FACTORS AFFECTING ADMINISTRATION OF TURNOVER TAX AMONG SMALL AND MEDIUM ENTERPRISES IN NYALI CONSTITUENCY, MOMBASA COUNTY

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

NOVEMBER, 2020

DECLARATION

This project is my original work and has not been presented for a post-graduate diploma in any other academic institution.

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

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HDB336-C006-4932/2017

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

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DEDICATION

I dedicate this work to my partner Killian Ngala who has been a great source of inspiration.

ACKNOWLEDGEMENT

I would like to thank the Almighty Lord for giving me good health while working on this proposal. Second, I am grateful to my supervisor Mr. Aaron Mukhongo for his continued support in writing this project through quick feedback on my drafts. I am also thankful to my family that supported me financially and morally in pursuing the postgraduate diploma. Finally, I would like to thank the school of revenue administration for providing me with research materials that has made this project a reality.

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ACRONYMS AND ABBREVIATIONS

E-Tax	Electronic Tax
GDP	Gross domestic product
ITA	Income Tax Act
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
PAYE	Pay as You Earn
PIN	Personal Identification Number
SMEs	Small and Medium Enterprises
TOT	Turn over tax
UK	United Kingdom
USA	United States of America

DEFINITION OF TERMS

Turnover Tax: Refers to a tax payable by a small business whose gross sales do not exceed 50 million annually and also do not go less than one million. It is levied at 1% on the gross sales without making any deductions. It is supposed to be paid by the 20th of every month following the declaration monthly (Schutte *et al*., 2019).

Tax Enforcement: Refers to measures taken by tax administrators to ensure that compulsory tax payment are done on time without fail. Incase evasion happens, the department ensures it recovers the amount without penalties (Viviers & Groenewald, 2019).

Tax policy Refers to a directive statement by the government on how much tax to pay under a certain category and how it should be paid and by who (Schutte *et al*.,2019).

Tax structure Refers to the nature of tax in terms of the tax rates applied under a certain tax base, whether the taxation is proportional, regressive, or progressive (Viviers & Groenewald, 2019).

Tax Administration The term refers to the management or the supervision of the application of tax statutes and laws to ensure compliance (Gluckman & Turner, 2018).

Small Enterprises: Refers to business with less than nine workers and whose annual returns very low compared to medium enterprises and large enterprises. They are mainly a family business employing family people to earn a living (Omondi & Theuri, 2019).

ABSTRACT

The problem of tax administration is universal to both developing and developed country with tax evasion being a great challenge in the collection of adequate taxes for financing public projects. The purpose of this study is to find out the factors affecting the administration of turnover taxes among small and medium enterprises in Nyali constituency, Mombasa County. The study's specific objectives were to; establish the effect of tax structure, assess the effect of tax policies, and to establish the effect of stakeholder awareness on the administration of turn over taxes among small and medium enterprises in Nyali constituency in Mombasa County. The study adopted a cross-sectional, the target population for the study was 1238 owners of small businesses in Nyali constituency in the sale of agricultural produce, boutique, beauty, retail, and repairs. The sample for the study was established through the Yamane Formula which gave a sample of 175 respondents. The sample was proportionately spread across the clusters to be representative. Data for the study was collected through questionnaires. The questionnaire had Likert scale questions that were administered by field data collection assistants through drop and pick methods. Collected data was analyzed through descriptive research design on mean, frequencies standard deviation, and percentages whereas qualitative data will be analyzed through content analysis. Regression analysis was also conducted to find out direction and magnitude in the relationship of study variables. Data was presented on tables and bar graphs and narrative interpretations. The tax structure was found to have a positive and significant relationship with tax administration. Adverse tax policy was also found to have a negative and significant relationship with tax administration. Stakeholder knowledge was also found to have a positive and significant relationship with tax administration. The study concluded that tax structure, tax policy, and stakeholders were found as factors that affected turnover tax administration. The study recommended the simplification of the process of filing for turnover taxes and ensuring fairness through ensuring there is equal sacrifice among taxpayers by having progressive taxation. The study also recommended the introduction of fair and reasonable penalties for people who failed to file the return within the provided guidelines because heavy penalties were seen as avenues for evading taxes and discouraged voluntary compliance. The study finally recommended for improvement of stakeholder awareness through seminars, business clinics, and workshops.

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

Tax is a compulsory burden, supposed to be paid by citizens in a particular country from the conduct of the business or on the provision of service. It is a legislative or compulsory burden and not optional to support the government in undertaking expenditures (capital and recurrent expenditures). Taxes come in different forms including capital gain tax or property taxes, sales tax, turn over tax, customs, and duty, income tax, value-added tax and pay as you earn (Huşman & Brezeanu, 2018, May).

Turnover tax is another form of value-added tax levied on the sole proprietor, partnership companies, and cooperatives. Besides, the tax does not require any deductions or justification of expenses but it is directly a flat rate on the turnover amount earned in a certain period. Countries that have turnover tax have given a clear guideline on the assessment of the taxes and the time when such taxes should be paid. For example, in Kenya turnover taxes are assessed monthly and payable before the 20th of the following month after earning (Viviers & Groenewald, 2019).

Turnover taxes fall under the category of indirect taxes. This means that the individuals obligated to pay such taxes become agents acting on behalf of the government. The individuals or firms are therefore supposed to declare the gross amount earned as well as make payments for taxes due. Turnover taxes are levied differently to encourage or discourage the consumption of certain goods in a country. Necessary goods for consumption in most cases have low rates to encourage consumption and promote access as well as affordability of the goods among the citizens. On the other hand, harmful goods especially ones posing environmental pollution suffer a thigh turnover tax rate to safeguard the environment (Huşman & Brezeanu, 2018, May).

Economic survey (2018) in the United States of America revealed that tax evasion had resulted in the loss of more than 300 billion dollars in 2018. On the other hand, the situation of tax evasion practice is universal with developing countries also not suffering a huge revenue deficit. Hongkong on the other hand reported that about 1.67 billion

dollars were collected between 2010 and 2018 as penalties and interests on penalties on deferred taxes (Higgins *et al*., 2016).

In Nigeria for example, the amount of taxes collected in 2019 fell by more than 35% of the budgeted for revenue targets from the taxes, this is a clear indication of the deplorable state of tax collection and administration in developing countries. In China, a similar study on tax collection revealed that about 3.88 billion-dollar taxes were not collected although declared or pre-determined. These are clear indications of tax loopholes that are in existence. Akeju (2018) noted that there is no willingness effort put forward by the informal sector to pay taxes in Nigeria. Oluwafadekemi, Gershon, and Osabuohien, (2020) revealed that the informal sector belief that taxes should be paid by formal businesses such as large corporations in manufacturing or businesses with physical addresses. The tax administrators on the other hand were also revealed to be sympathizers of the non-complying citizens through either rent-seeking or leniency during tax enforcement trips in the field. The tax system has been perceived as being unproductive as a result of complex legislation of taxes, inadequacy on tax administration and collection systems.

The Kenya revenue authority is tasked with the responsibility of matters relating to the collection of taxes, ensuring economic stability, controlling exit and entry points of the country, and ensuring that there are no tax evasions. Since the time Kenya revenue authority was introduced, it has brought up initiatives geared toward curbing tax evasion and therefore adequate tax collection. Some of the policies and incentive introduced by KRA includes the introduction of an online web-based system of taxation, better training on its staff and tax education among the taxpayers through seminars and block management systems and introduction of personal identification numbers (PIN) (Abdul & Wang'ombe, 2018).

A study conducted by KRA (2018) revealed that several factors behind compliance to taxes include: awareness on taxation, attitudes towards tax, low inadequacy of attention given on the small businesses by the tax administrators, inadequate staff initiative to train on how to file for turnover taxes, immobility of small businesses, perception and attitudes

among small business owners on payment of taxes to the government (Schutte *et al*., 2019).

The turnover tax was introduced in Kenya back in 2008 through the income tax cap act of 470 under the laws of Kenya. Under the provision of the act, people earning income in a particular year which is lower than five million were supposed to pay turnover taxes (Karanja, 2018). However, the new provision of the income tax provides that a business earning an amount above one million and less than 50 million shillings is liable to paying turnover tax at a flat rate of 1% on the gross sales. The rate, however, does not apply to rental income, the income of a registered and incorporated company, income earned from provision of managerial or training activities fees, or an amount that is subject to a final withholding tax. The motivation behind the introduction of turnover tax was to expand the tax base and encourage 'patriotism' among citizens which encourages compliance to taxation by limiting avoidance (right) and evasion (wrong) of taxes (KRA, 2018).

Businesses bear the cost of filing taxes as well as keeping correct records to self-assess themselves for taxable amounts, these are called compliance costs. On the other hand, the government bears the costs of collecting the tax. One of the arguments given is that a tax system should be simple and most probably a flat rate, the more complex a tax system is the more costly to compliance is. The government needs to ensure that the administration of turnover taxes is effective and done efficiently to enable the government to collect taxes that are needed in expenditures (both capital and recurrent) (Omondi & Theuri, 2019).

In Kenya, tax compliance more prevalent among small businesses. Large businesses and corporations' functions with a lot of professionalism and compliance to taxation are also high. However, going to middle size businesses compliance declines and the matter of compliance is even further worse among small businesses due to the lack of professional qualification. This led the government to introduce a unique form of tax referred to as turnover tax in line with income tax cap 470. The class of taxpayers targeted includes small businesses, family businesses, and retail businesses. It is however evident that despite the introduction of this simplified form of tax, it has continued to perform poorly compared to other forms of tax heads. The tax head has a promising future due to the

huge number of businesses that fall under this category since the majority of businesses are small businesses/ micro-enterprises in Kenya. This study, wish to unearth the factors behind the collection of turnover taxes due to a large number of citizens under it and the potential it has in realizing revenues to the government (Gitaru, 2017).

Nyali constituency is one of the six constituencies in Mombasa County that was carved out of Kisauni Constituency through the year 2010 new constitution. The constituency is endowed with entrepreneurs conducting businesses both on a large scale and small scale. Among the small business in the constituency are in the resale of agricultural produce in the form of groceries selling vegetables and cereals, small businesses in retail businesses such as shopping centers and hardware, other businesses are offering beauty services such as salons, barbershops, and massage centers. In the constituency are technical businesses offering services that include motor and electrical repair services. All these small businesses are supposed to register and monthly file for Turn over taxes. However, according to KRA (2019), the small businesses in Nyali and other parts of the country are faced with challenges of compliance which is a result of low education levels among taxpayers, attitudes towards tax, and inadequacy of administration policies that touch on the informal businesses in Kenya such as technical support by tax authority (Naburi, 2019).

1.2 Statement of the Problem

Taxes are levied mainly for a state to meet its annual expenditure and promoting economic ability. Without taxes, it would be completely difficult for the government to function and citizens would be denied essential services like security, education, medical and infrastructural projects (Heisz & Murphy, 2016). To achieve desired tax objectives the national government through the tax administration body designs policies, rules, and regulations that must be followed by all stakeholders in that particular tax type (Authority, 2018).

Tax administration in Kenya has not been satisfactory despite the economic reforms put in place by the government such as the introduction of Kenya revenue authority, through the parliamentary act to administer all forms of taxes. Despite the existence of guidelines and a supportive tax department turnover taxes has not fully achieved its purpose. The

majority of small-scale traders are still not aware of its existence and what it entails in terms of policies and structure, this has led directly to low tax compliance. The Kenya national bureau of statistics revealed that the KRA fell short of collecting its targeted turn over taxes over five years by more than 50% despite tax being a major component of gross domestic product and by 60.46 billion for the three months ending September 2018 targeted being 380.76 billion shillings but ended up collecting 320.3 billion shillings. Available statistics at World Bank reveals that tax as a percentage of gross domestic product has continued to decline as of 2016 tax as a percentage of GDP was 16.184% and at 15. 085% in 2018. This downward trend is worrying and immediate policy to address loose ends such as tax cheating through evasion is needed. This decline saw the government forego completing essential social-economic projects in the country for lack of revenues (KNBS, 2019). KRA's (2017) survey indicated that only 35% of firms in the informal sector have registered for turnover tax, illustrating huge administration gaps. Despite the form of tax having been introduced way back in 2008.

Several studies carried out by Musyoka (2019) on factors influencing online taxation among small and medium enterprises in Nairobi County revealed that the inadequacy of internet skills hampered online taxation. On the other hand, Gwaro, Maina, and Kwasira (2016) studied preparedness among small and medium enterprises value-added taxpayers on filing taxes in Nakuru county. The study revealed huge tax education gaps and the inadequacy of skills to file for value-added taxes. These two among other studies had a different scope other than turnover taxes, they also dwelt on the amount of taxes collected and not the administration aspect as the explained variable. These studies were also conducted in different geographical regions outside Mombasa country, the study also focused on small and medium enterprises which are bigger in business scale than small businesses in Nyali constituency which are mainly retailers and sole proprietor or family businesses and further the study was on different respondents other than in a market set-up. It was therefore interesting to through light into a unique field on the factors affecting the administration of turnover taxes among small and medium enterprises in Nyali constituency.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to find out the factors affecting the administration of turnover taxes among small and medium enterprises in Nyali constituency.

1.3.2 Specific Objectives

i. To assess the effect of tax structure on the administration of turnover taxes among small and medium enterprises in Nyali constituency.
ii. To determine the effect of tax policy on the administration of turnover taxes among small and medium enterprises in Nyali constituency.
iii. To establish the effect of stakeholders' awareness on the administration of turn over taxes among small and medium enterprises in Nyali constituency.

1.4 Research Questions

i. What is the effect of tax structure on the administration of turnover taxes among small and medium enterprises in Nyali constituency?
ii. How does tax policy affect the administration of turnover taxes among small and medium enterprises in Nyali constituency?
iii. What is the effect of stakeholders' awareness on the administration of turnover taxes among small and medium enterprises in Nyali constituency?

1.5 Significance of the Study

The study was important to policymakers in the government working at KRA, management of the small business subject to turnover tax, and future scholars.

To the KRA administrators and policymakers, they can implement favorable policies that encourage easier registration, assessment, and payment of taxes to enhance more tax collection.

To the management of the small and medium enterprises, the taxpayers can learn from the recommendations of the study on what they also to do to improve on paying turnover taxes both in a timely way and right amount determination.

To future scholars, the study serves to build empirical literature to enrich the existing one to enable the future scholar to build from where the current study scope ends.

1.6 Scope of the Study

The study was conducted among small traders in the Nyali constituency in Mombasa County. The study also focused on the three objectives that seek information on the cost of compliance, perception, and enforcement mechanisms by tax administrators. The data for the study will be collected through a questionnaire. The time provided was six months by the Kenya shool of revenue administration to complete the study.

1.7 Limitations of the Study

The study faced limitations being that tax is a sensitive matter and a few of our targetted respondents were reluctant to give their opinion on the subject. The researcher, however, explained to the respondents that the study was only meant to collect their views in writing an academic project. The researcher further presented a research permit from KESRA and NACOSTI to build confidence which enhances response among respondents.

Being a period where the world is grappling to come into terms with the COVID-19 pandemic some respondents had not yet returned to their place of work and were minimizing interactions with visitors. The researcher, however, observed all COVID-19 measures such as sanitizing hands, washing hands and wearing face masks as well as keeping the social distance at the respondents' place of work to build respondents' confidence in receiving our questionnaire.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

Chapter two of this study will give theories that will guide the study, also included in the chapter will be an empirical review of what past scholars covered in the line factors affecting the administration of turnover taxes. Also included in chapter two will be a conceptual framework on the measurement of variables, a critique of literature reviewed, research gaps identified by the scholar, and the summary of the literature

2.2 Theoretical Review

A theory is a statement or principle used to guide an explanation of a novel phenomenon. A theory is used to explain the behaviors of the variable in a certain set-up (Paulsen & Perna, 2019). The theories comprise of past studies that have repetitively being conducted and becomes a guide to explain novel circumstances since observations from them remain unchanged. The study was guided by the ability to pay theory, the theory of optimal taxation, and cost of service theory

2.2.1 Ability to Pay Theory

Jean-Baptiste Say (1767-1832) pioneered the ability to pay theory, the theory postulated that the payment of taxes should be based on ability to pay (Béraud, 2016). The theory noted that the higher the income owned by a person the higher the taxes should be paid by that person. In a democratic country where justice is desired taxation theory should be designed in a manner that ensures justice and equity. Citizens should pay according to their ability and not an equal sum of contributions. Although this form of taxation theory is seen to be progressive there are limitations such that in the case of transfer payment it does not imply that that money has been earned therefore basing taxation on such source of revenues is erroneous (Pressman, 2018).

The theory of ability implies that there is equal sacrifice among the taxpayers, paying a proportional burden (Chauke, Sebola & Mathebula, 2017). In the case of turnover taxes, a tax rate of 1% is designed to ensure that the taxpayers have a common denominator of subjecting the amount paid. This ensures that amount paid as taxes is proportional to the amount earned. The theory is important to the current study since the administrator of

taxes has the responsibility of designing policies that ensure justice is achieved through the introduction of a common denominator of taxation that ensures equity as a reflection of the ability to pay.

2.2.2 Theory of Optimal Taxation

Ramsey (1927) came up with the optimal tax theory. The theory suggests that the turnover tax should be a tax that is seen to maximize social welfare (Fleurbaey & Maniquet, 2018). The theory of optimal taxation emphasizes the use of a normative approach to taxation. The theory postulated that a country should choose a tax system that maximizes the social welfare function subject to economic constraints. It involves reducing the gaps caused by taxation at the same time aiming at ensuring fair levels of redistribution and collecting the targeted amount of revenue. The social welfare function is based on the utilities of citizens (Kessing, Lipatov & Zoubek, 2020).

The theory assumes that everyone in society has the same preferences and that the economy consists of completely identical individuals. According to the optimal tax theory, the tax system is supposed to maximize social welfare with the individuals responding to the incentives provided by the tax system. In some studies of taxation, assuming a representative consumer may be a useful simplification. However, drawing policy conclusions from a model with a representative consumer can also in some cases have challenges (Fleurbaey & Maniquet, 2018).

Taxes should be imposed in inverse proportion to the representative consumer's elasticity of demand for the good so that commodities that experience inelastic demand are taxed more heavily (Farhi & Gabaix, 2020). However, it is not advised to ruling out some conceivable tax systems by assumption is does not follow the optimal taxation theory. But if one is unconstrained when choosing a tax system, then the problem of optimal taxation becomes too easy (Fleurbaey & Maniquet, 2018). The theory on optimal taxation is important to our current study because tax structure and policies should be designed in such a way that they improve the social welfare of its citizen despite the administrators and government constraints. Fairness should also be upheld always to ensure citizens are happy when paying taxes.

2.2.3 The Cost of Service Theory

The cost of service theory derives its purpose from the principle of justice and fairness in an economy or state. The theory postulated that citizens in a country will have to bear the costs of services by the government proportionately which implies according to the cost of the service or benefits given by the government (Saez & Stantcheva, 2018).

However, this theory on the cost of service has received several criticisms by scholars among them being Slemrod (2018) who opined that it is hard to come up with all costs associated with the provision of services in a country, if at all it is possible to come up with the total service costs it is also difficult to apportion costs to the people enjoying the services among the users of the services given. Further other researchers have noted that on modern welfare having to share the cost of service among people being served would imply that the poor pay more. Finally, expenditure on cost provision depends solely on the administrators, if the administrator is efficient it becomes less costly to offer the service.

The Kenya revenue authority has the responsibility of ensuring that taxable income under turnover taxes is indeed collected. Their efficiency in the collection of taxes would help in ensuring that tax cost burdens are much lower, policy formulation, and better structuring of a tax type is indeed important in ensuring that the whole process remains cost-efficient.

2.3 Conceptual Framework

The conceptual framework below shows the relationship between the independent and the dependent variable. The independent variable includes the cost of compliance, perception of the taxpayers, and Enforcement by tax administrators.

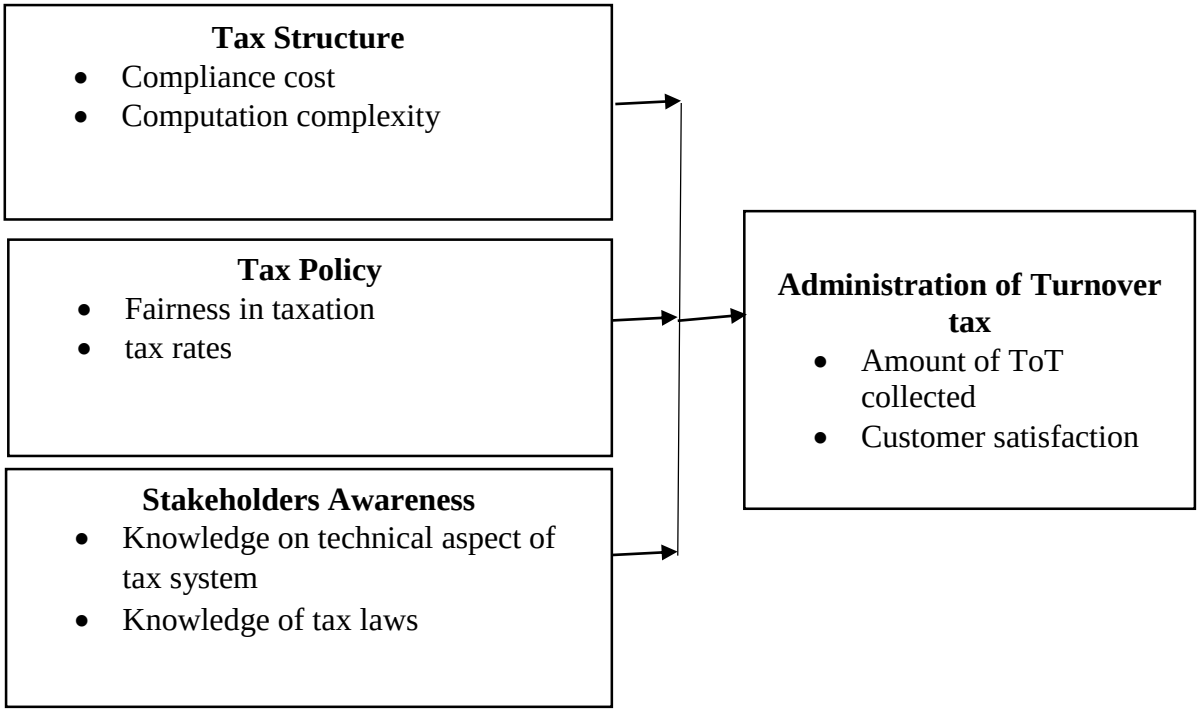

Figure 2.1: Conceptual Framework

2.4 Review of Research Variables

2.4.1 Tax Structure

The effectiveness of using taxation as a redistributive tool depends on the design of the tax system i.e. the tax structure. The tax structure of an economy depends on its tax base, tax rate, and how the tax rate varies. Complexity in the tax structure varies from one country to another and is often attributed to the tax laws governing the country. It can take various forms such as computational complexity, compliance complexity (Das, 2020).

The Kenyan tax structure comprises two main forms of direct taxes (individual income and corporate taxes), and three main indirect taxes (Value Added Tax, Excise tax, and

Customs duties). Tax compliance is a necessary ingredient in efforts to increase tax revenue. Tax compliance in Kenya has been low since its independence. Due to the significance of tax revenues, tax administrators in most countries usually put an enormous effort into understanding and dealing with non-compliance (Ouma, 2019).

Compliance complexity examines how easy it is to comply with the requirements of a given tax. For instance, how IT can be used in submitting returns and paying taxes. Studies have shown that tax complexity negatively affects perceptions of fairness among taxpayers and consequently encourages an unwillingness to comply (Owino, 2018). The use of information technology in support of tax administration had boosted the tax administration in countries such as Spain, Mexico, Canada, and New Zealand. However, in Austria taxpayers were forced to use tax agents on matters about taxes but taxpayers did not understand instructions in the Taxpack 2000 (Saeed, Zubair & Khan, 2020).

In Kenya, the KRA has established an online portal as a means of enabling taxpayers to access KRA online services, integrated its business systems into a single view for taxpayers across all functions, and have implemented IT best practice and ensuring compliance with ISO compliant quality management system. This has led to higher levels of compliance and has consequently enhanced turnover tax administration (Nyaga, 2019).

2.4.2 Tax Policy

Tax policies are administrative tools used by the government to administer and collect taxes. Tax policies comprise the taxes imposed and in what amounts by the government. The purpose of the taxation policy, including what it's supposed to achieve and how it is to be implemented, has to be explained by the policymakers (Gaber & Gruevski, 2018). There have been debates globally on the appropriate level of taxation and the distribution of the tax burden. Taxes should be based on the individual's ability to pay (ability-to-pay principle) and the principle that whatever the taxpayer contributes should be equivalent to the services that he or she receives from the government (the benefit principle). However, in terms of the distribution of the tax burden, horizontal equity is a subordinate of vertical equity, and therefore the two concepts, go hand in hand. These principles of taxation are well known but actual taxation in the countries does not follow

these principles and varies from one country to another (Alexandrov, Vyakina & Skvortsova, 2020).

Taxpayers will increase their compliance in paying taxes if their perception of the tax system's fairness improves. However, tax fairness is negatively impacted by complexity especially procedural complexity. Procedural complexity hinders the administration of turnover tax since it increases tax non-compliance. Complexity is the most important determinant of non-compliance, apart from education, income source, fairness, and tax morale basing his findings on a study of 45 different countries (Bedi, 2016).

Nyaga (2019), found that taxpayers were more likely to comply when the tax policy was perceived as less complex. Therefore, tax authorities in Kenya have to reduce the number of procedures required to comply and at the same time reduce the volume of tax laws and policies to promote the fair distribution of the tax burden and need to keep reforms and reviews on policies.

2.4.3 Stakeholders Awareness

Stakeholders are individuals or groups of people with interests, demands, and expectations as to what the business should provide to society. Effective management of the organization requires proactive and continuous stakeholder engagement through identification, communication, and active collaboration as well as risk planning. Stakeholders include the government, directors, owners, managers, employees, customers (taxpayers), suppliers, creditors, and the community/environment in general (Sitorus, 2018).

Tax awareness is an essential element in a voluntary compliance tax system, particularly in determining accurate tax liability. Well informed stakeholders are in a position to understand the tax structure and policies in a bid to enhance the administration of the turnover tax. The taxpayers are the reason that the Authority remains in business. The absence of tax awareness among stakeholders may lead to non-compliance behavior among taxpayers, either intentionally or unintentionally. Small business taxpayers who are not aware of their tax obligation may lead to unintentional non-compliance behavior (Williams, 2020).

According to recent studies globally, there exists a positive relationship between tax awareness and compliance behavior (Yee, Moorthy & Soon, 2017; Rachmawan, Subekti

& Abid, 2020). However, Abdul *et al*. (2020), claimed that tax awareness has no direct significant effect on taxpayers' compliance behavior. Further research should be carried out on taxpayers as the largest stakeholders, on the ways to bring them on-board and maximize satisfaction, in terms of the role of KRA as tax collecting agent and their role, duties, and obligations as taxpayers. This would highlight ways of spreading information as well as education to the stakeholders. The study also recommends further research on taxpayers as stakeholders of KRA to devise ways of ensuring compliance and satisfaction for the stakeholders.

2.4.4 Administration of Turn over Tax

Taxation of SMEs has been mostly used by tax administrators across the world since it comprises the informal sector. The turnover tax was introduced in Kenya in 2007 to enhance revenue collection, improve tax administration, and reduce compliance and collection costs. It was an affirmative action that saw the introduction of the turnover tax which was aimed at including the SME sector in the national taxation system. It is based on the gross turnover or sales. Tax administration entails balancing the need to collect taxes efficiently with the fair treatment of taxpayers (Kinyua, 2019).

In Kenya, 90|% of established businesses are SMEs (Kenya National Bureau of Statistics, 2019). On the contrary, the performance of ToT has not been satisfied with the revenue being very low. The high cost of tax collection has been a factor hindering the administration of turnover tax. This problem is also attributed to the fact that some tools used for turnover tax are seen to be structured for formal business and therefore rendering them unsuitable for SMEs.

However, there have been changes in the administration of tax to enhance compliance among taxpayers. The simplicity involved in the process has been considered as one of the greatest achievements of KRA in the country. Taxpayers are only expected to keep simple records of ToT for accountability. Furthermore, KRA has introduced an online ToT calculator hence helping with the burden of calculating tax. This simplified means of tax administration is expected to encourage compliance from taxpayers in the informal sector and reduce pressure on taxpayers in the formal sector (Msabaa, 2016).

Regardless of these changes, the administration of turnover tax by the KRA leaves much to be desired. Tax policies, the structure should be publicized more often and at the same

time enhance stakeholder awareness. KRA in some instances has not processed tax refunds promptly and some cases failed to consider refunds in case the taxpayer owes taxes. Studies have shown that taxpayers have put to question the fairness involved in the process of administration of turnover tax (Msabaa, 2016).

2.5 Empirical Review

Vlachos and Bitzenis (2016) studied the influence of the tax rate on income compliance amount small and medium enterprises in Greece. The study was conducted among 1374 SMEs. The study was cross-sectional and included firms in manufacturing, agriculture, and consultancy firms the study revealed that the respondent perceived that the corporate income tax rate was set at a very high rate which they felt was too high for them. On the other hand, the government used punitive measures on high penalties and interests on penalties, these high-cost burdens were found to be too much and discourage tax compliance. Many businesses prefer not to self-assess themselves or pay taxes due to a huge tax burden and preferred to evade paying taxes. The study recommended the government review the cost burden to enhance more compliance.

Mansor and Ferdjani (2017) studied the influence of tax structure, simplicity, and cost implication on value-added tax compliance among construction companies in Malawi. The study involved 367 construction firms in Lilongwe. The study was descriptive. Inferential chi-square) and descriptive analysis (percentages and frequencies), revealed that the majority of the respondent said the costs of filing for taxes were being too high, cost identified included professional costs on hiring accountant, bookkeeping costs, tax expert consultant, and investment in electronic gadgets to assess and declare tax amounts. The study further revealed a significant relationship between the perception of the cost of compliance and compliance level for taxes.

A study conducted by Omondi and Theuri (2019) investigated the factors behind the compliance level of value-added tax in Nairobi county among small and medium enterprises business. The study was conducted among 167 small businesses in River road sampled purposefully. The study was cross-sectional and involved firms in the textile business, sale of electronic equipment, and sale of stationeries. Data for the study was collected using semi-structured questionnaires. The study revealed the high cost of bookkeeping, the high cost of acquiring electronic digital tax gadgets, and a lot of time

taken in filing or VAT as the major costs affecting the collection of VAT. A significant and positive relationship was revealed between the average cost of filing and tax paid. At high-cost low taxes were paid due to utility of income issue, where sellers maximized their profits at the expense of facilitating cost estimation and payment.

Kumar and Gupta (2017) studied the influence of attitude on income tax compliance among taxpayers owning small businesses in India, the study involved 432 small firms in digital marketing. The study was descriptive. Chi-square tests conducted revealed a strong relationship between the choice of regime development project installation and the amount of tax paid. The study concluded that the retrogressive government, corrupt system discourages taxpayers from paying taxes. The study also recommended proper public finance management through fiscal plans and continuous project evaluation to avoid loss of public finance to encourage tax payment.

Ameyaw *et al*. (2016) studied the influence of peers on tax collection. The study was conducted in Ghana among 132 small business owners in Accra paying land rates. The study was descriptive and used questionnaires as a major tool for data collection. Data collected was cleaned and entered in Ms excel. Descriptive statistics revealed from the majority of the respondents that if a good number or proportion of close relatives and friends are not honoring rates payment for their property, chances are that one may be influenced not to paying t because the rates payers know that they can get away with it. The study added that if the tax system is thorough and high penalties are given if failure to pay is detected then a majority of people are likely to pay taxes.

Oats and Wynter (2018) studied the factors influencing turnover tax collection in Jamaican grocery firms. The study was descriptive and involved 104 grocery small businesses selling fresh fruits and vegetables sampled purposefully. Descriptive analysis and inferential analysis (chi-square and poison regression) carried out on data collected through semi-structured questionnaires revealed that the majority of the respondents owned a computer, had a stable internet as well aware of procedures used in filing for taxes online. The respondents were happy that the local government was improving the access roads and providing utilities including proper lighting. The study concluded that tax awareness and acquisition of necessary skills for filling were significant factors affecting turnover tax collection.

A study carried out by Onyeanakwe and Bello (2020) on the influence of tax education levels, tax policies collection, and tax collection in oil-exporting companies revealed that understanding of the tax system in terms of tax rates, how to file the tax rates as well as when it is paid were significant factors affecting collection of taxes in the petroleum business. The study recommended tax policies that were tuned towards being economical, equal and were certain as to the taxable amounts, tax rates, and when the taxes should be paid. Tax seminars and the publication of relevant information concerning taxation were also considered important in ensuring higher tax collection.

Naburi (2017) studied the influence of rates collection enforcement of devolved system in Kenya. The study aimed to find out the roles played by the block management system. The study was descriptive and included 167 commercial property managers in Nairobi City County who were sampled through probabilistic procedures. Data for the study was both quantitative and qualitative collected through a semi-structured questionnaire through the drop and pick method. The study noted that the block management system enhances customers ' business relationship (B2C). By knowing the location of taxpayers, it was easier to enforce tax collection, knowing the business activities of the business through activities and business audits of books.

2.6 Critique of Literature Review

Studies by Das (2020) and Ouma (2019) revealed that tax administration has got its fair of challenges; Some of the issues that came out as determinants of tax administration include how taxes are structured, whether direct or indirect taxes. On the other hand, the tax structure was revealed to be include issues of the tax base and tax rates, with high tax rate compliance to taxation, which was low. The literature further revealed that compliance costs are high with complicated tax structure rendering the process of tax administration also difficult.

Another factor considered to affect tax administration by the study is tax policy. It was revealed from the existing literature by Gaber & Gruevski (2018) and (Bedi, 2016) that that the tax administration bodies are the ones that implement policies that are brought to them by the state. Such policies included changes in tax rates of a particular class of commodity or tax area including income tax, turnover tax, value-added tax e.tc. Such policies affect businesses in different ways. It was noted that inelastic demanded

products are not affected by tax policies however elastic demand of products and therefore administration. The literature also revealed as noted by Das (2020) that taxpayers have different levels of awareness on tax matters including applicable rates of taxes, tax filing procedures, and laws that apply to tax in their areas.

The literature noted that tax collection has not been an easy journey for the tax departments across the globe. It was noted that issues of perceptions, tax education, tax burden through rates, cost of compliance as well as government transparency of public revenue utilization featured as common challenges in developing countries collection of taxes such as by Kumar and Gupta (2017) on challenges of tax collection in India. Just like the theory of optimal taxation suggests, it would be important for the government to provide tax policies that enhance the welfare of its citizens within the constraints.

The studies however were carried, out in the general line of tax and not specifically on turnover tax, the few conducted on turnover tax were conducted in developed countries with different macro and micro-setups the financial regulation model is also different from developing countries. Turnover has a different yardstick different from developing countries in terms of the targeted group. It would therefore be important to conduct literature in Kenya and also specific study such as in Nyali constituency to enrich existing literature.

2.7 Research Gaps

The studies revealed that gaps exist and call for future studies to enrich literature as well as consider more economic setups. The existing study are out of the scope of turnover taxes, they are also carried out outside Mombasa County or far outside the country. Countries and sectors of the economy have different characteristics inform of macro and micro-environments, as well as regulatory environment, being different. Vlachos and Bitzenis (2016) studied the influence of the tax rate on income compliance amount small and medium enterprises in Greece, this study is done in a developed economy and a sector outside the scope of turnover taxes. Mansor and Ferdjani (2017) studied the influence of tax structure, simplicity, and cost implication on value-added tax compliance among construction companies in Malawi. This study focused on value-added tax that has a different tax base from value-added tax, turnover tax, and value taxes are levied at different tax rates.

Omondi and Theuri (2019) investigated the factors behind the compliance level of value-added tax in Nairobi County among small and medium enterprises business. The structure of turnover tax is different in terms of tax rates where vat is levied at 14% whereas turnover is at 1% and the tax basis involved, whereas value-added tax is for people whose monthly revenue is 5 million, the turnover tax minimum is one million. Therefore, factors behind the performance of value-added tax cannot serve purposes for turnover taxes. Factors affecting value-added tax or corporate income cannot, therefore, be used to generalize for factors affecting the administration of turnover tax because they are levied at different stages of production, the rate is different and bookkeeping is different. The sectors of the economy are also different, therefore is important to conduct an independent study and make an independent observation on factors affecting the administration of turnover tax collection in Nyali constituency in Mombasa County.

2.8 Summary of Literature Review

The literature reviewed noted that factors affecting the administration of turnover taxes mainly are tax structure through compliance costs and computation process complexity and tax base, tax policies through fairness and rates of taxation and the awareness level of the tax stakeholders through authority support and knowledge on the technical aspect of tax system whereas administration success can be looked at in terms of quality of customer service and the amount of turnover taxes collected. Theories of the study such as optimal theory, cost of service theory, and ability to pay theory are important in observing the canon of taxation such as fairness, improving social welfare, and equity.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

Chapter three gave a brief description of the research design, provide information about the target population, sampling procedures, and size. The chapter also gave the data collection procedures, data collection tools, and data analysis procedures for the study.

3.2 Research Design

A research design choice depends on what one wants to reveal from the collected data as well as the data collection technique and type of data collected (Meyers *et al*., 2016). A cross-sectional research design is a form of descriptive research design used in circumstances where the population has different characteristics or from different industries (Creswell & Creswell, 2017). In the current study, a cross-sectional research design was used to gather perceptions among small businesses in the Nyali constituency.

3.3 Target population

A target population comprises all elements or individuals that one needs to consider in the study (Bertrand & Hughes, 2017). In the Nyali constituency we have business across different sectors including the sale of agricultural produce, beauty, boutiques, retail business, and repair business/artisans. According to the Kenya national bureau of statistics (2019), there are 1238 small and medium enterprises that qualifies for turnover taxes in retail, repairs, boutiques, groceries, and beauty business in Nyali constituency alone. The study sought data from the business owners who are mainly the daily managers and know their businesses very well in all sectors of accounting (sales records) and taxation requirements.

Table 3.1: Target population Distribution

Target population	Population size
Groceries	419
Beauty	132
Boutiques	234
Retail	326
Repairs	127
Total	**1238**

3.4 Sampling Frame

A sampling frame represents total individuals from which a sample is derived (Bertrand, & Hughes, 2017). The sampling frame included groceries, beauty parlors, boutiques, retail, and repair shops.

3.5 Sampling Size and Sampling Technique

Abutabenjeh and Jaradat (2018) noted that sampling techniques to mean methods used by research in the determination of the elements to be used as a representative sample. The sample should also be able to give independent observation and well conversant with the study variables. The study used the Yamane formula to determine sample size. According to Adam (2020), minimizes errors in coming up with an adequate sample size, which is representative of the target population.

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

n=125/ [1+1238(0.07∗0.07)] = 1238/7.0662= 175.20 which is 175 to nearest figure.

Where n is the correct sample size, N is the target population, e is the margin of error. Therefore, the sample size was determined as follows. Within a margin error of 7%, the formula gave a sample size of 175 respondents. The sample was distributed proportionately as follows in the clusters:

Groceries: 419/1238*175=59

Beauty: 132/1238*175=18

Boutique: 234/1238*175=33

Retail: 326/1238*175=46

Repairs: 127/1238*175=18

Table 3.2: Sample Distribution Table

Cluster	Cluster size	Sample size
Groceries	419	59
Beauty	132	18
Boutiques	234	33
Retail	326	46
Repairs	127	18
Total	**1238**	**175**

A random sampling procedure was also be done to ensure an equal chance of respondents being selected across the clusters.

3.6 Data Collection Instrument

Data for the study was collected through a semi-structured questionnaire. The choice for the questionnaire is due to ease of collecting data and the ability of a questionnaire to give quick and accurate data that is not manipulated because of confidentiality (Tobi & Kampen, 2018). The questionnaire addressed the four research questions on the cost of compliance, perception of taxpayers, enforcement by tax administrators, and the amount of turnover paid. The questions were both closed and open questions to deduce more information from the taxpayers.

3.7 Data Collection Procedures

The data collection procedure involves the strategies to be applied in collecting data from the field which includes online surveys, direct mailing, interviews, focused group discussion, etc (Akhtar, 2016). Data for the study was collected through the drop and pick method. The researcher went face to face and explained the purpose of the study to the respondents in the Nyali Constituency. After consent was given the researcher left the questionnaire with the respondents and picked them sometime later when the data had been filled.

3.8 Pilot study

A pilot study is mainly carried out to ensure that errors on the questionnaire are taken care of before the actual data collection takes place (Greenhalgh *et al*., 2019). According to Connelly (2008), the appropriate sample size is calculated as follows: Margin of error*(population size-sample size). In the current study at a margin error of 5% of the pilot, the size was calculated as follows: 0.05(1238-175) =53. Therefore for the study, the pre-test sample size was 53 respondents in the Nyali constituency. Therefore, the pilot sample included respondents in the grocery category, from the beauty category, from the boutique category, from the retail category, and the repairs/artisan category. The results of the pilot test were however not included in the main study. The pilot was carried out to assess the validity and reliability of the research instrument.

3.8.1 Validity of Research Instrument

The validity of the research instrument is mainly carried out to find out if there are errors in the questionnaires and carrying out the right procedures to improve the questionnaire

to enable capturing the right information or intended concept. Issues of ambiguity and clarity of the questionnaire was dealt with at this stage after the pilot (Mohajan, 2017). The research instrument was improved through the help of university research experts and tax experts to improve on face validity of the questionnaire items scale. Exploratory Factor Analysis through Kaiser-Meyer-Olkin **(**KMO) of sample adequacy and Bartlett's Test of sphericity was done to test for construct validity on the suitability of data for structure detection. A KMO result that is close to 1.0 is better and indicates that factor analysis may be useful whereas a p-value of less than 0. 05 of significance indicates that factor analysis may be useful (Almanasreh, Moles & Chen, 2019). The KMO threshold considered for the study was 0.7 scores. If the score is above 0.7 then the tests are adequate for further analysis. This was done on SPPSS through measures reduction.

3.8.2 Reliability of Research Instrument

The reliability of the research instrument is conducted to test the internal consistency of the research tool. Reliability is supposed to ensure that a future researcher who would follow the procedures of data collection carried out by the current researcher can get similar findings (Meyers, *et al*., 2016). The tool was tested through Cronbach alpha at 0.7, indicators that do not meet the threshold were dropped as weak measures whereas others which met were used as measures to gather data for the study. This exercise was done through SPSS on factor scaling.

3.9 Data Analysis and Presentation

Data for the study was analyzed through descriptive, inferential, and content analysis. Descriptive statistics included measures of central tendency of mean, frequency, standard deviation, and percentage. Data was also analyzed through inferential statistics on correlation and regression analysis to establish the strength and direction between study variables Meyers *et al*. (2016) recommended inferential statistics to establish the relationship between quantitative variables. The results of the study were presented on tables, bar graphs with narrative interpretation.

Regression model:

$AD_{ToT} = \beta_1 TS + \beta_2 TP + \beta_3 SA + \varepsilon$

Where AD_{ToT} is the administration of turnover

$\beta_1 \ldots\ldots\ldots\ldots \beta_3$, is the coefficients for independent variables

TS is the tax Structure

TP is tax policy

SA is the stakeholder awareness

Ɛ is the error term of residuals

CHAPTER FOUR

RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

Chapter four of the study gave the study findings and discussions of the results. The chapter was organized to present the demographic characteristics of the study, descriptive statistics, and inferential statistics.

4.4.1 Response Rate

The study sought to collect data from 175 sampled respondents. The study managed to collect data from 165 respondents which represents a 94% response rate. This was made a reality through continuous sending reminders to respondents to fill the questionnaire as well as assistance from research assistants who know and maintain a cordial relationship with the respondents very well. According to Fowler (2019), a response rate of 50% is good, a response above 70% is better. Therefore, a response of 94% is adequate to go for further analysis.

Table 4.1: Response Rate

Response	Frequency	Percentage (%)
Responded	165	94
Not responded	10	6
Total	**175**	**100**

4.1.2 Reliability and Validity tests

4.1.2.1 Reliability Tests

Reliability tests were conducted through Cronbach's alpha tests.

Table 4.2: Reliability Results

Variables	Cronbach's alpha	Number of Items
Tax structure	0.751	6
Tax policy	0.763	5
Stakeholders awareness	0.781	7
Tax administration	0.821	4
Overall measure	**0.786**	**22**

The table above shown that the tax structure as one of the variables in the study yields an alpha score of 0.751 with six items of measure which is adequate for further analysis; Tax policy as another variable yield an alpha score of 0.763 with five items of measure which also indicates that the items are adequate for further analysis; Stakeholders awareness gave an alpha score of 0.781 with seven items of measure, finally, tax administration having four items of measure gave an alpha score of 0.801. The overall reliability measure score was 0.786 with 22 items of measure which shown that the entire questionnaire items are adequate for further analysis.

4.1.2.1 Validity Tests

Validity tests was conducted through dimension reduction on factors through KMO and Bartlett's tests.

Table 4.3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.767
Bartlett's Test of Sphericity	Approx. Chi-Square	1021.671
	df	53
	Sig.	.001

The results on the above table 4.3 revealed that the Kaiser-Meyer-Olkin measure of sampling adequacy gave a score of 0.767 which reveals that the overall questionnaire constructs are adequate for further analysis; Bartlett's Test of Sphericity significance was 0.001 which is less than 0.01, confirming the questionnaire construct validity as adequate.

4.2 Demographic Analysis

The demographic characteristics of the study included studying the nature or type of business years that the businesses had been in existence.

4.2.1 Type of Business

The study sought to find out the different types of small businesses in Nyali constituency.

Table 4.4: Business Type

Category	Frequency	Percent
Groceries	20	12.1
Beauty	25	15.2
Boutique	19	11.5
Retail	91	55.2
Repairs	10	6.1
Total	**165**	**100.0**

The table above shows that the majority of the small businesses in the Nyali constituency were retail businesses as shown by 52.2%; followed by 15.2% of the businesses that were in beauty and saloon businesses; followed by 12.1% of the businesses that were groceries selling cereals, vegetables, and fruits, and other farms produce; followed by 11.5% of the businesses that were boutique selling clothes, finally, only 6.1% of the businesses were in repair business such as of phones, televisions, and radios. The above results revealed that Nyali residents are industrious people.

4.2.2 Years of Business Existence

This section of the study sought to establish how old the small businesses in the Nyali constituency were.

Table 4.5: Years of Business Existence

Years	Frequency	Percent
Less than one year	17	10.3
Between 2 and 5 years	39	23.6
Between 6 years 10 years	78	47.3
Above 10 years	31	18.2
Total	**165**	**100**

Table 4.4 above shows that the majority of the businesses had been in existence between 6 and 10 years as shown by 47.3%, followed by businesses that existed for a period of between 2 and five years. This was followed by businesses that existed above 10 years as shown by 18.25 finally only 10.3% of the businesses had existed for less than one year. The results of the study reveal that the businesses were conversant with their particular sector and also respondents could provide opinions on the topic of turnover tax.

4.3 Descriptive Analysis

Descriptive statistics conducted included the use of frequencies, percentages mean, and standard deviation on different measures of the study variables.

4.3.1 Tax structure

The section of this study sought to establish the effect of tax structure on tax administration of turnover tax in the Nyali constituency. The study adopted a Likert scale with five points of measure 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5=strongly agree.

Table 4.6: Descriptive statistics on Tax Structure

Statement	Mean	Std Dev
It is a complex process to file for turnover tax	3.84	1.02
There is an equal sacrifice on tax paid	3.5	1.063
Compliance costs for turnover taxes are high	3.72	1.052
It is easy to evade turnover taxes	2.94	1.451

Table 4.6 above revealed on the statement that: it was a complex process to file for turnover tax, a mean of 3.84 was revealed showing that they agreed; there is an equal sacrifice proportion of the amount paid as turnover tax, a mean of 3.5 was revealed showing that they agreed; that Compliance costs for turnover taxes were high, a mean of 3.72 was revealed showing that they agreed; it was an easy task to evade turnover task a mean of 2.94 was revealed showing they disagreed. Owino (2018) concurred that compliance complexity examines how easy it is to comply with the requirements of a given tax. For instance, how IT can be used in submitting returns and paying taxes. Studies have shown that tax complexity negatively affects perceptions of fairness among taxpayers and consequently encourages an unwillingness to comply.

4.3.2 Tax Policy

The section of this study sought to establish the effect of tax policy on the administration of turnover tax in the Nyali constituency. The study adopted a Likert scale with five points of measure 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5=strongly agree.

Table 4.7: Descriptive statistics for Tax Policy

Statement	Mean	Std Dev
turnover tax rates are easy to apply	2.79	1.53
The amount I pay for turnover tax is fair	2.8	1.40
Am comfortable filing turnover taxes monthly	2.25	1.28
High penalties and interests apply in failure or late filing of turnover tax	3.84	1.02
Am comfortable with business earning at least one M annually to pay turnover taxes at 1%	2.17	1.06

The table above revealed on the statement that turnover tax rates are easy to apply a mean of 2.79 was revealed showing that they agreed; it was disagreed that the amount paid for turnover tax is fair as was shown by a mean of 2.8; it was disagreed that they were comfortable filing turnover taxes monthly as shown by 37.0% and a mean of 2.25; the respondents agreed that high penalties and interests apply in failure or late filing of turnover tax as shown by a mean of 3.84; respondents disagreed of being comfortable with business earning at least one Million annually to pay turnover taxes at 1%, as shown by a mean of 2.17. Bedi (2016) concurred that taxpayers will increase their compliance in paying taxes if their perception of the tax system's fairness improves. However, tax fairness is negatively impacted by complexity especially procedural complexity. Procedural complexity hinders the administration of turnover tax since it increases tax non-compliance. Besides, education, income source, fairness, and tax morale also affect compliance.

Similarly, Vlachos and Bitzenis (2016) studying the influence of the tax rate on income compliance amount small and medium enterprises in Greece noted that Many businesses prefer not to self-assess themselves or pay taxes due to a huge tax burden and preferred to evade paying taxes.

4.3.3 Stakeholder Knowledge

The section on stakeholder knowledge sought to find out the awareness levels among small business owners in the Nyali constituency.

4.3.3.1 Seminars Attended By Tax Payers

This section of the study sought to find out whether the small business owners in the Nyali constituency had attended seminars to learn on matters of turnover taxes.

Table 4.8: Attendance to a Seminar

Response	Frequency	Percent
Yes	19	11.5
No	146	88.5
Total	**165**	**100.0**

The results on the table above show that majority of the respondents had not yet attended a seminar to couch them on turnover tax matters such as filing as shown by 88.48%, only 11.52% of the respondents had attended tax seminars. The results have shown very low awareness levels.

4.3.3.2 Descriptive statistics on stakeholders' Awareness

This section of the study sought to establish the awareness levels among stakeholders on turnover taxes. In carrying out the task the study adopted a Likert scale with five points of measure 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5=strongly agree.

Table 4.9: Descriptive Statistics on stakeholders' Awareness

Statement	Mean	Std Dev
Am aware of a near tax administration centers, KRA	2.36	1.10
I am aware of the rates that apply to turnover tax	2.41	1.21
I am aware of the people who are supposed to pay turn over tax	2.13	1.04
I know how to file for turnover tax	2.75	1.09
I am aware when turnover taxes should be filed or paid/deadline	2.50	1.08

The table above revealed that respondents disagreed that they were aware of a near tax administration centers, as was shown by a mean of 2.36; asked on awareness of the rates that apply to turnover tax, the respondents disagreed as shown by a mean of 2.41; asked whether they extent they were aware of the people who are supposed to pay turn over tax, the respondents disagreed as shown a mean of 2.13; asked extent they knew how to file for turnover tax, the respondents disagreed as shown by a mean of 2.75; finally, extent they were aware when turnover taxes should be filed or paid/deadline, respondents disagreed as shown by a mean of 2.5. These findings have shown that there is very low

awareness levels among the stakeholders in the Nyali constituency on matters that touch on turnover taxes. Williams (2020), concurred that the absence of tax awareness among stakeholders may lead to non-compliance behavior among taxpayers, either intentionally or unintentionally. Small business taxpayers who are not aware of their tax obligation may lead to unintentional non-compliance behavior.

4.3.4 Tax Administration

The section on tax administration sought to establish the status of the tax administration of turnover taxes in the Nyali constituency. In carrying out this task the study adopted a Likert scale with five points of measure 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5=strongly agree.

Table 4.10: Tax Administration Practices

Statement	M	Std Dev
We have been filing tax on time	2.41	1.31
customer service support provided by KRA staff is sufficient	2.06	1.03
We are satisfied with the existing structures and policies	2.76	1.12
We have been paying the right amount of tax due	2.46	1.06

Table 4.8 above revealed that the small business owners in Nyali constituency had not been filing tax on time as shown by a mean of 2.41; asked extent customer service support provided by KRA staff is sufficient, the respondents disagreed as shown by a mean of 2.06; asked if they were satisfied with existing structures and policies, the respondents disagreed as shown by a mean of 2.76; asked whether the respondents had been paying the right amount of tax due, majority of the respondents disagreed as shown by a mean of 2.46. The findings revealed low administration effects of turnover taxes in the Nyali constituency. Msabaa (2016), concurred that the administration of turnover tax by the KRA leaves much to be desired. KRA in some instances has not processed tax refunds promptly and some cases failed to consider refunds in case the taxpayer owes taxes. Taxpayers have put to question the fairness involved in the process of administration of turnover tax.

4.4 Correlation Analysis

The study sought to establish the nature of the relationship between the study variable, in this stage therefore Pearson correlation analysis was conducted.

Table 4.11: Correlation Analysis

		Tax structure	Tax policy	Stakeholder knowledge	Tax administration
Tax structure	Pearson Correlation	1			
	Sig.				
Tax policy	Pearson Correlation	.138	1		
	Sig.	.078			
Stakeholder knowledge	Pearson Correlation	-.025	.040	1	
	Sig.	.746	.608		
Tax administration	Pearson Correlation	.198	-.035	.063	1
	Sig.	.020	.012	.034	

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

The table 4.9 above revealed that tax structure and tax policy had a positive relation ship which was insignificant (r=0.138, *p* value= 0.078); tax structure had negative and insignificant relationship with Stakeholder knowledge (r=-0.025, *p*=0.746); tax structure also had a positive and significant relationship with tax administration (r=0.198, *p*=0.020).

Tax policy had a positive but insignificant relationship with Stakeholder knowledge (r=0.04, p=0.608); tax policy had a negative and a significant relationship with tax administration (r=-0.035, *p*=012). Finally, Stakeholder knowledge had a positive strong relationship with tax administration (0.063, *p*=0.034).

Similarly, a study carried out by Onyeanakwe and Bello (2020) on the influence of tax education levels, tax policies on the collection and tax structure in oil-exporting companies revealed that understanding of the tax system in terms of tax rates, how to file the tax rates as well as when it is paid were significant factors affecting collection of taxes in the petroleum business.

4.5 Regression Analysis

Regression analysis was conducted to test the nature of the relationship of the independent variables and dependent variable on the direction of the relationship and strength of the relationship. The results are presented under the model summary, ANOVA, and regression coefficients.

4.5.1 Model Summary

The coefficient of determination is used to explain how much of the dependent variable explained is by the independent variable. In the current study, the model was used to explain how much of business performance is explained by organizational learning.

Table 4.12: Model Summary

R	R Square	Std. Error of the Estimate
.743[a]	.552	1.012

a. Predictors: (Constant), tax structure, tax policy, Stakeholder knowledge

The model summary table 4.10 shown above revealed that our model was able to predict tax administration at 55.2% as shown by R^2 using the three study independent variables of tax structure, tax policy, and Stakeholder knowledge variables. Tax administration is a broad concept that is affected by factors across all disciplines including government allocation of funding to administration, leadership style at the tax authority, and other tax behaviors among staff and payers of the tax, therefore factors in the model predicting about 55.2% is understood.

4.5.2 ANOVA

Analysis of variance in the study was conducted to establish the overall significance of the variables in the model and whether the independent variable in the study affected tax administration / dependent variable. The analysis of variance (ANOVA) is revealed.

Table 4.13: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.395	3	3.132	3.038	.031[a]
	Residual	165.998	161	1.031		
	Total	**175.394**	**164**			

a. Predictors: (Constant), tax structure, tax policy, Stakeholder knowledge

b. Dependent Variable: Tax administration

The results of the ANOVA revealed an F critical value of 3.038, which was significant at 0.031 which is less than 0.005. The results of the ANOVA revealed that the factors considered in the study including tax structure, tax policy, and stakeholder knowledge affected the administration of turnover taxes in the Nyali constituency.

4.5.3 Regression Coefficients

Pearson Regression analysis was conducted to establish whether the factors considered in the study affected the administration of turnover taxes in the Nyali constituency.

Table 4.14: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.286	.344		3.739	.000
	Tax structure	.195	.079	.200	2.470	.015
	Tax policy	-.038	.076	-.039	-.500	.048
	Stakeholder knowledge	.064	.077	.068	.828	.019

a. Dependent Variable: Turnover tax administration

The table above shows the relationship between the independent study variables and the dependent variable. The tax structure was found to have a positive and significant relationship with tax administration p=0.015 which is less than 0.005. Tax policy was

also found to have a negative and significant relationship with tax administration p=0.048 which is less than 0.005. Stakeholder knowledge was also found to have a positive and significant relationship with tax administration p=0.019 which is less than 0.005.

The study also revealed form beta coefficients that when all the other factors were held in constant turnover tax administration performance was at 1.286. A unit improvement on the tax structure resulted in 0.195 better administration of turnover taxes such a structure on tax improvement would include simplification of filing for tax. The study also revealed that an introduction of a tax policy that was punitive such as a higher tax rate or resulted in a reduction in the amount of turnover taxes collected or poor administration of turnover taxes, an introduction in punitive tax policies resulted in a 0.038 reduction I the performance of turnover taxes in the Nyali constituency. Finally, a unit increase in stakeholders' awareness such as in knowledge on the technical aspect of the tax system or knowledge on tax laws and obligation resulted in a 0.064 performance in the administration of turnover tax in the Nyali constituency.

The regression equation becomes:

AD_{ToT}= 1.286+ 0.195TS+ 0.038TP+ 0.5064SA+ Ɛ

Mansor and Ferdjani (2017) concurred on a study on the influence of tax structure, simplicity, and cost implication on compliance among construction companies in Malawi that there is a significant relationship between the perception of the cost of compliance and compliance level for taxes.

Similarly, Oats and Wynter (2018) who studied the factors influencing turnover tax collection in the Jamaican grocery firms noted that tax awareness and acquisition of necessary skills for filling were significant factors affecting turnover tax collection.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

Chapter five of this study presented a summary of key findings, conclusions made from the major findings, and finally policy recommendations and recommendations for further studies.

5.2 Summary of Findings

5.2.1: Tax Structure

The tax structure was found to have a positive and significant effect on tax administration. The study found that from the majority of respondents that compliance costs for turnover taxes were high.

5.2.2 Tax Policy

Tax policy was also found to have a positive and significant effect on tax administration.The respondents also agreed that high penalties and interests apply in failure for late filing of turnover tax.

5.2.3 Stakeholder Knowledge

Stakeholder knowledge was also found to have a positive and significant effect on tax administration. Majority of the respondents were also not able to file for turnover tax. The study also found from the majority of the small business owners in the Nyali constituency that they had not been filing tax on time.

5.3 Conclusions

The study concluded that tax structure was a factor that affected the tax administration of turnover tax in the Nyali constituency and they have a positive relationship and significant relationship.

The study also concluded that tax policy was another factor that affected tax administration because they have a positive and significant relationship.

Finally, the study concluded that stakeholder was another factor that affected tax administration because they have a positive and significant relationship.

5.4 Recommendations of the Study

I. The study recommended the simplification of the process of filing for turnover taxes and ensuring fairness through ensuring there is equal sacrifice among taxpayers by having progressive taxation.

II. The study also recommended the introduction of fair and reasonable penalties for people who failed to file the return within the provided guidelines. Heavy penalties were seen as avenues for evading taxes and discouraged voluntary compliance. The study also recommended for introduction of policies that supported the ability to pay, because some people may be within the turnover bracket of above One million but may not be having profitable businesses. The study recommended the government review the cost burden to enhance more compliance.

III. The study finally recommended for improvement of stakeholder awareness through seminars, business clinics, and workshops. The tax authority can also use other ways of knowledge exchange such as social media through the use of Facebook, Twitter, and youtube to give tax filing manuals as well as educating taxpayers on new tax obligations and tax laws.

5.4.1 Recommendations for Further Studies

The study only found the model summary in regression able to explain only 55.2% of the factors affecting the administration of turnover taxes in Nyali constituency, a further study needs to be conducted besides of other factors that might be affecting the administration of taxes in Nyali constituency, which would help in the specification of the model by removing under specification.

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APPENDICES

Appendix I: Introductory Letter

Kenya School of Revenue Administration

KENYA REVENUE AUTHORITY

ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/106 2nd September 2020

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

RE: REQUEST TO COLLECT RESEARCH DATA

This is to certify that the following is bona fide student of the Kenya School of Revenue Administration Mombasa Campus undertaking Post Graduate Diploma in Customs Administration.

Name	Admission Number
GLADYS NYAMBU MACHOCHO	HDB336-C016-4932/2016

The above mentioned student is in his final year of study at the school and currently conducting research on the **Factors Affecting Collection Of Turnover Tax By Kenya Revenue Authority In Mombasa County**. The student is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only. The School would therefore like to seek your permission to allow him/her collect information that relates to his research from your organization.
Thank you in advance for your support and cooperation.

Yours sincerely,

Mumia B.J.
Associate Head of Research KESRA, Mombasa Campus

Tulipe Ushuru Tujitegemee !

Appendix II: Questionnaire

Part A: Demographic information

1. Type of business

i. Groceries ( )

ii. Beauty ( )

iii. Boutiques ( )

iv. Repairs

2. Years business has been in existence

i. Less than one years ( )

ii. Between 2 and 5 years ( )

iii. Between 6 years 10 years ( )

iv. Above 10 years ( )

Part B: TAX STRUCTURE

Using a scale of 1 to 5 where 1 is strongly disagree, 2= disagree, 3= Neutral, 4= Agree, and 5= strongly agree please indicate the extent to which you agree with the following statements on the tax structure.

	Statement	**SD**	**D**	**N**	**A**	**SA**
3	It is a complex process to file for turnover tax					
4	there is an equal sacrifice on tax paid between the people who make little and high sales subject to turnover tax					
5	Compliance costs for turnover taxes are very high					
6	It is easy to evade turnover taxes					

Part C: TAX POLICY

Using a scale of 1 to 5 where 1 is strongly disagree, 2= disagree, 3= Neutral, 4= Agree, and 5= strongly agree please indicate the extent to which you agree with the following statements on tax policy.

	Statement	SD	D	N	A	SA
6	turnover tax rates are easy to apply					
7	The amount I pay for turnover tax is fair					
8	Am comfortable with a policy that I should file turnover taxes monthly					
9	High penalties and interests apply in failure or late filing of turnover tax					
10	I am comfortable with the government sating that business earning at least one million annually to pay turnover taxes at 1%					

Part D: STAKEHOLDER AWARENESS

Using a scale of 1 to 5 where 1 is strongly disagree, 2= disagree, 3= Neutral, 4= Agree, and 5= strongly agree please indicate the extent to which you agree with the following statements on stakeholder awareness.

11. I have an e-KRA certificate

Yes ( )

No ( )

12. I have attended seminars on how to file for turnover tax by KRA staff

Yes ( )

No ( )

	Statement	SD	D	N	A	SA
13	Am aware of a near tax administration centers, KRA station where I can get customers service					
14	I am aware of the rates that apply to turnover tax					
15	I am aware of the people who are supposed to pay turn over tax					
16	I know how to file for turnover tax					
17	I am aware when turnover taxes should be filed or paid/deadline					

PART E: TAX ADMINISTRATION

Using a scale of 1 to 5 where 1 is strongly disagree, 2= disagree, 3= Neutral, 4= Agree, and 5= strongly agree please indicate the extent to which you agree with the following statements on tax administration.

	Statement	**SD**	**D**	**N**	**A**	**SA**
18	We have been filing tax on time					
19	customer service support provided by KRA staff is sufficient					
20	We are satisfied with the existing structures and policies					
21	We have been paying the right amount of tax due					

Thank You for Your Time

Appendix III: Timeline

Activity/Month in the year 2020	**September-October**	**October-November**	**November-December**
Proposal development			
Defense on proposal			
Collection of data from the field			
Data entry and Analysis			
Project report draft			
Sub missional of final hardcover bound project			

Appendix IV: Budget

Activity	**Units**	**Unit cost**	**Total**
Printing of proposal	3	1500	4,500
Stationery cost	-	10000	10,000
Printing of project	6	1000	6,000
Spiral binding	6	100	600
Hardcover binding	5	1000	5,000
Data collection fees	2 Assistants	25,000	50,000
Miscellaneous costs	-	10,000	20,000
Total Cost			**Kshs 96,100**