

**FACTORS INFLUENCING PRESUMPTIVE TAX COMPLIANCE AMONG SMALL
AND MICRO ENTERPRISES IN KENYA: A CASE OF NYERI COUNTY**

KIAMA SUSAN WANGUI

HDB336-C016-4129/2016

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

2019

DECLARATION

This research is my original work and has not been presented to any other examination body. No part of this research should be produced without my consent or that of Kenya School of Revenue Administration Institution.

Name: Susan Wangui Kiama

Signature.....

Date.....

This research project has been presented for examination with my approval as the supervisor

Name: Dr. Charles Orero

Signature.....

Date.....

Table of Contents

DECLARATION	ii
LIST OF TABLES	vii
LIST OF FIGURES.....	viii
LIST OF ABBREVIATION	ix
ABSTRACT	x
CHAPTER ONE	1
INTRODUCTION.....	1
1.1Background.....	1
1.1.1 Global perspective	2
1.1.2 Key Perspective	3
1.1.3 SMEs in Kenya.....	4
1.1.4. SMEs in Nyeri County	6
1.2 Statement of the problem	7
1.3 Research Objectives.....	9
1.3.1 Main Objective	9
1.3.2 Specific Objectives	9
1.4 Research Questions.....	9
1.5 Significance of the Study	10
1.5.1 Academic	10
1.5.2 Policy and Administration	10
1.6 The Scope of the Study	11
1.7. Limitations of the study	11
CHAPTER TWO	12
LITERATURE REVIEW	12
2.1 Introduction.....	12
2.2 Theoretical Framework	12
2.2.1 Economic Deterrence Theory	12
2.2.2 Fiscal Exchange Theory	14
2.2.3 Social Influences Theory.....	15
2.2.4 Comparative treatment theory	15
2.2.5 Political legitimacy Theory	16
2.3 Conceptual Framework	17
Figure 2.1: Conceptual Framework	18
2.4 Empirical Literature Review	19

2.4.1 Tax Knowledge	19
2.4.2 Tax compliance Costs	20
2.4.3 Tax Rates	21
2.4.4 Presumptive tax system.....	22
2.5 Critique of the study	23
2.6 The Knowledge Gap	24
2.7 Summary.....	24
CHAPTER THREE.....	25
RESEARCH METHODOLOGY	25
3.1 Introduction.....	25
3.2 Research Design.....	25
3.3 Sampling Frame	25
3.4 Target Population	25
Table 3.1: Classification and Tally of SME's in Nyeri County	26
3.5 Sampling and Sampling Technique	27
Table 3.2: Sample Selected.....	28
3.6 Data Collection Methods.....	29
3.7 Data Research Instruments	29
3.8 Data Analysis and Presentation	29
3.9 Measurements of the variables	30
CHAPTER FOUR.....	34
RESEARCH FINDINGS AND DISCUSSIONS.....	34
4.0 Introduction.....	34
4.1 Response Rate	34
Table 4.1: Table showing Response rate.....	35
Figure 4.1: Figure showing response rate	35
Table 4.2: Position of the respondent in the organisation.....	36
4.2. Demographic Information	37
Table 4.3: Age of Business	37
4.2.2 Type of Business	38
Table 4.4: Type of Business.....	38
4.2.3. Annual Turnover.....	39
Table 4.5 Annual Turnover of the Respondents	39
4.2.4. Personal Identification Number	40
Table 4.6: Number of respondents with PINs	40

4.3. Presentation of Research Variables	41
4.3.1. Tax Rates and Presumptive Tax Compliance	41
Table 4.7: Responses on the statements that show a relationship between tax rates and Presumptive Tax compliance	41
Figure 4.2: Figure showing responses on the statements that show a relationship between tax rates and Presumptive Tax compliance	42
4.3.2. Tax Compliance Costs and Presumptive Tax Compliance	43
Figure 4.3: Figure showing monthly cost incurred by respondents to be tax compliant	43
Table 4.8: Responses on the statements that show a relationship between tax compliance costs and Presumptive Tax compliance	44
Figure 4.4: Figure showing responses on the statements that show a relationship between tax compliance costs and Presumptive Tax compliance	45
4.3.3. Tax Knowledge and Presumptive Tax compliance	46
Table 4.9: Responses on the statements that show the relationship between Tax Knowledge and Presumptive Tax compliance	46
Figure 4.5: Figure showing responses on the statements that show a relationship between tax knowledge and Presumptive Tax compliance	47
4.3.4. Awareness of the Presumptive tax system and Presumptive Tax compliance	48
Figure 4.6.: Figure showing how respondents' found out about Presumptive Tax System	48
Table 4.9.1.: Responses on the statements that show the relationship between the awareness of Presumptive Tax System and Presumptive Tax compliance	49
Figure 4.7: Figure showing responses on the statements that show a relationship between the Presumptive Tax system and Presumptive Tax compliance	50
4.4. Inferential Statistics	51
4.4.1 Regression Analysis	51
4.4.2. Correlation	52
4.4.3. Discussion of Findings	54
CHAPTER FIVE.....	55
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	55
5.1. Introduction.....	55
5.2. Summary.....	55
5.2.1. Tax Knowledge and Presumptive Tax Compliance	55
5.2.2. Tax Compliance Costs and Presumptive Tax Compliance	56
5.2.3. Tax Rates and Presumptive Tax Compliance	57
5.2.4. Awareness of the Presumptive Tax System and Presumptive Tax Compliance	57
5.3. Conclusions.....	58
5.4. Recommendations	59

5.5. Recommendations for further studies.....	60
REFERENCES	61
APPENDICES	67
APPENDIX I: LETTER OF TRANSMITTAL.....	67
APPENDIX II: QUESTIONNAIRE.....	68
APPENDIX III: INTERVIEW GUIDE	74

LIST OF TABLES

TABLE	PAGE
Table 3.1: Classification and tally of SME's in Nyeri County	Error! Bookmark not defined.
Table 3.2: Sample Selected	Error! Bookmark not defined.
Table 4.1: Table showing Response rate	Error! Bookmark not defined.
Table 4.2: Position of the respondent in the organisation.....	Error! Bookmark not defined.
Table 4.3: Age of Business	Error! Bookmark not defined.
Table 4.4: Type of Business	Error! Bookmark not defined.
Table 4.5 Annual Turnover of the respondents	Error! Bookmark not defined.
Table 4.6: Number of respondents with PINs	Error! Bookmark not defined.
Table 4.7: Responses on the statements that show a relationship between tax rates and Presumptive Tax compliance	Error! Bookmark not defined.
Table 4.8: Responses on the statements that show a relationship between tax compliance costs and Presumptive Tax compliance	Error! Bookmark not defined.
Table 4.9: Responses on the statements that show the relationship between Tax Knowledge and Presumptive Tax compliance	Error! Bookmark not defined.
Table 4.9.1.: Responses on the statements that show the relationship between Presumptive Tax System and Presumptive Tax compliance	Error! Bookmark not defined.

LIST OF FIGURES

FIGURE	PAGE
Figure 2.1: Conceptual Framework	Error! Bookmark not defined.
Figure 4.1: Figure showing response rate	Error! Bookmark not defined.
Figure 4.2: Figure showing responses on the statements that show a relationship between tax rates and Presumptive Tax compliance	Error! Bookmark not defined.
Figure 4.3: Figure showing monthly cost incurred by respondents to be tax compliant..	Error! Bookmark not defined.
Figure 4.4: Figure showing responses on the statements that show a relationship between tax compliance costs and Presumptive Tax compliance	Error! Bookmark not defined.
Figure 4.5: Figure showing responses on the statements that show a relationship between tax knowledge and Presumptive Tax compliance	Error! Bookmark not defined.
Figure 4.6.: Figure showing how respondents' found out about Presumptive Tax System	Error! Bookmark not defined.
Figure 4.7: Figure showing responses on the statements that show a relationship between the Presumptive Tax system and Presumptive Tax compliance	Error! Bookmark not defined.

LIST OF ABBREVIATION

KRA	Kenya Revenue Authority
US	United States
ICTD	International Centre for Tax Development
NYS	National Youth Service
SME	Small and Micro Enterprises
GDP	Gross Domestic Product
OECD	Organisation for Economic Co-operation and Development
DCED	Donor Committee for Enterprise Development

ABSTRACT

Tax is the most essential source of government revenue because it is very predictable when done correctly and in accordance to the governing laws. In an effort to maintain tax as the main source Kenya revenue, the government continually comes up with creative and relevant ways to increase tax collection such as; tightening tax valuation processes, developing tax policies and reforms, creating awareness on the role of taxation among others. Therefore, the specific objective of this study is to determine the factors that influence Presumptive tax compliance among SMEs specifically in Nyeri County. In the literature review, the researcher outlined the relevant theories that relate to tax compliance as well as identified the independent variables as tax knowledge, tax compliance costs, tax rate, and Presumptive tax system while the dependent variable being the Presumptive tax compliance of SMEs. The research design used in the research methodology was descriptive survey design. A sample size of 379 was picked to show maximum representativeness of study target population. In order to include various diverse categories of taxpayers and business entities in the research, stratified sampling technique was adopted. Data was collected using closed ended questionnaires and an interview guide for one on one interview. The collected data was broken down and analysed using the Descriptive and Inferential Statistics tools like Regression and Correlations analysis models which were all supported by the SPSS statistics software. The research findings were that tax knowledge and awareness of the presumptive system had positive influence while tax rates and tax compliance costs had a negative influence to the Presumptive tax compliance of SMEs. The research identified that tax information was readily available and easy to understand but more sensitization forums needed to be introduced for SMEs to be more tax compliant. The research also identified that the SMEs viewed tax compliance as time consuming and that the tax agents should revise their current tax structures as well as embark on sensitizing SMEs on how to be tax compliant at minimal costs. The research also identified that the tax rates were viewed as being unfavourable and that the penalties for noncompliance were considered unfair hence they should be revised so as to make them more attractive and favourable. The research also identified a negative relationship between the tax rates and tax compliance costs with Presumptive tax compliance since the respondents felted that the current tax rates are too high and that it was very expensive to comply to the tax jurisdiction. Hence, the study concluded that the Presumptive tax system should be revised and tax agents should engage SMEs in more tax related forums to understanding and recommend ways to improve tax compliance in the informal sector. The research recommended that tax rates should be revised to be more favourable and that tax information on Presumptive tax should be simplified and made more available through sensitization forums by KRA and well as other modes.

CHAPTER ONE

INTRODUCTION

1.1Background

Tax compliance is the voluntary seeking to pay the right amount of tax in the right place at the right time. Right, in this case, means that the economic substance of the transactions undertaken coincides with the place and form in which they are reported for taxation purposes(Neve, Imbert, Spinnewijn, Tsankova, & Luts, 2019)A taxpayer has three options when it comes to tax compliance and they include; complying one hundred percent to pay tax, engage in tax avoidance such that the tax compliance varies from one to one hundred percent and finally engage in tax evasion whereby the tax compliance is at zero percent(Kiburi, 2018).

Tax avoidance is legal and it can be described as exploiting the tax legislation loopholes in any tax jurisdiction with the aim of reducing one's tax liability for example increasing retirement savings, health savings accounts among others (Rotuk, 2016). Tax Evasion or tax fraud, on the other hand, is the use of illegal methods to avoid proper tax such as under-declaring income, deliberately failing to file returns and underpaying the proper tax.(Thomson Reuters, 2018). Common techniques used by companies in Kenya to evade tax include; filing nil returns fraudulently, operating without a KRA pin, failing to register the company with the company registrar among others (Stinger, 2018).

1.1.1 Global perspective

In an article published in the New York Times, annual tax revenue of US Dollar 3.1 Trillion, as estimated by the World Bank, is lost by governments worldwide due to tax evasion. The article further lists countries that are most affected by tax evasion and they include America which loses Euro 337 Billion annually, followed by Brazil which loses US Dollar 2.08 million annually and then Italy which loses Euro 183-242 billion every year as well(Werdigier, 2011).Other countries that are also affected by tax evasion include Russia, Germany, France, Japan, China among others with each losing an estimate US Dollar 1.4-5.8 Billion annually(Waris, 2014).

The Royal Bank of Scotland, a privately owned bank in Germany, had its operations of assisting its wealthy clients to evade tax exposed in February 2015. They would help their clients with billions in assets and record these dealings in offshore accounts such that this information was not disclosed to the taxman and thereby evading all tax associated with that wealth (Titcomb, 2015). Brazil also experienced cases of undeclared assets when in 2014 the government officials uncovered a private island during a crackdown for tax evaders. Failing to report any income in a particular financial year is one of the most common methods of tax evasion practiced in Italy and series of investigations targeting people with luxurious lifestyle but with no reported income (Berr, 2011).

Tax evasion is an aspect of intentional tax non-compliance since it involves deliberately failing to meet the required tax obligations in any tax jurisdiction. Unintentional tax noncompliance often occurs due to ignorance to understand the tax laws, for instance, filing returns after the deadline. Other causes of unintentional non-compliance include the complexity of the tax laws making it difficult to understand, low literacy rates among taxpayers among others (Revenue Scotland, 2015)

Following a survey done by the International Centre for Tax Development (ICTD) in 2016, on the tax compliance among citizens of Kenya, Uganda, Tanzania, and South Africa, some key findings were identified. It was found out that tax evasion among the citizens of these countries was rampant and it positively correlated to the respective governments' ability to provide public goods and services. That meant that government could boost tax compliance by providing the citizens with what they demand for instance in Kenya, provision of better roads and electricity. Another concept that was uncovered was that the knowledge of the tax system was directly related to tax compliance of the citizens hence in order to improve compliance to pay tax, tax laws had to be simplified to ease understanding (Fjeldstad, 2016).

1.1.2 Key Perspective

Kenya struggles to enhance tax compliance using the factors identified by ICTD. Based on an audit of multinationals' accounts carried out in 2018, it was discovered that Kenya had lost an estimate of Kshs 35.6 Billion in the last three years due to tax evasion, thereby, proving that it was relatively easy to evade tax. Secondly, Kenyans were indeed not satisfied by the government's provision of public goods and services, which had negatively affected their tax compliance. Finally, government parastatals and authorities being found guilty by association with lost revenue might have also negatively affected the tax compliance in the country (Were, 2018). Kenya Revenue Authority is an agency of the government in charge of assessment, collection and accounting for tax revenue in Kenya. Its main aim is to promote tax compliance among Kenyan citizens to ensure maximum revenue is collected and thereby divided into various regions namely; Northern, North, and South Rift Valley, Southern, Western, Central and the Headquarters being Times Tower, Nairobi. In an effort to maximize tax collection, KRA is also distinguished in various departments such as domestic taxes, custom, and border control as well as the office of the Commissioner General (KRA, 2018).

Findings from a research carried out in Nyeri Town revealed that there is a significant relationship between the tax compliance of informal sector, where most SMEs' lie in this region, and the existing tax rate(Gitonga, 2015).It was identified that the tax compliance remained low as a result of perception of the tax rates being too high leading to a high rate of tax evasion. The study, however, recommended a further research to be carried to identify the elements that could influence tax compliance in the region.

1.1.3 SMEs in Kenya

There is no universal definition of an SME as it varies in most countries since the terms “small “and “medium” in any firm relate to the size and level of business of an enterprise. The definition of an SME in most countries is determined by various factors which include; number of employees, level of capital investments or annual business turnover (OECD, 2017) The World Bank goes further to state that the most common definition of an SME is based on the number of employees in a particular firm which is to be a maximum of 299 employees where, a micro enterprise will have 0 to 10 employees, small enterprise will have 11 to 49 and a medium enterprise will have 50 to 299 employees(DCED, 2018).

A survey by the Central Bank of Kenya in 2017 reveals that SMEs constitute to 98% of all businesses in Kenya with about 1.6 million registered SMEs and are mainly located in the city estates as well as along major highways(African Review of Business and Technology, 2017).SMEs have been selected for this study since Kenya's economy and employment creation is heavily being developed by the SMEs' sector with 80% of jobs created in 2014 being attributed to SMEs(Adeyeye, 2016). Unfortunately, out of the 1.6 million registered SMEs, only 1,500 are recognized by KRA to be tax compliant. Moreover, it is estimated that the contribution to the GDP by the SMEs sector is over 45%(CNBC Africa, 2014)

Measures being implemented by KRA to increase tax revenue include introduction of a tax base expansion programme that will be expected to yield an estimate of Kshs 60 billion in the 2018- 2019 financial year. The programme aims to also recruit more than 500,000 new taxpayers, in the same financial year, who have mainly been left out of the tax brackets which will be done by making use of information gathered from public and private sector databases (Kenya Revenue Authority, 2018). Another tax base expansion measure highlighted by KRA was the introduction of Presumptive Tax in January 2019 at an applicable rate of 15 percent of the single business permit fee and was to be filed and paid annually. The Presumptive Tax was introduced to replace the Turnover tax that had earlier been introduced in 2007 at an applicable rate of 3 percent of the gross income of a business whose annual turnover did not exceed Kshs 5 million and was to be filed and paid on a quarterly basis. Turnover Tax proved to be unsuccessful and by January 2019 the level of tax compliance remained low in the informal sector hence the replacement (Muema, 2018).

Research findings on a study based on the influence of the enforced tax regulations such as TOT on agricultural SMEs in Nyeri County were that the 54% of the respondents revealed that there was a low likelihood of detection of tax evasion. Another 85% of respondents elaborated that the existing penalties and fines had a minimal effect to their tax compliance revealing that not much emphasis on compliance had been put by the tax authorities to SMEs in Nyeri (Ngatia, 2017). Unfortunately, there remains little research done on the tax compliance of SMEs in Nyeri town. Therefore, this study will seek to identify the factors that influence Presumptive tax compliance among SMEs in Nyeri Town.

1.1.4. SMEs in Nyeri County

Nyeri town is the headquarters of Nyeri County, which was previously the headquarters of the former Central Province before the promulgation of the new constitution. Therefore, it is one of the leading urban towns as well as a leading industrial, educational and business center in the entire Nyeri County region. It is also considered as a rural town since 50% of the area is in the rural areas bearing rich agricultural lands owned and managed by small-scale farmers who contribute to a large portion of SME's population who also include retail , hotel, educational , health and general trade business in the Nyeri County(Mahinda, 2016).

According to the most recent data from the Kenya National Bureau of Statistics, SMEs provide employment to almost half of all Kenyan workers and contribute a quarter to the country's GDP which in 2017 was projected at 6.4%. Based on another research carried out by Wylde International in 2017, the SMEs sector was seen to have performed relatively better than the bigger listed companies proving to be a very strong economic pillar to the Kenyan economy (Soko Directory Team, 2018)

Based on the 2009 national census, Nyeri County is home to an estimate of 693,558 people of which 51% makes up women and the other 49% men. In tax management, the statistics of the 2009 census describe the SMEs' sector in Nyeri County being made up of 19,812 self-employed people both in the rural and urban areas. In the Nyeri town, most of the SMEs are service providers with the majority of them being women who are 60.4% of all businesses in Nyeri town. Unfortunately, the main challenge faced by SMEs in Nyeri County is the limited access credit facilities to grow their business since they lack collateral as their small business have a minimal turnover. (County Government of Nyeri, September 2016).

1.2 Statement of the problem

The World Bank revealed that the tax revenue, which contributes highly to the overall GDP in Kenya, had declined by the end of financial year in June 2018. The bank also stated that the introduction of new tax reforms has already been exhausted and that the only ways to increase the tax revenue is to reduce the number of exemptions, improve tax collection policies and administration and finally enlarge the tax base (Adelaide Changole , 2018). One of the major causes to the gradual economic growth in Kenya is tax evasion whose estimate of Kshs 600 Billion annually by 2015 and added up to Kshs 5 Trillion 2018(Frankline, 2018).

In the past, SMEs in Kenya were considered very informal and could not yield significant tax revenue but having incurred rapid growth over the years, the government continually devises ways to expand the tax base and include SMEs sector (Mukiri, 2017). Unfortunately, tax compliance among SMEs remains low due to tax evasion, which hampers the Kenyan economy by reducing the available public funds as well as increasing the annual budget deficit. This heavily affects government revenue collection and thus shrinking the government's capacity to mobilize domestic revenues. Moreover, tax evasion reduces the country's capacity to receive both local and foreign investors hence reducing investments to grow the country (Gatukui, 2014). Following the financial year end 2018, Kenya had missed its target by Kshs 300 Billion due to heavy borrowing from foreign investors, many tax exemptions issued, inability to heavily focus on the expansion of the tax base which gave room to tax evasion especially in the informal sector where majority of the SMEs lie(Business Daily, 2019).

Turnover tax was introduced in 2008 with the aim of simplifying tax compliance for taxpayers with businesses of an annual turnover of more than Kshs 5,000,000, where most SMEs lie (Wagakuyu, 2017). In spite of the introduction of such tax reforms by the Kenyan government, statistical evidence continues to prove that SMEs contribution to government tax revenue still remains persistently low (Chebusit, 2014). Unfortunately, turnover tax proved to be unsuccessful as there was little of no tax base expansion and tax compliance remained low as SMEs continued finding ways to evade taxes through underdeclaring their income and failing to file and pay the taxes due. (Muli, 2018).

Presumptive tax was able to replace Turnover tax taking effect from January 2019 at an applicable rate of 15 percent of the single business permit fee and was to be filed and paid annually. It was introduced with the aim of increasing tax revenue as well as expanding the tax base but unfortunately, its performance continues to yield minimal results as some counties continued to issue business permits without including the KRA charge (Guguyu, 2019).

It is for this reason that a research needs to be carried to identify the factors that will influence the level of Presumptive tax compliance among SMEs especially rural areas. While most research in Kenya has focused on tax compliance primarily in the Nairobi County, little study exists that focuses on identifying the elements that influence and improve tax compliance among SMEs in counties other than Nairobi. To address this gap, the study will seek to determine the factors that influence Presumptive tax compliance among SMEs in Kenya and particularly, the Nyeri County.

1.3 Research Objectives

1.3.1 Main Objective

The main objective of this research is to determine the factors that influence the presumptive tax compliance of Small and Micro Enterprises in Nyeri County.

1.3.2 Specific Objectives

- a) To assess the influence of tax knowledge on the presumptive tax compliance among SMEs in Nyeri County.
- b) To examine the influence of the presumptive tax compliance costs on the tax compliance among SMEs in Nyeri County.
- c) To assess the influence of the tax rates on presumptive tax compliance among SMEs in Nyeri County.
- d) To determine the influence of the awareness of the presumptive tax system on the presumptive tax compliance among SMEs in Nyeri County.

1.4 Research Questions

- a) Does tax knowledge influence presumptive tax compliance among SMEs in Nyeri County?
- b) Does tax compliance costs influence presumptive tax compliance among SMEs in Nyeri County?
- c) Does tax rates influence presumptive tax compliance among SMEs in Nyeri County?
- d) Does awareness of the presumptive tax system influence presumptive tax compliance among SMEs in Nyeri County?

1.5 Significance of the Study

1.5.1 Academic

The study will act as a useful guide and eye opener for scholars, researchers, students and policymakers on relevant topics of discussion, therefore, forming a basis of further research for any individual intrigued by the subject of tax compliance specifically in Kenya. Reference will be drawn from the research which will provide an excellent literature base especially for academicians who will add to their existing body of knowledge in factors influencing tax compliance among SMEs.

1.5.2 Policy and Administration

This study will inform policy makers and various stakeholders on the various factors contributing to tax compliance among SMEs in Kenya. This study will also enable the Kenya Revenue Authority make informed decisions and choices in dealing with the various stakeholders in matters of tax requirements and compliance. The study will inform the various SMEs on the need for tax compliance and possibly work on reducing the negativity associated with tax revenue collection. The study aims to ensure better tax compliance by highlighting out the factors influencing the tax compliance of SMEs.

KRA and the national treasury who are basically the tax policymakers in Kenya will benefit from this study in that they can get a feeling of what the SMEs want to be provided with or to be changed for ease of tax filing. Tax filing has appeared to be the main challenge that most of the SMEs face and thus the reaction from this study should help KRA work on it and thus better the procedures to be followed.

1.6 The Scope of the Study

This study focused on identifying the factors influencing Presumptive tax compliance among SMEs in the Nyeri County. Nyeri County was selected as the study location due to its strategic location as it covers the developing SMEs since Nyeri is predominantly a rural County. Moreover, the research will lay more emphasis on the Nyeri Central region due to its strategic location and that majority of the SMEs operators in the town are women, which account to 60.4% of the business in County. Out of the 33,328 SMEs in the Nyeri County, the research will gather data from a sample of 379 SMEs. This study, therefore, will give an overview of the current status of the Presumptive tax compliance among SMEs who are registered, located and have been operating in Nyeri Central Region between the years 2010 and 2019.

1.7. Limitations of the study

Time was deemed to be a limiting factor when carrying out the research, as more time would have been sufficient to carrying out the study and have an extension scope and coverage. The research was a self-sponsored endeavour and hence the available financial resources were not enough to carry out an extensive research. The trust in the respondents to return questionnaires with complete answers was not guaranteed, as majority of respondents were fearful of being exposed for failing to be compliant.

To counter these limiting factors, the researcher had to request for time off from work as well as source for funding from closes friends, family and relatives. For the respondents who were fearful of being caught with non-compliance issues, confidentiality was facilitated and highlighted in the letter of transmittal.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This Chapter examined existing knowledge identified by various scholars in relation to tax compliance. It comprised the theoretical review and empirical framework, which clearly outlined the diverse schools of thought associated with the objectives of the study as well as the conceptual framework that gave a visual display of the relationship between the independent and dependent variables.

2.2 Theoretical Framework

The models of taxpayers' behavior are heavily incorporating the decision whether or not to pay taxes and it reflects on every of the following five theories: economic deterrence, fiscal exchange, social influences, comparative treatment, and political legitimacy.

2.2.1 Economic Deterrence Theory

This theory can be traced back to the early 1960s from the work of a known philosopher by the name of Becker whose research on compliance analysed illegal behaviour from an economic framework point of view. He was able to propose an argument that tax fraud had been possible since deterrents such as probabilities of detection as well as avoiding the tax law penalties are within the control of the society (Sebola & Chauke, 2016). Other philosophers, namely Allingham and Sandmo, in the early 1970s were able to derive a model from Becker's findings based on assumptions such as taxpayers being individuals who maximize utility with the knowledge of the penalties and detection rates at the back of their mind. They further elaborated that imposing heavier penalties and

probabilities of detection will increase the rate at which income is declared. This model was, however, not proven as it was considered simple and the variables very limited (Kosgei & Tenai, 2016).

In the early 2000s, further studies attempted to address the limitations of previous research and new modifications were fabricated by scholars and in particular Cuccia. He discovered that the taxpayers' perception and knowledge of the penalty levels is actually greater than the actual imposed penalties thereby concluding that the penalty perception had no relationship to the income being declared, hence contradicting with prior study. Falkinger and Walther went further to consider both disciplinary and persuasive factors whereby they recommended a tax system that integrates both penalties and rewards to enable maximum compliance. They further suggested the rewards should take the form of quicker tax refunds, percentage decrease in tax payable among others (Devos, 2014).

Therefore, despite the positive impact of increased penalty levels on taxpayer compliance, which was found to be likely effective where relatively low (and realistic) penalty levels are utilized, their overall impact has been questionable. More so, traditional economic deterrence models which were drawn from expected utility theory and deterrence, mainly in the form of penalties, were found to be wanting. Little evidence was available to support the predictions of economic deterrence models as a whole and therefore researchers were forced to summarise the impact of monetary cost determinants of compliance to include the tax rate, detection probability, income level, and the penalty composition.

Consequently, having considered the economic deterrence model and its limitations, it became clear that further revisions and improvements needed to be developed to address tax evasion and non-compliance(Devos, 2014).

2.2.2 Fiscal Exchange Theory

Unlike the economic deterrence theory, the fiscal exchange theory states that the tax compliance rate is bound to increase with the prominent presence of an authority like the government. This theory is traced way back in 1992 where philosophers Alm, McClelland and Schulze suggested that tax compliance could be improved when the government increased the availability of public goods and services to its citizens. They further elaborated that taxpayers believe that the taxes they pay are used to fund the provision the public goods and services by the government(Nikiema & Zahonogo, 2017). This theory basically implied that a direct relationship existed between the government's provision of public goods and services and the tax compliance of the citizens in general.

Despite the exact value of this public goods and services that taxpayers feel in return for payment of taxes remaining unknown, taxpayers could be seen to have a general attitude towards terms of trade with the government thereby, affecting also the taxpayer's level of satisfaction with the government. Therefore, if the taxpayer felt that the tax jurisdiction was unfair and inequitable, he/she could result to fully or partially engage in tax fraud (D'Arcy, 2014).

Other philosophers were able to further identify other non-state related factors such as powerful people or groups such as donors and NGOswho were able to influence the tax compliance of individuals when the government is weak and vulnerable. This influence is created when the taxpayers make payment to this non-state factor so as to receive protection for themselves, their business and property. However, no study exists on how the provision of services by criminal organizations and gangs affects taxpayers' attitude towards compliance (Sacks, 2015).

2.2.3 Social Influences Theory

The social influence theory stated that an individual's tax compliance behaviour and attitudes was affected by social norms and ways of living of an individual's reference groups who include relatives, close neighbors and friends. One of the assumptions made was that the human behavioural any tax jurisdiction is influenced by social interactions just the same way as other forms of demeanour. Therefore, if a taxpayer had a majority of his influences from these reference groups, he or she was likely to engage in tax evasion as his compliance level grows weaker (Nikiema & Zahonogo, 2017). More so, social relations could, on the other hand, influence taxpayers to reduce engagement in tax evasion for fear of the social penalties imposed once discovered and unveiled publicly. That went ahead to support one of the variables of the economic deterrence theory which was improving tax compliance based on the probability of being detected (Nurfazlina & Mohd, 2017).

One finding that remain constant about taxpayer attitudes and behavior from research done in West African countries is that those who were compliant believed that their colleagues and friends comply, whereas those who engaged in some form of tax evasion believed that other taxpayers also evade as they do (Waris, 2014).

2.2.4 Comparative treatment theory

This theory stated that if tax compliance is to be improved, the relationship between the two main actors, that is, the government and taxpayers, should be mended. It was based on the equity theory such that taxpayers are more likely to be tax compliant if their perception of the tax jurisdiction is fair and just (Ali, 2014). This perception of the tax systems influences not only the compliance decision but also related to the tax burdens of the taxpayers making it possible for tax compliance to increase among tax payers who are aware of having the same

tax obligation and burden. Taxpayers who are aware of having the same tax obligation but varying tax liability would in turn chose not to declare all their income as a way of getting square with the tax system(GIZ, 2015)

Three levels of fairness in the taxation system were highlighted by the United Nations in 2010 and they include distributive, procedural and retributive fairness. Distributive fairness was described as the taxpayers' perception of the government as proper watchdogs and intelligent spenders of the tax revenue thereby being linked to the fiscal exchange theory. Procedural fairness was, on the other hand, described as the perception of tax-related bodies and authorities adhering to the stipulated tax procedures and administration as well as treating taxpayers with equity and equality. Finally, the retributive fairness was described as the perception of tax-related bodies and authorities being just in the application of penalties upon the violation of the tax system policies. Overall, equity and fairness in all tax-related issues by the government and tax bodies builds on trust and cooperation among taxpayers hence improving tax compliance(OECD, 2015).

2.2.5 Political legitimacy Theory

Among other philosophers, elaborated that political legitimacy theory relates to taxpayers' belief and trust in the authorities and institutions to be just, congruous and operate for the common good (Fjeldstad, 2016). The United Nations goes further to state that the more citizens choose to trust these institutions and authorities, the more likely they will voluntarily comply with the rules and regulations they set(OECD, 2015).

In an effort to support this theory, research was carried out in the early 2000s by Picur and Riahi-Belkaoui on 30 developing and developed countries where tax compliance was found to be highest in countries with more control on the level of corruption with a small size of

beauracracy. The researchers concluded the study by suggesting that the government needs to increase its reputation and credibility so as to improve the citizens' trust and belief in them (Mitra & Sharma, 2016).

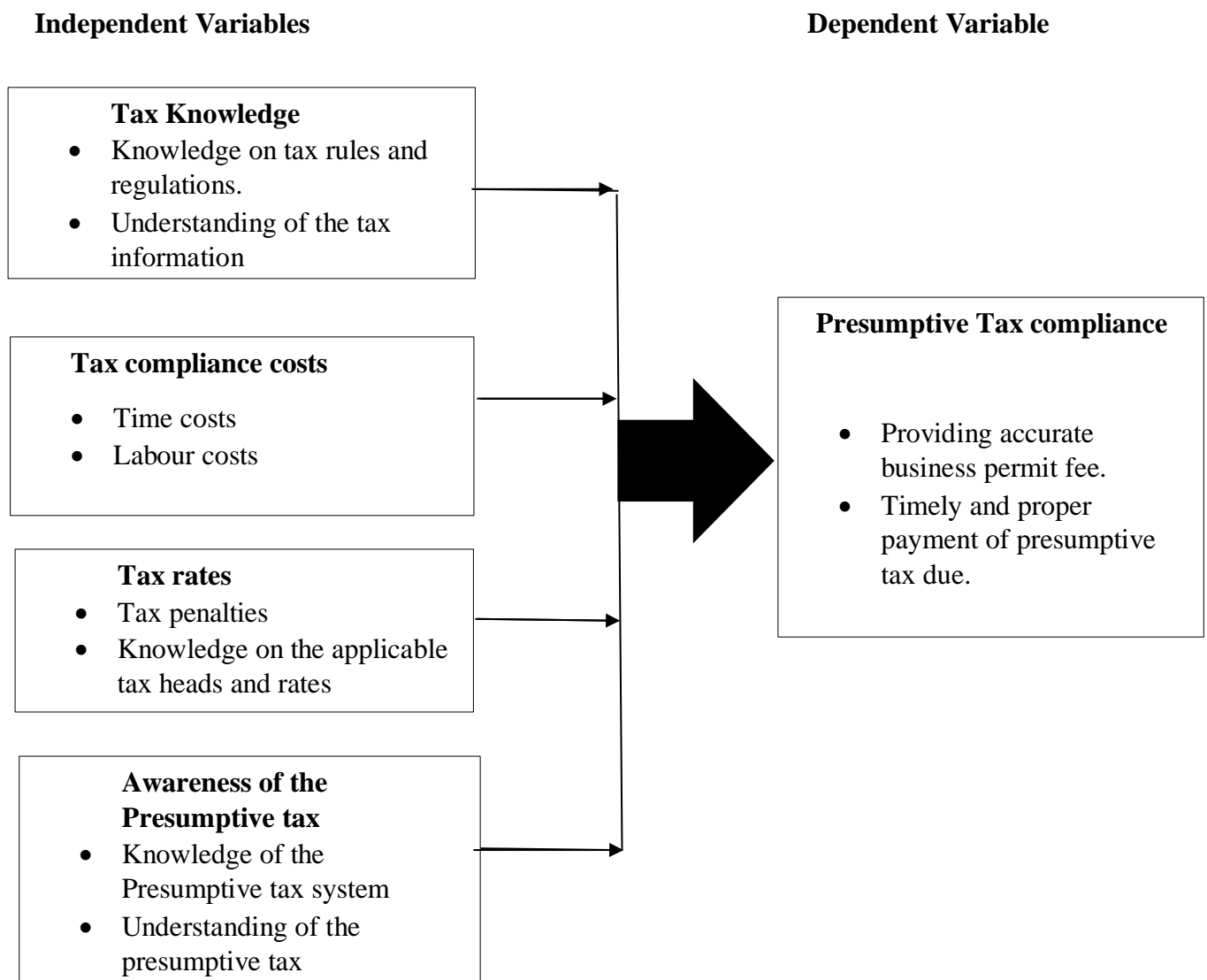
Other variables linked to the political legitimacy theory include national pride which influences citizens' behavior and morale in cooperating with the set rules including regulations relating to the tax system (Beale & Wyatt, 2017). Political affiliations is another variable whereby it was stated that if citizens support the current ruling government party, there are more likely to be compliant. This is because the citizens believe that ruling government party is efficient and credible in relation to the opposing political parties to whom they will most likely to be non-compliant since they will not trust in their policies (Langvatn, 2016).

2.3 Conceptual Framework

The study revealed a direct relationship existed between the factors that influence Presumptive tax compliance which are the independent variables and the existing influencing Presumptive tax compliance of SMEs which is the dependent variable. A visual representation of this relationship between the independent and dependent variables is seen below. The independent variables as seen above include tax knowledge, tax compliance costs, tax rates and awareness of Presumptive tax system towards taxation Presumptive tax compliance. The tax knowledge variable is characterized by the lack of adequate knowledge and understanding on tax rules and regulations among the SMEs. Tax compliance costs, on the other hand, is characterised by various costs that SMEs incur when choosing to comply with the tax system for example labour and time costs. Tax rates is another independent variable that is characterised by lack of adequate knowledge on the related tax heads, rates and the consequent penalties for non-compliance among SMEs. Awareness of the

Presumptive tax system is the fourth independent variable that is characterised by lack of adequate knowledge of how to carry out the process by SMEs making the process inefficient since SMEs fail to do what is required. The dependent variable for the research is Presumptive tax compliance among SMEs and is characterised by proper filing of the returns and timely payments of the taxes due.

Figure 2.1: Conceptual Framework



2.4 Empirical Literature Review

Tax plays a key role in the economic growth and development of Kenya, hence all related authorities and bodies strive to empower Presumptive tax compliance among all sectors including the SMEs. Empirical evidence was identified to support the specific objectives of the study, which are discussed as follows;

2.4.1 Tax Knowledge

Tax knowledge is the level of understanding and apprehension that taxpayers have on the tax legislations in a tax jurisdiction. It is mainly characterised by the level of taxpayer education provided to taxpayers by the relevant tax agents to enable understanding of the tax registration and filing requirements among others(Oladipupo & Obazee, 2016). Generally, the understanding of the tax system will positively impact the voluntary tax compliance particularly in aspects of calculating, filing and paying the right amount of tax(Yossi , 2018).

Various studies carried out on the effectiveness of Malaysia's tax self-assessment system revealed that tax knowledge had a direct relationship to the tax compliance behaviour of the citizens(Loo, 2016).The findings of the various studies were that 97% of the respondents, who were all SMEs, were aware of the tax system requirements and were all able to comply with the tax jurisdiction. Other studies carried out on the tax knowledge of SMEs in the UK revealed two aspects of tax knowledge: general awareness created through taxpayer education from tax agents and knowledge gained to take advantage of the existing tax legislation loopholes to engage in tax evasion. Majority of the respondents from the studies possessed the tax knowledge and were aware of what is expected (Harris, 2014)

Further studies carried out on SMEs in New Zealand also revealed that they all have substantial information on the taxes and they complied with the tax rules and regulations (Ritsema, Thomas, & Ferrier, 2014). Research done on SMEs in Australia showed that

majority of them was not aware of the tax requirements leading to unintentional tax noncompliance behaviour. The study findings were that the absence of knowledge among taxpayers leads to both intentional and unintentional tax non-compliance behaviour (Saad, 2014).

2.4.2 Tax compliance Costs

Tax compliance costs the costs that taxpayers incur after choosing to comply with their respective tax obligations and they include internal costs such as cost of time and labour consumed to complete the tax activities and external costs such as cost of required expertise and skill to effectively complete the tax activities as well as incidental expenses incurred during the completion of these tax activities (Mahangila, 2017). According to the OECD (2014), in order to minimize these costs, simplification of the tax compliance requirements such as less frequent filing and permitting simplified accounts should be done which will in turn influence SMEs compliance to the tax system.

Another set of scholars distinguished the compliance costs experienced by SMEs in three components; explicit costs which are monetary payments made to tax advisers and agents, implicit costs which include the time and labour spent by taxpayers and finally non- labour costs, also known as incident costs which are the business overheads like travel, stationery, equipment(Eichfelder & Hechtner, 2016).The scholars ,however, had a difficult time trying to evaluate incidental costs requires a proper accounting system.

Other measured costs that they were able to state include psychic costs which take the form of anxiety, stress, frustration that come about when complying with the tax obligations as well as tax authorities. Unfortunately, psychic costs are subjective in nature and hence become difficult to measure. Explicit costs, on the other hand, are the easiest to measure as

they represent the cash expenditure that is incurred by the taxpayer. The challenges that arise, however, a third party providing both accounting and tax-related services and the taxpayer is not aware how to classify activities as accounting or tax related (Evans & Liignier, 2014).

2.4.3 Tax Rates

Research on how the marginal tax rates affect tax compliance were more profound in the 1980s where scholars such as Clotfelter and Slemrod, identified the high tax rates as a major cause behind underreporting and tax evasion by many firms globally. The same findings were supported by other researchers like Pommerehne and Weck- Hannerman, who demonstrated that tax evasion increases with increasing in the tax rates.

In the late 2000s, more refined research was carried out and identified that the impact of the tax rates heavily depends on the degree of trust. When the trust level is low, the high tax rates will be interpreted as unfair treatment to taxpayers and a way of wielding power by the tax related authorities. On the other hand, when the degree of trust is high, the high tax rates will be considered as contribution to the development and growth of the community as if there is a joint agreement all individuals (Mas'ud, Aliyu, & Gambo, 2014).

In recent studies on one of the African countries (Modugu, Eragbhe, & Izedonmi, 2014), however, the findings showed that tax rates have no relationship with tax compliance. This was due to the nature of the responses from respondents and thus the researchers gave a general view as they were unable to determine the effect of tax rates on the level of compliance. Other studies that portrayed mixed and conflicting findings on the relationship of tax rates to the level of compliance include a cross-country analysis of the determinants of tax evasion which was conducted on the OECD countries and others that have the same trend (Schmutz, 2016). These findings mainly included that the high tax rates increase gains from

tax evasion and thereby lowering level of tax compliance through under reporting of income among taxpayers.

2.4.4 Presumptive tax system

Presumptive Taxes come about which self-assessment of tax returns cannot be relied on administrative assessments have to be put in place. The benefits that are brought about by this tax include reduction of the tax fraud loopholes, expanding the tax base, tax formalization as well as reduce tax collection costs. Presumptive taxes are adopted make tax related procedures easier for SMEs so as to collect more revenue from the informal sector(Bird, 2014).

In Ghana, presumptive tax was abolished as it was considered unjust and unfair form of taxation regardless of an enterprise profits or losses while other tax legislations rely on the records kept and filed. The SMEs in Ghana are mainly subsistence farmers and the presumptive tax had deemed inapplicable as the formal sector were being lured to operate as part of the informal sector (Chan, Troutman, & O'Bryan, 2014).

Other studies carried out in Tanzania revealed that the contribution from presumptive tax revenue was insignificant to the country's economy and that the previous turnover tax regime deem more successful(Bird, 2014).In the United States, presumptive tax regime was introduced in the motor trade sector and there was improved performance in the tax head. It was attributed to proper implementation of the tax with the aim of maximum tax base expansion as well as tax revenue generation and collection (Thomas, 2014)

Presumptive tax was introduced in Kenya effective from January 2019 to target SMEs with an annual turnover of less than Kshs five million. Its predecessor, Turnover tax had failed to meet its targets of expanding the tax base in the informal sector as well as collect more tax revenue (Njiru, 2018). It is still evident that the presumptive tax performance is still very low

unlike how it was expected which can be attributed to lack of proper understanding of the presumptive tax declaring procedures by the informal sector as well as the county government failing to include the charge in the business permit invoices(Ilako, 2019).

2.5 Critique of the study

In the early 2000s, further studies attempted to address the limitations of previous research and new modifications were fabricated by scholars and in particular Cuccia. He discovered that the taxpayers' perception and knowledge of the penalty levels is actually greater than the actual imposed penalties thereby concluding that the penalty perception has no relationship to the income being declared, hence contradicting with prior study. Falkinger and Walther went further to consider both disciplinary and persuasive factors whereby they recommended a tax system that integrates both penalties and rewards to enable maximum compliance. They further suggested the rewards should take the form of quicker tax refunds, percentage decrease in tax payable among others (Devos, 2014).

Among other philosophers, elaborated that political legitimacy theory relates to taxpayers' belief and trust in the authorities and institutions to be just, congruous and operate for the common good(Fjeldstad, 2016). The United Nations goes further to state that the more citizens who choose to trust these institutions and authorities, the more likely they will voluntarily comply with the rules and regulations they set(OECD, 2015).

Another philosopher, was able to further identify that non-state related factors such as powerful people or groups such as donors and NGOs are able to influence the tax compliance attitude of individuals when the government is weak and vulnerable(Sacks, 2015). This influence is created when the taxpayers make payment to this non-state factor to receive protection for themselves, their business and property. However, no study exists on how the

provision of services by criminal organizations and gangs affects taxpayers' attitude towards compliance.

2.6 The Knowledge Gap

In the 2016/2017 budget speech, Hon. Henry Rotich vividly laid emphasis on the need to widen the tax base so as to tap more into the informal sector where most SMEs lie. He further elaborated on the need to revise the existing tax policies and also highlighted the introduction of the Presumptive tax which was to replace the Turnover Tax which had failed to contribute to high growth of tax revenue as it was earlier intended. This therefore, leave a knowledge gap in this aspect and thereby forming the basis of this study. This research, therefore, has the main objective of determining the factors that influence the Presumptive tax compliance of Small and Micro Enterprises in the Nyeri County.

2.7 Summary

In summary, the study was able to identify five various diverse theories in the theoretical framework that relate to tax compliance including; economic deterrence, fiscal exchange, social influences, comparative treatment, and political legitimacy. Moreover, the review of literature identified previous studies that elaborated on the general objectives of the study in the empirical framework which include; Existing tax knowledge of SMEs in Nyeri County, tax compliance costs and how they affect SMEs and lastly the factors influencing Presumptive tax compliance of SMEs. The researcher was unaware of any existing study that has evaluated how these factors may influence Presumptive tax compliance among SMEs in Kenya and particularly in Nyeri county. Consequently, a gap exists in literature that the present study sought to shed light.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined the relevant steps that were taken to collect, analyze and present the data found.

3.2 Research Design

A descriptive research design was used for this study as it aims to give the current status of the identified variables of the study as well as identify the relationship between the independent and dependent variables within a target population (Chudleigh & Smith, 2015). The experiments from quantitative research design are considered as true science and make use of traditional mathematical and statistical ways to measure the findings in depth (Shuttleworth, 2019).

3.3 Sampling Frame

This is a population of interest with specific characteristics of whom the researcher wants to find out more information about and also from whom a sample is drawn (Insights Association, 2018). A sampling frame, in summary, is a list of all the units of the target population (Turner, 2014). Units, in this case, are the elements of interest for the study and they were the SMEs located in Nyeri County.

3.4 Target Population

According to the Nyeri County Integrated Development Plan 2018-2022, the number of Small and Micro Enterprises in the county exceeds 1000 businesses with only a few registered

under the Registrar of Companies. For the purposes of this research, the 2018-2022 plan provides a list of 33,328 registered small enterprises in Nyeri County.

Table 3.1: Classification and Tally of SME's in Nyeri County

Type of target business	Number of SMEs registered
Small Traders	20,687
Kiosks	708
Hawkers	2,542
Agricultural Dealers	1,624
Small Hotels	3,137
Other Catering & Accommodation facilities	33
Butcheries	1,042
Bars	1,042
Professional Services	700
Health – Private facilities	780
Workshop	1,033

Total Population**33,328**

Source: (DEPARTMENT OF FINANCE AND ECONOMIC PLANNING, 2018)

3.5 Sampling and Sampling Technique

Sampling is a crucial step in research because samples are derived from the target population and hence are used to provide an accurate representation of the population (Wills, Roecker, & D'Avello, 2018). Sampling is also very fundamental since it is almost impossible to collect and analyze data from an entire population targeted for research. Samples are chosen based on either non-probability techniques which do not provide equal chances for all individuals in a population to be selected such as snowballing or quota or probability techniques which, on the other hand, provide all the individuals of a population an equal chance of being selected such as simple random sampling and stratified sampling. For the purposes of this research, stratified sampling will be used where the target population will be subdivided into strata, then randomly select samples based on equal proportions (Crossman, 2018).

Based on the Krejcer and Morgan table, generated in the 1970s with the aim of calculating sample sizes for various population in a quantitative study, the research made use of a sample size of 379 respondents (izzati, 2017). Thus, the apportioning proportion to achieve the sample size of 379 respondents was applied at 1.12% on the number of SMSs registered per type of business. The sample selected was as below;

Table 3.2: Sample Selected

Type of target business	Number of SME's registered	%	Sample Selected
Small Traders	20,687	1.12	233
Kiosks	708	1.12	9
Hawkers	2,542	1.12	29
Agricultural Dealers	1,624	1.12	19
Small Hotels	3,137	1.12	36
Other Catering & Accommodation facilities	33	1.12	1
Butcheries	1,042	1.12	12
Bars	1,042	1.12	12
Professional Services	700	1.12	8
Health – Private facilities	780	1.12	9
Workshop	1,033	1.12	12

3.6 Data Collection Methods

Primary data was collected by way of close-ended questionnaires and where respondents voluntarily filled and completed the questionnaires. This method ensured that maximum data was collected from a wide range of respondents. The respondents included SME's owner, accountants or persons who handle the day to day tax related matters. Interviews with these respondents were also carried out where possible using an interview guide. Other sources such as relevant websites, documents and published articles were used to collect secondary data to support the research.

3.7 Data Research Instruments

The data research instruments used in the study includes a closed ended questionnaire as well as an interview guide. The instruments made it easier and quicker to gather data from respondents, to compare and eventually easier to code and analyse.

3.8 Data Analysis and Presentation

Careful analysis of completed questionnaires was done so as to assure accurate and relevant data was collected from the respondents. Upon collection, screening, coding of the questionnaires, the data derived from them was broken down using the Descriptive and Inferential Statistics tools like Regression, Correlations and Multi-collinearity analysis models, which are all supported by the SPSS statistics software.

The study adopted a multi-regression model as indicated below;

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

Where;

Y = Tax compliance

β_0 = Constant term

$\beta_1, \beta_2, \beta_3, \beta_4$ = Coefficient for the Independent Variables

X_1 = Tax Knowledge

X_2 = Tax Compliance Costs

X_3 = Tax Rates

X_4 = Awareness of the Presumptive tax system

ε = Error term, represents margin of error in the model

Data presentation techniques applied included; tables and figures as well as relevant graphical presentations for summarizing and compressing data collected to allow ease of understanding, interpretation and allow further investigation.

3.9 Measurements of the variables

The measurement of variables made use of a five point Likert Scale as seen in the statements below:

Sr N.	Variable	Measure/ Indicate	Likert Scale
1.	Tax Knowledge	-Knowledge on the tax rules and regulations	-I Strongly disagree that knowledge on the tax rules and regulations is well known.

-Understanding of the tax information	-I disagree that understanding of the taxes is for large taxpayers alone. -I neither agree nor disagree that tax knowledge is properly understood. -I agree that knowledge of tax rules and regulations is accessible I strongly agree that tax knowledge needs to be well interpreted and understood.
---------------------------------------	---

2. Tax compliance costs	-Time costs -Labour costs	-I strongly agree that time is a compliance cost. -I agree that labour is a compliance cost. -I neither disagree nor agree that the cost of hiring personnel influences compliance. -I disagree that the time spending filing returns affects tax compliance - I strongly disagree that a lot of manpower is required to be compliant.
-------------------------	--	--

3.	Tax rates	-Tax penalties	-I strongly agree that tax rates were properly developed.
		-Knowledge on the applicable tax heads and rates	-I agree that knowledge on tax heads and rates is not well known.
			-I neither agree nor disagree that tax rates are considered to be high.
			-I disagree that tax rates are not meant for small taxpayers.
			-I strongly disagree that tax penalties are high.
<hr/>			
4.	Awareness of the presumptive tax system	- Providing accurate business permit fee.	-I strongly agree that the presumptive tax systems are not well known.
		-Timely and proper payment of presumptive tax due.	-I agree that taxpayers need to be sensitized on the presumptive tax procedures.
			-I neither agree nor disagree that the presumptive tax procedures are efficiently done.

-I disagree that presumptive tax
procedure are time and labour costly

-I strongly disagree that presumptive
tax systems are difficult to
understand.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.0 Introduction

This chapter of the study aimed to gather research findings, presentations on the same as well as analysis and discussion of these findings which were based on the research variables. Data was collected and broken down using the Descriptive and Inferential Statistics tools like Regression, Correlations and Multi-co linearity analysis models which are all supported by the SPSS statistics software. Data presentation techniques that were applied included tables and figures.

4.1 Response Rate

The research had a sample size of 379 respondents from which data was collected on the factors affecting Presumptive Tax compliance among Small and Micro Enterprises in Nyeri County. Out of the 379 close ended questionnaires distributed by the researcher, 288 questionnaires were returned with complete responses. This gives a 76% response rate as shown in Table 4.1 which is 16% above the expected response rate of 60% for any survey or research done to achieve the maximum representativeness of the population of interest (Fosnacht, Sarraf, Howe, & Peck, 2014)

Table 4.1: Table showing Response rate

Questionnaires	Tally	Percentage
Returned and Complete	288	76%
Not returned	91	24%
Total	379	100%

As shown on table 4.1 above, the number of questionnaires that were returned having being completed were two hundred and eighty-eight thereby representing 76% of the all the questionnaires distributed. The returned questionnaires were analysed and the data collected contributed to developing a conclusive study on the relationship of the research variables.

Figure 4.1: Figure showing response rate

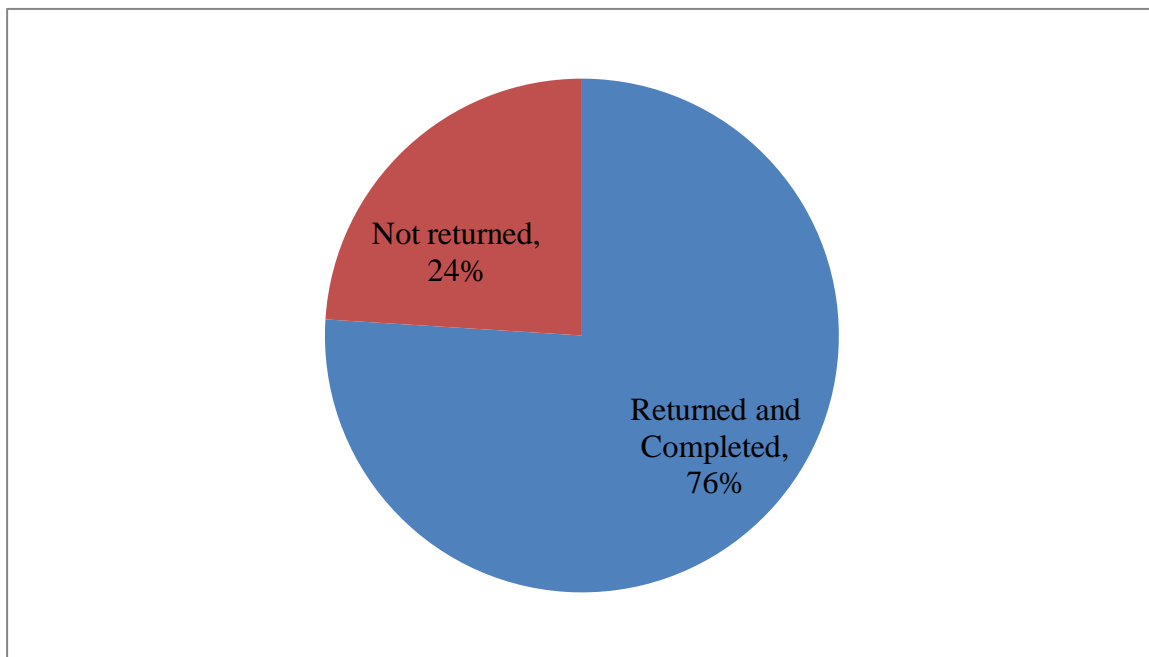


Figure 4.1 shows the percentage distribution of the response rate of the total 379 questionnaires administered for which 76% were returned having being completed whereas 24% were not returned.

Position of the respondents' in the organization was an element of the study listed in the questionnaire and table 4.2. shows the results from the responses given.

Table 4.2: Position of the respondent in the organisation

Respondent's position	Tally	Percentage
Business Owner/ Managing Director	193	67%
Auditor	8	3%
Accountant	5	2%
Employee	59	20%
Other	23	8%
Total	288	100%

Out of the total 288 questionnaires returned with complete answered, 67% were business owners, 3% were auditors of the organization, 2% were accountants in the organizations, 20% were employees within the organization while 8% were other representatives of the organization.

4.2. Demographic Information

The researcher found it necessary to identify the demographic factors for purposes of evaluating the factors influence presumptive tax compliance among SMEs in Nyeri County.

4.2.1 Age of the Business

Table 4.3 shows the age of the businesses for which the respondents were able to fill in the questionnaires.

Table 4.3: Age of Business

Age	Tally	Percentage
Less than One year old	91	32%
Between 1 to 5 years old	117	41%
Between 6 to 10 years old	67	23%
Above 10 years	13	4%
Total	288	100%

The findings revealed that 13 businesses that had existed for more than 10 years contributed to 4% of the total respondents. 67 had existed between 6 and 10 years and were at 23%, 117 businesses were between 1 to 5 years old contributing to 41% and finally 91 businesses had been less than one-year-old occupying 32% of the total responses received. Therefore, it was noted that majority of the respondents had been in business between 1 to 5 years.

4.2.2 Type of Business

Table 4.4 shows the responses given on the type of businesses of the respondents.

Table 4.4: Type of Business

Type of target business	Tally	Percentage
Small Traders	19	7%
Kiosks	36	12%
Hawkers	161	56%
Agricultural Dealers	5	2%
Small Hotels	21	7%
Other Catering & Accommodation facilities	6	2%
Butcheries	4	1%
Bars	19	6%
Professional Services	1	1%
Health – Private facilities	3	1%
Workshop	11	4%

Other	2	1%
Total Population	288	100%

The majority of the respondents were hawkers who were 161 at 56%, followed up by kiosks who were 36 and occupying 12% of the respondents, at 7% was both the small traders and small hotels who were 19 and 21 respectively. At 6% were the 19 bars followed by 11 workshops at 4%, 2% being 5 agricultural dealers and 6 catering and accommodation facilities. Finally, the least number of responses came from 3 health facilities, 1 professional service, 4 butcheries and 1 other small business.

4.2.3. Annual Turnover

The researcher found it essential to identify the annual turnover of the respondents in order to gather data that would assist in classifying the respective businesses as Small and Micro Enterprises under the tax legislation.

Table 4.5 Annual Turnover of the Respondents

Annual Turnover	Tally	Percentage
Below Kshs 500,000	95	33%
Between Kshs 500,001 and Kshs 1,000,000	103	36%
Between Kshs 1,000,001 and Kshs 2,500,000	38	13%
Between Kshs 2,500,001 and Kshs 5,000,000	28	10%

Over Kshs 5,000,000	24	8%
---------------------	----	----

Total	288	100%
--------------	------------	-------------

33% accounted for 95 respondents with an annual turnover below Kshs 500,000 while 36% accounted for 103 respondents with an annual turnover of between Kshs 500,001 and Kshs 1,000,000.13% represented 38 respondents who indicated they had an annual turnover of between Kshs 1,000,001 and 2.5million while 10% represented 28 respondents who has an annual turnover of between 2.5 million and 5 million. The minority were 24 respondents who were represented at 8% with an annual turnover of over 5 million.

4.2.4. Personal Identification Number

The researcher found it paramount to identify if businesses had PIN numbers for purposes of taxation and the findings are shown below in table 4.6.

Table 4.6: Number of respondents with PINs

Respondent	Tally	Percentage
Respondents with PINs	265	92%
Respondents without PINs	23	8%
Total	288	100%

According to table 4.6, 92% of the respondents had PINs while only 23 respondents had not registered for PINs representing 8% of the respondents. The researcher found it necessary to

analyse both responses from respondents with and without PINs to collect data that will assist in evaluation of the variables of the study.

4.3. Presentation of Research Variables

4.3.1. Tax Rates and Presumptive Tax Compliance

The researcher found it necessary to establish how tax rates influence Presumptive Tax compliance and the respondents' views were shown in the table 4.7.

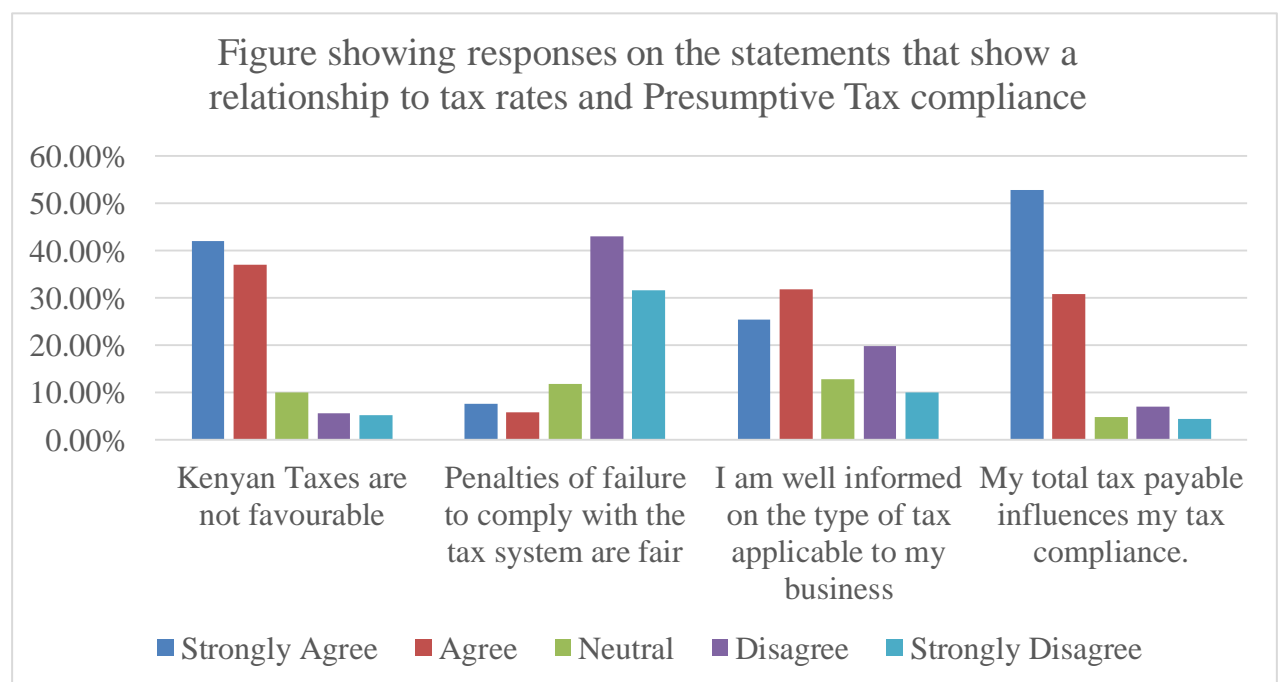
Table 4.7: Responses on the statements that show a relationship between tax rates and Presumptive Tax compliance

Variable Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Kenyan taxes are not favourable.	42.01%	37.15%	10.07%	5.56%	5.21%
Penalties of failure to comply with the tax system are fair.	7.64%	5.90%	11.81%	43.06%	31.60%
I am well informed on the type of tax applicable to my business.	25.35%	31.94%	12.85%	19.79%	10.07%
My total tax payable influences my tax compliance.	52.78%	30.90%	4.86%	6.94%	4.51%
Average	31.95%	26.47%	9.90%	18.84%	12.85%

As shown on table 4.7, respondents were expected to give feedback using a four point Likert Scale to respond to statements in the questionnaires issued on how tax rates influence

Presumptive tax compliance among SMEs in Nyeri County. On the first statement where Kenyan taxes are favourable, 42.01% of the respondents strongly agreed, 37.15% agreed, 10.07% were uncertain, 5.56% disagreed and another 5.21% strongly disagreed. On the second statement on whether penalties on non-compliance are fair, 7.64% of the respondents strongly agreed, 5.90% agreed, 11.81% were uncertain, 43.06% disagreed and another 31.60% strongly disagreed. On the third statement whether the respondents were aware of the taxes applicable to them, 25.35% of the respondents strongly agreed, 31.94% agreed, 12.85% were uncertain, 19.79% disagreed and another 10.07% strongly disagreed. On the fourth statement whether the respondents' total tax influences their level of compliance, 52.78% of the respondents strongly agreed, 30.90% agreed, 4.86% were uncertain, 6.94% disagreed and another 4.51% strongly disagreed. The average scores revealed that majority of the respondents, at 31.95%, strongly agreed with the statements raised under the variable of the study.

Figure 4.2: Figure showing responses on the statements that show a relationship between tax rates and Presumptive Tax compliance

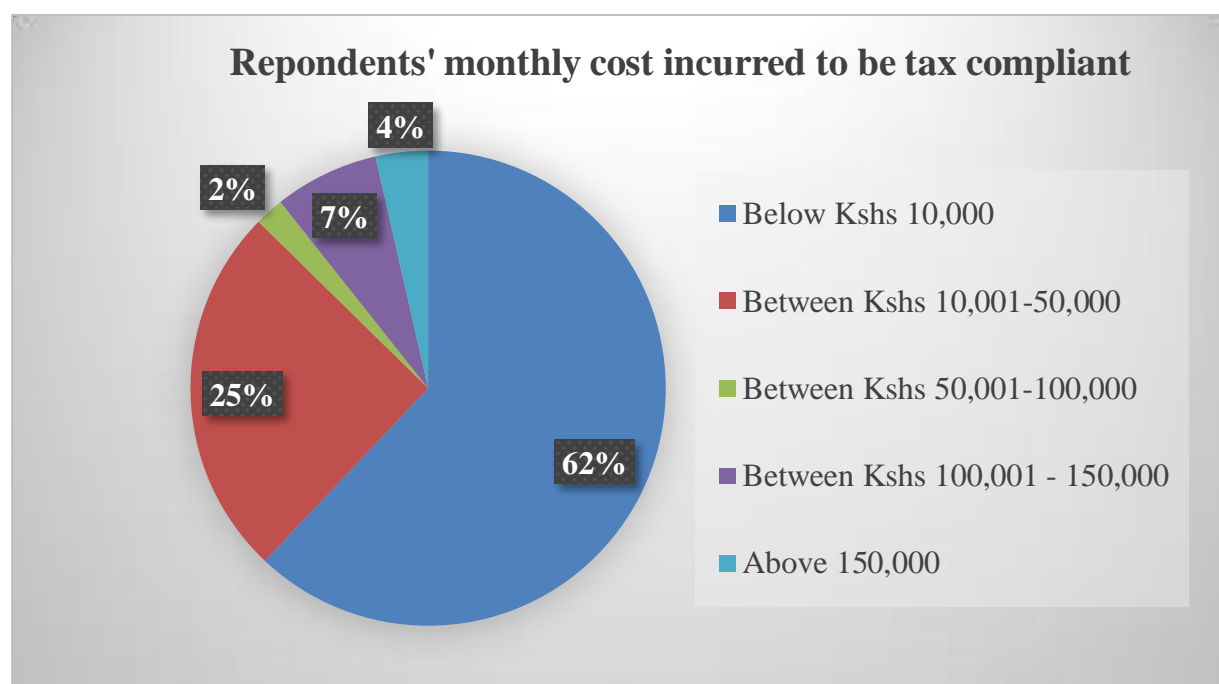


Based on the figure 4.2, it can be observed that majority of the respondents strongly agreed at 42.01%, that Kenyan taxes were unfavourable, majority also disagreed at 43.06%, that penalties of non-compliance to taxes were unfair. Another majority of the respondents agreed at 31.94% that they were aware on the taxes applicable to them as well as another majority strongly agreed at 52.78% that their total tax due influences their level of tax compliance.

4.3.2. Tax Compliance Costs and Presumptive Tax Compliance

The researcher found it necessary to establish how tax compliance costs influence Presumptive Tax compliance and the respondents' views were shown in figure 4.3 and table 4.8.

Figure 4.3: Figure showing monthly cost incurred by respondents to be tax compliant



As shown in figure 4.3, 62% of the respondents incurred monthly costs below Kshs 10,000 to be tax compliant, 25% incurred monthly costs between Kshs 10,001 and Kshs 50,000, 7% incurred monthly costs between Kshs 50,001 and Kshs 100,000. Another 4% of the

respondents incurred monthly costs of between Kshs 100,001 and Kshs 150,000, while another 2% incurred monthly costs above Kshs 150,000 in order to be tax compliant.

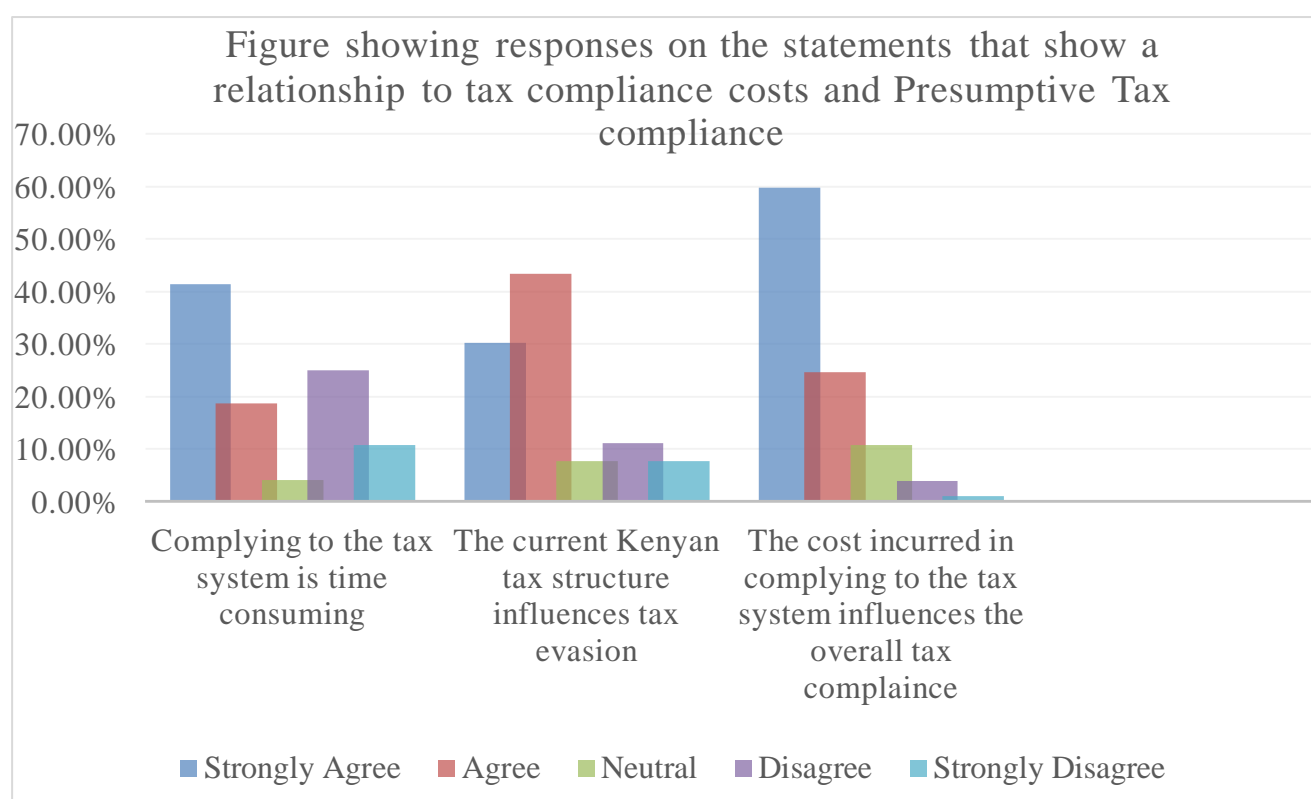
Table 4.8: Responses on the statements that show a relationship between tax compliance costs and Presumptive Tax compliance

Variable Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Complying to the tax system is time consuming.	41.32%	18.75%	4.17%	25%	10.76%
The current Kenyan tax structure influences tax evasion.	30.21%	43.40%	7.64%	11.11%	7.64%
The costs incurred in complying with the tax system influence my overall tax compliance.	59.72%	24.65%	10.76%	3.82%	1.04%
Average	43.75%	28.93%	7.52%	13.31%	6.48%

As shown on table 4.8, respondents were expected to give feedback using a four point Likert Scale to respond to statements in the questionnaires issued on how tax compliance costs influence Presumptive tax compliance among SMEs in Nyeri County. On the first statement whether tax compliance is time consuming, 41.32% of the respondents strongly agreed, 18.75% agreed, 4.17% were uncertain, 25% disagreed and another 10.76% strongly disagreed. On the second statement on whether the current Kenyan structure influences tax evasion, 30.21% of the respondents strongly agreed, 43.40% agreed, 7.64% were uncertain,

11.11% disagreed and another 7.64% strongly disagreed. On the third statement whether the respondents' tax compliance costs influence their level of tax compliance, 59.72% of the respondents strongly agreed, 24.65% agreed, 10.76% were uncertain, 3.82% disagreed and another 1.04% strongly disagreed. The average scores revealed that majority of the respondents, at 43.75%, strongly agreed with the statements raised under the variable of the study.

Figure 4.4: Figure showing responses on the statements that show a relationship between tax compliance costs and Presumptive Tax compliance



Based on the figure 4.4, it can be observed that majority of the respondents strongly agreed at 41.32%, that tax compliance was time consuming, majority also agreed at 43.40%, that the current Kenyan tax structure influences tax fraud. Another majority strongly agreed at 59.72% that the cost incurred to be tax compliant influenced their overall tax compliance capacity.

4.3.3. Tax Knowledge and Presumptive Tax compliance

The researcher found it necessary to establish how Tax Knowledge Influences Presumptive Tax compliance and the respondents' views were shown in the table 4.9.

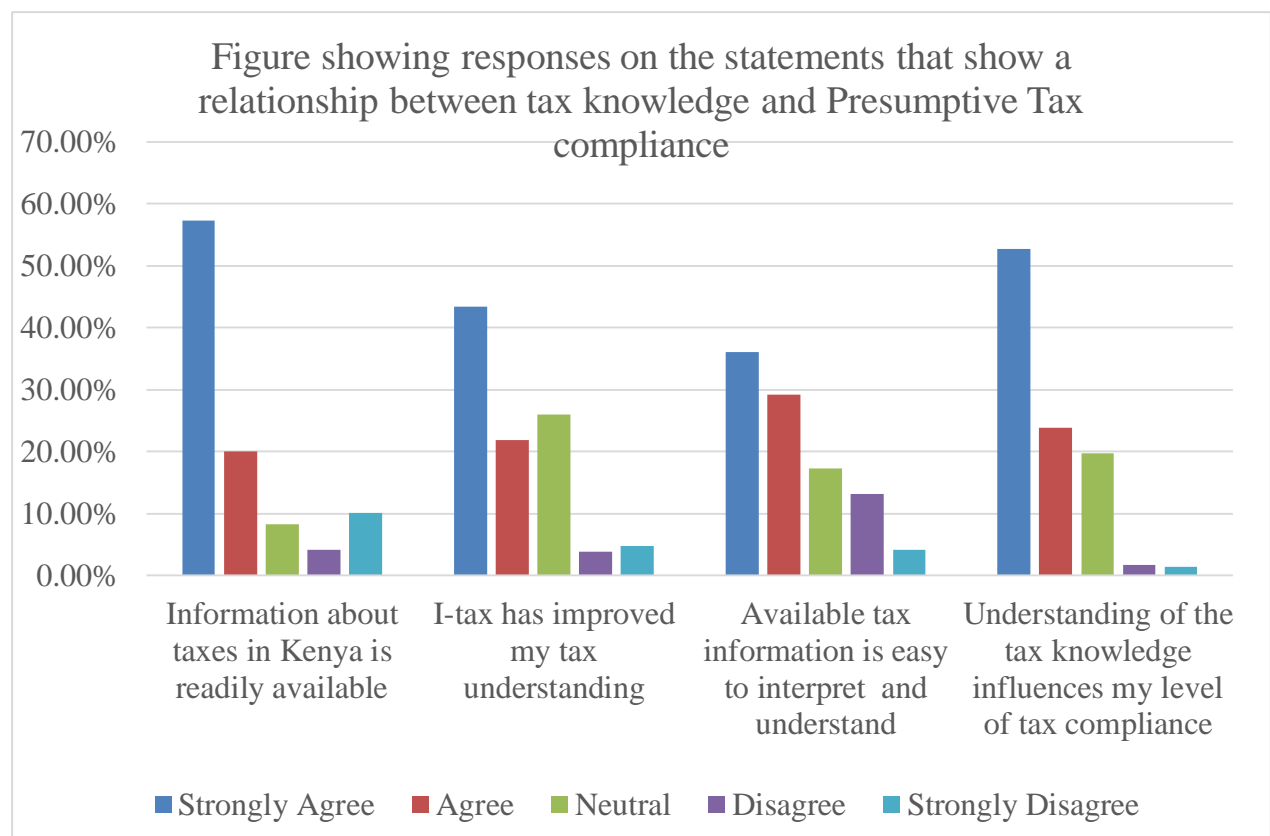
Table 4.9: Responses on the statements that show the relationship between Tax Knowledge and Presumptive Tax compliance

Variable Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Information about taxes in Kenya is readily available.	57.29%	20.14%	8.33%	4.17%	10.07%
I-taxhas improved my tax understanding.	43.40%	21.88%	26.04%	3.82%	4.86%
Tax information available is easy to interpret and understand.	36.11%	29.17%	17.36%	13.19%	4.17%
Understanding of the tax knowledge influences my level of tax compliance.	52.78%	23.96%	19.79%	1.74%	1.39%
Average	47.40%	23.79%	17.88%	5.73%	5.12%

As shown on table 4.9, respondents were expected to give feedback using a four point Likert Scale to respond to statements in the questionnaires issued on how tax knowledge influences Presumptive tax compliance among SMEs in Nyeri County. On the first statement whether tax information is readily available, 57.29% of the respondents strongly agreed, 20.14%

agreed, 8.33% were uncertain, 4.17% disagreed and another 10.07% strongly disagreed. On the second statement on whether the I-tax has improved the respondents' tax understanding, 43.40% of the respondents strongly agreed, 21.88% agreed, and 26.04% were uncertain, 3.82% disagreed and another 4.86% strongly disagreed. On the third statement whether the tax information available is easy to interpret and understand, 36.11% of the respondents strongly agreed, 29.17% agreed, 17.36% were uncertain, 13.19% disagreed and another 4.17% strongly disagreed. On the fourth statement whether the understanding of the tax knowledge influences the overall tax compliance, 52.78% of the respondents strongly agreed, 23.96% agreed, 19.79% were uncertain, 1.74% disagreed and another 1.39% strongly disagreed. The average scores revealed that majority of the respondents, at 47.40%, strongly agreed with the statements raised under the variable of the study.

Figure 4.5: Figure showing responses on the statements that show a relationship between tax knowledge and Presumptive Tax compliance

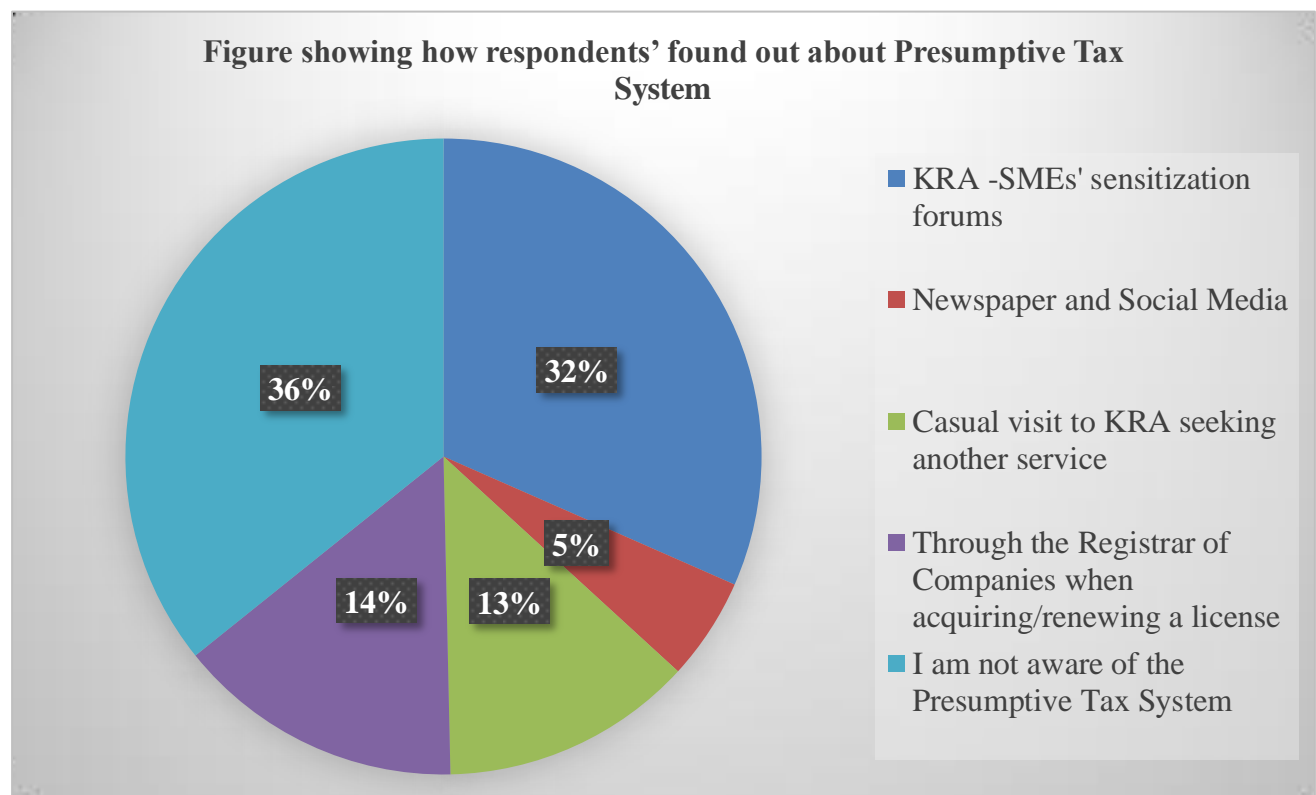


Based on the figure 4.5, it can be observed that majority of the respondents strongly agreed at 57.29%, that tax information in Kenya is readily available, majority also strongly agreed at 43.40%, that the I-tax had improved the respondents' tax understanding. Another majority strongly agreed at 36.11% that the available tax knowledge was easy to interpret and understand while another majority of respondents at 52.78%, also strongly agreed that the understanding of tax information influenced their overall tax compliance.

4.3.4. Awareness of the Presumptive tax system and Presumptive Tax compliance

The researcher found it necessary to establish how the awareness of the Presumptive Tax system influences Presumptive Tax compliance and the respondents' views were shown in figure 4.5 and table 4.9.1.

Figure 4.6.: Figure showing how respondents' found out about Presumptive Tax System



As shown in figure 4.5, 36% of the respondents were not aware of the presumptive tax system, 32% gained the presumptive tax information from KRA sensitization forums, another

14% learnt about presumptive tax from the Registrar of Companies office when acquiring or renewing a business permit. 13% learnt about presumptive tax through casual visits to KRA seeking another service while the minority at 5% learnt about presumptive tax through social media and newspapers.

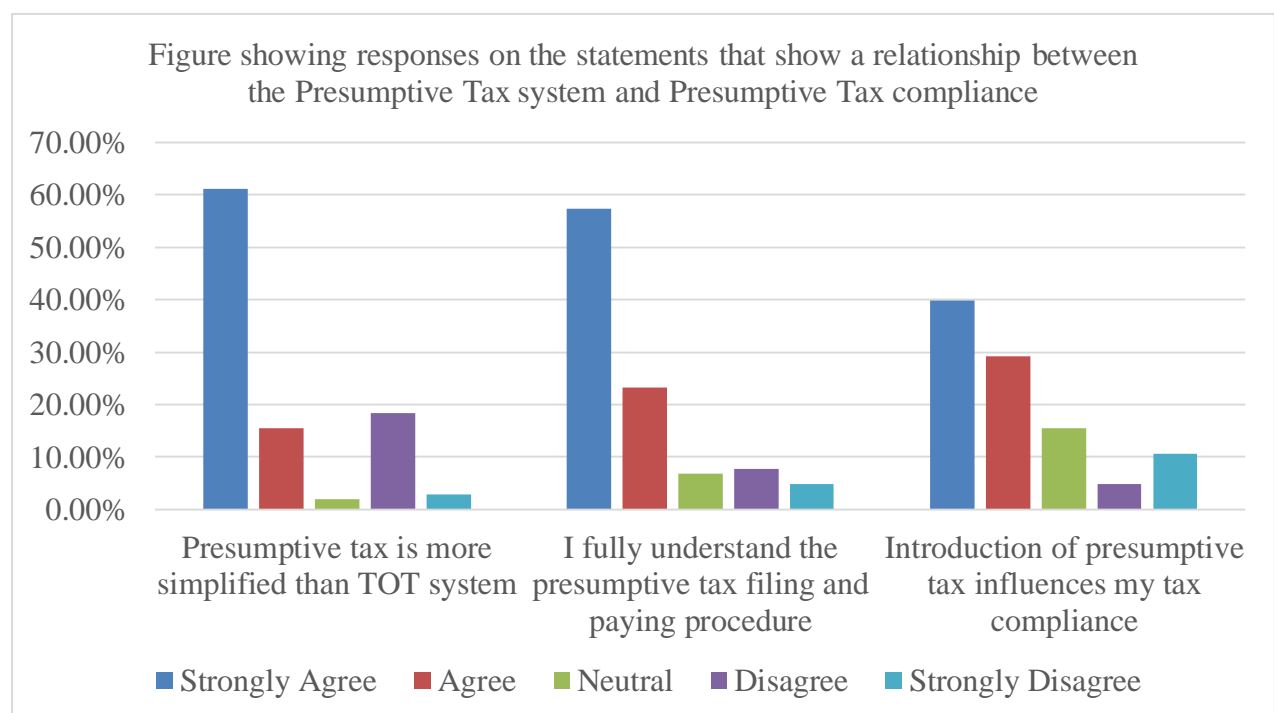
Table 4.9.1.: Responses on the statements that show the relationship between the awareness of Presumptive Tax System and Presumptive Tax compliance

Variable Statement	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Presumptive tax system is more simplified compared to the previous Turnover tax system.	61.17%	15.53%	1.94%	18.45%	2.91%
I am fully understand the presumptive tax filing and paying procedure.	57.28%	23.30%	6.80%	7.77%	4.85%
Introduction of presumptive tax influences my tax compliance.	39.81%	29.13%	15.53%	4.85%	10.68%
Average	52.75%	22.65%	8.09%	10.36%	6.15%

As shown on table 4.9.1, respondents were expected to give feedback using a four point Likert Scale to respond to statements in the questionnaires issued on how the Presumptive Tax system influences Presumptive tax compliance among SMEs in Nyeri County. On the first statement whether Presumptive Tax system is more simplified than the previous Turnover Tax system, 61.17% of the respondents strongly agreed, 15.53% agreed, 1.94%

were uncertain, 18.45% disagreed and another 2.91% strongly disagreed. On the second statement on whether the respondents fully understood the presumptive tax filing and paying procedure, 57.28% of the respondents strongly agreed, 23.30% agreed, 6.80% were uncertain, 7.77% disagreed and another 4.85% strongly disagreed. On the third statement whether the introduction of presumptive tax influenced the respondents' tax compliance, 39.81% of the respondents strongly agreed, 29.13% agreed, 15.53% were uncertain, 4.85% disagreed and another 10.68% strongly disagreed. The average scores revealed that majority of the respondents, at 52.75%, strongly agreed with the statements raised under the variable of the study.

Figure 4.7: Figure showing responses on the statements that show a relationship between the Presumptive Tax system and Presumptive Tax compliance



Based on the figure 4.7, it can be observed that majority of the respondents strongly agreed at 61.17%, that Presumptive tax is more simplified that the previous Turnover Tax, majority also strongly agreed at 57.28%, that they fully understand that presumptive tax filing and

paying procedures and finally another majority of the respondents at 39.81%, also strongly agreed that the introduction of presumptive tax has influenced their level of tax compliance.

4.4. Inferential Statistics

4.4.1 Regression Analysis

Using SPSS Version 25, the regression analysis given below was projected from the study

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

		Coefficients ^a						
		Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
Model		B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
1	(Constant)	1.981	.709		2.795	.036	.528	3.433
	Tax Knowledge	.113	.051	.049	2.212	.035	.009	.217
	Tax Compliance Cost	-.140	.055	-.045	2.542	.017	-.027	-.253
	Tax Rate	-.181	.060	-.040	3.014	.005	-.058	-.304
	Awareness of Presumptive tax system	.139	.036	.064	3.880	.001	.065	.213

a. Dependent Variable: Presumptive Tax Compliance

The fitted regression model from the study findings is presented as follows:

$$Y = 1.981 + 0.113X_1 - 0.140X_2 - 0.181X_3 + 0.139X_4$$

Knowledge on the tax system influences tax compliance level among the SMEs. Taxpayers who had the technical knowhow and skills in terms of discharging their tax compliance obligations will more likely be tax compliant unlike those who lack the knowledge of the tax system. The study findings indicate that the chances of SMEs being tax compliant are at 0.113 or 11.3%.

Generally, when all variable are put into considerations based on the findings, when tax knowledge is considered putting other factors constant, then an increase in tax knowledge leads to an increase in Presumptive tax compliance by 0.113 or 11.3%. Another determinant is tax compliance cost, when other factors are held constant then an increase in tax compliance cost lead to decrease in Presumptive tax compliance by 0.140 or 14%. Increasing tax rate when other variable are held constant, Presumptive tax compliance reduces by 0.181 or 18.1%. Creating awareness on the presumptive tax system among the citizens, increases the rate of Presumptive tax compliance by 0.139 or 13.9%.

4.4.2. Correlation

		Correlations				
		Tax Compliance	Tax Knowledge	Tax Compliance Cost	Tax Rate	Presumptive tax filing
Pearson Correlation	Presumptive Tax Compliance	1.000	.386	-.433	-.495	.591
	Tax Knowledge	.386	1.000	.006	.277	.071
	Tax Compliance Cost	-.433	.006	1.000	-.087	-.252
	Tax Rate	-.495	.277	-.087	1.000	-.070
	Awareness of Presumptive tax system	.591	.071	-.252	-.070	1.000
Sig. (1-tailed)	Presumptive Tax Compliance	.	.035	.017	.005	.001
	Tax Knowledge	.035	.	.488	.070	.355
	Tax Compliance Cost	.017	.488	.	.323	.089
	Tax Rate	.005	.070	.323	.	.357

	Awareness of Presumptive tax system	.001	.355	.089	.357	.
N	Presumptive Tax Compliance	30	30	30	30	30
	Tax Knowledge	30	30	30	30	30
	Tax Compliance Cost	30	30	30	30	30
	Tax Rate	30	30	30	30	30
	Awareness of Presumptive tax system	30	30	30	30	30

The findings indicate that correlation coefficient between Tax compliance and:

1. Tax Knowledge is 0.386
2. Tax compliance cost is -0.433
3. Tax rate is -0.495
4. Awareness of Presumptive tax system is 0.591

4.4.3. Discussion of Findings

The p-value for the independent variable, that is, tax knowledge, tax compliance cost, tax rate and awareness of Presumptive tax system are 0.035, 0.017, 0.005, and 0.001 respectively. The p-values are less than the significant value of 0.05. The confidence intervals of the independent variables are all positive or they do not contain any zero value, therefore this indicates that the overall study is statistically significant. From the study, there is sufficient evidence to support the claim that the independent variables have great impact on dependent variable (Presumptive Tax compliance).

The data collection was based on the 30 respondents, and thus this lead to 30 samples. Therefore, considering 30 samples and a level of significance of 0.05 then the calculated correlation critical value is $r_c = 0.361$. Based on the correlation output between Presumptive tax compliance and:

- Tax Knowledge is 0.386
- Tax compliance cost is -0.433
- Tax rate is - 0.495
- Awareness of Presumptive tax system 0.591

It is clear that correlation coefficient values are greater than the critical value $|r| > r_c$ therefore the relationship between the independent variables and dependent variable is overall statistically significant.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1. Introduction

This chapter outlines the summary of the findings of the research, research recommendations, conclusions and other areas identified for further study that were determined in line with the study's main objective of identifying the factors that influence presumptive tax compliance among SMEs in Nyeri County.

5.2. Summary

The researcher was able to sample a target population 379 Small and Micro Enterprises in Nyeri County for the study. Out of the 379 questionnaires issued, 288 questionnaires were able to be returned having being completed. Based on the questionnaires return and completed, the researcher was able to come up with research findings for which conclusions and recommendations were also derived from.

Majority of the respondents were business owners who were 193 representing 67% and another majority that had been in operational for at least more than one year were 117 representing 41%. Majority of the respondents also had an annual turnover of between Kshs 500,000 to Kshs 1,000,000 at 36%. In as much as, 265 respondents have registered for a KRA PIN but the researcher found it necessary to include the 23 respondents who had not registered for a KRA PIN in the study in order to evaluate the variables of the research.

5.2.1. Tax Knowledge and Presumptive Tax Compliance

The research focused to identify the factors that influence Presumptive tax compliance among SMEs' in Nyeri County. The research identified a positive relationship between tax knowledge and presumptive tax compliance. Majority of the respondents strongly agreed at 57.29% that tax information was readily available and another 43.40% strongly agreed that

Itax system had improved the level of tax understanding. 36.11% of the respondents were the majority who strongly agreed that Tax knowledge was easy to understanding and interpret while another 52.78% also strongly agreed that understanding of the tax knowledge influenced the tax compliance level.

These study findings coincided with other findings on a research conducted in Nigeria on SMEs which were that tax knowledge and awareness of the consequential penalties had a positive effect on the overall tax compliance (Oladipupo & Obazee, 2016). Awareness of the tax information as well as proper understanding of the tax rules and regulations positively influences the level of tax compliance for SMEs.

5.2.2. Tax Compliance Costs and Presumptive Tax Compliance

The research identified a negative relationship between tax compliance costs and Presumptive tax compliance. Majority of the respondents strongly agreed that it was time consuming to be tax compliant with 62% being the majority of the respondents who incurred a monthly cost of below 10,000 to be tax compliant. Another majority of respondents at 43.40% agreed that the current tax regime and structure influences tax evasion while another majority at 59.72% strongly agreed that the costs incurred in complying to taxes influences the overall tax compliance of SMEs.

The research findings concur with other study findings done on the influence of compliance costs on SMEs' tax compliance behaviour in Tanzania and the findings revealed compliance costs had a negative impact on the compliance behaviour of the SMEs. The findings deemed to be important to tax agents and authorities to enable creation of measures such as new tax reforms that would improve tax compliance levels(Mahangila, 2017).

5.2.3. Tax Rates and Presumptive Tax Compliance

The research identified a negative relationship between tax rates and the Presumptive tax compliance. Majority of the respondents are 42.01% strongly agreed that Kenyan taxes were not favourable as well as another majority at 43.06% disagreed that the penalties incurred for noncompliance were not fair. 31.94% of the respondents were the majority who agreed that they were well informed on the applicable taxes on their business while another majority at 52.78% strongly agreed that their total tax payable had an influence on their overall tax compliance.

These study findings were consistent with other findings from a research carried out on the tax compliance of SMEs in Industrial Area, Nairobi County. The findings were that the majority of respondents viewed that the Kenyan taxes were higher as compared to the neighbouring countries Uganda and Tanzania and the respondents felt that the tax rates would need to be revised so as to be more attractive as well as help to reduce tax fraud(Mwangi, 2014).

5.2.4. Awareness of the Presumptive Tax System and Presumptive Tax Compliance

The research identifies a positive relationship between awareness of the Presumptive tax system and Presumptive tax compliance. Majority of the respondents at 36%, were not aware of the presumptive tax system and procedures. Out of the 64% respondents who were aware of the presumptive tax, 61.17% strongly agreed that Presumptive tax system was more simplified than Turnover Tax regime, 57.28% strongly agreed to fully understanding what entails the Presumptive tax system while another 39.81% strongly agreed that the introduction of the Presumptive tax system had an influence on their tax compliance.

The study findings were similar to findings from a research carried out on turnover tax based presumptive taxation on micro enterprises in Ethiopia. The findings were that majority of

respondents were not aware of the presumptive tax system because of the complexity of the system as well as lack of proper education from the tax agents and authorities. Hence, the research recommended that the presumptive systems should adopt a more simplified design and the tax agents should embark on increased the tax education to improve tax compliance (Getachew, 2019).

5.3. Conclusions

In conclusion, the findings of the research revealed that a negative relationship between tax rates and tax compliance costs with Presumptive tax Compliance while tax knowledge and awareness of the Presumptive tax system had a positive relationship with the presumptive tax compliance of SMEs in Nyeri County. The study established that in as much as **tax knowledge** is readily available as well as being easy to understand and interpret tax agents need to embark on creation of more awareness of the tax laws as majority of the respondents revealed that understanding of the available tax information would influence level of compliance.

The study also concluded that **tax compliance costs** such as time spent in keeping proper business records as well as the time spent in filing and being compliant hinder the SMEs from being tax compliant. With majority of the respondents feeling that the current Kenyan tax structure influences tax fraud, the government should revisit the tax structure to make it more attractive as well as increasing more SMEs' sensitization forums on how they can be tax compliant and incur minimal costs simultaneously.

The study also concluded that the **tax rates** had the highest and most significant influence on the presumptive tax compliance of SMEs' in Nyeri County. Majority of the respondents were well informed on the applicable taxes for their business but still felt that Kenyan taxes are not favourable with the penalties of being noncompliance considered as unfair. Therefore, the

government should also revisit existing tax rates applicable to SMEs and develop reforms that will improve the taxpayers view to improve their overall tax compliance.

A significant number of respondents lacked **awareness of the Presumptive tax system** and it was attributed to lack proper taxpayer education in the informal sector. The majority that were aware of the presumptive tax system still felt that its introduction influenced the level of tax compliance to some extent. The performance of Presumptive tax by the time the 2019/2020 budget was read, and it was significantly low and its registration was still gradually growing. With the low performance, Treasury had considered reintroduction of the previous Turnover tax to make up for the shortfalls in tax revenue from the informal sector.

5.4. Recommendations

Based on the studying findings, the researcher was able to develop recommendations to encourage Presumptive tax compliance among Small and Micro Enterprises in Nyeri County. On **tax knowledge and Presumptive tax compliance**, the research recommends that tax agents should maximize on simplifying the available tax knowledge and also increase more sensitization forums for SMEs to understanding the tax systems as well as contribute to improving the simplicity of the tax information.

On the **tax compliance costs and tax compliance**, the research recommends that tax agents should embark on more sensitization forums to SMEs so as to educate them on how to minimize costs and still remain tax compliant. The study also recommends that training should be offered to those that are accountants and auditors hired to assist in handling taxes for SMEs so that they can be more efficient in tax compliance.

On the **tax rates and Presumptive tax compliance**, the research recommends that tax agents and authorities should consider revising the existing tax rates and penalties so as to make

them more attractive and favourable to the SMEs. This will go ahead to reduce the chances of the taxpayers engaging in tax fraud.

On the **awareness of the Presumptive tax system and Presumptive tax compliance**, the research recommends that the filing and paying procedures of the presumptive tax system should be revised to be simplified and easy to interpret. The research also recommends that the tax agents should embark on maximum sensitization on new tax reforms before they are introduced to engage the intended taxpayers in how best to improve them and lead to maximum tax revenue.

5.5. Recommendations for further studies

The study proposes the following areas for further study;

- Tax authorities should study ways to motivate and improve morale of SMEs to comply with Presumptive tax system.
- Tax scholars and decision makers should research on the tax compliance dilemma that exists in the informal sector when it comes to Presumptive tax, Corporate tax and Value Added Tax.
- Students should also research on factors influencing Presumptive Tax compliance among SMEs in other regions that have minimal research carried out on.

REFERENCES

- Adelaide Changole . (2018, June 11). Kenya's Ability to Raise More From Taxes Likely Peaked, World Bank Says. *economics*.
- Adeyeye, A. (2016, December 16). Challenges to SME growth in Kenya.
- African Review of Business and Technology. (2017, July 14). *SMES are growing Kenya's economy*. Retrieved from <http://www.africanreview.com/finance/business/smes-are-growing-kenya-s-economy-3>
- Ali, M. F. (2014, MARCH 17-19). Factors Affecting Tax Compliant Attitude in Africa: Evidence from Kenya, Tanzania, Uganda and South Africa.
- Aruwa, S. (2014, 04 11). *Correlation between Expenditure on Infrastructural development And Performance of Small and Medium Enterprises in Kaduna State*. Retrieved from http://www.academia.edu/305881/infrastructural_development_expenditure_and_performance_of_small_and_medium_enterprises_in_kaduna_state.
- Beale, T., & Wyatt, P. (2017, March 24). Responsible Land Governance: Towards an Evidence Based Approach. *PREDICTING TAXPAYER BEHAVIOUR AND COMPLIANCE:AN ECONOMIC ANALYSIS OF JAMAICA'S PROPERTY TAX SYSTEM*.
- Berr, J. (2011, December 23). *10 Worst Countries for Tax Evasion*. Retrieved from InvestorPlace: https://investorplace.com/ipm_invp/10-worst-countries-for-tax-evasion/
- Bird, R. M. (2014). Taxation and development: What have we learned from fifty years of research? *Public finance and management*, 13(4), 266-288.
- Business Daily. (2019, Spetember 4). Markets. *Sh480bn: Price Kenyans are paying for tax breaks*.
- Chan, C. W., Troutman, C. S., & O'Bryan, D. (2014). An expanded model of taxpayer compliance: Empirical evidence from the United States and Hong Kong. *Journal of International Accounting, Auditing and Taxation*, 9(2), 82-103.
- Chebusit, C. N. (2014). Factors Affecting Tax Compliance among Small and Medium Enterprises in Kitale Town Trans-Nzoia County, Kenya. *International Journal of Recent Research in Commerce Economics and Management*, 1(3), 60-75.
- Chudleigh, J., & Smith, J. (2015). Research essentials: introduction to quantitative research. *Nursing Children and Young People*, 27 (3): 12.
- CNBC Africa. (2014, 7 31). *Kenya SMEs challenges*. Retrieved from In-adequate capital major constraints for SMEs in Kenya: <http://www.cnbcafrica.com/news/east-africa/2014/07/31/kenya-smes>
- County Government of Nyeri. (September 2016). *ANNUAL DEVELOPMENT PLAN 2017/2018*. DEPARTMENT OF FINANCE AND ECONOMIC PLANNING.

- Crossman, A. (2018, February 04). Different Types of Sampling Designs in Sociology and How to Use Them. *An Overview of Probability and Non-Probability Techniques*.
- Cytonn Investments. (2017, March 11). Tax Planning.
- D'Arcy, M. (2014). Why do citizens assent to pay tax? Legitimacy, taxation and the African state. *Afrobarometer Working Paper No. 126*.
- DCED. (2018, November). Current Debates on Small Enterprise Development. *Private Sector Development Synthesis Note*, p. 1.
- DEPARTMENT OF FINANCE AND ECONOMIC PLANNING. (2018, February). NYERI COUNTY INTEGRATED DEVELOPMENT PLAN 2018- 2022; Towards a Competitive and Prosperous County.
- Devos, K. (2014). Factors Influencing Individual Taxpayer Compliance Behaviour. *Springer Science+Business Media Dordrecht* , 1-11.
- Evans, C., & Liignier, P. (2014). Tax Compliance Costs For the Small and Medium Enterprise Business Sector: Recent Evidence from Australia. *Tax Administration Research Centre*.
- Eichfelder, S., & Hechtner, F. (2016). Tax compliance costs: Cost burden and cost reliability. *Discussion Paper, No. 212*.
- Fjeldstad, O.-H. (2016, May). *What Have We Learned About Tax Compliance in Africa?* Retrieved from International Centre for Tax and Development: https://opendocs.ids.ac.uk/opendocs/bitstream/handle/123456789/12784/ICTD_SB5.pdf
- Fosnacht, K., Sarraf, S., Howe, E., & Peck, L. K. (2014). How Important are High Response Rates for College Surveys? *HOW IMPORTANT ARE HIGH RESPONSE RATES*, (pp. 1-34). Indiana.
- Frankline. (2018, October 10). Standard Digital. *Tax evasion costs Kenya Sh90 billion*.
- Gatukui, P. a. (2014). A review of SMEs strategic planning for growth and sustainability in Kenya issues and challenges. *International Journal of Social Sciences and Entrepreneurship*, 1 (10), 26-41.
- Getachew, A. (2019). Turnover-Based Presumptive Taxation and Taxpayers' Perceptions in Ethiopia. *African Tax Administration Paper 7*.
- Gitau, M. (2015). Income tax issues relating to SMEs. *Institute of Certified Public Accountants of Kenya*.
- Gitonga, E. N. (2015). Influence of Tax Rates on Tax Compliance in The Informal sector in Kenya: Survey of Nyeri Town. *Scholars Bulletin*, 157-162.
- GIZ. (2015, December 2nd). Addressing Tax Evasion and Tax Avoidance in Developing Countries. *Research document of GIZ Sector Programme Public Finance, Administrative Reform*.
- Guguyu, O. (2019, June 26). Standard Digital/Business. *Tax flop on small traders to hit KRA*.

- Harris, T. D. (2014). The effect of tax knowledge on individual's perceptions of fairness and compliance with federal income tax system. *An empirical study. Unpublished manuscript, University of South Carolina, South Carolina.*
- Ilako, C. (2019, June 26). KRA widens tax net to rope in small scale traders. *The Star*.
- Insights Association. (2018). *Target Poulation*. Retrieved from Insights Association.
- Investopedia. (2018). *Tax Avoidance*. Retrieved from https://www.investopedia.com/terms/t/tax_avoidance.asp
- izzati, q. (2017, October 5). Sample Size Determination Using Krejcie and Morgan Table. *Master In Educational Management & Leadership*.
- Jha, G. (2017, July 25). 6 Sampling Techniques: How to Choose a Representative Subset of the Population. *Socialcops*.
- Jimenez, P., & Iyer, G. (2016, September). Tax compliance in a social setting: The influence of social norms, trust in government, and perceived fairness on taxpayer compliance. pp. 17-26.
- Kenya Revenue Authority. (2018, October 22). *KRA embarks on tax base expansion programmes to raise more revenue*. Retrieved from Kenya Revenue Authority: <https://www.kra.go.ke/media-center/news/404-tax-base-expansion-programmes>
- Kiburi, W. W. (2018, May 16). *Tax Compliance Options*. Retrieved from TAXKENYA.COM: <https://www.taxkenya.com/1268-2/>
- Kosgei, D. K., & Tenai, J. (2016). Effect of Economic Factors on Tax Compliance in Kenya: A Survey of Limited Liability Companies within Eldoret Municipality. *Journal of International Business Research and Marketing Volume 1, Issue 2,* 18-22.
- KRA. (2013). *Annual Tax Report*. Nairobi: Government Press.
- KRA. (2018). *About the Authority*. Retrieved from Kenya Revenue Authority.
- Langvatn, S. A. (2016). Legitimate, but unjust, but illegitimate Rawls on political legitimacy. *Philosophy and Social Critisms Volume 42(2)*, 132-153.
- Loo, E. C. (2016). The influence of the introduction on self-assessment on compliance behaviour of individual taxpayers in Malaysia. *PhD thesis, University of Sydney*.
- Mahangila, D. (2017, June). THE IMPACT OF TAX COMPLIANCE COSTS ON TAX COMPLIANCE BEHAVIOUR. *Research Gate*.
- Mahinda, V. M. (2016, August). KENYAM.Arch. Thesis. *SUSTAINABLE URBANISM IN NYERI TOWN,*.
- Mas'ud, A., Aliyu, A. A., & Gambo, E.-M. J. (2014). TAX RATE AND TAX COMPLIANCE IN AFRICA. *European Journal of Accounting Auditing and Finance Research, Vol.2, No.3*, 22-30.
- Mazzarol, T. (2015). Research review: smes engagement with e-commerce, e-business and e-marketing. *Small enterprise research*, 79-90.

- Mitra, A., & Sharma, C. (2016). *Corruption and Development in Indian Economy*. New York: Cambridge University Press.
- Modugu, P., Eragbhe, E., & Izedonmi, F. (2014). Government Accountability and Voluntary Tax Compliance in Nigeria. *Research Journal of Finance and Accounting* 3(5), 69-76.
- Mohd, R. (2013). Tax understanding and tax compliance determinants in self assessment system, a thesis submitted to the University of Birmingham for the degree of Doctor of Philosophy, .
- Muema, D. (2018, August 11). Presumptive tax will sort out revenue collection in jua kali. *The Daily Nation*.
- Mukiri, S. (2017, August 15). Small Medium Enterprises Today. *Biz Finance*.
- Muli, F. (2018, December). *KRA Announces Introduction Of Presumptive Tax For Small Businesses From January 2019*. Retrieved from Kahawa Tungu: KRA Announces Introduction Of Presumptive Tax For Small Businesses From January 2019
- Mwangi, P. N. (2014). *FACTORS INFLUENCING TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN NAIROBI'S INDUSTRIAL AREA, KENYA*. Nairobi.
- Neve, J.-E. D., Imbert, C., Spinnewijn, J., Tsankova, T., & Luts, M. (2019). How to Improve Tax Compliance? Evidence from Population-wide Experiments in Belgium. *CEP Discussion Paper No 1621*, 2-5.
- Ngatia, M. L. (2017). *Influence of tax regulations enforcement on tax compliance by agribusiness small and micro enterprises in Nyeri county Kenya*. Dubai: Scholars Middle East Publishers.
- Nikiema, R., & Zahonogo, P. (2017, March 19). Taxpayer behaviour and institutions in Sub-Saharan Africa. *Belgian Policy Research Group on Financing for Development*.
- Njiru, J. (2018, December 4). Small Businesses to start Paying Presumptive Tax from January 2019. *The Kenyan Mall Street*.
- Njoroge, C. a. (2013). The effect of entrepreneurial education and training on development of small and medium size enterprises in Githunguri district – Kenya. *International Journal of Education and Research*, 1 (8), 1-22.
- Nurfazlina, S. Y., & Mohd, S. (2017). Individual Tax Compliance Decision. *SOCIAL SCIENCES & HUMANITIES* 25, 97-108.
- OECD. (2015, March 3rd). OECD, Centre for Tax Policy and Administration: Paris. *Understanding and Influencing Taxpayers' Compliance Behaviour*.
- OECD. (2017). Enhancing the Contributions of SMEs in a Global and Digitalised Economy. *Meeting of the OECD Council at Ministerial Level*, (pp. 4-5). Paris.
- Oladipupo, A. O., & Obazee, U. (2016). Tax Knowledge, Penalties and Tax Compliance in Small and Medium Scale Enterprises in Nigeria. *Ibusiness* 2016(8), 1-9.

- Onu, D., & Oats, L. (2014). Tax Administration and Research Centre. *Social Norms and Tax Compliance*.
- Revenue Scotland. (2015, March 15). *Distinction between tax avoidance, tax evasion and general non-compliance*. Retrieved from <https://www.revenue.scot/legislation/rstpa-legislation-guidance/gaar/rstp8002>
- Ritsema, C. M., Thomas, D. W., & Ferrier, D. G. (2014). Economic and behaviourist determinants of tax compliance Evidence from the 2011. *IRS Research conference*.
- Rotuk, K. (2016, June 9). Standard Digital.
- Saad, N. (2012). Tax Non-compliance Behaviour: Taxpayers view. *Social and Behavioural Science*, 65, 344-351.
- Saad, N. (2014). Tax knowledge, Tax complexity and tax compliance: Taxpayers View. *National Tax Journal*, 58, 643-663.
- Sacks, A. (2015). Can donors and non-state actors undermine citizens' legitimating beliefs? *World Bank Policy Research Working Paper No. 6158*. World Bank.
- Schmutz, F. (2016). Measuring the Invisible: An Overview of and Outlook for Tax Non-Compliance Estimates and Measurement Methods for Switzerland. *Swiss Society of Economics and Statistics Vol. 152 (2)*, 125-177.
- Sebola, M. P., & Chauke, K. R. (2016). Reflection on the Deterrence Theory of Taxation in the Context of Revenue Collection by Municipalities and the South African Revenue Service. *SAAPAM Limpopo Chapter 5th Annual Conference Proceedings*. Limpopo.
- Shuttleworth, M. (2019). *Quantitative Research Design*. Retrieved from EXPLORABLE: <https://explorable.com/quantitative-research-design>
- Soko Directory Team. (2018, August 15). Why SMEs in Kenya Hold the Future.
- Stinger. (2018, April 10). *KenyaTalk*. Retrieved from Tax Evasion in Kenya: <https://www.kenyatalk.com/index.php?threads/tax-evasion-in-kenya.75081/>
- Thomas, K. D. (2014). Presumptive collection, a prospect Theory approach to Increasing Small Business Tax Compliance. *Draft article for 67 Law Review, USA through research and development tax incentives: lessons for Australia from the UK*.
- Thomson Reuters. (2018). *TAX EVASION VS TAX AVOIDANCE*. Retrieved from FindLaw: <https://tax.findlaw.com/tax-problems-audits/tax-evasion-vs-tax-avoidance.html>
- Titcomb, J. (2015, February 26). *RBS staff under investigation from German authorities over Swiss tax evasion*. Retrieved from The Telegraph: <https://www.telegraph.co.uk/finance/newsbysector/epic/rbs/11436579/RBS-staff-under-investigation-from-German-authorities-over-Swiss-tax-evasion.html>
- Turner, A. G. (2014, December 3). A Survey of Tax Compliance Costs of Flemish SMEs: Magnitude and Determinants.

- Vateta, E. (2015, October 7). *KRA Is Targeting Small And Medium Enterprises To Grow Tax Base*. Retrieved from <https://www.kachwanya.com/2015/10/07/kra-is-targeting-small-and-medium-enterprises-to-grow-tax-base/>
- Wagakuyu. (2017, March 11). *Turnover Tax Rate and Dates in Kenya*. Retrieved from TaxKenya.com: <https://www.taxkenya.com/turnover-tax-rate-dates/>
- Walsh, K. (2012). Understanding Taxpayer Behaviour. *New Opportunities for Tax Administration*.
- Waris, A. M. (2014). Taxation and statebuilding in Kenya. *Enhancing revenue capacity to advance human welfare. Kenya Report. Tax Justice Network for Africa*.
- Werdigier, J. (2011, November 28). *Tax Evasion Costs Governments \$3.1 Trillion Annually, Report Says*. Retrieved from The New York Times: <https://www.nytimes.com/2011/11/26/business/global/26iht-tax26.html>
- Were, A. (2018, February 25). *Tax compliance must go beyond mandate of KRA*. Retrieved from BUSINESS DAILY: <https://www.businessdailyafrica.com/analysis/ideas/Tax-compliance-must-go-beyond-mandate-of-KRA/4259414-4319170-h6he4u/index.html>
- Wills, S., Roecker, S., & D'Avello, T. (2018, 04 13). *Chapter 3 - Sampling Design*. Retrieved from http://ncss-tech.github.io/stats_for_soil_survey/chapters/3_sampling/3_sampling.html
- Yossi , D. A. (2018). The Effect of Tax Knowledge, Self Assessment System, and Tax Awareness on Taxpayer Compliance. *International Journal of Academic Research in Business & Social Sciences: ISSUE 2222-6690*.

APPENDICES

APPENDIX I: LETTER OF TRANSMITTAL

Susan Wangui Kiama,

P.O.BOX 1374-00618,

Nairobi, Kenya,

Email: susankiama19@gmail.com

To whom it may concern,

I am a student of the Kenya School of Revenue Administration pursuing my Post Graduate Diploma in Tax Administration. I am conducting an academic research on the factors influencing presumptive tax compliance among SMEs in Nyeri town. I am writing to humbly invite you to participate in the research by filling in the questionnaire attached. My research project focuses on tax knowledge, tax compliance costs, tax rates and the awareness of the presumptive tax systems. The questionnaire should take not more than 30 minutes to complete. Your participation is voluntary and the questionnaire is completely anonymous hence I guarantee that the information you provide will be treated as confidential. I will highly appreciate your support in answering all the questions comprehensively and to the best of your knowledge. Thank you.

Yours Sincerely,

Susan Kiama

Tel: 0702-368983.

APPENDIX II: QUESTIONNAIRE

Instructions

This questionnaire is designed to collect information on the factors influencing presumptive tax compliance among SMEs in Nyeri town. The information obtained will only be used for academic purposes and shall be treated with utmost confidentiality. You are humbly requested to complete this questionnaire as honestly as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions where elaborate responses are required.

SECTION A: GENERAL INFORMATION

1. Name of SME (Optional).....

2. Position of respondent in the organization.

- Business Owner ☐
- Auditor ☐
- Accountant ☐
- Employee ☐
- Others (Specify).....

3. How long has the organization been in existence?

- Less than One year ☐
- 1-5 Years ☐
- 6-10 Years ☐
- More than 10 Years ☐

4. What is the main business activity of the organization?

.....

.....

5. What is the type of the business?

<input type="checkbox"/> Small Traders	<input type="checkbox"/> Butcheries
<input type="checkbox"/> Kiosks	<input type="checkbox"/> Bars
<input type="checkbox"/> Hawkers	<input type="checkbox"/> Professional Services
<input type="checkbox"/> Agricultural Dealers	<input type="checkbox"/> Health – Private facilities
<input type="checkbox"/> Small Hotels	<input type="checkbox"/> Workshop
<input type="checkbox"/> Other Catering & Accommodation facilities	Other(Specify)

6. On average, what is your business' annual turnover?

- Below Ksh 500, 000 ☐
- Between Ksh 500,001 and Ksh 1 Million ☐
- Between Ksh 1,000,001 and Ksh 2.5 Million ☐
- Between Ksh 2,500,001 and Ksh 5 Million ☐
- Over Ksh 5 million ☐

7. Does your business have a Personal Identification Number (PIN)?

Yes ☐

No ☐

**SECTION B: FACTORS INFLUENCING PRESUMPTIVE TAX COMPLIANCE
AMONG SMEs**

Tick where appropriate

1. Strongly agree

2. Agree

3. Neutral

4. Disagree

5. Strongly disagree.

No.	Tax Rates	1.	2.	3.	4.	5.
1.	Kenyan taxes are not favourable.					
2.	Penalties of failure to comply with the tax system are fair.					
3.	I am well informed on the type of tax applicable to my business.					
4.	My total tax payable influences my tax compliance.					

No.	Tax Compliance costs	1.	2.	3.	4.	5.
1.	<p>On average, how much do you spend to be tax compliant monthly?</p> <p>Tick: 1- for below Kshs 10,000.00</p> <p>2- for between Kshs 10,001 -50,000</p> <p>3- for between Kshs 50,001 - 100,000</p> <p>4- for between Kshs 100,001-150,000</p> <p>5- for above Kshs 150,001</p>					
2.	Complying to the tax system is time consuming.					
3.	The current Kenyan tax structure influence tax evasion.					
4.	The costs incurred in complying to the tax system influence my overall tax compliance.					

No.	Awareness of the Presumptive tax system	1.	2.	3.	4.	5.
1.	<p>How did you find out about Presumptive tax?</p> <p>Tick</p> <p>1- KRA SMEs' sensitization forums</p> <p>2- Newspaper and social media</p> <p>3- Through a casual visit to KRA seeking another service</p> <p>4- Through the Registrar of Companies when acquiring a new or renewing a license.</p> <p>5- I don't know about the Presumptive tax.(if so, ignore question 2,3 and 4)</p>					
2.	Presumptive tax system is more simplified compared to the previous Turnover tax system.					
3.	I am fully understand the presumptive tax filing and paying procedure.					
4.	Introduction of presumptive tax influences my tax compliance.					

No.	Tax Knowledge	1.	2.	3.	4.	5.
1.	Information about taxes in Kenya readily available.					
2.	ITAX has improved your tax understanding.					
3.	Tax information available is easy to interpret and understand.					
4.	Understanding of the tax knowledge influences my level of tax compliance.					

APPENDIX III: INTERVIEW GUIDE

1. What kind of experiences have you had with KRA?
2. What strategies would you recommend to KRA to help you become tax compliant?
3. What limits you from meeting your tax obligations?
4. What factors do you think promote Presumptive Tax compliance among SMEs in Nyeri County?
5. What strategies would you want the government to put in place when it comes to tax revenue?