing									
Submission of project for examination									

Appendix IV: Budget

No.	Activity	Cost	Total
1.	Proposed writing		
	- Literature review (travel & photocopy	5,000	
	- Typing, photocopy& binding	5,000	10,000
2.	Data collection		
	- Research instruments (typing, piloting & copies)	10,000	
	- Administration (Transport)	10,000	20,000
3.	Data analysis		
	- Data analysis	10,000	
	- Print outs	5,000	15,000
4.	Research reports		
	- Draft , typing and copying	5,000	
	- Final copy for Examination	8,000	13,000
	TOTAL		88,000