FACTORS AFFECTING VALUE ADDED TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN KAJIADO TOWN, KENYA.

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

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DECLARATION

This research project is my original work and has not been presented for a post graduate diploma/degree in any other University.

Signature ----------------------------------- Date --

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

Signature -------------------------------------- Date --

Dr. Bruce Ogaga

DEDICATION

This work is dedicated to the Almighty God for enabling me to study and to my parents (my father and my late mother), who are constant inspiration.

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ABSTRACT

Tax compliance has been a matter of key concern for both researchers as well as tax administrators. Low rates of Value Added Tax compliance is one of the internal factors that contribute towards shortfall in Value Added Tax revenue in Kenya. This study investigated the factors that affect Value Added Tax compliance among Small and Medium Enterprises in Kajiado town, Kenya. Specifically, the study found out the effect of tax knowledge, tax compliance costs and taxpayers perception on Value Added Tax compliance in Kajiado town, Kenya. The theories for the study are: deterrence theory and theory of planned behavior. The study adopted descriptive research design. The target population for this study was 241 SMEs that are located in Kajiado town and that have been registered for Value Added Tax according to the records of Kenya Revenue Authority in Kajiado County for the financial year 2017/2018. This study used both secondary and primary data. Primary data was acquired using structured questionnaires with closed questions and secondary data was acquired from existing revenue publications and reports. The study concluded that Tax Knowledge had positive relationship on Value Added Tax Compliance among SME owners in Kajiado town. Also Tax Compliance Costs had positive relationship on Value Added Tax Compliance and lastly Taxpayer Perception had positive relationship on Value Added Tax Compliance. The study further concluded that Tax Knowledge variable had the weakness influence among the independent variables on the dependent variable of Value Added Tax Compliance. Future studies may be conducted on the influence of Taxpayer perception on Value Added Tax Compliance among SME traders in other towns in the Country such as Bomet, Narok and Kericho.

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ABBREVIATIONS AND ACRONYMS

ANOVA   Analysis of Variance

ETR   Electronic Tax Register

GDP   Gross Domestic Product

ICT   Information, Communication and Technology

IMF   International Monetary Fund

KAAA   Kenya Agribusiness and Agroindustry Alliance

KNBS   Kenya National Bureau of Statistics

KRA   Kenya Revenue Authority

Kshs   Kenyan Shillings

MSEs   Micro and Small Enterprises

MSMEs   Micro, Small and Medium Enterprises

SME   Small and Medium Enterprise

SMEs   Small and Medium Enterprises

DEFINITION OF TERMS

VAT compliance - Tax compliance including VAT compliance refers to taxpayers' willingness and ability to observe the tax laws including VAT laws, declare the correct income and pay the correct amount of taxes such as VAT on time (Palil, Hamid, & Hanafiah, 2013).

SMEs - Small enterprises have annual turnover of between Kshs. 500,000 and Kshs. 5 million and medium enterprises have annual turnover of between Kshs. 5 million and Kshs. 800 million (Adeyeye, 2016).

Tax knowledge - Tax knowledge refers to taxpayers' ability in understanding tax laws and the role of taxes in national development (Mohd, 2010).

Tax compliance cost - Tax compliance costs constitute the costs that taxpayers incur as they meet the requirements set by the revenue authorities and the requirements of the tax laws (Eragbe & Modugu, 2014).

Taxpayer perception – Taxpayer perception involves the process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment (Robbins & Judge, 2013).

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxes are the major source of public revenue. Tax is a compulsory unrequited payment to the general government. The term compulsory means that the taxpayers have an obligation to pay tax. The term unrequited means that the benefits that are provided to the taxpayers by the government are not in proportion to the amount paid as tax by the taxpayers. The general government includes both the local and national governments and their administrations (OECD, 2018). Taxes are essential in financing public spending and it should be ensured that taxes are distributed in an administratively feasible and sustainable economic way (Bird & Wilkie, 2012). The types of taxes in Kenya include income tax which is a direct tax charged on a person's income, whether the person is non resident or resident, which accrued in or was derived from Kenya, rental income tax, Value Added Tax (VAT) which is charged on the supply of services or goods that are taxable and are provided or made in Kenya and on the taxable services or goods that are imported into Kenya, excise duty, Capital Gains Tax (CGT) and agency revenue which includes stamp duty and betting and pool tax (KRA, 2019). This study focused on Value Added Tax.

Several revenue authorities have defined tax compliance as taxpayers' willingness and ability to observe the tax laws, declare the correct income and pay the correct amount of taxes on time (Palil, Hamid, & Hanafiah, 2013). Tax compliance is an area of concern in tax administration. According to Horodnic (2018) for many governments globally, tax compliance continues to constitute a key area of concern. Alabede (2012) stated that taxpayers not observing tax

compliance is a major challenge being faced in tax administration and that tax non compliance prevents tax revenue performance in counties that are developing including Nigeria. One of the factors that have an effect on the Kenyan government's ability to raise revenue and in turn meet its expenditures is low tax compliance (Kipkoech & Joel, 2016). This study focused on Value Added Tax compliance.

1.1.1 Tax Knowledge

Tax knowledge of VAT legislation and procedures affect VAT compliance. Tax knowledge is concerned with the taxpayers' ability in understanding tax laws and the role taxes have in national development (Mohd, 2010). Greater education on tax matters potentially rises the submission of VAT returns, as educated taxpayers have the knowledge of their tax responsibility as well as the risks involved if they are not submissive with the tax laws (Fjeldstad, 2013). Taxpayer education encourages taxpayers to meet their tax obligations as required by the government. This means that taxpayer education exists mainly to encourage taxpayers to voluntary comply with the tax laws (Gitaru, 2017). When people do not understand the taxation system, they will be less compliant because many people will avoid paying tax since they do not know the amount of tax they are required to pay and the need to pay tax. Therefore, in order to encourage compliance, people should be educated about the whole taxation process and the importance of paying taxes (Ndirangu, 2014).

Saheb (2016) indicated that in Gondar city in Ethiopia, greater proportion of VAT payers do not have enough knowledge about: the procedures for VAT registration, goods and services to be charged VAT, zero rated or VAT exempted, input VAT invoices that are deducted from output VAT and the procedures to declare and pay VAT for each month. Oladipupo and Izedonmi (2013) showed that most of the respondents in Nigeria including businessmen without putting

into consideration their literacy levels do not have the knowledge of the laws associated with VAT and that when the taxpayers do not understand the different tax laws, the tax compliance levels will become low. Similarly, Amanamah (2016) indicates through evidence that there is low tax education among Small and Medium Enterprises in Kumasi metropolis, Ghana which in turn makes Small and Medium Enterprises not to voluntary comply. There are several ways in which VAT knowledge can be extended to the SME owners so as to promote their VAT compliance. One way in by creating awareness towards VAT system among the general public, on governmental and governmental organization. Tax related information should be published through newspapers, television, radio and cinema. Interview programs engaging tax experts should also be conducted through media (Subedi, 2015).

1.1.2 Tax Compliance Costs

Tax compliance costs in relation to VAT affect VAT compliance. Tax compliance costs constitute the costs that taxpayers incur as they meet the requirements set by the revenue authorities and the requirements of the tax laws. They are costs over other than the actual tax payment and are usually more than any distortion costs inherent in the nature of the tax. The costs constitute the costs of remitting, collecting and accounting for tax on the business' products and gains (Eragbe & Modugu, 2014). Small and medium sized enterprises particularly experience high compliance costs as a challenge and in South Africa Value Added Tax is perceived as the one associated with the most compliance costs and as a way of dealing with the high VAT compliance costs, about 18 percent of SMEs try to evade or avoid payment of taxes (Akinboade, 2015).

Compliance costs can also be defined as the expenditure in the form of time or money encountered when obeying the set government regulations or legislation. For example, taxpayers

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who are registered for Value Added Tax are supposed to keep records that have details for all the input and output tax to make the process of completing VAT returns easier. This may make the taxpayers to have to hire a tax consultant and this would be considered a compliance cost. Compliance costs comprises of the planning and administration costs in relation to adhering to the tax laws as well as the direct money together with time spent filing paperwork. Small enterprises often encounter high costs when filing, in the preparation to pay tax and paying taxes besides the burden associated with payment of tax (Mwangi, 2014). There are several ways in which VAT compliance costs can be reduced among the SME owners so as to promote their VAT compliance. For example, the revenue authorities could set up SME business Support Service Unit to provide advice as well as assistance on issues that are related with VAT to SME taxpayers who do not have or engage VAT consultants (Faridy, Fredeunberg, & Sarker, 2017).

1.1.3 Taxpayers Perception

Taxpayer's perception also affects VAT compliance. Perception represents the process by which individuals organize and interpret their sensory impressions in order to give meaning to their environment (Robbins & Judge, 2013). A lot of factors influence individual taxpayer's perception which eventually contribute towards their individual Value Added Tax compliance behavior. Yesagat and Fjeldstad (2016) indicated that in Ethiopia, taxpayers perceptions and attitudes on paying taxes contribute towards lower levels of tax compliance. According to Horodnic (2018) sub-cultures and cultures within social groups, communities and countries affect taxpayers compliance and that individual taxpayers perception is shaped by the behavior of other people in the community whereby when tax compliance is regarded to be a social norm and not being tax compliant results in to exclusion then tax compliance improves.

Value Added Tax compliance behavior can only be encouraged by visits in person by well-trained VAT officers so as to increase the perception of being caught. In the United Kingdom many of the non-compliant small and medium business owners have the perception that the chances of being caught for not paying Value Added Tax are minimal due to the closure of Her Majesty's Revenue and Customs offices nationally (CIT, 2018). Also a tax system with lower VAT penalty will contribute towards a high rate of non-compliance because Small and Medium Enterprises will easily evade Value Added Tax. For example, for SMEs in Nigeria, the fear of penalty increases the level of VAT compliance (Nura, Jabbar, & Ibrahim, 2017). In Kenya, the penalty rate for failure to pay VAT is 5% of VAT payable or Kshs.10, 000 whichever is greater (KRA, 2019). Penalties including VAT penalty rates commonly relate to failing to keep documents, late submission of tax returns, tax shortfall, tax avoidance, failing to comply with electronic tax system, failing to appear before the commissioner and fraudulent claim for refund (Tax Procedures Act 2015 Section 82-89).

1.1.4 VAT Compliance

VAT is a tax on consumption charged by a seller charges on all of its sales and claims credit for the VAT that has been charged on its inputs and in Indonesia, one of the main revenue sources for the Central government has been VAT (Iswahyudi, 2018). Le, Jensen, Shukla, and Biletska (2016) indicate that VAT in consumption based, follows destination principle, uses the credit invoice method for calculating tax liability and could have single or multiple rates and that in recent decades, the Value Added Taxes around the developing countries have evolved as the main workhorse of taxation.

VAT was introduced in Kenya in 1990 as a means of increasing the government tax collections by widening the tax base (King'oina, 2016). VAT is imposed by Kenya revenue Authority

(KRA) as per the laws of the Value Added Tax Act 2013.The Value Added Tax is a type of tax that is indirect and is charged on consumption applicable on the sale of supplies at all levels of production and distribution. VAT registered taxpayers acts as agents in collecting and remitting collected VAT to the government. The Value Added Tax paid on inputs is claimed as credit when taxpayers who are registered declare output Value Added Tax on their sales (VAT Act 2013 Section 17). Suppliers of exempt goods & services (VAT Act 2013, first schedule) do not charge Value Added Tax on their supplies and cannot claim VAT paid on their purchases. There are also goods and services which are zero rated (VAT Act 2013, second schedule) whereby, suppliers charge VAT at a rate of 0% on their supplies and are allowed to subtract the input tax paid on the purchase of those zero rated goods and services (VAT Act 2013 Section 17).

Tax compliance including VAT compliance is a concerning area in tax administration for revenue authorities worldwide and in Kenya. This position is supported by Umar, Derashid, and Ibrahim (2017) who stated that an undivided agreement exists among: authorities in developing countries, international agencies as well as among tax researchers that currently tax compliance with the tax laws is a major challenge hampering mobilization efforts for tax revenue. Over the years the Kenyan VAT has been underperforming in comparison to the other types of taxes (Ndumia, 2015). VAT compliance level has remained low despite the administrative reforms that have been undertaken contributing only 23% of the total revenue (KRA, 2015). Gitaru (2017) states that Kenyan taxpayers are grouped as large, medium or small based on the earnings of their businesses. Without putting into consideration how the taxpayers are grouped, every taxpayer in Kenya is supposed to comply with VAT, Withholding Taxes, Customs duties, PAYE and Income Tax.

There are two ways in which tax administrators can enhance tax compliance. One way in which tax administrators can enhance tax compliance is improving on enforcement by increasing access to data. This involves using third party information and cooperating with both the government agencies and counterpart agencies. The other way in which tax administrators can enhance tax compliance is through adjusting operations according to the motivational approaches of taxpayers. By this, analyzing the factors that influence taxpayers behavior and clearly understanding taxpayers' businesses as well as their activities (Majdanska & Lindenberg, 2018).

1.1.5 Small and Medium Enterprises

There is no distinctive, internationally accepted meaning for Small and Medium Enterprises. SMEs are mostly defined based on quantitative indicators, the size in terms of the number of employees and economic indicators of yearly turnover and the total of economic results in the financial statements (Berisha & Pula, 2015). SMEs are categorized as either micro, small-sized or medium-sized on the basis of the number of employees, turnover and the maximum total assets. MSEs or MSMEs are terms used in Kenya to make reference to SMEs (Adeyeye, 2016). Micro and Small Enterprises are defined according to turnover whereby, micro enterprises have a turnover of Kshs.500, 000 and less and small enterprises have a turnover of around Kshs.500, 000 to Kshs.5, 000, 000, the number of employees whereby, micro enterprises have below 10 employees and small enterprises have 10 to 50 employees and the assets which are determined by the Cabinet Secretary (KNBS, 2016).

Most SMEs fall under the informal sector comprising mostly of people who are entrepreneurs, self-employed or operating in small scale industries. SMEs play a key role in many economies. Importance of SMEs to a county's economy include economy advancement through output of goods and services, creating job at relatively low capital cost and generation of income (Sitienei,

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2018). According to KAAA (2016), under the economic pillar of vision 2030, strategies have been set to support the informal sector for reasons that include raising public revenues.

For the Kenyan business sector, most taxpayers are SMEs which according to a current report about National Economic Survey by the Central Bank of Kenya reveal that SMEs make up 98% of total Kenyan businesses and they also create 30% of the jobs yearly (Viffa, 2018). According to KNBS (2016), the number of MSEs in Kenya is 7.4 million; and out of the 7.4 million MSEs, 1.5 million have been issued with licenses by the 47 county governments and approximately 5.9 million do not have licenses, an indication that the number of undocumented businesses operating informally in Kenya is high. If all SMEs would be able to improve on tax compliance or be tax compliant then KRA would be able to collect more revenue which would contribute towards KRA meeting its set revenue targets.

1.1.6 Justification For Selection of Kajiado Town

Small and Medium Enterprises in Kajiado town range from wholesale and retail traders, restaurants, professional service firms, educational institutions among others. These Small and Medium Enterprises contribute greatly towards the economy of the region by creating employment hence directly supporting livelihoods. In addition, Kajiado town has a different business and cultural environment whereby predominantly, the people in the region specialize in livestock farming (Kajiado County Government Records, 2018). According to the licensing department in Kajiado County, there are over 500 registered Small and Medium Enterprises located in Kajiado town (ICT, 2019). Although SMEs are spread widely across the country (KNBS, 2016), this study believes that the Small and Medium Enterprises located in Kajiado town have the potential to contribute towards increased Value Added Tax collection within

Kajiado County when Kenya Revenue Authority enhances Value Added Tax compliance among the SME owners in Kajiado town.

1.2 Statement of the Problem

Value Added Tax compliance issues which determine the effectiveness of tax administration in collecting Value Added Tax are reflected through the existence of significant differences between potential VAT collections and actual VAT collections (Schlotterbeck, 2017). There is an alarming trend about VAT compliance issues resulting into lower generation of VAT revenue (Nura, Jabbar, & Ibrahim, 2017). Hutton, Thackray, and Wingender (2014) also acknowledge that over the years, there has been a contrast between the expected Value Added Tax and actual Value Added Tax collected in Uganda and policies such as reducing complexity in the Value Added Tax law need to be set to improve the collection on Value Added Tax Revenue.

Value Added Tax compliance levels have continually remained low in Kenya, contributing towards Kenya Revenue Authority's failure to collect the planned and expected Value Added Tax revenue amount. For example, the revenue expectations from budget policy 2015 for Value Added Tax in the period 2017/2018 was 412, 688 million Kenyan shillings (KRA, 2015). However, the actual revenue collected for Value Added Tax in the period 2017/2018 was 356, 777 million Kenyan shillings (KRA, 2018). An indication of a variance (shortfall) of 55, 911 million Kenyan shillings. The amount of VAT collected in Kajiado county in the period 2017/2018 was 39, 616, 569 Kenyan shillings and the target that was set for VAT for that period was not met (KRA, 2019). Low Value Added Tax compliance is one of the factors that affect the ability of the government of Kenya to collect the expected or planned Value Added Tax revenues which is used by the government to carry out government functions.

King'oina (2016) indicates that despite the existence of administrative reforms, compliance level for Value Added Tax has been low in Kenya due to factors such as poor understanding of VAT laws and negative perceptions and attitudes towards payment of VAT. On average about 30% of all taxpayers fail to submit their VAT returns and many each year face prosecution for failing to file complete returns (Onditi, 2013). Other studies have been done in the areas of Value Added Tax compliance. They include, Musau (2015) who did a study on the determinants of tax compliance among small and medium enterprises in Kenya whereby tax compliance was measured by registration for relevant taxes such as VAT, registration for itax and use of ETR machine. Ndirangu (2014) conducted a study on the effect of taxpayer education on Value Added Tax compliance among motor vehicle parts dealers in Nairobi. However, there is still need for more strategic actions to be undertaken by Kenya Revenue Authority to enable higher levels of Value Added Tax compliance among Small and Medium Enterprise owners in order to attain the planned and expected VAT revenue currently and in the future. It is in the background of these issues that this study sought to investigate the factors that affect Value Added Tax compliance among Small and Medium Enterprises in Kenya and specifically in Kajiado town.

1.3 Research Objectives

1.3.1 General Objective

The purpose of this study was to investigate the factors that affect Value Added Tax compliance among Small and Medium Enterprises in Kajiado town, Kenya.

1.3.2 Specific Objectives

The specific objectives of the study that enabled this study achieve the general objective of the study were:

(i) To establish the effect of tax knowledge on Value Added Tax compliance among Small and Medium Enterprises in Kajiado town.

(ii) To determine the effect of tax compliance costs on Value Added Tax compliance among Small and Medium Enterprises in Kajiado town.

(iii) To determine the effect of taxpayers perception on Value Added Tax compliance among Small and Medium Enterprises in Kajiado town.

1.4 Research Questions

The research questions for the study were:

(i) What is the effect of tax knowledge on Value Added Tax compliance among Small and Medium Enterprises in Kajiado town?

(ii) What is the effect of tax compliance costs on Value Added Tax compliance among Small and Medium Enterprises in Kajiado town?

(iii) What is the effect of taxpayers perception on Value Added Tax compliance among Small and Medium Enterprises in Kajiado town?

1.5 Justification of the Study

The study will be of great importance to the following:

1.5.1 Managers

The findings of this study will assist tax mangers develop tax strategies and policies that help businesses and clients maintain compliance with VAT laws and regulations. The study will also enable tax managers propose solutions in relation to the identified issues relating to Value Added Tax.

1.5.2 Policy makers

The study will be valuable to the government in the formulation or in the designing of appropriate mechanisms so that the government could generate adequate revenue to enable it finance its government activities. The findings of this study will assist tax administrators address the issues related to VAT compliance by SME owners during revenue collection.

1.5.3 Researchers

The study is expected to benefit other researchers by contributing to the existing literature in the field of factors affecting VAT compliance among SMEs. It is hoped that this study will form the underlying foundation for further research on this subject.

1.6 Scope of the Study

The study focused on how tax knowledge, tax compliance costs and taxpayers perception affect Small and Medium Enterprises' Value Added Tax compliance. The target population was 241 SMEs that are located in Kajiado town and that have been registered for Value Added Tax according to the records of Kenya Revenue Authority in Kajiado County for the financial year 2017/2018. A sample size of 151 SMEs was selected for the study.

<p style="text-align: center;">**CHAPTER TWO**</p>

<p style="text-align: center;">**LITERATURE REVIEW**</p>

2.1 Introduction

This chapter reviews on the theoretical framework, empirical literature, conceptual framework, critique of the literature review, summary of the literature review and the research gap.

2.2 Theoretical Framework

A theoretical framework provides a representation of the beliefs on how certain phenomena, variables or components relate to one another and provide explanation for why there exists beliefs that variables are associated with one another (Sekaran & Bougie, 2010). The guiding theories for this study are the deterrence theory and the theory of planned behavior.

2.2.1 Deterrence Theory

The deterrence theory was developed by Becker in 1968 and describes the effects of sanction threats and sanctions. The theory's framework indicates that the structure for penalty, probability of detection and tax rate determines the financial costs of compliance which in turn determine taxpayers' behavior in relation to compliance (Sapiei & Kasipillai, 2013). Walsh (2012) when pointing out at the deterrence effects, stated that the standard model of tax compliance which was formed from Becker (1968) and Allingham and Sandmo (1972), has the assumption that a taxpayer who is rational does an assessment on the costs associated with evading payment of taxes and the advantages for evading taxes and that when the advantages expected that is, less income "lost" to tax outweighs the costs that is, the probability of being caught and punished for not becoming compliant with tax then the taxpayer will consider evading tax.

Deterrence can be achieved using punitive and persuasive approaches (Kendrick, 1939). The punitive approach advocates for effective imposition of tougher penalties and increasing the probability of detection as a way of preventing taxpayers from failing to comply with their tax obligations. Persuasive approaches advocate for improving taxpayers education and simplifying the tax system. Velthoven and Wijck (2016) indicated that Becker's economic deterrence theory started a new branch of law and economics literature and has been a seminal contribution. However, the two main principles of Becker's deterrence theory that is the economic approach to the behavior of offenders and the minimization of social loss as the criterion for optimal law enforcement have gone unchallenged and have generally been accepted within the law and economics literature. Deterrence theory is related to this study because it appreciates the role of the sanction threats such as the probability of being detected and penalties as a way of achieving taxpayers' Value Added Tax compliance.

2.2.2 Theory of Planned Behavior

Ajzen in 1991 developed the theory of planned behavior. The theory originated from the Theory of Reasoned Action by Ajzen and Fishbein in the year 1975 to predict an individual's intention to engage in a behavior. The Theory of Reasoned Action indicates that there is a high likelihood for people to behave in a certain way when they assess that the behavior being suggested has positive outcome(attitude) and if they think that other people associated with them would like them to undertake the behavior (Subjective norm). However, the same authors later on argued that due to limitations caused by circumstances, subjective norms and attitude do not usually result to behavior and as a result Ajzen extended the Theory of Reasoned Action to include a new aspect known as perceived behavioral control, to assist in accounting for the behavior that

comes up when an individual's control over the behavior is incomplete. The extended version is known as the theory of planned behavior (Southey, 2011).

The theory of planned behavior suggests that a person's intention is the immediate determinant of behavior. The intention is determined by the subjective norms, attitude and perceived behavior controls. Attitude refers to the evaluations made by the performer of the behavior in relation to the action of that behavior. Subjective norms refers to the opinions that are made by the people who are related to the performer of the behavior or who will be considered as reference in relation to a particular behavior. Perceived behavioral control illustrates the level of difficulty that exists for the performer so as to perform a particular behavior (Benk, Cakmak, & Budak, 2011). In the recent decade, the founder of Theory of planned behavior, Ajzen together with his partners have published monographs so as to discuss, reflect and analyze the three main variables and three corresponding beliefs, and now made arguments to improve the rigor of the theory of planned behavior (Zhang, 2018).

The theory of planned behavior is related to this study because first, it points out that taxpayers' attitudes have a positive effect on VAT compliance intentions and according to Oladipupo and Obazee (2016) one instrument that can be used to change taxpayers' attitude towards matters associated with tax is tax education. This means that taxpayers knowledge about VAT legislation and procedures play a role in achieving taxpayers' VAT compliance. Secondly, the theory of planned behavior points out that there are indeed factors that have a positive and negative effect on VAT compliance intentions which eventually result into VAT compliance behavior. For example, taxpayers attitudes such as equity attitudes have a positive effect on VAT compliance intentions, taxpayers subjective norms such as social and moral norms in regards with VAT have

a positive effect on VAT compliance intentions and perceived behavioral control such as detection risk and penalty magnitude also have a positive effect on VAT compliance intentions.

2.3 Empirical Review

This section presents an analysis of previous studies that have been undertaken by other researchers both globally and locally in relation to tax knowledge, tax compliance costs, taxpayers perception and Value Added Tax compliance.

2.3.1 Tax Knowledge and VAT Compliance

According to Palil (2010) tax knowledge significantly affects tax compliance among individual taxpayers in Malaysia and positive tax attitudes among taxpayers can be formed when the taxpayers have better knowledge on tax matters which would in turn improve compliance. The study further suggested that an introductory tax course should be introduced at the beginning of higher learning education in order to cultivate responsible taxpayers in Malaysia. Similarly, Ndirangu (2014) indicates that the relationship that exists between tax knowledge and tax compliance including VAT compliance is significant among motor vehicle part dealers in Nairobi Central Business District. The study suggested that the public should be educated on tax policies and regulation. And that public awareness need to be enhanced on the benefits of paying tax to change the attitudes of taxpayers on tax remittance.

Although VAT contributes importantly towards the total government tax revenues accounting for over 30% of the revenues, it is complexity and its implementation requires taxpayers' cooperation making taxpayer education very paramount. One component of enhancing compliance by tax administrations' is taxpayers education and outreach which entails ensuring that taxpayers know their legal obligations (Olowookere & Fasina, 2013). Based on the relevant

tax laws businesses as well as citizens have the following main obligations in relation to tax compliance: registration for identification; filing which is submission of tax returns on time; declaration by correctly reporting tax liabilities; and, payment of tax on time as stipulated in the law (Ndirangu, 2014).

Nyareru, Kibati, and Ragama (2017) indicate that businesses that have registered for VAT should give out tax invoices that are generated by ETR. However, some SMEs owners do not acquire ETR because of the operational skills that are needed to operate the ETR. Also some SME owners have had queries on the quality of service as well as training given by the suppliers of ETRs. Free training programs could help taxpayers understand all issues that are related with VAT law. For example, the study of Faridy, Fredeunberg, and Sarker (2017) recommends that the National Board of Revenue in Bangladesh could establish an extensive free training program about issues that are involved with the VAT law as a way of making SME taxpayers understand the VAT law. Tax knowledge enhancement creates a positive attitude towards tax compliance. For example, in Malaysia for the taxpayers in Malaysia, knowledge has been recognized as a key factor to promote understanding of the tax system (Agbadi, 2011).

Machogu (2015) reveal that most entrepreneurs do not know about the regulations required when starting up a business and the general taxation procedures as a result of ineffective procedures used to give out information relating to government policies preventing entrepreneurs from formalizing their businesses. The study further indicated that tax specific knowledge is necessary in enabling owners for small businesses to comply and increase their compliance willingness based on the assumption that to learn about taxes will also mean to learn about the functions of taxes in the society.

However, Umar and Tusubira (2017) in their paper that is based on their understanding in the 5th Annual TARC Workshop (2017) state that for countries that are developing continuous improvement on tax awareness and the simplification of the tax systems could increase collection of taxes, however such techniques are not sufficient and engaging taxpayers is what should be considered. Taxpayer engagement involves enabling taxpayers to participate in the stages of setting agenda, making policy as well as implementation. This study agrees with Ndirangu (2014) and Faridy, Fredeunberg, and Sarker (2017) that knowledge about specifically VAT is indeed a factor that contributes towards Value Added Tax compliance for Small and Medium Enterprise owners.

2.3.2 Tax Compliance Costs and VAT Compliance

Higher compliance costs for VAT are one of the important components that have an effect on Small and Medium Enterprises causing significant non-compliance and under representation in the registration for VAT and in the collection of VAT revenue among SME taxpayers in Bangladesh (Faridy, Fredeunberg, & Sarker, 2017). The study suggested that the National Board of Revenue in Bangladesh could establish SME business Support Service Unit to provide assistance and advice on VAT issues to SME taxpayers who do not engage VAT consultants. Gerard and Naritomi (2018) similarly agree that VAT declaration involves high compliance costs as a result of detailed book keeping and complex filing. The compliance costs are intensified since VAT implementation entails different rates for different supplies and a lot of exemptions. This can be a burden for specifically the firms that are small. According to Gachiku (2015) the complexities in the Value Added Tax include keeping records that are detailed for the output as well as input tax so as to aid in completing VAT returns. These complexities associated with VAT may require SME owners to hire a person who has VAT law skills.

VAT law entails the use of ETRs. However, SMEs are yet to embrace the idea of using ETRs because of difficulties associated with purchasing, installing as well as maintaining the ETRs (Nyareru, Kibati, & Ragama, 2017). Faridy (2015) illustrates that in the context of VAT in Bangladesh, direct and indirect costs are encountered by SMEs when complying with the VAT law. Direct costs are made up of costs associated with document collection (compiling receipts, recording data, checking accounts); accounting for VAT; tax advisor fees, learning VAT law costs, price declaration costs; preparation for VAT refunds and remitting VAT on products. Indirect costs are made up of the time used in order to complete VAT returns; time used to acquire VAT knowledge; need to have awareness on the taxpayers rights and obligations and getting information about the new procedures and regulations set. The study further points out that complexity of the VAT law partly contributes towards unintentional non-compliance and high tax compliance costs burden partly contributes towards intentional non-compliance.

Measuring compliance costs is not easy since they vary significantly over taxes and taxpayers. And that the reason that leads small businesses to fail to register or reduce their undertakings to a lower level which cannot be taxed is that: tax compliance costs are made up of components that are substantially fixed and that the cost incurred when VAT return is filed will cost more of an equal an equal measure such that any net amount that is remitted would be discovered to be huge for businesses that are small. Promoting voluntary compliance by reducing the compliance costs can be obtained through improving the services being offered to the taxpayers in ways that include: provision of information that can be readily accessed as well as advice, reporting simplification and giving attention to the different segments of the taxpayers based on their different needs (IMF, 2015).

It has further been recommended that the revenue authority should strive to provide taxpayers with services that are of high standards as clearly stated in the corporate plan and in the tax payer charter to reduce the need of spending costs to hire skilled persons (Gachiku, 2015). Also reduced complexity and reduced compliance costs enhances compliance with VAT law (Faridy, 2015). King'oina (2016) indicates that a country's competitiveness is disadvantaged by high tax compliance costs and as a way of reducing the need to hire tax professionals and encouraging voluntary compliance KRA has set up ways of simplifying the tax systems through the itax system. Value Added Tax Flat Rate Scheme structure was also established in Ghana in order to minimize difficulties related with the VAT structure and in return improve compliance among traders (Agbadi, 2011).

This study therefore agrees with the above authors that there indeed exists Value Added Tax compliance costs among Small and Medium Enterprises and that high VAT compliance costs among Small and Medium Enterprises is as a result of complexity of the VAT laws and the VAT system, Value Added Tax Consultant and agent fees, ETR acquisition, installation and maintenance costs and the costs associated with having a system of accounting that deals with the calculation of due amount of VAT and the preparation of required information.

2.3.3 Taxpayers Perception and VAT Compliance

Jayawardane and Low (2016) revealed that taxpayers perceptions and attitudes encourage tax compliance including VAT compliance among individual taxpayers in Sri Lanka with a correlation of 0.834=1. The study suggested that taxpayers perceptions and attitudes can be changed by the government being accountable for people's money so as to improve peer attitude on the payment of taxes. This argument is supported by King'oina (2016) who stated that taxpayers perceptions and attitudes have a significant effect on Value Added Tax compliance among construction firms in Kisumu County. VAT compliance among individual SME owners could be directly affected by other SME owners. Pukeliene and Kazemekaityte (2016) indicated that social interactions and social norms contribute greatly towards individual compliance decisions. For example, taxpayers may not observe tax compliance if they believe that other individuals are not paying their taxes too.

Motivation has an impact on taxpayers perception that in turn contributes towards VAT compliance. Luttmer and Singhal (2014) through evidence indicate that recognition can encourage tax compliance and one of the ways in which governments could enhance taxpayers motivation is facilitating social recognition for the taxpayers who are compliant. Forms of intrinsic motivation are often connected with honesty and the achievement of civic duties. They further suggest that enforcement can also be used to increase motivation by showing taxpayers that tax compliance is an important legal duty. Probability of being detected and penalized is another factor that would have an impact on VAT compliance. In a study conducted by Barham and Fox (2011) in Britain, out of the 734 business in the sample of the study which were registered to pay Value Added Tax, 76% revealed that it was likely or very likely that Small and Medium Enterprises regularly evading Value Added Tax would be caught. Also in relation to

perception towards Her Majesty's Revenue and Customs' sanctions, out of the 734 Small and Medium Enterprises which were registered for Value Added Tax, 68% agreed that penalties for not complying with Value Added Tax was sufficient to deter businesses from not declaring Value Added Tax properly, while 8 per cent disagreed. However Faridy, Copp, Freudenberg and Sarker (2014) found out that the likelihood of audits, penalties and sanctions have a less effect on taxpayers who are not compliant with the Value Added Tax laws. This study agrees with Jayawardane and Low (2016) and King'oina (2016) that taxpayers perception has an effect on Value Added Tax compliance.

2.3.4 VAT Compliance

In Bangladesh, there is under representation of SMEs in terms of VAT collected by the revenue authority (Faridy, 2015). According to Nura, Jabbar, and Ibrahim (2017) there is an alarming trend about lower levels of VAT compliance specifically among Small and Medium Enterprises and that there are many factors that influence VAT compliance behavior including the political environment, business environment, detection probability, VAT penalty as well as VAT complexity. Keen (2013) indicates that causes of non-compliance among MSMEs include little taxpayer knowledge about tax obligation, on registration as well as non-filers and underreporting problems.

Inasius (2015) indicates that in order to understand taxpayers behavior, it is important to study taxpayers compliance. Subedi (2016) through evidence reveals that the trend in VAT compliance in Nepal is decreasing and that in 2007/2008, the VAT compliance rate was 84.85% and it decreased to 75.8% for the year 2014/2015. Many small firms in Africa, including Ghana do not comply because the costs associated with compliance are high (Amanamah, 2016). Musau (2015) observed that there are several factors that affect SMEs' compliance with taxes such as

VAT. These factors included Value of tax (satisfaction with the goods and services provided by the government), information about taxes and complexity of the filing procedures, detection and penalties and trust in government including trust in tax officials and authority. This study therefore agrees with Inasius (2015) that it is important to study taxpayers compliance. This is because through evidence from Subedi (2016) and Musau (2015) there are different factors that affect VAT compliance among taxpayers.

2.4 Conceptual Framework

A conceptual framework is a model that is hypothesized and is used to identify the concepts being studied and their relationships (Mugenda & Mugenda, 2003). The independent variables for this study were tax knowledge, tax compliance costs and taxpayers perception and the dependent variable for this study was Value Added Tax compliance. Tax knowledge was measured using knowledge of the VAT system, seminar and access to tax information. Tax compliance costs was measured using ETR acquisition and installation costs, tax consultancy costs and book keeping costs. Taxpayers perception was measured using peer influence, motivation and the probability of being detected and penalized. The number of taxpayers registered for VAT, the number of filed VAT returns and the amount of VAT paid was used to measure VAT compliance as shown in Figure 2.1.

Tax knowledge
• Knowledge of the VAT system
• Seminars
• Access to tax information

Tax compliance costs
• ETR acquisition and installation costs
• Tax consultancy costs
• Accountancy costs

Taxpayer's perception
• Peer influence
• Motivation
• Probability of being detected and penalized

Value Added Tax compliance
• Number of taxpayers registered for Value Added Tax
• Number of filed VAT returns
• Amount of VAT paid

Independent variables   Dependent variable

Figure 2.1: Conceptual Framework

2.5 Critique of the Literature Review

Previous studies that have been documented by Faridy, Fredeunberg, and Sarker (2017); Nura, Jabbar and Ibrahim (2017) and Ndirangu (2014) agree that governments should make efforts in ensuring that the collection of VAT is efficient and accurate so as to promote government operations and that reducing the VAT compliance burden is important. Specifically, Faridy, Fredeunberg, and Sarker (2017) conducted a study about the compliance costs incurred by the

SMEs in relation to VAT in a country that is developing. Nura, Jabbar and Ibrahim (2017) did a study on the impact that the business as well as the political surroundings have on compliance with VAT. Ndirangu (2014) conducted research on the impact of taxpayer education on compliance with VAT by traders that deal with parts of motor vehicle in Nairobi. However, no study on factors affecting Value Added Tax compliance for Small and Medium Enterprises in Kajiado town has been done previously. This study therefore sought to find out how tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax compliance among Small and Medium Enterprises in Kajiado town, Kenya.

2.6 Summary of the Literature Review

This study assessed how tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax compliance among Small and Medium Enterprises. First, this study started by introducing this chapter. Two theories that have been found to be relevant to the variables that have been selected for this study include the deterrence theory and theory of planned behavior. The conceptual framework has then been illustrated to represent the relationship between the study variables. The empirical review section indicates the studies that are similar to the dependent variable namely Value Added Tax compliance by Small and Medium Enterprises and the independent variables namely tax knowledge, tax compliance costs and taxpayers perception. This study finally criticized the literature that has been reviewed.

2.7 Research Gap

Several studies for research have been done on SME Value Added Tax compliance: Subedi (2016) did research on the analysis of VAT evasion in the context of Nepal. Faridy (2015) did a study about VAT non compliance as well as the compliance costs and complexities associated with VAT by Small and Medium Enterprises (SMEs) in Bangladesh. Nyareru, Kibati, and

Ragama (2017) conducted a study on the factors that have an influence on the utilization and implementation of electronic tax registers by Small and Medium Enterprises in Kenya specifically in Nakuru town. However, Marandu, Mbekomize, and Ifezue (2015) through evidence indicate that the variables that have been proposed and used in tax compliance literature have little similar attributes and vary with each study, making it hard to have a comparison of the results from the different studies. Their study further recommends that future researchers should develop common main tax variables. Also, the factors that affect Value Added Tax compliance among Small and Medium Enterprises in Kajiado County and specifically within Kajiado town has not been documented. This study therefore, sought to find out how the following three key variables selected from different studies that have been done in the past and include tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax compliance among SMEs in Kajiado town, Kajiado County.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter deals with the plan that acted as a guide in carrying out the research and also provides explanation of how data was collected and analyzed. It comprises of the population of the study, sampling unit, sampling techniques, the data collection procedure, pilot testing as well as data analysis and presentation.

3.2 Research Design

A research design is used to provide a framework for data collection and analysis. The choice of research design reflects decisions about the priority being given to a range of dimensions of the research process (Bryman, 2012). Descriptive study is concerned with finding out the what, where and how of phenomenon (Cooper & Schindler, 2003). The research design that was used for this study is the descriptive type of research design. Descriptive research design was used because the purpose of this study was to determine how tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax compliance among Small and Medium Enterprises in Kajiado town by discovering current ideas as well as insights into this study. When questioning the respondents, quantitative research was used in the form of questionnaires.

3.3 Target Population

Mugenda and Mugenda (2003) indicate that the target population refers to a complete set of individuals, cases or objects with the same common observable characteristics. The target population for this study was 241 SMEs that are located in Kajiado town and that have been registered for VAT according to the records of KRA station in Kajiado County for the financial

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year 2017/2018. According to the records of KRA station in Kajiado County, Kajiado town had a total of 241 SMEs registered for VAT in the financial year 2017/2018 (KRA, 2019).

3.4 Sampling Technique and Sample Size

A sample is a subset of the population. By studying the sample, the researcher should be able to draw conclusions that would be generalizable to the population of interest (Sekaran, 2003). Yamane formula was used for determining the sample size for this study because Yamane formula assumes a normal distribution and it was assumed that the Small and Medium Enterprises were distributed normally in relation to the parameters under study that is Value Added Tax compliance. This formula also enables the selection of a sample that represents the population, with confidence and risk levels. The Yamane formula is;

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

Whereby n represents the sample size for target population, N represents the population size, e represents the error of sampling or precision/error limit at 95% level of confidence and 5% level of precision is required (Yamane, 1967). Using the above formula and a precision level of 5%, the desired sample size was; n= 241/1+ (241*0.05*0.05); 241/1.60; 150.63 ~ 151. Therefore, 151 Small and Medium Enterprises formed the sample size for the study. The sampling technique for this research was simple random sampling.

3.5 Data Collection Instrument(s)

Choosing the method for collecting data depends on the purpose for conducting the study, the skills that the researcher has and the available resources (Kumar, 2011). This study used secondary and primary data. Primary data was obtained using structured questionnaires with

closed questions so as to find out the opinion of the SME owners on how tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax compliance among Small and Medium Enterprises. The use of questionnaires was preferred because a questionnaire is simple to administer and convenient for collecting data within a short time (Cooper & Schindler, 2010). Secondary data was obtained from existing revenue publications and reports in order to find out the Value Added Tax compliance levels.

3.6 Data Collection Procedures

According to Kumar (2011), when selecting a method for collecting data, the socioeconomic–demographic characteristics of the study population should be considered. It is good to know the study population's attitude and interest towards participating in the study. Drop and pick method of administering questionnaires was used. The method first involved seeking consent from the selected Small and Medium Enterprises' owners to participate in the study. The questionnaires were then issued to the respondents.

3.7 Pilot testing

Pilot testing is done with the intention of revealing errors in the design and improper control of extraneous or environment conditions. Pre testing the instruments enables refinement prior to the final test (Cooper & Schindler, 2003). Pre-testing of the questionnaire was done using a small group of respondents who are not part of the study in order to reveal the words and questions that the respondents may not comprehend. Cooper and Schindler (2010) states that a pilot sample should be 10% of the sample projected for the larger parent study. Therefore, 15 respondents were used for the pilot study. For the pilot results 15 questionnaires were issued to the respondents who formed the pilot sample. All the 15 questionnaires were filled and returned by

the respondents who also revealed that the questions in the questionnaire were simple to understand and precise.

3.7.1 Reliability Test

Sekaran (2003) indicated that the reliability of a measure is an indication of the stability and consistency with which the instrument measures the concept and helps to assess the "goodness" of a measure. The reliability analysis was done using Cronbach's Alpha which is usually interpreted as the mean of all possible split-half coefficients. Tax knowledge had an alpha of 0.702, Tax compliance cost had an alpha of 0.722, Taxpayers perception had an alpha of 0.719 and lastly Value Added Tax Compliance had an alpha of 0.893. The benchmark value of 0.7 is commonly used for the reliability whereby alpha values above 0.7 are considered acceptable and satisfactory, above 0.8 are considered good and above 0.9 are considered to reflect exceptional internal consistency (Mohajan, 2017). The Cronbach's alpha coefficient of 0.7 was used as the benchmark for this study, and all variables had met the threshold.

Table 3. 1 : Reliability Test

Variable	N	Cronbach Alpha
Tax Knowledge	5	0.702
Tax Compliance Cost	4	0.722
Taxpayers Perception	4	0.719
Value added Tax Compliance	3	0.893

3.7.2 Validity Test

Validity refers to the accuracy and meaningfulness of inferences, on the basis of the results obtained from research (Mugenda & Mugenda, 1999). The study used content validity whereby

questionnaires included a variety of questions about how tax knowledge, tax compliance costs and taxpayers perception affect Value Added Tax Compliance among SMEs. Clear instructions were also given and the questions were formulated in simple language for clarity and ease of understanding. The study also improved validity by matching the assessment measure to the objectives of the study.

3.8 Data Analysis

Data analysis means computing certain measures along with searching for patterns of relationship that exist among data-groups (Kothari, 2009). Data was analyzed using descriptive statistical tools such as frequencies and percentages to help the study describe the data. There was the use of the likert scale to help the study establish to what extent tax knowledge, tax compliance costs and taxpayers perception affect Small and Medium Enterprises' Value Added Tax compliance in Kajiado town. In relation to establishing the relationship between the dependent and independent variables, this study used multiple regression analysis:

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

Where:

γ Represents Value Added Tax compliance

β_0 Is the constant

$\beta_1, \beta_{2 \text{ and}} \beta_3$ The regression coefficients

X_1 Tax knowledge

X_2 Tax compliance costs

X_3 Taxpayers perception

| ε | The error term or residuals |

3.9 Operationalization of study variables

The following table gives an outline of the dependent and independent variables and how they were measured and reviewed.

Table 3. 2 : Operationalization of study variables

Variables	Objectives	Source/Author	Data collection instrument	Measurement scales	Analysis
Independent variables					
Tax knowledge	To establish the effect of tax knowledge on VAT compliance among SMEs in Kajiado town	Palil (2010) Ndirangu (2014)	Questionnaire	5 point likert	Regression Analysis Correlation Analysis
Tax compliance costs	To establish the effect of tax compliance costs on VAT compliance among SMEs in Kajiado town	Faridy, Fredeunberg, and Sarker (2017)	Questionnaire	5 point likert	Regression Analysis Correlation Analysis
Taxpayers perception	To establish the effect of taxpayers perception on VAT compliance among SMEs in Kajiado town	Jayawardane and Low (2016) King'oina (2016)	Questionnaire	5 point likert	Regression Analysis Correlation Analysis

Dependent variable

Value Added Tax compliance	Questionnaire	5 point likert	Regression Analysis
			Correlation Analysis
Measurable indicators:			
Number of taxpayers registered for VAT	KRA periodical reports	Ordinal	
Number of filed VAT returns	KRA periodical reports	Ordinal	
Tax collected	KRA periodical reports	Ordinal	

CHAPTER FOUR

DATA FINDINGS, ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter describes the actual findings as per the feedback from the respondents and which linked them to the objectives of the study. It encompasses the nature of background information, descriptive and inferential statistics of the respondents' rating on Tax knowledge, Tax compliance costs, Taxpayers perception and Value Added Tax compliance.

4.2 Response Rate

Questionnaires were used to seek perceptions of the SMEs owners operating their business in Kajiado town on factors that affect Value Added Tax compliance. The researcher distributed 151 questionnaires out of which 97 were received, 4 questionnaires were not accepted as a result of improper completion. Therefore 93 questionnaires were accepted as correctly filled which represent a response rate of 61 %. For most academic studies involving a response rate of approximately 35 per cent is reasonable (Baruch, 2004). Rate of response from respondents of 40% is unreliable, 50% is appropriate, 60% is considered good, 70% is considered to be very good (Mugenda, 2008). Sekaran & Bougier (2009) recommend that researchers should strive to achieve a rate of response from respondents of approximately 60% for almost all research. On the basis of this opinion, this implies that the rate of response from respondents in this study was adequate. Figure 4.1 illustrates the level of response rate.
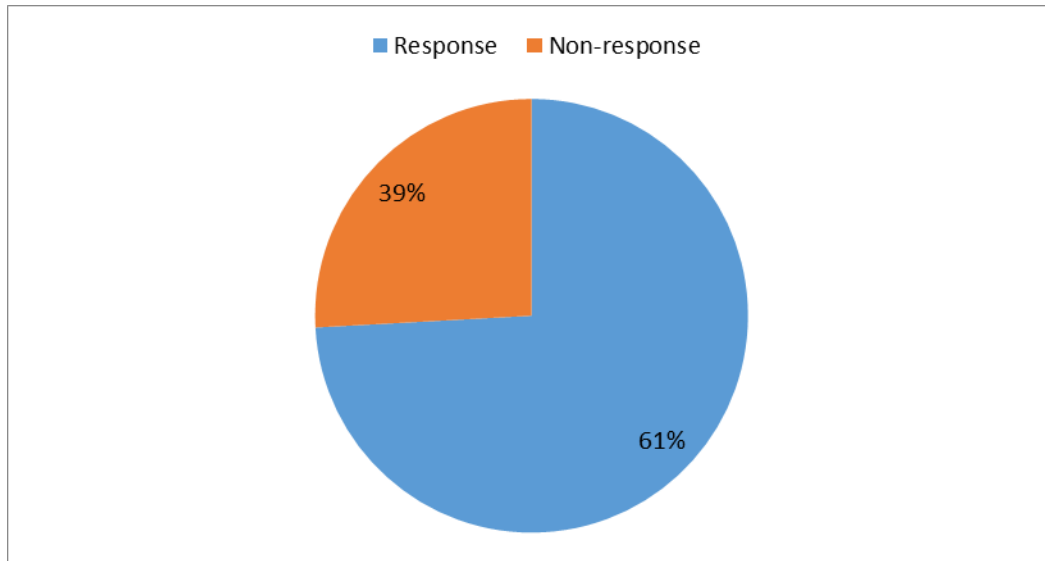
Figure 4. 1 : Response Rate

4.3   Background Information

Table 4.1 shows that SME firms in the Kajiado town are owned by business people between 40-49 age bracket with a representation of 38.2%, 18-28 at 11.3%, 29-39 at 23.1% and lastly above 50 years at 27.4%. From the findings majority of SME firms are owned by men with a representation of 67.3% while 32.7% were of female gender. 25.3 % of SME firm in Kajiado town had less than 10 employees, 57.0% have employees ranging between 10-20, and while only 17.7% had above 21 employees, this indicate that majority of SME firms have employed a range of 10-20 employees. From the findings majority of the SME firms in Kajiado town that is 56.9 % of them show that they have an average annual turnover of 500,000 – 5,000,000 Ksh, 13.8 % have less than 500,000 Ksh turnover and lastly 29. 3% have annual turnover of above 5,000,000 Ksh. This shows that most SME in Kajiado town have an excellent sales turnover.

Table 4. 1 : Background Information

		Percent (%)
Age		
	18-28	11.3
	29-39	23.1
	40-49	38.2
	Above 50	27.4
	Total	**100**
Gender	Male	67.3
	Female	32.7
	Total	**100**
Average annual turnover	Less 500,000	13.8
	500,000-5,000,000	56.9
	Above 5,000,000	29.3
	Total	**100**
Numbers of employees	Below 10	25.3
	10-20	57.0
	Above 21	17.7
	Total	**100**

4.4 Statistical Assumptions

There are certain assumptions that exist in relation to the variables that used in analysis. These assumptions are relied upon by the statistical tests. When these assumptions are not met the findings may not be valid (Osborne & Waters, 2014). They further argue that this may result in a type II or type I error, or under or over-estimation of significance or effect size(s). It is therefore important to pretest for these assumptions for validity of their results. Osborne, Christensen, and Gunter (2001) observed that most articles do not report whether they have tested the statistical tests assumptions that they rely on to draw their conclusions. Testing for assumptions is beneficial as it ensures that the associated assumptions are met by the analysis and assists in avoiding type II and I errors (Osborne and Waters, 2014; Owino, 2014). Prior to data analysis, assumptions for linear regression were checked together with multicollinearity and normality.

4.4.1 Test of Normality

Parametric statistics by definition assume that data under test is distributed normally, hence the use of the measure of central tendency (Zikmund, 2010). Ghasemi and Zahediasl (2012) indicate that a number of statistical procedures including correlation, regression, t-test and f-tests are on the basis of the assumption that the data follows a distribution that is normal. There are several ways of testing normality such as Kolmogorov-Smirnov, Shapiro-Wilk, Anderson Darling and Lilliefors.

Shapiro-Wilk is the most powerful normality test (Razali & Wah, 2011). This study adopted it. The findings of the tests are presented in Table 4.2. Shapiro-Wilk test of less than 0.05 implies that there is significant deviation of data from a normal distribution. The study's data set was subjected to a normality test and the findings are shown in Table 4.2.

Table 4. 2 : Tests of Normality

	Kolmogorov smirnov		Shapiro-Wilk	
	Statistics	sig	Statistics	sig
VATC	0.087	0.200	0.891	0.023
TK	0.214	0.000	0.857	0.000
TCC	0.270	0.000	0.764	0.000
TPP	0.154	0.004	0.980	0.000

4.5 Multicollinearity Test

Table 4.3 shows that the tolerance values were less than 1 rule and of VIF were not more than 2. This shows that among the independent variables there is no multicollinearity. Therefore, it would not be appropriate to omit variables that have insignificant regression coefficients. Hakim (2000) described that in an ordinary least squares regression analysis, variance inflation factor (VIF) quantifies the severity of multicollinearity. VIF gives an index that measures how much

the variance (the square of the estimate's standard deviation) of an estimated regression coefficient is increased because of collinearity. Cooper (2006) stated that lower levels of VIF are better while VIF that are of higher levels greatly affect the result that is associated with a multiple regression analyses. The authors argued that relatively high levels of multicollinearity are indicated by VIF above 2.50.

In the regression model for the study, the Variance Inflation Factor test was between 1.584 and 1.741. Bryman (2009) indicated the level of 2.5 as an indicator of muliticollinearity. The figures obtained were less than 2.5 showing that there was no problem of multicollinearity in the analysis. Thus the study findings were able to fulfill the threshold mainly because Table 4.3 shows that the VIF of the study were all less than 2. Tax knowledge had a Tolerance of 0.825 and VIF of 1.642, Tax compliance cost had a Tolerance of 0.716 and VIF of 1.584 and lastly Taxpayers perception had a Tolerance of 0.642 and VIF of 1.741.

Table 4. 3 : Multicollinearity Test

Coefficients[a]

Model	Collinearity Statistics	
	Tolerance	**VIF**
(Constant)		
TK	**0.825**	**1.642**
TCC	**0.716**	**1.584**
TPP	**0.642**	**1.741**

a. Dependent Variable: VATC

4.6 Descriptive Statistics

4.6.1 Tax Knowledge

Several statements of Tax Knowledge were asked and respondents required to rate the extent of agreement with the following statement on its applicability. Using the Likert scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4=agree and 5=strongly agree. The findings are as shown in Table 4.4

Table 4. 4 : Tax Knowledge

	Mean	SD
I have information about VAT legislation and VAT procedures	3.63	0.871
I have attended seminars on Value Added Tax matters	3. 04	0.263
VAT filing and payment procedures are complex	3.55	0.412
In Kenya, information about Value Added Tax is easily accessible	3.34	0.385
I can correctly calculate VAT payable amount with the available information	3.52	0.403
Average	**3. 41**	

Table 4.4 illustrate Tax Knowledge level among SME business owners in Kajiado town. The results indicate an overall mean of 3.41 on Tax Knowledge variable. From the data findings, respondents agreed with the statement that they had information about VAT legislation and VAT procedures, having a mean score of 3.63. There was an agreement that they have attended seminars on Value Added Tax matters with a mean score of 3.04. It was agreed that VAT filing

and payment procedures are complex with a mean score of 3.55, respondent further agreed that in Kenya, information about Value Added Tax is easily accessible with by mean score of 3.34 and lastly respondents strongly agreed with the statement that I can correctly calculate VAT payable amount with the available information with a mean score of 3.52.

4.6.2 Tax Compliance Costs

Several statements of Tax Compliance Cost were asked and respondents required to rate the extent of agreement with the following statement on its applicability. Using the Likert scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4=agree and 5=strongly agree. The findings are as shown in Table 4.5

Table 4. 5 : Tax Compliance Costs

	Mean	SD
Tax stations are easily accessible	3.25	1.049
Costs of acquiring, installing and maintaining ETRs comprises the highest Value Added Tax compliance cost	4.12	0.701
Costs of hiring a tax consultant comprises the highest Value Added Tax compliance cost	3.78	0.612
Accountancy costs comprises the highest Value Added Tax compliance cost	3.39	0.661
Average	**3.52**	

Table 4.5 illustrates Tax Compliance Cost level among SME business owners in Kajiado town. The results indicate an overall mean of 3.52 on the practices of Tax compliance cost. From the data findings, respondents were in agreement of the statement, tax stations are easily accessible

with mean of 3.25. They strongly agreed that Costs of acquiring, installing and maintaining ETRs comprises the highest Value Added Tax compliance cost with mean of 4.12. There was an agreement that Costs of hiring a tax consultant comprises the highest Value Added Tax compliance cost with mean of 3.78 and lastly respondent agreed with the statement that accountancy costs comprise the highest Value Added Tax compliance cost with the mean score of 3.39.

4.6.3 Taxpayers Perception

Several statements on Taxpayers Perception were asked and respondents required to rate the extent of agreement with the following statement on its applicability. Using the Likert scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4=agree and 5=strongly agree. The findings are as shown in Table 4.6

Table 4. 6 : Taxpayers Perception

	Mean	SD
My friends, neighbors and other SME owners pay the correct Value Added Tax	3.72	0.619
The government should reward those who are Value Added Tax compliant	4.07	0.714
It is my obligation to support the government by reporting and paying VAT	4.30	0.801
There is a high degree of being detected for not paying Value Added Tax and penalized	3.66	0.512
Average	**3.93**	

Table 4.6 illustrates the level of Taxpayers Perception among SME business owners in Kajiado town. The results indicate an overall mean of 3.93 on the variable of Taxpayers Perception. From the data findings, respondents agreed that their friends, neighbors and other SME owners pay the correct Value Added Tax with a mean of 3.72. There was an agreement that the government should reward those who are Value Added Tax compliant with a mean score of 4.07, respondents further agreed with the statement that It is my obligation to support government by reporting and paying VAT which obtained mean score of 4.30 and lastly respondents were in agreement that there is a high degree of being detected for not paying Value Added Tax and penalized with a mean score of 3.66.

4.6.4 Value Added Tax compliance

Several statements of Value Added Tax Compliance were asked and respondents required to rate the extent of agreement with the following statement on its applicability. Using the Likert scale of 1-5 where 1= strongly disagree, 2= disagree, 3= neutral, 4=agree and 5=strongly agree. The findings are as shown in Table 4.7

Table 4. 7 : Value Added Tax Compliance

	Mean	SD
I have registered for Value Added Tax	4.10	0.751
I file Value Added Tax returns on time	2.79	0.317
I pay the correct amount of Value Added Tax	3.69	0.619
Average	**3.53**	

Table 4.7 illustrates Value Added Tax compliance level among SME business owners in Kajiado town. The results indicate an overall mean of 3.53. There was a strong agreement by the respondents with the statement that I have registered for Value Added Tax by a mean of 4.10, this was followed by disagreement of the statement of I file Value Added Tax returns on time which obtained a mean of 2.79 and lastly respondents were in agreement with the statement I pay the correct amount of Value Added Tax with a mean score of 3.69.

4.7 Correlation Analysis

Hall (2015) defines the Pearson's Correlation Coefficient (r^2) variables representing a set of numerical data, and normalized to the square root of the variances. Table 4.8 illustrated the Pearson Correlation Matrix and all variables that were independent had positive correlations with the variable that was dependent. There is a strong positive correlation of r = 0.721 between Tax Knowledge and Value Added Tax Compliance. There is also a strong positive correlation of r = 0.836 between Tax Compliance Cost and Value Added Tax. Lastly there is a positive correlation of r = 0.826 between Taxpayers Perception and Value Added Tax Compliance. From the study findings Tax Compliance cost variable has the strongest strength on Value Added Tax Compliance Variable, followed by Taxpayers Perception while Tax Knowledge has the least strength of independent variables factors on dependent variable of Value Added Tax Compliance.

Table 4. 8 : Correlation Analysis

	Value Added Tax Compliance	Tax Knowledge	Tax Compliance	Tax Perception
Value Added Tax Compliance	1			
Tax Knowledge	0.721**	1		
Tax Compliance Cost	0.836**	0.720**	1	
Taxpayers Perception	0.826**	0.768**	0.507**	1

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

4.8 Regression Analysis between Tax Knowledge and Value Added Tax Compliance

4.8.1 Model Summary

Regression analysis was carried out to explain the relationship between Tax Knowledge and Value Added Tax Compliance. The findings of the study in Table 4.9 indicate that Tax knowledge correlates with VAT compliance up to 62.8%. Tax knowledge accounts for 39.4% (R-Square, 0. 394) of variation in Value Added Tax Compliance. The remaining 60.6% was caused by other factors not included in the model. The results further show that even when the study does adjustments for samples that are small and collinearity that is high, Tax knowledge would still account for 38.1% (Adjusted R Square, 0. 381) of Value Added Tax Compliance.

ANOVA tests were also carried out to establish if the model works in explaining the relationship among variables as suggested in the conceptual model. Study findings from Table 4.9 indicate an F value of 29.244 with a significance level of $p = 0.000$ which is less than the level of confidence of 0.05, hence showing that the model is statistically significant. This implies that the relationship between tax knowledge and VAT compliance is significant.

Table 4. 9 : Effect Of Tax Knowledge On Value Added Tax Compliance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.628[a]	.394	.381	.36793

ANOVA[a]

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	11.050	8.270	29.244	.000[b]
	Residual	36.573	.046		
	Total	47.623			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.446	0.403		3.434	.000
	TK	0.619	0.261	0.628	5.247	.000

a. Dependent Variable: VATC

b. Predictors: (Constant), TK

4.9 Regression Analysis of Tax Compliance Cost on Value Added Tax compliance

4.9.1 Model Summary

Regression analysis was carried out to explain the relationship between Tax Compliance Costs and Value Added Tax Compliance. The findings of the study in Table 4.10 indicate that Tax Compliance Costs correlates with VAT compliance up to 85.2%. Tax Compliance Costs accounts for 72.6% (R-Square, 0. 726) of variation in Value Added Tax Compliance. The remaining 27.4% was caused by other factors not included in the model. The results further show that even when the study does adjustments for samples that are small and collinearity that is high, Tax Compliance Costs would still account for 72.0% (Adjusted R Square, 0. 720) of Value Added Tax Compliance.

ANOVA tests were also carried out to establish if the model works in explaining the relationship among variables as suggested in the conceptual model. Study findings from Table 4.10 indicate an F value of 34.411 with a significance level of $p = 0.000$ which is less than the level of confidence of 0.05, hence showing that the model is statistically significant. This implies that the relationship between tax compliance costs and VAT compliance is significant.

Table 4. 10 : Effect Of Tax Compliance Cost On Value Added Tax Compliance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.852[a]	.726	.720	41.27741

ANOVA[a]

Model		Sum of Squares	Mean Square	F	Sig.
1	Regression	18.700	18.700	34.411	.000[b]
	Residual	45.361	0.498		
	Total	64.061			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.894	0.213		7.014	.000
	TCC	0.465	0.061	0.852	5.247	.000

a. Dependent Variable: VATC

b. Predictors: (Constant), TCC

4.10 Regression Analysis of Taxpayer Perception on Value Added Tax compliance

4.10.1 Model Summary

Regression analysis was carried out to explain the relationship between Taxpayers perception and Value Added Tax Compliance. The findings of the study in Table 4.11 indicate that Taxpayers perception correlates with VAT compliance up to 36.3%. Taxpayers perception

accounts for 92.7% (R-Square, 0. 927) of variation in Value Added Tax Compliance. The remaining 7.3% was caused by other factors not included in the model. The results further show that even when the study does adjustments for samples that are small and collinearity that is high, Taxpayers perception would still account for 91.8% (Adjusted R Square, 0. 918) of Value Added Tax Compliance.

ANOVA tests were also carried out to establish if the model works in explaining the relationship among variables as suggested in the conceptual model. Study findings from Table 4.11 indicate an F value of 15.925 with a significance level of $p = 0.000$ which is less than the level of confidence of 0.05, hence showing that the model is statistically significant. This implies that the relationship between taxpayers perception and VAT compliance is significant.

Table 4. 11 : Effect Of Taxpayer Perception On Value Added Tax Compliance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.363[a]	.927	.918	31.67525

ANOVA[a]

Model		Sum of Squares	Mean Square	F	Sig.
	Regression	29.044	29.044	15.925	.000[b]
1	Residual	31.324	0.344		
	Total	60.386			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.489	0.331		4.407	.000
	TCC	0.571	0.102	0.363	5.714	.000

a. Dependent Variable: VATC

b. Predictors: (Constant), TPP

4.11 Regression Analysis of Tax Knowledge, Tax Compliance Cost, Taxpayer Perception on Value Added Tax compliance

4.11.1 Model Summary

The findings in Table 4.12, revealed that Tax Knowledge, Tax Compliance Cost, Taxpayer Perception correlate with Value Added Tax Compliance up to 73.1% (R=0.731) and accounts for

a variation of 53.5% (R^2 =0.535). This implies that 46.5% of the change in Value Added Tax Compliance was caused by other factors which were not included in the model. The findings further reveal that even if the results adjust, the model would still account for 51% (Adjusted R^2, 0. 510) variation of Value Added Tax Compliance.

Table 4. 12 : Overall Effect Of Tax Knowledge, Tax Compliance Cost, Taxpayers Perception On **Value Added Tax Compliance**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std.Error	Beta		
(Constant)	0.109	0.223		0.489	0.006
Tax Knowledge	0.033	0.094	0.029	0.356	0.003
Tax Compliance Cost	0.088	0.073	0.097	1.196	0.005
Taxpayers perception	0.806	0.093	0.702	8.688	0.000

R	0.731
R Square	0.535
Adjusted R Square	0.510
F	21.540
Sig	0.000

  Dependent Variable: Value Added Tax Compliance

Regression equation:

$Y=0.109\beta + 0.033\ X_1 + 0.088\ X_2 + 0.806\ X_3 + \varepsilon$

4.11.2 Regression Coefficient

Multiple regression analysis was conducted as indicated in Table 4.12 replacing values found in the Equation; $Y= \beta_0 + \beta_1\ X_1 + \beta_2\ X_2 + \beta_3\ X_3 + \varepsilon$

Overall, there was a positive and significant relationship between all the independent variables and the dependent variable. Every unit change in Tax knowledge causes a variation of 0.033 on VAT compliance. Every unit change in Tax compliance costs causes a variation of 0.088 on VAT compliance. Also every unit change in Taxpayers perception causes a variation of 0.806 on VAT compliance.

4.11.3 Analysis of Variance

ANOVA tests were also carried out to establish if the model works in explaining the relationship among variables as suggested in the conceptual model. Study findings from Table 4.12 indicate an F value of 21.540 with a significance level of $p = 0.000$ which is less than the level of confidence of 0.05, hence showing that the model is statistically significant. This implies that the relationship between the independent variables and VAT compliance which is the dependent variable is significant.

4.11.4 Test of Research Questions

The first question was, what is the effect of tax knowledge on Value Added Tax compliance for enterprises that are Small and Medium in Kajiado town? Tax knowledge has a positive relationship effect on value added tax compliance of enterprises that are small and medium in Kajiado town. The results on Table 4.12 revealed that p value was less than 0.05, $\rho=0.003$ which implies that relationship was statistically significant.

The second question was, what is the effect of tax compliance costs on Value Added Tax compliance for enterprises that are Small and Medium in Kajiado town? Tax compliance cost has a positive relationship effect on value added tax compliance of enterprises that are small and

medium in Kajiado town. The results on Table 4.12 revealed that p value was less than 0.05, ρ=0.005 which implies that relationship was statistically significant.

The third question was, what is the effect of taxpayers perception on Value Added Tax compliance for enterprises that are Small and Medium in Kajiado town? Taxpayer perception has a positive relationship effect on value added tax compliance of enterprises that are small and medium in Kajiado town. The results on Table 4.12 revealed that p value was less than 0.05, ρ=0.000 which implies that relationship was statistically significant.

4.12 Discussion of the Findings

This chapter presents discussion of the results of various tests carried out on the study. The results of each of the questions in this study will be discussed.

4.12.1 Effect of Tax Knowledge on Value Added Tax Compliance

The study's first objective was to establish the effect of tax knowledge on value added tax compliance and from the findings this study was statistically significant at a p value of 0.003 which is less than 0.05 the convectional probability significance level. This implies that there is a positive relationship between tax knowledge and value added tax compliance. Also tax knowledge had a strong positive correlation of r = 0.721. This implies that an increase in tax knowledge would lead to an increase in VAT compliance.

Similar findings were revealed by Palil (2010) who conducted research on the effects of tax knowledge on Tax compliance among taxpayers in Malaysia. The study found out that tax knowledge significantly affects tax compliance including VAT compliance. Similar findings were also revealed by Ndirangu (2014) through research on the impact of taxpayer education on compliance with VAT by traders that deal with parts of motor vehicle in Central Business

District, Nairobi. The study found out that tax education as well as knowledge has a significant effect on Value added tax compliance.

4.12.2 Effect of Tax Compliance Cost on Value Added Tax Compliance

The study's second objective was to establish the effect of tax compliance cost on value added tax compliance and from the findings this study was statistically significant at a p value of 0.005 which is less than 0.05 the convectional probability significance level. This implies that there is a positive relationship between tax compliance cost and value added tax compliance. Also tax compliance cost had a strong positive correlation of r = 0.836. This implies that a decrease in tax compliance costs would lead to an increase in VAT compliance.

Faridy, Fredeunberg, and Sarker (2017) examined the relationship of Tax compliance costs with VAT compliance of enterprises that are small and medium in Bangladesh. The study revealed that tax compliance cost has a significant effect on VAT compliance of enterprises that are small and medium in Bangladesh. Similar study was done by Gachiku (2015) who examined tax compliance of enterprises that are small and medium in Nairobi North tax region. The study revealed that tax compliance costs influence Value Added Tax compliance significantly among the enterprises that are small and medium in that region.

4.12.3 Effect of Taxpayers Perception on Value Added Tax Compliance

The study's third objective was to establish the effect of taxpayers perception on value added tax compliance and from the findings this study was statistically significant at a p value of 0.000 which is less than 0.05 the convectional probability significance level. This implies that there is a positive relationship between taxpayers perception and value added tax compliance. Also taxpayers perception had a strong positive correlation of r = 0.826. This implies that an increase

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in taxpayers perception positively in relation to payment of value added tax would lead to an increase in VAT compliance.

Contrasting finding was discovered by Faridy, Copp, Freudenberg and Sarker (2014) who found out that taxpayers perceptions and attitudes including the likelihood of audits, penalties and sanctions have a less effect on compliance with the Value Added Tax laws among enterprises that are small and medium in Bangladesh. However, King'oina (2016) revealed that taxpayers perceptions and attitudes have a significant effect on Value Added Tax compliance for construction firms in Kisumu County.

4.12.4 Overall Effect of Tax knowledge, Tax Compliance Costs and Taxpayers Perception on VAT compliance

The study's overall objective was to investigate the factors that affect Value Added Tax compliance among small & medium enterprises in Kajiado Town. This study was statistically significant at a p value of 0.000 which is less than 0.05 the convectional probability significance level, p= $0.00 < 0.05$. This implies that there is a positive relationship between tax knowledge, tax compliance costs as well as taxpayers perception and value added tax compliance. Also tax knowledge, tax compliance costs and taxpayers perception had positive correlations with value added tax compliance.

A study was conducted by Palil (2010) on the effects of tax knowledge on Tax compliance among taxpayers in Malaysia. The study concluded through evidence that tax knowledge significantly affects tax compliance including VAT compliance. This is also the case in the study whereby the findings show that tax knowledge and VAT compliance have a statistically significant relationship at a p value of 0.003 which is less than 0.05 the convectional probability significance level.

Gachiku (2015) examined tax compliance of enterprises that are small and medium in Nairobi North tax region. The study revealed that tax compliance costs influence Value Added Tax compliance significantly among the enterprises that are small and medium in that region. This is also the case in the study whereby the findings show that tax compliance costs and VAT compliance have a statistically significant relationship at a p value of 0.005 which is less than 0.05 the convectional probability significance level.

Faridy, Copp, Freudenberg and Sarker (2014) found out that taxpayers perceptions and attitudes including the likelihood of audits, penalties and sanctions have a less effect on compliance with the Value Added Tax laws among enterprises that are small and medium in Bangladesh. However, this contradicts with this study since the study found out that taxpayers perception and VAT compliance have a statistically significant relationship at a p value of 0.000 which is less than 0.05 the convectional probability significance level.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a discussion on the thesis summary based on the earlier established research questions. It further discusses major study findings, conclusions and eventually provides directions in the form of recommendations.

5.2 Summary of Findings

This study's overall objective was to investigate the factors that affect Value Added Tax compliance among Small and Medium enterprises in Kajiado town. Specifically, the study sought to determine the influence of tax knowledge on Value Added Tax Compliance, tax compliance costs on Value Added Tax Compliance and taxpayers perception on Value Added Tax Compliance.

5.2.1 Effect of Tax Knowledge on Value Added Tax Compliance

The first objective was to establish the influence of tax knowledge on Value Added Tax Compliance. Correlation analysis showed that tax knowledge and Value Added Tax Compliance are positively and significantly associated. Also the Regression analysis shows the existence of a positive significant relationship between tax knowledge and Value Added Tax Compliance.

5.2.2 Effect of Tax Compliance Costs on Value Added Tax Compliance

The second objective was to determine the influence of tax compliance costs on Value Added Tax Compliance. Correlation analysis showed that tax compliance costs and Value Added Tax Compliance are positively and significantly associated. The study found out that there existed a

positive significant linear relationship between tax compliance costs and Value Added Tax Compliance. The study also established that costs of acquiring, installing and maintaining ETRs comprises the highest Value Added Tax compliance cost.

5.2.3: Effect of Taxpayer Perception on Value Added Tax Compliance

The third and last study's objective was to determine the influence of taxpayer perception on Value Added Tax Compliance. From the study findings taxpayers perception had the most significant influence on Value Added Tax Compliance among the independent variables. The study found out that there existed a positive significant linear relationship between taxpayers perception and Value Added Tax Compliance.

5.3 Conclusions

Based on the findings the study concludes that tax knowledge, tax compliance costs as well as taxpayers perceptions had positive significant influence on Value Added Tax Compliance among SME owners in Kajiado town. The study further concludes that taxpayers perception had the most significant influence on Value Added Tax Compliance among the independent variables. This was followed by tax compliance costs and tax knowledge variable had the weakness influence among the independent variables on the dependent variable of Value Added Tax Compliance.

5.4 Limitations of the Study

The study was limited by the availability of the proprietor of the SMEs in Kajiado town who were too busy during working hours to reply to the study research questionnaires. To mitigate this problem, the researcher gave a lengthy period of data collection further the researcher made numerous phone calls to increase the response rate. Due to the sensitivity of the information the

respondents may have had an imaginary fear of giving the information. This limitation was countered by assuring the respondents that information is purely for academic purposes and would be treated with a lot of confidentiality. An introduction letter from the Kenya School of Revenue Administration under Jomo Kenyatta University of Agriculture and Technology was attached to the questionnaires to affirm confidentiality. The study was also limited to the degree of precision of the data obtained from the respondents through the questionnaires. The research was restricted by availability of funds for printing and referring to different study materials that were not available in the library.

5.5 Recommendations

The findings revealed a statistically significant relationship between Tax Knowledge, Tax Compliance Costs and Taxpayers Perception on Value Added Tax Compliance of SME owners in Kajiado town. In relation to taxpayers perception, most of the respondents indicated that the government should reward those who are VAT compliant and a few respondents agreed with the statement that there is a high degree of being detected for not paying VAT and penalized. KRA should therefore create effective taxpayers perception among SME owners in Kajiado town by ensuring that there is a strong degree of being detected for not paying or under reporting Value Added Tax and then penalizing those who do not pay or under report their Value Added Tax. This would create the perception that there is a high chance of being detected and penalized for not paying or under reporting VAT by most of the SME owners and would in turn improve VAT compliance.

In relation to tax compliance costs, most of the respondents revealed that the costs of acquiring, installing and maintaining ETRs comprised the highest tax compliance cost followed by the costs of hiring tax consultants. The government through KRA should therefore reduce the costs of

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acquisition of the ETR machines so as to reduce the tax compliance costs in Kajiado town and thus improve VAT compliance. Also KRA should strive to provide SME owners in Kajiado town with services that are of high standards for example at the tax stations as clearly stated in the corporate plan to reduce the need of spending costs to hire skilled persons such as tax consultants. This would improve VAT compliance.

Tax Knowledge had the weakness significant influence on the Value Added Tax Compliance whereby most of the respondents revealed that they had information about VAT legislation and procedures and a few respondents agreed that they had attended seminars on VAT matters. Therefore, SME owners in the Country and in Kajiado town specifically should be encouraged by KRA through media including newspapers, television and radio talk shows to acquire more VAT knowledge by attending tax seminars so as to know more about Value Added Tax legislation. This would improve VAT compliance.

5.5.1 Further Research

Future studies may be conducted on the influence of Taxpayer perception on Value Added Tax Compliance among SME traders in other towns in the Country such as Bomet, Narok and Kericho. In addition, the study focused on three Value Added Tax Compliance factors which were; Tax knowledge, Tax compliance costs and Taxpayers perception. Thus, empirical work that actually demonstrates the whole of Value Added Tax Compliance practices is beyond the scope of three practices identified in the study. Therefore, similar study can be conducted using different practices to influence Value Added Tax Compliance among SME traders in other Counties in Kenya. Finally, further research can be conducted on the influence of Value Added Tax Compliance practices on other SME traders in other Countries in East Africa such as Uganda, Tanzania and Rwanda so as to fill the research gap.

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APPENDICES

APPENDIX 1: List of VAT registered SMEs

1	P051195612R	Chagamuki Enterprises Limited	Kajiado
2	P051645489Z	BOB ALL ELECTRICAL SOLUTIONS	Kajiado
3	P051653851K	MATREX VENTURES LIMITED	Kajiado
4	P051677617N	MWAMKO MPYA CONTRUCTORS	Kajiado
5	P051695442N	UTUKUFU VENTURES LIMITED	Kajiado
6	P051711341S	PRETTY PAPER SERVICES LIMITED	Kajiado
7	P051718396C	MASAI CABLES LIMITED	Kajiado
8	P051722258I	MANAKETH CONTRACTORS	Kajiado
9	P051726771U	Rova Farm	Kajiado
10	P051727919P	Puaan Enterprises Limited	Kajiado
11	P051732635E	Mevin & Dukes Limited	Kajiado
12	P051734825I	ROYAL BARGAIN ENTERPRISES	Kajiado
13	P051749132N	OLOIP GENERAL CONSTRUCTION LIMITED	KAJIADO
14	P051760133W	NIDABI LIMITED	Kajiado
15	P051763538L	Datra Supplies Limited	Kajiado
16	P051592590Z	AMMEGA BRICKS EAST AFRICA LIMITED	Kajiado
17	P051606580P	TAYAMI ENTERPRISES	Kajiado
18	P051639707P	FORTYTWO HARDWARE LIMITED	Kajiado
19	P051646247N	HURUKO & THOMSON	Kajiado
20	P051657636R	SILVER SAND AGENCIES LIMITED	Kajiado

21	P051673426F	DIETER LIMITED	Kajiado
22	P051699127T	TRIPLE THREE GALAXY LIMITED	Kajiado
23	P051711581E	ARCPOINT BUILDERS LIMITED	Kajiado
24	P051719544S	SUNRISE DISTRIBUTORS	Kajiado
25	P051720644A	Libkwop Company Limited	Kajiado
26	P051722263F	Kipoito Logistics Limited	Kajiado
27	P051726774X	Sujaro Company Limited	Kajiado
28	P051729189E	Olarro Hotel Limited	Kajiado
29	P051733138E	DUNAMIS CHEMICALS LIMITED	Kajiado
30	P051735037I	CREAMASON LIMITED	Kajiado
31	P051760846I	Embulbul Building Materials And General Hardware Neema Limited	Kajiado
32	P051593757R	GRAND INQUISITOR INSURANCE	Kajiado
33	P051658769F	Shompole Business Park Limited	Kajiado
34	P051721365D	SULPHUR CHEMICALS LIMITED	Kajiado
35	P051723022U	Kilepo Limited	Kajiado
36	P051730531V	TOPTRIP GENERAL MERCHANTS	Kajiado
37	P051735721H	DEVINE ADVENTURES LTD	Kajiado
38	P051761841C	DYNAMIC OCCUPATIONAL THERAPY LIMITED	Kajiado
39	P051765505I	Glamo Logistics Ltd	Kajiado
40	P051118723W	Centre For Wildlife Management Studies Limited	Kajiado
41	P051337853M	SHARIFF STEELS PAINTS AND	Kajiado
42	P051598634T	PANGANI ENTERPRISES LIMITED	Kajiado

43	P051640733Y	HAMOMIMA LOGISTICS LIMITED	Kajiado
44	P051649327Q	ACQUA-ICE PURIFIED DRINKING	Kajiado
45	P051658948A	ICEQ KENYA LIMITED	Kajiado
46	P051692632F	MOLOLINE TIMBER LIMITED	Kajiado
47	P051702357G	ECOLINE STATIONERS LIMITED	Kajiado
48	P051708845T	RICHMA BUILDING AND	Kajiado
49	P051721771F	Sareena Trading Company	KAJIADO
50	P051724062G	Orusa Tours & Travel Limited	Kajiado
51	P051726828Q	LEYASO LIMITED	Kajiado
52	P051730734A	Meldama Ventures Limited	Kajiado
53	P051734356M	Icon Park Resort Limited	Kajiado
54	P051736869C	JACALAMO INVESTMENTS	Kajiado
55	P051371105I	WAMA AGROCHEMICALS	Kajiado
56	P051461757D	LOSSAYAN SUPPLIERS	Kajiado
57	P051645430E	TEAMAK INVESTMENTS LIMITED	Kajiado
58	P051676627Q	FARSONS SOLUTIONS LIMITED	Kajiado
59	P051687433P	ALMAJA SERVICES LIMITED	Kajiado
60	P051694150I	True North Society	Kajiado
61	P051702694Z	CUBES & CONTAINERS DESIGN KENYA LIMITED	Kajiado
62	P051710927B	ROYPHARM PHARMACY LIMITED	Kajiado
63	P051720203N	MUTEMI'S INVESTMENTS	Kajiado
64	P051721864H	ZADOK ENGINEERING LTD	Kajiado
65	P051724946N	Bigman Investment Trading Ltd	Kajiado

66	P051727746T	MULLEWA AFRICA LIMITED	Kajiado
67	P051732345D	MARVEL PAINTS LIMITED	Kajiado
68	P051734558Q	Jenneddie Farm	Kajiado
69	P051737514H	REV PERFORMANCE AUTOCARE	Kajiado
70	P051748552V	KUSAM PLUMBERS LTD	KAJIADO
71	P051759261W	MIGORI GARMENTS LTD	Kajiado
72	P051761366I	UNITED NORTHFIELD LOGISTICS LIMITED	Kajiado
73	P051763121Y	Biologic Calibration Solutions Limited	Kajiado
74	P051766743S	Meru Ostrich Farm & Holiday Resort Limited	Kajiado
75	P051604236A	I GAS ENERGY LIMITED	KAJIADO
76	P051665621H	Kitsup Enterprises Limited	Kajiado
77	P051677591B	BRIT CONSTRUCTION COMPANY LIMITED	Kajiado
78	P051703325Y	SWIFT ROBOTICS AND ARTIFICIAL	Kajiado
79	P051722168J	NGONG PAINTS AND INTERIOR	Kajiado
80	P051726286W	Oratech Solutions Limited	Kajiado
81	P051727766Z	SMIGGIN AFRICA LIMITED	Kajiado
82	P051732487Q	VISIONPLAN OPTICALS LIMITED	Kajiado
83	P051734750K	Xcel Gas Limited	Kajiado
84	P051749050Q	The Royal Brew Limited	KAJIADO
85	P051757344Q	NJEDA WIRE LIMITED	Kajiado
86	P051761410Z	NIKRAM ENTERPRISES LTD	Kajiado

87	P051763303Y	Alana Solutions	Kajiado
88	A003608399Q	STEPHEN MULINGE KAVALI	
89	A001509881J	SOPHIA N KISAU	
90	A001216102Y	MERCY MUTHONI MBUBA	
91	A004260760K	NORAH AMBASA OMUTITI	
92	A001415660R	CHEGE WAINAINA MUTEGI	
93	A000168333K	LEONARD MUTUA MUTEVU	
94	A002879873X	Leilah Halima Mohamoud	
95	A001091686Z	JOSEPH KAMWARO KING'ORI	
96	A000230812R	DANIEL LENAYIA OLE KIOK	
97	A006257289J	JAMES MUNGA GITHUA	
98	A002914750Z	Abdirahim Ismail Abdullahi	
99	A001698229G	SAMWEL MBIRIRI GATHUNGU	
100	A002708463G	MATHEWS KIVUVA MWONGELA	
101	A002796610V	FRANCIS NJOROGE MWANGI	
102	A001406896G	KENNETH NJUGUNA MBURU	
103	A001726227V	Joseph Owiti Omwombo	
104	A001169227Z	KIMANI ROBERT KARARI	
105	A002790256W	HATIM A G A KAPACEE	
106	A000094903E	ALICE WANJA WANJOHI	
107	A008990849L	Willys Ochola Odongo	
108	A002497901U	SERAH WANJIRU NJUGUNA	
109	A001145253I	John Mutisya Somba	
110	A002788943N	BEATRICE NJERI CHUCHU	
111	A001716091C	Cyprian Kanake Ambao	
112	A003927842I	Elijah Chege Wanjiru	
113	A003313692T	ANTONY GITONGA NJUGUNA	
114	A001795419Z	GALAXY FIFTEEN INVESTMENTS	
115	A004079023N	JOSEPH MWAURA KAMBOGO	
116	A006211385T	DAVID NJOROGE KIMANI	
117	A002727790M	ESEKIA OTIENO OGAJA RAPUDO	
118	A003231779Q	JOHN MUITA MWANGI	
119	A005319594K	Paul Mugo Kingori	
120	A003631900D	Ezekiel Mungai Mbugua	
121	A001768477R	Pradip Bhai Ratilal Patel	
122	A005627767O	Josphine Jepkosgei Kemei	
123	A001420056E	GABRIEL EVE MUSYOKA NGANGA	
124	A001098563Z	JOHN NGURO MWANGI	
125	A004745522W	WILFRED NJIRI GATARI	
126	A001114456G	Julius Hosea Amwayi	
127	A004043108Y	MOHAMMED SHEIKH DAHIYA	
128	A005088432S	MURANGIRI G CYRIAKA	

129	A003537935D	John Leonard Njoroge Kamau
130	A001617958K	WILFRED NGUNJIRI KAGOKO
131	A002425792C	RICHARD MUNYIRI NGENE
132	A001106135B	WILLIAM NYAMWEYA ANGWENYI
133	A002644828X	Lucy Nyambura Kanyingi
134	A002586548G	Mary Bisieri Tai
135	A004061808A	JOHN KIPLAGAT MBUGUA
136	A002226225I	MARY MUMBE MUTHUI
137	A003234196U	Marion Wanjira Gikonyo
138	A006124812Z	Faith Wangithi Karuga
139	A001145607E	EZRA LEMEIN RAPASI
140	A002572811I	PURITY KARIMI KIRAGU T/A HOTEL LAETOLI
141	A006279881N	SALOME MBUIYU MBURU
142	A005936874T	Lucy Muthoni Kamau
143	A005198221N	Daniel Kariuki Njeri
144	A010119262M	Vishalkumar Umeshkumar Patel
145	A003276201G	Mary Wanjiru Christopher Njiriri
146	A006809031A	Norman Mosota Atunga
147	A003578984U	Caroline Lihavi Sibitali
148	A002801484U	ELIAS NG'ANG'A MUCHIRI T/a Up-Town Ceramics
149	A009079646F	Sammy Chege Kamundia
150	A006082922I	Benson Maina Gachara
151	A001315711C	JOHN KARIUKI MBOGO
152	A001884427Z	MORRIS MUTURI MWANGI
153	A001438106M	CHARLES KIMUNYI KINYUA
154	A001126573P	FRANCIS KIMANI MWANGI
155	A004207739V	DORRIS KINYA AMBUTU
156	A001945674M	Emily Wangui Karori
157	A010528384F	Francis Ndiga M'Rewa
158	A005561969D	ROBERT MUSUMBE NZOKA
159	A003397745D	Alex Legis Sinkeet
160	A002441336D	Ahmed Mohammed Osman
161	A008431884X	Samuel Njoroge Njogu
162	A001210921V	HENRY WAWERU MWANGI
163	A003763641V	Ahmed Abdi Ahmed
164	A001983490I	ALPHONCE MUEMA MBIDYO
165	A006460762S	Francis Ng'Ang'A Kariri
166	A003506823T	Rehema Atieno Okal
167	A003110249X	Peter Kirianki M'Ikunyua
168	A001119900F	NJUGUNA CYRUS MWAURA
169	A002811625K	SCOLASTICA WANJIKU

		LEMAIYIAN
170	A005016212Y	FRANCIS NGUMA
171	A003243090M	John Wachira Wambugu
172	A009500063N	Rhoda Wambui Hika
173	A003464754X	George Maisiba Ogaro
174	A003175517H	PETER MARUBU MWANGI
175	A003239449A	Pauline Njeri Kareithi
176	A009564595Z	Esther Waigumu Muthoni
177	A001696105T	Christopher Njiriri Karubari
178	A001654246T	Geoffrey Kaburi Njenga
179	A003361426D	Timothy Kiarie Ndichu
180	A004089497M	MOHAMED BASHIR ABDI
181	A004801376V	DOUGHLAS MWANGI
182	A003631357Q	CHARLES WACHIRA MURAYA
183	A005183646N	James Kaura Njoroge
184	A001420519Z	MWANZIA MAINGI NGII
185	A002259470A	MACHERU C WAGENI WANGUYA
186	A010559792Z	Tito Martin Mbindyo
187	A004796753Z	JOSEPH LOMONYAK SOIKAN
188	A003343160J	Paul Kiruga Kimani
189	A002685933D	Patrick Mwangi Mambo
190	A004638518A	GERALD MATHEKA MULINGE
191	A001591568X	MOSES MBOGUA GICHUKI
192	A003796708G	David Mwai Njuguna
193	A006863788S	Irene Gaceru Kathurima
194	A007232785X	Rose Kanini Muthungu
195	A003339209S	JOSEPH KAALA SUYIANKA
196	A007365220M	BENARD VUNDI MUTHUI
197	A002207792A	Mohamed Idd Kahanya
198	A003157440K	Catherine Njoki Njiraini
199	A001449757I	FRANCIS OWINO OGANGA
200	A001245428M	Francis Munyi Mukiria
201	A009422303E	Felicity Nzilani Mbai
202	A005033655M	Francis Ndungu Kamande
203	A006712158X	Mercy Wanga Akoko
204	A008796275T	Constance Ndunge Japheth
205	A001209265V	Peter Kimani Supeyo
206	A003222724D	Robert Muriuki Chebeni
207	A005104337D	Fred Opar Odhiambo
208	A004259553C	JORUM OBELL
209	A004426311G	JAMES NDUNG'U MWANGI
210	A000144763K	Charles Paul Gitui
211	A002722043K	Vipulbhai Chimanbhai Patel

212	A002449474H	Jayeshkumar Vinubhai Patel
213	A001641493U	DAVID MAINA KARIUKI
214	A003121628W	Moses Kuria Mbugua
215	A002879638Q	Catherine Mereso Patita
216	A003280855P	Margaret Maluki
217	A000166089V	Godfrey Kariuki Kimani
218	A001362125C	George Waweru Kimani
219	A004027249Q	Peter Makolwa Wambua
220	A004747392Z	ERASTUS MWANIKI NDIRITU
221	A002187371U	David Gwaro Omosa
222	A004794440Y	IFTEKHAR AHMAD AZIZ
223	A003498090H	Flora Wangari Kihungi
224	A003679761P	Elias Ndwigah Kaumbuthu
225	A003696772Z	Humphrey Koitamet Nkilimu
226	A001173125Y	PETER GATARI WILFRED NJIRI
227	A004157634P	ABRAHAM NAANYU LANKAS
228	A001370383N	AGNES MUENI CHARLES KISILA
229	A004759096U	Agnes Wanjiku Ntoye
230	A004345228P	Anne Nyambura Njuguna
231	A001349293F	ANTHONY KARIUKI NJOGO
232	A002800383T	Daniel Siaka Pashiel
233	A006059021L	Esther Ipite Nchani
234	A002651320C	EUNICE KANARIO IMWENDWA
235	A000110224L	Francis Mwaura Mwangi
236	A003793644B	Fridah Kaari M'rithaa
237	A004704445U	JOSEPHINE KOECH
238	A002088252T	YUCABETH NYABOKE
239	A008750529W	PETER SOMOIRE
240	A007398242B	MILKA WANGUI
241	A005183646N	JAMES KAURA NJOROGE

Date:

WHOM IT MAY CONCERN

RE: REQUEST FOR COLLECTION OF DATA FOR RESEARCH PROJECT

The bearer of this Questionnaire is a student of Post Graduate Diploma in Tax Administration at the Kenya School of Revenue Administration under Jomo Kenyatta University of Agriculture and Technology (JKUAT). As part of attaining the post graduate diploma, every student is supposed to work on a Research Project. The project involves reviewing literature that is related to the research topic; collecting data, analyzing the collected data and preparing a document that includes the research findings as well as recommendations.

I am requesting you with information to be used in my research. The information that I will obtain from you will be used for research purpose only and confidentiality will be observed.

The research is entitled **"Factors affecting Value Added Tax compliance among Small and Medium Enterprises in Kajiado town, Kenya."** I hope that you can assist by filling in the questionnaire.

Thank you.

Yours sincerely,

Teresa Orwa

Student at KESRA/JKUAT

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Email: teresaorwa782@gmail.com

APPENDIX 3: Questionnaire for the SME owners

This research is meant for academic purpose. Kindly provide answers to the following questions precisely and honestly as possible. The responses will be treated as confidential. Please tick (√) where appropriate or fill in the information required on the space provided.

SECTION A: BACKGROUND INFORMATION

1. a) Please indicate your age bracket

〔   〕18-28 years

〔   〕29-39 years

〔   〕40-49 years

〔   〕Over 50 years

b) Please indicate your gender

〔   〕Male　　　　〔   〕Female

2. a) What is your average annual turnover?

〔   〕Less than Kshs.500, 000

〔   〕Kshs.500, 000 to Kshs.5, 000,000

〔   〕More than Kshs.5, 000,000

b) How many employees do you have?

〔   〕Less than 10 employees

〔   〕10 to 20 employees

〔   〕More than 21 employees

SECTION B: TAX KNOWLEDGE

3. The table below has statements that relate to tax knowledge. Indicate whether you Strongly disagree, Disagree, Neutral, Agree or Strongly agree with the statements below by putting a tick (√) once for each statement.

Statement	1 Strongly disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly agree
I have information about VAT legislation and VAT procedures					
I have attended seminars on Value Added Tax matters					
VAT filing and payment procedures are complex					
In Kenya, information about Value Added Tax is easily accessible					
I can correctly calculate VAT payable amount with the available information					

SECTION C: TAX COMPLIANCE COSTS

4. The table below has statements that relate to tax compliance costs. Indicate whether you Strongly disagree, Disagree, Neutral, Agree or Strongly agree with the statements below by putting a tick (√) once for each statement.

	1	2	3	4	5
Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
Tax stations are easily accessible					
Costs of acquiring, installing and maintaining ETRs comprises the highest Value Added Tax compliance cost					
Costs of hiring a tax consultant comprises the highest Value Added Tax compliance cost					
Accountancy costs comprises the highest Value Added Tax compliance cost					

SECTION D: TAXPAYERS PERCEPTION

5. The table below has statements that relate to taxpayers perception. Indicate whether you Strongly disagree, Disagree, Neutral, Agree or Strongly agree with the statements below by putting a tick (√) once for each statement.

	1	2	3	4	5
Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
My friends, neighbors and other SME owners pay the correct Value Added Tax					
The government should reward those who are Value Added Tax compliant					
It is my obligation to support the government by reporting and paying VAT					
There is a high degree of being detected for not paying Value Added Tax and penalized					

SECTION E: VALUE ADDED TAX COMPLIANCE

7. The table below has statements that relate to Value Added Tax compliance. Indicate whether you Strongly disagree, Disagree, Neutral, Agree or Strongly agree with the statements below by putting a tick (√) once for each statement.

	1	2	3	4	5
Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
I have registered for Value Added Tax					
I file Value Added Tax returns on time					
I pay the correct amount of Value Added Tax					

Thank you

APPENDIX 4: Research Budget

Item	Cost(Kshs.)
Stationery	
Notebook	300
Printing, photocopying and binding	6,500
Internet	3,000
	9,800
Communication	
Airtime	1,000
	1,000
Transport	3000
	3,000
Data analysis	15,000
Total Amount	28,800

APPENDIX 5: Research Work Plan

Month	January 2019	February 2019	March 2019	April 2019	May 2019	June 2019	July 2019
Writing of Proposal	■	■	■				
Presenting Proposal				■			
Collecting Data					■	■	
Analyzing Data and writing Report						■	
Report Submission							■