

**EFFECTS OF TAX POLICY REFORMS ON TAX COMPLIANCE OF
FAMILY OWNED BUSINESSES IN MOMBASA COUNTY**

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TECHNOLOGY**

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DECLARATION

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

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DEDICATION

This research project is dedicated to my family for their continuous encouragement and assistance.

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TABLE OF CONTENTS

DECLARATION	ii
DEDICATION	iii
ACKNOWLEDGEMENT	iv
LIST OF FIGURES	ix
LIST OF TABLES	x
LIST OF APPENDICES	xi
ABBREVIATIONS AND ACRONYMS	xii
DEFINITION OF KEY TERMS	xiii
ABSTRACT	xiv
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study.....	1
1.2 Statement of the Problem	4
1.3 Objectives of the Study	5
1.3.1 General Objective.....	6
1.3.2 Specific Objectives.....	6
1.4 Research Questions	6
1.5 Significance of the Study	6
1.6 Scope of the Study	7
1.7 Limitations of the Study.....	7
CHAPTER TWO	8
LITERATURE REVIEW	8
2.1 Introduction	8
2.2 Theoretical Framework	8
2.2.1 Economic Deterrence Model.....	8
2.2.2 The Allingham and Sandmo Theory	10

2.2.3 Fiscal Psychology Models	11
2.3 Conceptual Framework	12
2.4 Review of Variables	13
2.4.1 Tax Administration	13
2.4.2 Tax Enforcement	15
2.4.3 Technological Reforms	17
2.4.4 Tax Compliance	19
2.5 Empirical Review	20
2.6 Critique of Existing Literature	22
2.7 Research Gaps	22
2.8 Summary	23
CHAPTER THREE	24
RESEARCH METHODOLOGY	24
3.1 Introduction	24
3.2 Research Design	24
3.3 Target Population	24
3.4 Sampling Frame	25
3.5 Sample Size and Sampling Technique	25
3.6 Data Collection Instrument	27
3.7 Data Collection Procedure	27
3.8 Pilot Study	28
3.8.1 Validity	298
3.8.2 Reliability	289
3.9 Data Analysis	29
CHAPTER FOUR	31
DATA ANALYSIS, RESULTS AND DISCUSSIONS	31
4.1 Introduction	31

4.2 Response Rate	31
4.3 Pilot Results	32
4.3.1 Reliability analysis	32
4.3.2 Validity.....	33
4.4 Descriptive Statistics.....	34
4.4.1 Demographic data	34
4.4.2 Level of Education	34
4.4.3 Kind of Business	35
4.4.4 Age of Business	35
4.5 Study of Variables Findings.....	36
4.5.1 Tax Administration Reforms.....	36
4.5.2 Tax Enforcement Reforms	37
4.5.3 Technological Reforms	38
4.5.4 Tax Compliance	39
4.6 Correlation Analysis.....	40
4.6.1 Coefficient of Correlation	40
4.6.2 Coefficient of Determination (R^2).....	42
4.7 Regression Analysis	42
4.7.1 Analysis of Variance (ANOVA).....	42
4.7.2 Multiple Regression	43
4.8 Discussion of the Key Findings	44
4.8.1 Effect of Tax Administration Reforms on Tax Compliance.....	45
4.8.2 Effect of Tax Enforcement Reforms on Tax Compliance	45
4.8.3 Effect of Technological Reforms on Tax Compliance	46
CHAPTER FIVE.....	47
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	47
5.1 Introduction.....	47

5.2 Summary of Findings	47
5.3 Conclusions	48
5.3.1 Tax Administration Reforms.....	48
5.3.2 Tax Enforcement Reforms	48
5.3.3 Technological Reforms	48
5.4 Recommendations	49
5.5 Areas for Further Research	49
REFERENCES	51
APPENDICES	54

LIST OF FIGURES

Figure 2.1 Conceptual Framework.....	13
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LIST OF TABLES

Table 3.1: Target Population	25
Table 3.2: Sample Size	27
Table 4.1: Response Rate	31
Table 4.2: Reliability Test	32
Table 4.3: Factor analysis -KMO and Bart	33
Table 4.4: Level of Education	34
Table 4.5: Kind of Business	35
Table 4.6: Age of Business	36
Table 4.7: Tax Administration Reforms	37
Table 4.8: Tax Enforcement Reforms	38
Table 4.9: Technological Reforms	39
Table 4.10: Tax Compliance	40
Table 4.11: Pearson Correlations	41
Table 4.12: Model Summary	42
Table 4.13: ANOVA	43
Table 4.14: Multiple Regression (Coefficients)	44

LIST OF APPENDICES

Appendix I: Letter of Introduction to Respondents.....	54
Appendix II: Research Questionnaire.....	55
Appendix III: Sample Frame.....	59

ABBREVIATIONS AND ACRONYMS

CCRS	Common Cash Receipting System
ETRs	Electronic Tax Registers
GDP	Gross Domestic Product
ICPAK	Institute of Certified Public Accountants of Kenya
IT	Information Technology
ITMS	Integrated Tax Management System
ITR	Integrated Tax Register
KIIs	Key Interview Informants
KIPPRA	Kenya Institute for Public Policy Research and Analysis
MSEs	Micro and small enterprises
MSMEs	Micro, small and medium enterprises
MTO	Medium Taxpayers' Office
OECD	Organization for Economic Co-operation and Development
PAYE	Pay-As-You-Earn
PIN	Personal Identification Number
VAT	Value added tax

DEFINITION OF KEY TERMS

- Family Business:** A commercial organization in which decision-making is influenced by multiple generations of a family, related by blood or marriage or adoption, who has both the ability to influence the vision of the business and the willingness to use this ability to pursue distinctive goals (Munyoro, 2017).
- Tax Administration:** Management, conduct, direction and supervision of the execution and application of Government, country or state's taxation laws and related statutes (Malonza, 2016).
- Tax Avoidance:** Tax avoidance is about getting round the law to reduce a tax liability to the tax collectors (Kipkemoi, 2015).
- Tax Compliance:** The word compliance is used to refer to registration with KRA as taxpayer, keeping of business records, filing of self-assessment returns and payment of taxes when they are due (Ng'eni, 2016).
- Tax Enforcement:** System by which Authorities act in an organized manner to enforce taxation laws by punishing tax payers who violate the rules and norms regarding taxation (Gichuki, 2015).
- Tax Reforms:** The process of changing the way taxes are collected or managed by the government. (Nyangau, 2017).

ABSTRACT

This study sought to investigate the effect of tax policy reforms on tax compliance of family owned businesses in Mombasa County. The study sought to address the following specific objectives; to examine the effect of tax administration reforms on tax compliance of family owned businesses in Mombasa county, to examine the effect of tax enforcement reforms on tax compliance of family owned businesses in Mombasa county and to examine the effect of technological reforms on tax compliance of family owned businesses in Mombasa county. The study was anchored on three theories; Economic Deterrence Model, fiscal psychology model and the Allingham and Sandmo theory. The research adopted descriptive research design. The target population of this study comprised of 48,187 family owned businesses. Stratified sampling was used to select the sample size of 382 from the different business/activity sectors. This study used questionnaires with fixed choice formats, as well as interviews as the main data collection instruments. A pilot study was undertaken on 10 of the respondents to test the reliability and validity of the questionnaire. Quantitative data were analyzed using SPSS version 25 where relationships between the variables were assessed using correlation and regression analysis. Stratified sampling technique was used to select the sample size of 382 from the different business/activity sectors. Simple random sampling was then used to select the sample. Both primary and secondary data were collected. The questionnaires were the primary tools used for collection of data where they were self-administered by the researcher and response of 309 was obtained. A pilot study was undertaken on 10 of the respondents to test the reliability and validity of the questionnaire. Quantitative data were analyzed using SPSS version 25 where relationships between the variables were assessed using correlation and regression analysis. The study found out that there was a positive and significant relationship between tax administration reforms and tax compliance. Further, the results revealed that there was a positive and significant relationship between tax enforcement reforms and tax compliance. Lastly, there was a positive and significant relationship between technological reforms and tax compliance. Based on the findings, the study concluded that tax administration reforms, tax enforcement reforms and technological reforms have a positive and significant effect on tax compliance. The study recommends emphasis should be increased on improving tax administration to broaden the tax base so that existing tax rates can be reduced without affecting government revenues. There is need for a well-functioning tax enforcement system to increase tax compliance, tax audits and tax assessment. In embracing new technological reforms, KRA should keep in mind their primary purpose of improving taxpayer compliance and adopt new technologies in a systematic manner that supports their business direction and compliance initiatives.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Family businesses have dominated the economic landscape around the world contribute an average of 75% of the GDP and are widely seen as the backbone of the economy (Livoi, 2017). Family businesses, particularly the small-to-medium sized, are the grassroots of the global economy and are clearly the majority of all the businesses in the world (Buang et al., 2018). By their very nature, most SMEs are family businesses (Maalu, MacCormick, K'Oboby & Machuki, 2015). Such family businesses continue to dominate most of the world's economies. Whether large or small, family businesses play an important role in emerging and developed economies (Wee & Ibrahim, 2015).

Family owned businesses are also expected to pay their taxes, but however, the concern is how much tax should they be levied. SMEs are volatile establishments that need special treatment. Most of them remain in the informal sector because they feel the cost of compliance is too high. And a considerable number of those who pay only do so because they are coerced by the authorities (Munyoro, 2017). Since the individual SME pays a very small amount of tax compared what the larger establishment would pay, tax authorities tend give the larger corporations more attention. This means a good number of SMEs get away with not paying their taxes hence revenue that would otherwise have been invested in development projects that will end up being of benefit even to the SMEs is lost. This therefore is a situation that needs to be corrected given that their overall tax revenue contribution hardly goes beyond five per cent of total tax collection (Mutua, 2017).

The overall structure of taxation gives an overview of the general direction of tax changes implemented in the EU Member States in 2011 and the first half of 2012. Over that period, many Member States have increased taxes in order to speed up fiscal consolidation. Most Member States have increased personal income tax, mainly through hikes in statutory rates. These have often been implemented on a temporary basis, and have taken the form

of general surcharges or solidarity contributions for high-income earners (Belgium, Greece, Italy, Cyprus, Luxembourg, Portugal and Spain), (KIPPR, 2016).

According to European Commission (2015), measures reducing the tax burden have been mainly targeted at increasing work incentives for specific groups. Overall, the net effect is a more progressivity of the personal income tax schedule. European Commission Tax reforms in EU Member States Social security contributions have also been increased in many countries, through hikes both in the standard rates (Greece, Latvia, Poland and the United Kingdom) and in the rates applicable to specific groups (Bulgaria, France, Hungary, Austria and Portugal), Roughly half of the Member States have raised VAT rates, both the standard rate (Portugal, the United Kingdom, Cyprus, Ireland, Hungary, Poland, Slovakia and Italy) and the reduced rate (Latvia, Poland, France, Bulgaria, Greece and the Czech Republic) (Lugaric & Bogovac, 2016).

Targeted increases in the VAT rate for specific categories of goods and/or services have also been relatively frequent. These have been achieved by repealing exemptions (e.g., in Cyprus, Belgium, Denmark, Finland) and by narrowing the application of the reduced rates (e.g., in Greece, Latvia, Portugal and Finland). Several Member States have reduced their headline tax rates on corporate income. Such states include United Kingdom, Finland, Slovenia, Greece and the Netherlands (European Union commission, 2015).

Ghana's major changes in tax administration fiscal policies played a key role in improving the country's revenue mobilization and overall fiscal health. The prime factors cited for the increase in revenue are the expansion of tax base, the structure of taxation; and reorganization of the tax administer. The administrative reforms in Ghana centered on removing the revenue institutions from the Civil Service and granting them operational autonomy, with a view to improve efficiency through enhanced work and employment conditions. Two practical steps were taken in Ghana in 1985 to strengthen revenue administration in the country. These were the establishment of the National Revenue Secretariat (NRS) and the creation of the two major revenue organizations, the Customs, Excise and Preventive Service (CEPS) and the Internal Revenue Service (IRS), as autonomous institutions outside the civil service (Terkper, 2015).

The subsequent taxing system in Ethiopia can be divided into three broad categories: taxes on income and profits, taxes on goods and services and taxes on international trade. The large size of the informal sector in the East African economies is the main factor restricting the growth of the tax base in the region (Seatini, 2016). The inability of governments to establish systems to detect incomes in the informal sector has resulted in overburdening those in the formal sector with high tax rates to make up for revenue shortfalls (Seatini, 2010). Strategy towards incentives to businesses to join the formal sector is therefore a crucial part of the strategy to increase government revenue (UNDP, 2019). Despite efforts of East African governments to enhance domestic growth by attracting foreign direct investment (FDI), tax incentives for FDI have cost implications in terms of tax revenue foregone (Kayaga, 2017).

The reform appeared to be a success in URA's (Uganda Revenue Administration) first years of existence. Reported revenue increased sharply - from 7% of GDP in 1991 to around 12% in 1997 (Fjeldstad, 2016). Corruption also seemed to decline. During this period, many observers referred to the URA as a model for other sub-African countries. These circumstances led policy makers to pursue a rapid increase in domestic revenue and a corresponding increase in public services; and rebuilding of government's revenues base has been one of the key features of Uganda's economy recovery. Tax incentives have been criticized for complicating tax administration and introducing inequities. They favor new producers over existing business, they underwrite investment which cannot stand on their own merit in the absence of special tax breaks and favor capital-intensive projects over projects which use locally produced capital goods, favoring new production facilities over proper maintenance of existing ones (Moyi & Ronge, 2016).

Tax reforms are a necessary tool to ensure that domestic revenue base is regularly protected and nurtured (Gituku, 2011). The reforms ensure that tax administration is efficient and increase taxpayer compliance since they are aimed to reduce the incidence of tax evasion by both individuals and business entities (Okafor, 2017). The aim of tax reform is to raise revenue effectively in consistence with each country's uniqueness and administrative capacity (Kanyinga, 2016). The objective of tax reforms is to save collection cost while reducing the revenue loss as well as minimal economic disruption,

less inequity and reduction in tax burden. Mostly, tax reform seeks to improve the efficiency and productivity of taxation (Wagacha, 2019). However, mixed findings exist pertaining to the effect of tax reforms on tax productivity.

According to Bjork (2015), effective implementation of tax reforms improves compliance and reduces non-compliance which implies more tax collection. The iTax system was launched in Kenya in the year 2011, it was implemented by Indian firm Tata to replace the previous online system (ITMS) (Malonza, 2016). The system allows businesses and individuals to file their returns online, view their tax dues and monitor tax status 24 hours a day, upload tax files, request for compliance certificates and actual tax payments. The system integrates more than 30 banks to ensure that most taxpayers are covered. The iTax system has simplified and quickened tax compliance and secured the exercise, thus bringing down the cost of tax compliance in logistics.

In 2008, Kenya introduced the Turnover Tax (TOT) to boost collection on revenue, increase tax administration efficiencies and reduce collection costs in SMEs sector. TOT had a very low rate compared to most taxes calculated on gross income without any deductions (KIPPRA, 2017). TOT was charged at 3% of sales turnover and was submitted on quarterly to tax agency. It was targeted at enterprises with a turnover of between Kshs. 500,000 and Kshs. 5 million per annum. The benefits of TOT included simplified tax procedures, less tax computation, easy filing of tax returns and simple record keeping. All these reduced cost of tax compliance (KRA, 2015). Another reform pertains to the requirement of all people who want to trade with the government to have a tax compliance certificate (TCC). In its implementation, every person dealing with government offices is required to produce a Certificate of Tax Compliance/Clearance. This will ensure compliance since one cannot get a TCC if they are non-compliant in terms of filing returns. It, however, depends on co-operation from other government offices (KRA, 2015). The impact of this tax reform on voluntary tax compliance particularly among SMEs was evidently missing.

1.2 Statement of the Problem

SMEs accounts 90 per cent of the registered enterprises and contribute 35-50 percent global GDP have emerged as a new challenge to tax systems as their tax contribution

hardly goes beyond 5 per cent (KRA, 2015). The average tax-to-GDP ratio for 26 African countries in Revenue Statistics in Africa 2019 remained at 17.2%. In addition, these 26 African countries had a tax-to-GDP ratio increase by 1.5 percentage points, from 15.7% in 2008 to 17.2% in 2017. Over the same period, the tax-to-GDP ratio in Kenya has decreased by 0.7 percentage points, from 18.9% to 18.2%. Since 2001, the highest tax-to-GDP ratio in Kenya was 19.3% in 2014, with the lowest being 16.1% in 2002 (OECD, 2015).

Kenyan Government enacted tax reforms like turnover tax and KRA tax administration to bring the SMEs sector into taxation into tax bracket. According to Kenya Parliamentary Budget Office (2015), most family owned businesses are also SMEs and they make up of 98% of all registered businesses in Kenya and they contribute 34.3 per cent to GDP, and with tax potential of Kenya shilling 79 billion but actual collection is less than one billion. The SMEs have continued to be non-compliant (Malonza, 2016). The tax-to-GDP ratio in Kenya decreased by 0.1 percentage points from 18.3% in 2016 to 18.2% in 2017.

In order to tackle tax noncompliance, the government had instituted a number of tax reforms. Nevertheless, it has not yet been concretely established as to whether the said reforms have achieved targeted voluntary tax compliance by SMEs as envisaged or not (Livoi, 2017). The effect of various tax reforms such as the replacement of TOT with presumptive tax, introduction of KRA M-Service, reintroduction of withholding VAT and the requirement of tax clearance certificate on voluntary tax compliance among SMEs remained evidently unexplored in Kenya (Munyoro, 2017). Although the Government has implemented tax reforms meant to improve compliance, it has not yet been able to established as to whether the said reforms have achieved tax compliance by SMEs as envisaged or not. It is therefore against this background that the researcher sought to examine effect of tax policy reforms on tax compliance of family owned businesses in Mombasa county.

1.3 Objectives of the Study

This study was guided by the general and specific objectives as outlined.

1.3.1 General Objective

The general objective of this study was to examine the effect of tax policy reforms on tax compliance of family owned businesses in Mombasa county.

1.3.2 Specific Objectives

This study was guided by the following specific objectives: -

- i. To examine the effect of tax administration reforms on tax compliance of family owned businesses in Mombasa county.
- ii. To examine the effect of tax enforcement reforms on tax compliance of family owned businesses in Mombasa county.
- iii. To examine the effect of technological reforms on tax compliance of family owned businesses in Mombasa county.

1.4 Research Questions

- i. What is the effect of tax administration reforms on tax compliance of family owned businesses in Mombasa county?
- ii. What is the effect of tax enforcement reforms on tax compliance of family owned businesses in Mombasa county?
- iii. What is the effect of technological reforms on tax compliance of family owned businesses in Mombasa county?

1.5 Significance of the Study

The findings of the study are expected to be of benefit to various stake holders in the public sector. The findings will help the National Government of Kenya to understand the challenges involved in tax compliance as well as the contributions of tax policy reforms over the recent period.

The study will be useful to Kenya Revenue Authority in strategy formulation and the findings will be important for KRA future policy making. Other Government Revenue Agencies such as Courts, County Governments, National Government Ministries and other Institutions would use the report as a benchmark for tax policy reforms.

The county governments will use the findings to improve their revenue collection and management policies at their treasuries. This they would do by continuously using the

research report as a reference tool as they administer financial management both from national government and from local collections.

The findings will benefit academicians by contributing to the body of knowledge in the academic community and to stimulate further research in the field of taxation and its effect in the economy by sighting role of tax policy reforms on public revenue growth in Kenya.

1.6 Scope of the Study

This study focused on determining the effect of tax policy reforms on tax compliance of family owned businesses in Mombasa county. Therefore, this study was undertaken in Mombasa County as it was a good representation of most businesses run by families in the country. The study was relevant in the aspects of tax policy reforms and their effect on tax compliance of family owned businesses in Mombasa county. The target population comprised of 48,187 registered businesses in Mombasa County as at 31st December, 2019, from different sectors as classified by the County Government of Mombasa registry. The study was conducted during the period of January 2020 to March 2020 and only covered the variables stated in the specific objectives.

1.7 Limitations of the Study

The researcher encountered a number of challenges when undertaking the study. However, the limitations did not have a significant interference with the outcome of the study. The use of self-administered questionnaire was a limiting factor in terms of respondents getting the time and understanding the questions for which answers were being sought. The challenge was however reduced as the research assistants were able to make follow-ups and clarify the questions that respondents were not able to comprehend or answer. This greatly reduced the number of unfilled sections in the questionnaires and increased the response rate.

The respondents were reluctant in giving information fearing that the information sought would be used to intimidate them or print a negative image about them or institution. The researcher handled the problem by carrying an introduction letter from KESRA and assured them that the information they gave would be treated confidentially and it would be used purely for academic purposes.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviewed the theoretical, conceptual and empirical literature pertinent to the study. The empirical literature on various themes was also reviewed to establish research gaps inherent in the studies. Lastly, critique of literature, summary and research gaps too, form key components of this section.

2.2 Theoretical Framework

The theories reviewed under this section were; Economic Deterrence Model, fiscal psychology model and the Allingham and Sandmo theory.

2.2.1 Economic Deterrence Model

Taxpayers' non-compliance presented by Allingham-Sandmo (A-S) model by Allingham and Sandmo is based on expected utility maximization schemes by the taxpayers. It has been assumed taxpayers to be utility maximizers in decisions of tax reporting and compliance, that is, taxpayers viewed tax evasion as worthwhile if the financial gains purely outweighed the financial costs (Bunyasi, Bwisa & Namusonge, 2015). Likewise, taxpayer is likely to break the law unless anticipated legal penalties (deterrence) exceeded the additional earnings that could be made by evading tax. The theory suggest that taxpayers' behavior is influenced by economic motives such as profit maximization and probability of detection based on the chances of audits and penalties as a solution to compliance problems (Bunyasi et al., 2015; Davis, 2016).

According to Devos (2015) this model presents the taxpayers at the time of filling tax return, time in reporting and payment and amount evaded. For instance, a taxpayer a fixed endowment of income, Y , and choose amount to declare to tax authorities K , and taxed at the rate t . unreported income is not taxed, but the taxpayer faces changes of audit with probability P , penalized Q on unpaid taxes. P is a function of income tax reforms implemented to enhance chances of tax audits hence detection, also the taxpayer is influenced by the government expenditures G . the taxpayer chooses K to maximize the

expected utility of evasion gamble. This framework suggests that there is a demand for declared income that depends upon Y , t , p and Q . $K = K(Y, t, p, Q, G)$, K therefore is a function of probability of detection and penalty rate while the imports of t and Y depends upon the individual SME's attitude toward risk. Therefore, according to the theory, in order to improve compliance, audits and penalties for non-compliance should be increased.

The economic based theory also known as deterrence suggests that the taxpayers try to maximize on the benefit associated with tax evasion, through "playing the audit lottery" (Davis, 2015). The probability of detection for audit, coupled with the consequences either encourages or deters taxpayers. The taxpayers finally make a choice of the alternative which maximizes their economic benefit, hereby discussed as after-tax return. For such taxpayers, Phillips (2015) argues that increasing audit visits, interest and penalties would affect their compliance levels.

The economic deterrence theory was first discovered in the late 1960s from crafted by Becker, who broke down illicit conduct utilizing a financial express that taxpayer's conduct is affected by variables, for example, the tax rate deciding the advantages of evasion, and the likelihood of recognition and punishments for extortion which decide the expenses. This infers if location is likely and punishments are extreme, few individuals will dodge taxes. Deterrence can be accomplished through various methodologies, corrective and enticing (Barako, 2015).

Under low review probabilities and low punishments, the normal come back to evasion is high. The model at that point predicts considerable noncompliance. For instance, the dread of getting captured, or the likelihood of recognition, has been observed in certain settings to be an effective technique to prompt honest conduct. The hypothetical standards of monetary deterrence have likewise been broadly embraced by tax organizations when creating implementation procedures that depend basically on punishments and the dread of getting captured (Barako, 2015; Devos, 2015).

The theory of economic deterrence thus acts as a guide to the approaches taken to tax administration and enforcement reforms for enhancing tax compliance. This theory show

how relevant probability of detection based on the chances of audits and penalties as a solution to compliance problems.

2.2.2 The Allingham and Sandmo Theory

Nyangau (2017) tax compliance theory known as Allingham and Sandmo theory argues that the government deters tax evasion through a sanction arrangement and audits. Taxpayer will decide to violate the fiscal laws and evade his or her tax obligations when he or she perceives that the cost of evading tax is too low, believing that he or she is unlikely to be detected or audited. Taxpayers would also evade tax when he or she perceives the cost of compliance is high. Tax systems and procedures that are involving and cumbersome tend to encourage tax evasion. Taxpayers who feel that tax rate is high and punitive will evade tax. Ng'eni (2016) opines that there is a positive correlation between evasion of tax, the likelihood of detection, the magnitude of punishment and high transactional costs associated with tax laws.

Income tax evasion was spearheaded by Allingham and Sandmo in 1972, where a judicious and an ethical taxpayer expands anticipated utility, which exclusively relies upon pay (Mauro, 2016). Whenever got, the operator must pay punishments, forced on the measure of dodged salary. A key relative static outcome is that when the tax rate goes up, contending salary and substitution effects may prompt pretty much tax compliance. The substitution effect empowers evasion since the minor advantage of swindling goes up with the tax rate. Despite what might be expected, the pay effect will in general stifle evasion since a higher tax rate makes the taxpayer with diminishing total hazard avoidance feel more awful off, and hence lessening danger taking. Hence, the net effect is equivocal.

In any case, Schwass (2016) demonstrated that when the punishment is forced on the measure of sidestepped taxes, all things considered under most current tax laws, the substitution effect disappears. At the first ideal, the punishment paid on disguised salary increments relatively with the tax rate, and consequently, there is no substitution effect. The rest of the salary effect is in charge of initiating the taxpayer to swindle less. Subsequently, the net effect is better compliance. Schwass (2016) result is maybe the absolute most significant finding in the early tax evasion writing, having prodded a ton of wonderful extensions. The SMEs are prone to tax evasion as they face difficulties in

complying with tax laws. They are expected to comply with strict deadlines, keep proper books of accounts. This kind of environment leads to tax evasion.

The theory can be adopted to explain the necessity of reforming tax enforcement policies with a view of maximizing tax revenue. Moreover, it emphasizes that there is a correlation between evasion of tax, the likelihood of detection, the magnitude of punishment and tax enforcement reforms.

2.2.3 Fiscal Psychology Models

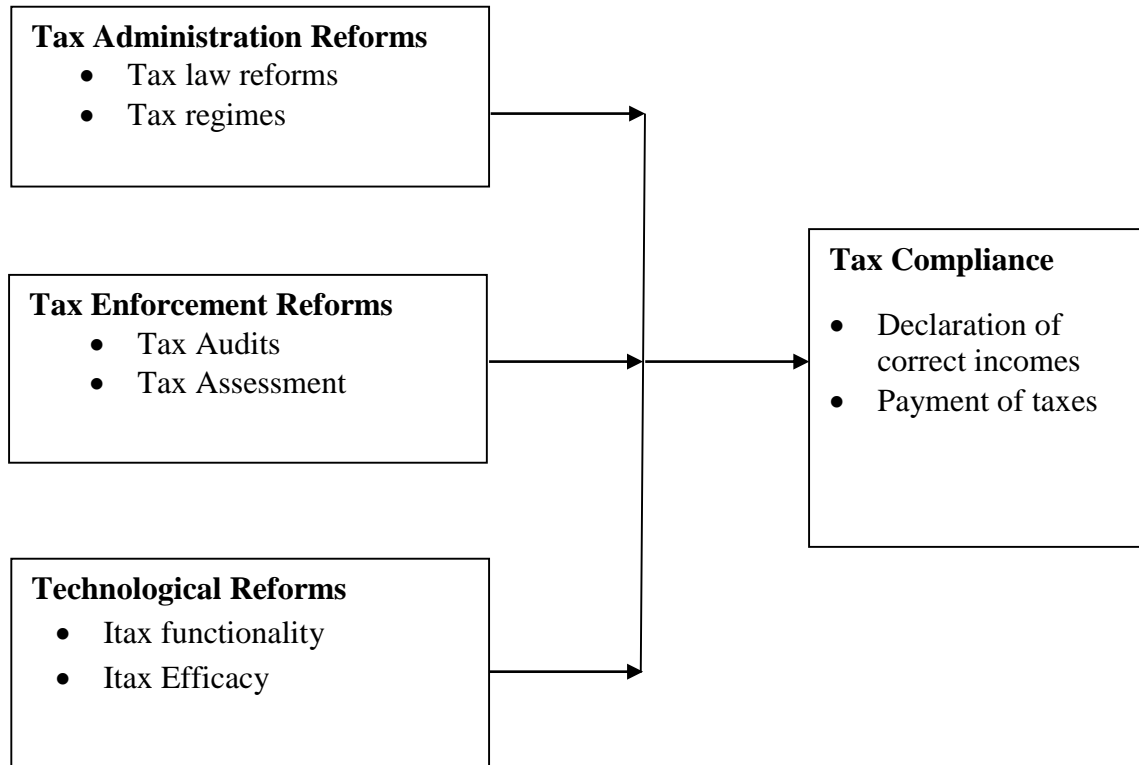
The theory of Planned Behavior which was developed by Ajzen in 1991 and states that Psychology theories of tax compliance assume that psychological factors – like moral and ethical concerns are also significant to taxpayers and thus taxpayers may comply even where the risk of audit is low (Wagacha, 2019). This theory of tax compliance assumes that psychological factors including moral and ethical concerns are also important to taxpayers. Regardless of the risk of being caught, the taxpayers' attitude to voluntary compliance would still remain high. Psychology theories de-accentuate reviews and punishments; rather center around changing individual demeanors towards tax framework (Wallace, 2016).

As indicated by this hypothesis, practices of the people inside the general public are affected by explicit components, begin from specific reasons and do the trick in an arranged manner. The capacity to play out a specific conduct relies upon the way that the individual has a reason towards that conduct (social aim). Conduct goal thusly relies upon three factors that is Attitude towards the conduct, Subjective standards and Perceived social control (Gitaru, 2017). These three components are likewise affected by social convictions, standardizing convictions and control convictions. The focal point of this hypothesis in this way is on the taxpayer's ethics and morals. The hypothesis recommends that a taxpayer may go along notwithstanding when the likelihood of location is low. Instead of the financial speculations that underscore on expanded reviews and punishments as answers for compliance issues, mental hypotheses lay accentuation on changing individual frames of mind towards tax frameworks.

Wagacha (2019) demonstrated that a few taxpayers' conduct may pursue monetary speculations while others may pursue the mental hypotheses and a blend of the two is conceivable. Governments driven by the desire to increase compliance for psychology based taxpayers do so by increasing taxpayer education, reducing operational costs of return filing. Aim and McKee (1998) argue that amnesty offer and the subsequent participating is one way of educating the taxpayers on the procedures and legal implication of evasion. The Fiscal Psychology Models would help in relating tax enforcement and tax compliance thereby providing a critical path to follow in obtaining the actual determinants of tax compliance in Kenya (Barako, 2015).

2.3 Conceptual Framework

The conceptual framework reveals the relationship and linkage that exists between the dependent variable and the independent variables (Warui, 2016). Kombo and Tromp (2009) define conceptual framework as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation. Figure 2.1 conceptualizes factors (Tax administration reforms, tax enforcement reforms and technological reforms) Affecting tax compliance on tax compliance of family owned businesses in Mombasa county.



Independent Variables

Dependent Variable

Figure 2.1: Conceptual Framework

2.4 Review of Variables

2.4.1 Tax Administration

Tax administration generally refers to the aspect of “how to do it” in respect of a tax system. It is the mechanisms available for the achievement of “what to do” in respect of the various taxes. It is therefore the means to actualize the tax laws and systems and as such it is important for the achievement of the wider taxation goals (Gichuki, 2015). It is therefore distinct from substantive tax law. Tax administration is more to do with the framework that supports day-to-day management of revenue administration and covers systems, structures, management, leadership and organizational processes that enable a tax agency to meet its core mandate (Kenya Revenue Authority, 2015).

The essential function of the tax administration is to examine consistence and furthermore to authorize approvals to guilty parties as gave in the principles and guidelines (Ng'eni, 2016). The compelling tax administration should be associated with recognizable proof,

appraisal and accumulations of tax incomes (Gurawa & Mansor, 2015). Successful tax administration is a key hardware of tax income accumulations in both created and creating economy. Tax administration is significant and tax specialists need to configuration tax administration reform that can recognize bottlenecks (Bunyasi et al., 2014) that in one way or different influences tax administration activities.

According to Munyoro (2017), regulatory reforms allude to the part of execution of tax framework. Silvani (2019) featured that the principle objectives of the tax administration reform system would rely upon the extent of the tax hole. The fundamental objectives are to keep up the current consistence level while decreasing the expense of consistence and tax accumulation; to acquire gains in consistence by improving key methodology; to get huge gains in consistence by significantly adjusting the way to deal with tax administration. Authoritative tax reforms plan to help governments in working out watched inside degrees of debasement, wrongdoing, and general managerial wasteful aspects in tax income accumulation (Ng'eni, 2016). Though tax laws make the potential for raising incomes, the genuine sums gathered depend to an enormous degree on the productivity and adequacy of the administration (Mauro, 2016). Among the most currently implemented administrative tax reforms in Kenya is the decentralization of PIN registration to self and cyber cafes, placement of customer care centers at Huduma centers and mobile centers, KRA call centers and the requirement of tax compliance certificate in transacting or acquiring some services from government. However, their effect on voluntary tax compliance remains unexplored.

Munga (2015) assessed the effectiveness of digital bistro administrators in issuance of Kenya Revenue Authority Personal Identification Numbers in Nyeri Town, Kenya. The investigation connected an expressive overview research plan. The examination found that out that digital bistro specialists whined about the nature of data that was accessible to the orderlies and general society on the loose. The entryway was found to have inconsistency issues and the specialists however did not affirm of the quality they were getting from the gateway, they valued that since Kenya Revenue Authority never again issued PIN, this brought more clients and greater wages. The study concluded that KRA had failed in creation of awareness and education to the general public on how PIN issuing system

worked so that members of the public could serve themselves instead of engaging the cyber café attendants. The study highlighted that even the learned people, 68% feared approaching the system on their own and only 32% of the eventual attendants did self-learning of the system through trial and error.

KRA has come up with effective systems and administration measures that have enhanced protection of revenue collection, efficient and effective provision of services to public and taxpayers. The system has on-line services such as; electronic transactions, enquiries and electronic applications for KRA processes. The revised administrative and systems has components such as Taxpayer Register (TRE), Tax Returns Processing (TRP), Banks Collection (BCL), Taxpayer Services (TPS), External Information Management (EIM), Data Base Management (DBM), Taxpayer Account (TCA), Payment Plans Processing and Control (PPP) and Tax Credits and Refunds (TCR). All these have contributed greatly to the tax collections growth, (Wagacha, 2019).

2.4.2 Tax Enforcement

Auditing is an independent examination and expression of opinion on the financial statement of an enterprise by an appointed auditor in accordance with his terms of engagement and compliance with statutory regulation and professional requirements (Wasao, 2015). It is important to note that any individual or organization that falls within the scope of the above income groups, is obliged to pay tax, this can be voluntarily or otherwise. It is within this process that the issues of returns and assessment arose. Every individual or organization liable to income tax for a year of assessment is required to submit returns of his income and other relevant matters to the tax authority having power to assess him to tax. And this is subject to satisfaction of the returns by the Tax Authority (Oyebanji, 2016).

To spur tax compliance, two opposite set of tax enforcement approaches are used: the coercive and persuasive approaches. The coercive approach advocates hard actions and the persuasive approach advocates collaborative working with the taxpayers. Little attention has been paid to understand the combined effects of these conflicting approaches (Mauro, 2016). Spurring tax compliance is a commonly experienced challenge for tax authorities in developed and developing countries (Silvani, 2018). In response to this

challenge, which largely depends on taxpayer's type and size, tax authorities have innovated diverse compliance approaches and techniques. Approaches used to address small and large business tax compliances differ due to the risks they impose and the revenues they provide to the tax system (Wagacha, 2019).

In the small and medium taxpayer's division the coercive philosophy also called deterrence or stick based approach is common, where taxpayers conform to their tax obligations if they are punished for non-compliances (Haji, 2017). In general, higher audit probabilities and severe penalties encourage tax compliance. Probability of detection refers to the likelihood that the tax authorities will discover an individual's noncompliance and seek to remedy the evasion. Individuals normally would like to evade their tax liabilities entirely and the only reason they might not do so is that there is some non-zero probability of being caught (Massimo, 2013). Raising the probability of detection will increase tax compliance and tax audit represents one of the effective detective measures used by tax authorities. In fact, tax audits are considered to have both direct deterrent effect on the taxpayers actually audited and indirect deterrent effect on taxpayers not audited (Mauro, 2016).

Tax audit is one of the most effective policies to prevent tax evasion behavior. The level of tax audit can be determined by two elements; one is how many tax payers are selected for audit and the other is how much intensive the audit is. The first element is easily measured by the number of audited tax payers divided by the total number of tax payers. However, the latter is so difficult to measure due to non-published information about tax audit progress. It is commonly measured by the first element to indicate the level of tax audit for practical comparison (Gichuki, 2015).

According to Gichuki (2015), Tax audit is "an examination of an individual or organization's tax report by the relevant tax authorities in order to ascertain compliance with applicable tax laws and regulations of state". He further said that tax audit is a process where the internal revenue service tries to confirm the numbers that you have put on your tax return, (Kircher, 2018). Tax compliance can be defined as "the ability of a tax liable body to submit accurate, complete and satisfactory returns in conformity with tax laws

and regulations of the state to the authority for the purpose of tax assessment”. The designed tax authorities audit policy can have important effects on production decision by firms. The nature of such effects depends on whether firms compete or collude. Accordingly, an appropriate designed audit policy may not only achieve greater compliance and higher net revenue (Frank, 2010; Massimo, 2013; Mauro, 2016).

Tax audit exert only a modest positive effect on tax compliance. Another important factor affecting tax compliance is the relationship between tax compliance and the severity of sanctions. The idea is that fear of penalties prohibits tax noncompliance behavior. Establishing an effective system to penalize tax evaders is an important measure to encourage tax compliance (Kamau, 2015). Taxpayers will be more likely to comply if noncompliance may result in severe penalties. The persuasive or the collaborative approach views that respectable treatment of the taxpayers with a chance of participation in the taxation process may enhance tax compliance. Coercive instruments enforce obedience to tax obligation by external material, for instance, tax penalty, whereas persuasive instruments induce compliance by means of psychic influence on the taxpayers, for instance, taxpayer service. An obvious question arising is which set of instruments is more important to the understanding of small and medium tax compliance and why (Liu et al., 2010).

2.4.3 Technological Reforms

KRA introduced Integrated Tax Management System (I.T.M.S.) which gives a single view of a tax payer for all the tax obligations. Integrated Tax Management System was found to be necessary after creation of Domestic Taxes Department. While the merger resulted to improved services for management, it faced challenges of parallel Information Communication Technology (I.C.T) systems. This system denied the users the benefit of integrated view of taxpayer. I.T.M.S. provides a suitable environment for efficient and effective delivery of services to taxpayers. This system has the objectives that provide efficient and effective services to taxpayers and public and reduce interaction with staff, improve tax collection, facilitate seamless sharing of information across KRA and relevant third parties for data-matching purposes in order to detect noncompliance and to facilitate combined enforcement actions. It also provides single view of a taxpayer as well as

reducing the cost of collection and compliance. It also facilitates exploitation of advancement in technology and enables staff performance measurement and monitoring, (Amuyunzu, 2015).

I-Tax system or e-pay is among the major technological tax reforms introduced iTax or e-pay through a Common Cash Receipting System (CCRS) by KRA (Gichuki, 2015). This is a web-based system that enables taxpayers to file returns online, and more importantly, make payments online for customers whose banks support the system (Kipkemoi, 2015). iTax is an online platform that enables one to register, file tax returns, process payments and make status enquiries in real-time. Commercial banks are integrated into the system, and a service level agreement entered into to govern the relationship. Generally, iTax is a computer based application system that furnishes a fully-integrated and automated solution for administration of government revenue enhancements.

Malonza (2016) assessed the effect of iTax use on corporation tax compliance by medium corporate taxpayers in Kenya. The study applied a descriptive study design. The study found that the usage of iTax resulted to increased compliance by medium taxpayers in Kenya. According to the study, iTax had made corporation tax compliance simple by ensuring that the annual returns which involved entering substantial data from audited financial statements could not be submitted with an error as the iTax system would not accept the upload and directed the taxpayer to what was wrong with the record. Furthermore, the taxpayer was able to file their corporation tax, do payment registration on reported tax and generate payment slip all on iTax for submission to the bank for payment. The questions on iTax friendliness, filing of returns without being reminded and meeting of deadlines by companies in their filing and payment of taxes supported this finding.

Kanyinga (2016) investigated the effect of tax reforms on compliance with turnover tax among small and medium enterprises in Industrial Area, Nairobi. The study used a descriptive survey research design. The found that taxpayers' e-Registration and e-Filing had positive and significant effect on tax compliance in SMEs sector. The study noted that a majority of the SMEs under study used e-tax registration and filed their returns online. This reduced tax compliance burden and made submitting tax returns easier as taxpayers

did not have to queue at revenue authority filing returns. The SMEs agreed that the introduction of iTax were the main drivers to compliance and hence more revenue collection.

Barako (2015) assessed the efficacy of iTax system on tax administration in Kenya. The study was descriptive in nature. The study found that iTax implementation led to an increase in the variability of the revenue return. This was attributed to the simplification, standardization and harmonization of tax procedures to reduce inefficiency within tax administration. According to the study, iTax led to simpler and more streamlined processes to pay and collect taxes, reduced tax officials' discretionary power, increased predictability, lessened the burden for firms and individuals to comply and hence reduced the opportunities for corruption. This resulted improved efficiency in tax administration.

Contradictory results were identified in the study by Livoi (2017) who analyzed the effect of tax reforms on corporate tax compliance in Kenya. A descriptive study design was employed. The study found that while technological reforms in particular iTax was a key factor in enhancing corporate tax compliance, its effect was weak to influence corporate tax compliance. These findings implied that the intended success in increasing tax compliance was yet to be met. The study highlighted that in as much as companies filed their return online, not all companies filed their correct tax liability, others manipulated their tax liability for other gains. Also, not all PINs had migrated to the KRA online platform.

2.4.4 Tax Compliance

Tax compliance relies not only on the enforcement effort but also on the inherent factors that exist between individual and government. The level of enforcement also determines the level of tax compliance, for example, in South Africa, tax evasion or deliberate non-compliance of tax payment is considered as a severe crime whereas in Botswana, the attitude of the tax authority appears to be accommodating, example being the general tax amnesty conducted in 1999. Kenya has also been accommodating when it comes to the issue of tax compliance with amnesty given on various occasion in a move to encourage them to voluntary comply with tax payment, In South Africa, this has never happened (Trivedi, Shehata & Mestelman, 2018).

Comparing tax morale in Botswana and Kenya is definitely usual. Though geographic difference, the social histories of Kenya and Botswana could be similar, having obtained independence nearly at the same time, political history of Botswana's is practically exceptional among African countries. Even though it was a British colony and gained independence in 1966, it is one of the oldest Africa's multiparty democracies and it has progressively made the evolution to self-governance. In this scenario, the government of Botswana sends out a clear message to its citizens that the government is working for you hence this make paying taxes as part of this social contract (Acemoglu, Johnson & Robinson, 2018).

Kenya has had a part of her share with numerous scandals involving the political leaders. Subsequently, the respect of citizens for the government and the institutions that are not able to effectively govern their revenue is low and this makes the level of tax compliance very low. The ability of the government to commendably articulate and implement comprehensive policies on the effective utilization of the revenue encourages taxpayers to voluntary comply with tax payment (Kinyua, 2015). The views of most of Kenyan taxpayers are that politicians are corrupt and they misuse the public resources. The alleged corruption of Kenyan political bodies is contended to affect the voluntary and willingness of taxpayers to comply with the tax payment. If taxpayers were to perceive that their interests are well represented in political institutions and their revenues is put into well utilization, voluntary tax compliance will increase. Whereas, the government where corruption is widespread, the citizens lack trust in the authority and thus low compliance level (Alzen, 2015).

2.5 Empirical Review

A study by Gale, Krupkin & Rueben (2015) on effect of tax policies on economic growth. The analysis was done using secondary data between 1977 to 2011. The study findings showed that there was coherent relationship on corporate taxes, property taxes and revenue. This finding was consistent with previous studies on effect of tax policies on economic growth. However, the difference was attributed on application of different variables and identification methods.

In another study by Alegama (2015) examined the effect of tax incentives on economic development in Kenya. The study was informed by the need to raise enough taxes for the government and also to encourage both local and foreign investors to invest in Kenya especially Foreign Direct Investment (FDI). Descriptive analysis and inferential statistics was used to analyze secondary data and result findings showed that inverse relationship between economic growth and tax incentives. Kasipillai & Jabbar (2016) in finding out whether gender and ethnicity differences occur in relation to tax compliance attitude and behavior. The results of t-test established that both male and female had similar tax compliant attitude and for ethnicity. In addition, regression results established that gender, education, and individual tax return preparation were statistically significant as the main determinants of non-compliant attitude.

Musau (2015) assessed factors influencing tax compliance among SMEs in Nairobi County. The study picked a sample of 398 respondents and collected data using questionnaires which was analyzed using the binary integrity regression model. The study findings revealed that when an individual perception about difficulties of evading taxes increases, the high likelihood of being tax compliant among SMEs in Nairobi County. The findings also revealed those individuals who are satisfied with what the government is offering as public goods and service from taxes; have enough tax information; trust government officials in handling their taxes; and have the perception that if tax filing procedures are less complex, tax payers are likely to comply with tax payment.

Mukabi (2015) explored factors influencing turnover tax compliance in the Kenya revenue authority domestic taxes department in Nairobi County. The study used a sample of 56 respondents selected via stratified sampling and data collected using questionnaires. The study findings revealed that the perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. The findings also found that other factors like cost of compliance and complicated systems result into the low levels of compliance. The study also established that increased tax knowledge had a significant effect on perception of tax system.

2.6 Critique of Existing Literature

The study by Gale, Krupkin & Rueben (2015) on effect of tax policies on economic growth used secondary data between 1977 to 2011. The study findings showed that there was actually a coherent relationship on property taxes and revenue. However, the study applied different variables and identification methods that focus on economic growth. In his research, Alegama (2014) examined the effect of tax incentives on economic development in Kenya. However, the study used experimental research design. The problem with experimental research design approach is the presences of mediating variables that affects independent variable, hence it is difficult to point out exact variable that affect voluntary tax compliance.

Musau (2015) assessed factors influencing tax compliance among SMEs in Nairobi County. The study picked a sample of 398 respondents and collected data using questionnaires which was analyzed using the binary integrity regression model. The study findings revealed that when an individual perception about difficulties of evading taxes increases, the high likelihood of being tax compliant among SMEs in Nairobi County. The study fails to show that tax revenues may decline with the income tax rate in the presence of corrupt tax officials and investigate the impact of alternative reward schemes on the behavior of corrupt tax officials and the level of corruption. In terms of interactive models of tax evasion and bureaucratic corruption.

2.7 Research Gaps

A number of studies have been conducted on tax policy reforms. In agreement with Ajzen (2011) and Kirchler (2017) statements, that taxpayer who has favorable attitude towards tax payment is expected to be more compliant and equally tax payer with unfavorable attitude is likely to be less compliant. They fail to explain explicitly how it affects tax compliance. The duo also left out for example, tax education and tax enforcement and only dealt with individual's attitude towards tax system and social attitudes of the taxpayers. Other studies have focused on the influence of tax reforms on economy factors in Kenya (Gachanja, 2015). None of the studies has focused on effect of tax policy reforms on tax compliance of family owned businesses in Mombasa County. The only study that has been carried out that is close to the current study is that which was conducted by

Mwangi (2015) on factors influencing tax compliance among small and medium enterprises in Nairobi's industrial area, Kenya. This study therefore intends to fill these pertinent gaps in the literature by studying the selected independent variables on tax policy reforms that affect tax compliance of family businesses in Mombasa County. This study will add value to existing literature by providing empirical evidence on effect of tax policy reforms on tax compliance of family owned businesses in Mombasa County and fill the existing contextual and conceptual gaps.

2.8 Summary

This chapter reviewed various theoretical literatures, the empirical literature and conceptual framework that is used in this study. Specifically, it outlines the Economic Deterrence Model, fiscal psychology model and the Allingham and Sandmo theory. The empirical literature was done in accordance to the study objectives and the conceptual framework gives a diagrammatical explanation of the variables. tax administration, tax enforcement and technological reforms as independent variables and tax compliance of family owned businesses as a dependent variable. Measuring compliance behaviour would seem to be simple, but the problem is to find a measure which allows the researcher to directly study how compliance is changed with a change in an underlying tax related parameter, such as the audit rate. Thus, directly asking the participants about their own past involvement in tax evasion is not sufficient.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlined how the study will be carried out. It covered the design used to do the research in terms of research procedures, the target population and sample size, which data collection methods was used and how data was analyzed.

3.2 Research Design

The study adopted descriptive research design. This enabled the researcher to deeply analyze the phenomena with a view to generalization about a wider population which was suitable for finding out the effect of tax policy reforms on tax compliance of family owned businesses in Mombasa county. According to Mugenda and Mugenda (2003), a descriptive research design is flexible and it provides an opportunity to examine all aspects of a problem and it captured all the characteristics of the target population. The major purpose of adopting descriptive design method is that it measures the accuracy of the variables. Descriptive design is further justified because it focuses on complex analysis to bring out the correlation of variables. Descriptive research was restricted to facts findings and may result in formulation of important principles of knowledge and solutions to significant problems.

3.3 Target Population

Kothari and Garg (2014) describes target population as total items about which information is desired. Since most small businesses are family businesses (Maalu *et al.*, 2013), the target population of this study comprised of all registered businesses by the County Government of Mombasa as at 31st December, 2019, that had been in operations for over three years with a focus on the family owners and/or managers of these family firms. The target population comprised of 48,187 registered businesses in Mombasa County as at 31st December, 2019, from different sectors as classified by the County Government of Mombasa registry as shown in Table 3.1.

Table 3.1: Target Population

Stratum (Business (Industry) Activity)	Target Population
Trading, Shop & Retail	29,247
Transport, Storage and Communications	2,172
Agriculture, Mining and Natural Resources	1,505
Tourism, Hotel and Restaurants	3,604
Financial, Professional and Technical Services	6,834
Education, Health and Entertainment	1,897
Manufacturing, Industrial and Plant	2,928
Total	48,187

Source: County Government of Mombasa registry (2019)

3.4 Sampling Frame

The study was restricted to Chief Executive Officers, General Managers and Finance Managers of all registered family businesses who are either owners of the family businesses or hired to operate the family businesses. The sampling frame consisted of all registered businesses in all the Business Sectors (Industries) in the County Government of Mombasa as at 31st December 2019 as per the County Government of Mombasa registry (2019). The list of the firms obtained sufficiently represented the target population.

3.5 Sample Size and Sampling Technique

The researcher used data or list of all registered businesses provided by the County Government of Mombasa as at 31st December, 2019. The sample size obtained was adequate and yielded desired precision. In determining the sample size, Cochran formula was used to calculate the sample size (at 95% confidence level and $\alpha = 0.05$) as indicated on equation 3.1 and equation 3.2.

$$n_0 = Z^2 p q / e^2 \dots\dots\dots \text{Equation 3.1}$$

Where,

e is the desired level of precision (i.e. the margin of error),

p is the (estimated) proportion of the population which has the attribute in question,

q is 1 – p.

$$\{(1.96)^2 (0.5) (0.5)\} / (0.05)^2 = 385.$$

$$n = n_0 / [1 + \{(n_0 - 1) / N\}] \dots\dots\dots \text{Equation 3.2}$$

Where

n is the sample size and N is the population size.

$$n = 385 / [1 + \{(384) / 48,187\}]$$

$$n = 382$$

Stratified sampling was used to select the sample size of 382 from the different business/activity sectors from the sampling frame representing 48,187 registered businesses in Mombasa County. The advantage of this method was that it gave the assurance of equitable distribution of wanted population characteristics through the selection of persons from the strata list (Kothari, 2013). Simple random sampling was then used to select the sample size. The sample business units were selected randomly by the researcher on the basis that the sample unit selected out of the sample size was typical or representative of the whole (Kothari & Garg, 2014).

The selected sample units showed a general representation of other family businesses in the study area that operate in different business activities (sectors).

Table 3.2: Sample Size

Stratum	Target Population	Sample Size
Trading, Shop & Retail	29,247	232
Transport, Storage and Communications	2,172	17
Agriculture, Mining and Natural Resources	1,505	12
Tourism, Hotel and Restaurants	3,604	29
Financial, Professional and Technical Services	6,834	54
Education, Health and Entertainment	1,897	15
Manufacturing, Industrial and Plant	2,928	23
Total	48,187	382

3.6 Data Collection Instrument

The researcher used questionnaires as primary data collection instrument. Kothari & Garg (2014), defines a questionnaire as a tool that consists of a number of questions printed or typed in a definite order on a form or set of forms, sent to persons concerned with a request to answer the questions and return the questionnaire. It can be administered or mailed to the respondents. In this study, due to specialized nature of family owned businesses, the questionnaires were self-administered by the researcher and with the help of research assistants. Sasaka, Namusonge and Sakwa (2015) showed that self-administered questionnaires are usually preferred for purposes of developing close relationship with the respondents and also assists in providing clarifications sought by respondents on the spot. The questionnaires were collected immediately after they were filled and any omission were detected.

3.7 Data Collection Procedure

Data was collected through administration of questionnaires with the help of the research assistants. The questionnaires were self-administered to either the Chief Executive Officer, General Manager, or Finance manager who are considered to be holding the top

management positions in the family business operating in Mombasa County. The researcher also used face-to-face interviews to get highest response rate and capture important aspects apart from the questions asked in the questionnaire. The questionnaires were first dropped with an introductory letter of authority to carry out research to the firms and follow up was done through telephone and personal visits to secure appointments with the respondents from the firms for face-to-face interview. This was useful to ensure consistency in the interpretation of questions in order to achieve high response level and avoid any misinterpretation of questions or inconsistent responses.

3.8 Pilot Study

Pilot test is an activity that assists the research in determining if there are flaws, limitations, or other weaknesses within the data collection instruments. It allows the researcher to make necessary revisions prior to the implementation of the study. According to Kothari and Garg (2014), conducting a pilot involves a few of the target population being given the questionnaires with an intention of pre-testing the questions. A pilot study was therefore undertaken on 30 family businesses to test the reliability and validity of the questionnaire. This primarily depends on the standard guideline of 1 to 10 percent of the sample ought to comprise the pilot test (Cooper & Schilder, 2008; Kothari & Garg, 2014). However, the 30 family businesses did not form part of the final study.

3.8.1 Validity

Validity is the instruments or scale by which one can measure the outcomes of a certain research hypothesis about how strong the outcomes are. With the help of validity, one can answer the question such as are we right about the research methodology or the outcomes. Validity is more concerned whether the measure has been done with the right concept or not (Bryman & Bell, 2015). It indicates how accurate the data obtained in the study represents the variables of the study as hinted by Cooper and Schinder (2014). The researcher used the most common internal consistency measure known as KMO-Bartlett's test. It may be safe to say that its value varies from 0 to 1, but satisfactorily value is required to be more than 0.6 for the scale to meet validity.

3.8.2 Reliability

Reliability is the scale or instrument of measurement that is consistent with its result. It means if any test is taken using any instrument for a particular subject and the result of the test will be similar in every attempt then it will be considered as reliable. Reliability is more concerned with the consistency and the stability of the test result (Bryman & Bell, 2015). This was done by determining the association between scores obtained from different administrations of the scale. If the association is high, the scale yields consistent results, thus it is reliable. Cronbach's alpha was used to determine the internal reliability of the questionnaire that was used in this study. Values range between 0 and 1.0; while 1.0 indicates perfect reliability, the value 0.7 is deemed to be the lower level of acceptability (Gurawa & Mansor, 2015).

3.9 Data Analysis

Statistical Package for Social Sciences (SPSS version 25) was used to analyze data. Descriptive analysis measures such as frequency, percentage, mean and standard deviation were used in data interpretation. Regression analysis was used to examine effects of tax policy reforms independent variables; tax administration reforms, tax enforcement reforms and technological reforms on tax compliance (the dependent variable) of family owned businesses in Mombasa County. The R^2 analysis was used to measure the goodness of fit of the model being assessed. Multiple linear regression analysis was carried out to determine the form of the mathematical model that defines the relationship between the dependent variable and independent variables.

The following model for the regression model was used to analyze the relationship: The multiple regression formula is presented as;

$$Y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + e_i$$

Where:

$Y =$ Tax compliance

$\beta_0 =$ Constant

$X_1 =$ Tax administration reforms

$X_2 =$ Tax enforcement reforms

$X_3 =$ Technology Reforms

$e_i =$ Stochastic term

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

In this chapter, raw data from the questionnaires was analyzed and interpreted. Various tests were used to test the relationship between variables, level of significance, reliability and random distribution of data. Specifically, the following were used, Cronbach's alpha test, descriptive statistics test, Pearson Bivariate correlation and Regression analysis. The independent variables of the study were tax administration, tax enforcement and tax enforcement and how they affected the dependent variable which was the tax compliance of family owned businesses in Mombasa County.

4.2 Response Rate

The study targeted 382 respondents in investigating the effects of tax policy reforms on tax compliance of family owned businesses in Mombasa County of which 309 respondents responded making a response rate of 81% as summarized in table 4.1. This response rate was appropriate since Kothari (2013) argued that 50% response rate is adequate, 60% good and above 70% rated as appropriate for analysis.

Table 4.1: Response Rate

Response	Frequency	Percentage (%)
Responses	309	81
Non responses	73	19
Total	382	100

The recorded high response rate as shown in Table 4.1 was attributed to the data collection procedures, where the researcher pre-notified the potential participants of the intended survey, utilized a self-administered questionnaire where the respondents completed and immediately after, they were picked. Follow up calls were also made to clarify queries in the questionnaires.

4.3 Pilot Results

4.3.1 Reliability analysis

The Cronbach's alpha approach is effective in determining the reliability of the questionnaire. The researcher utilized this approach in the mock survey where sample questionnaires were issued to a group of respondents. The main areas of concern were language and question clarity, and suitability. The Cronbach's alpha was employed in measuring the internal consistency or reliability of the questionnaires. The study conducted a pretest to test the reliability of the research instrument. Table 4.2 shows the results.

Table 4.2: Reliability Test

Scale	Cronbach's Alpha	Number of Items	Remarks
Tax Administration Reforms	.887	5	Accepted
Tax Enforcement Reforms	.892	5	Accepted
Technological Reforms	.853	5	Accepted
Tax Compliance	.889	4	Accepted

From the pretest, all the alpha values were more than 0.7 as indicated in Table 4.2. Tax administration reforms had an alpha value of 0.887, Tax enforcement reforms had Cronbach's alpha value of 0.892, technological reforms had an alpha value of 0.853 and tax compliance of family owned businesses in Mombasa county had a Cronbach's alpha value of 0.889. Accordingly, all the Cronbach alpha values were found to be above 0.7 for all the variables and therefore the construct was found to be acceptable. Based on results in table 4.2 it is clear that the research instrument was reliable with Cronbach's alpha value of above 0.7. These results correlate with Mugenda and Mugenda (2003) argument that coefficient of 0.6 to 0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability.

4.3.2 Validity

Validity refers to the extent at which generated results reflect a true reality. The questionnaire used was simplified in a language that all participants were familiar with. And, to determine internal validity of a questionnaire, researcher did a pilot test, where 10% of participants from the targeted population were selected to fill the questionnaire. The results of the pilot test established that the questionnaire was relatively easy to answer as the questions were well understood by the respondents.

Factor analysis was undertaken to reduce on the number of dimensions and retain the most important for each variable. Prior to undertaking factor analysis, Kaiser-Meyer-Oklin (KMO) measure of sampling adequacy and Bartlett's Test of Sphericity were examined to evaluate the factorability of the components. KMO varies between 0 and 1 ($0 < \text{KMO} < 1$). According to Wallace (2016), the sample is termed adequate when KMO ranges from 0 and 1. Table 4.3 shows the KMO was above 0.50 levels implying that the variables had an acceptable degree of sampling adequacy for factor analysis.

Table 4.3: Factor analysis -KMO and Bart

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin	Measure of Sampling Adequacy.	.779
Bartlett's Test of Sphericity	Approx. Chi-Square	1188.613
	df	6
	Sig.	.000

The study applied the KMO measures of sampling adequacy and Bartlett's test of sphericity to test whether the relationship among the variables has been significant or not as shown in below in table 4.3. Factor 1 was based on five items that represented tax administration reforms; Factor 2 was based on five items that represented tax enforcement reforms; Factor 3 was based on five items that represented technological reforms and Factor 4 with four items represented tax compliance of family owned businesses in Mombasa county. The Kaiser-Mayor-Oklin measures of sampling adequacy shows the

value of test statistic as 0.779, which is greater than 0.5 hence an acceptable index. While Bartlett’s test of sphericity shows the value of test statistic as 0.000 which is less than 0.05 acceptable indexes. This result indicates a highly significant relationship among variables.

4.4 Descriptive Statistics

This section outlined the demographic data.

4.4.1 Demographic data

The study sought to establish the demographic data of the respondents. The researcher begun by a general analysis on the demographic data obtained from the respondents which included; level of education, kind of business, industry and age of business. This research targeted 382 respondents in regard to examining the effect of tax policy reforms on tax compliance of family owned businesses in Mombasa county.

4.4.2 Level of Education

The outcomes depicted in Table 4.4 shows that respondents with the highest percentage at 52.1% had obtained Bachelor’s degrees. It was also observed that 23.6% of the respondents had basic education and obtained certificates from colleges. A few of the respondents, however, indicated they had a postgraduate qualification (that is, Masters and Doctorate degrees). This implies that majority of family businesses in the study area had their human resources who have acquired basic education from colleges and universities. Very few respondents (that is, 4.2% of the respondents) did not take up any formal education after high school.

Table 4.4: Level of Education

Level	Frequency	Percent (%)
High School	13	4.2
College	73	23.6
Bachelor’s Degree	161	52.1
Master’s Degree	59	19.1
PhD	3	1
TOTAL	309	100

4.4.3 Kind of Business

The study sought to establish the kind of business in terms of management. Table 4.5 shows that majority of the family businesses were registered as private limited liability company and the observation made was such businesses were run and managed as formal entity. Table 4.5 shows the kind of businesses such that majority of the family businesses in the study area were owned and managed by family members representing 83.8% and very few businesses were family owned but not managed by family members, representing 16.2%. This indicates that apart from ownership, family members are highly engaged in the management of these family businesses. Few family businesses were managed by non-family members due to lack of expertise knowledge in running and managing their enterprise.

Table 4.5: Kind of Business

Kind of Business	Frequency	Percent (%)
Family business, owned and managed	259	83.8
Family business, owned, but not managed	50	16.2
TOTAL	309	100

4.4.4 Age of Business

The study sought to determine the age of family businesses in the study area. It was found out that majority of family businesses as shown in Table 4.6, were in operation for more than 10 years, representing 62.8% of the family businesses in the study area. About 26.9% of family businesses were more than 5 years but less than 10 years old since inception. Few businesses were still new and have been in operation for less than 5 years accounting for less than 11%. It was noted that family businesses have been in existence for more than a decade while still new businesses are coming up and growing with time.

Table 4.6: Age of Business

Level	Frequency	Percent (%)
Below 3 years	2	0.6
Between 3 – 5 years	30	9.7
Between 6 – 10 years	83	26.9
Above 10 years	194	62.8
TOTAL	309	100

4.5 Study of Variables Findings

The following presents the findings on the various study variables.

4.5.1 Tax Administration Reforms

The study sought to examine the effect of tax administration reforms on tax compliance of family owned businesses in Mombasa county. Table 4.7 summarizes respondents' level of agreement on the effect of tax administration reforms on tax compliance of family owned businesses in Mombasa county. Most of the respondents agreed that the introduction of the TPA act has simplified tax legislation as shown by a mean score of 4.36. Most of the respondents also agreed that tax remittance/payment policies enhance tax compliance as shown by a mean score of 4.34. Respondents agreed that the tax legislations covering family owned businesses are simple and clear as shown by a mean score of 4.30. Respondents also agreed that the new VAT rates encourage tax compliance as shown by a mean score of 4.28 and a mean score of 4.23 was obtained on the question that the tax returns management policies enhance tax compliance. From these results it is evident that tax administration reforms have significant effect on tax compliance of family owned businesses in Mombasa county.

Table 4.7: Tax Administration Reforms

	N	Mean	Std. Deviation
Introduction of the TPA act has simplified tax legislation	309	4.36	.501
The new VAT rates encourage tax compliance	309	4.28	.452
Tax remittance/payment policies enhance tax compliance	309	4.34	.507
Tax returns management policies enhance tax compliance	309	4.23	.421
The tax legislations covering family owned businesses are simple and clear	309	4.30	.461
Valid N (listwise)	309		

4.5.2 Tax Enforcement Reforms

The study sought to analyze the effect of tax enforcement reforms on tax compliance of family owned businesses in Mombasa county. Table 4.8 summarizes respondents' level of agreement on the effect of tax enforcement reforms on tax compliance of family owned businesses in Mombasa county. The statement that compliance assist in solving tax evasion cases amongst tax payers had a mean score of 4.31. Respondents agreed that tax compliance assists in improving on tax avoidance amongst tax payers as shown by a mean score of 4.35. Respondents agreed that tax assessment helps to improve tax payers' compliance as shown by a mean score of 4.28. Respondents also agreed that audit department often conduct tax audits on tax payers as shown by a mean score of 4.24 and a mean score of 4.30 was obtained on the question that tax audit helps tax payers on compliance. These study findings are supported by Wallace (2016) who found that higher audit probabilities and severe penalties encourage tax compliance. Sagas, Nelimalyani and Kimaiyo (2015) established that tax enforcement reforms had a positive impact on the

overall tax structure and on the individual tax handles, even though the impact of the reforms was not always uniform.

Table 4.8: Tax Enforcement Reforms

	N	Mean	Std. Deviation
Compliance assist in solving tax evasion cases amongst tax payers	309	4.31	.479
Tax Compliance assists in improving on tax avoidance amongst tax payers	309	4.35	.497
Tax assessment helps to improve tax payers compliance	309	4.28	.456
Audit department often conduct tax audits on tax payers	309	4.24	.425
Tax audit helps tax payers on compliance	309	4.30	.494
Valid N (listwise)	309		

4.5.3 Technological Reforms

The study sought to analyze the effect of technological reforms on tax compliance of family owned businesses in Mombasa county. Table 4.9 summarizes respondents' level of agreement on the effect of technological reforms on tax compliance of family owned businesses in Mombasa county. The statement that using Itax payments has made it easy for us to make tax remittances accurately, conveniently and on time had a mean score of 4.26. Respondents agreed that filing out tax returns through Itax has reduced the enterprise's money and time related costs considerably as shown by a mean score of 4.30. The statement that we have conveniently used the Itax registration system to make amendments of the enterprise's tax details whenever necessary had a mean score of 4.32. The statement that businesses are able to access specific information needed from KRA simply through text messages depicted a mean score of 4.40 and a mean score of 4.21 was obtained on the question that remitting out taxes through mobile payments has enhanced

tax compliance. The same views were echoed by Malonza (2016) who assessed the effect of Itax use on corporation tax compliance by medium corporate taxpayers in Kenya. The study found that the usage of Itax resulted to increased compliance by medium taxpayers in Kenya. According to the study, Itax had made corporation tax compliance simple by ensuring that the annual returns which involved entering substantial data from audited financial statements could not be submitted with an error as the Itax system would not accept the upload and directed the taxpayer to what was wrong with the record.

Table 4.9: Technological Reforms

	N	Mean	Std. Deviation
Using Itax payments has made it easy for us to make tax remittances accurately, conveniently and on time	309	4.26	.437
Filing out tax returns through Itax has reduced the enterprise's money and time related costs considerably	309	4.30	.468
We have conveniently used the Itax registration system to make amendments of the enterprise's tax details whenever necessary.	309	4.32	.467
Able to access specific information needed from KRA simply through text messages.	309	4.40	.529
Remitting out taxes through mobile payments has enhanced tax compliance	309	4.21	.408
Valid N (list wise)	309		

4.5.4 Tax Compliance

The respondents were requested to state their individual opinions on four specific statements regarding tax compliance of family owned businesses in Mombasa county. The statement that family owned businesses file tax returns every month had a mean score of

4.25. The statement that family owned businesses declare correct monthly income had a mean score of 4.36. The statement that family owned businesses file tax returns only to avoid penalties had a mean score of 4.38. The statement that KRA has offered an enabling environment for tax filing had a mean score 4.21.

Table 4.10: Tax Compliance

	N	Mean	Std. Deviation
Family owned businesses file tax returns every month	309	4.25	.431
Family owned businesses declare correct monthly income	309	4.36	.481
Family owned businesses file tax returns only to avoid penalties	309	4.38	.513
KRA has offered an enabling environment for tax filing	309	4.21	.411
Valid N (list wise)	309		

4.6 Correlation Analysis

To establish the relationship between the dependent and independent variables, the study conducted a correlation analysis which involved coefficients of correlation and determination.

4.6.1 Coefficient of Correlation

Pearson Bivariate correlation coefficient was used to determine the correlation between the dependent variable, tax compliance of family owned businesses in Mombasa county and the independent variables; tax administration reforms, tax enforcement reforms and technological reforms. As stated by Sekaran (2015), the correlation is assumed to be linear with correlation coefficient ranging from -1.0 (perfect negative correlation) to +1.0 (perfect positive relationship). The correlation coefficient was computed to establish the strength of the relationship between dependent and independent variables (Kothari & Gang, 2014).

From table 4.11, the results generally indicate that independent variables (tax administration reforms, tax enforcement reforms and technological reforms) were found to have positive significant correlations on tax compliance of family owned businesses in Mombasa county at 5% level of significance. There was a strong positive and highly significant correlation between tax administration reforms and tax compliance ($r = 0.659$, $P < 0.05$). There was a strong positive and highly significant correlation between tax enforcement reforms and tax compliance ($r = 0.408$, $P < 0.05$). There was a strong positive and highly significant correlation between technological reforms and tax compliance ($r = 0.755$, $P < 0.05$). The results imply that independent variables; tax administration reforms, tax enforcement reforms and technological reforms significantly influenced tax compliance of family owned businesses in Mombasa county. This is in accordance with Djankov *et al.*, (2010) that tax policy reforms components (tax administration, tax enforcement, and technological reforms) play a crucial role motivating service delivery, efficiency, tax revenue growth and sustaining momentum.

Table 4.11: Pearson Correlations

		Tax Admin	Tax Enf	Tech	Tax Compl
Tax Admin	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	309			
Tax Enf	Pearson Correlation	.777**	1		
	Sig. (2-tailed)	.000			
	N	309	309		
Tech	Pearson Correlation	.850**	.643**	1	
	Sig. (2-tailed)	.000	.000		
	N	309	309	309	
Tax Compl	Pearson Correlation	.659**	.408**	.755**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	309	309	309	309

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

Key: Tax Admin=Tax Administration Reforms, Tax Enf=Tax Enforcement Reforms, Tech=Technological Reforms, Tax Compl=Tax Compliance

4.6.2 Coefficient of Determination (R²)

To ascertain the research model, a confirmatory factors analysis was conducted. The independent variables were subjected to linear regression analysis in order to measure the success of the model and predict causal relationship between the independent variables; tax administration reform, tax enforcement reforms, technological reforms and the dependent variable; tax compliance of family owned businesses in Mombasa county. The model, shown in table 4.12, explains 59.3% of the variance (R Square = 0.593) on rental income tax performance. Clearly, there are factors other than the three proposed in this model which can be used to predict tax compliance of family owned businesses in Mombasa county. However, this is still a good model as pointed out by Cooper and Schinder (2013) the model is acceptable in social science if adjusted R square value is not lower than 0.10. This implies that 59.3% of the relationship is explained by the identified three factors namely; tax administration reforms, tax enforcement reforms, technological reforms. The rest 40.7% is explained by other factors not considered in the model.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.770 ^a	.593	.589	.20350

a. Predictors: (Constant), Technological Reforms, Tax Enforcement Reforms, Tax Administration Reforms

4.7 Regression Analysis

4.7.1 Analysis of Variance (ANOVA)

The ANOVA result displays the sum of squares due to regression and due to residuals. It also displays the F ratio value and its significance. The F depicts the significance or the fitness of the regression model. It indicates how significant the predictors can predict the dependent variable. The results findings show that the Regression Model is significant (F = 147.923, p = 0.000). The significance of a regression model is considered significant if its p-value is less or equal to 0.05. In table 4.13, is a regression model established with its p-value of 0.000 significance which is less than 0.05. This indicates that the regression model was statistically significant in predicting the effects of tax policy reforms on tax

compliance of family owned businesses in Mombasa County. This shows that the overall model was significant and that technological reforms, tax enforcement reforms and tax administration reforms have an effect on tax compliance.

Table 4.13: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	18.378	3	6.126	147.923	.000 ^b
	Residual	12.631	305	.041		
	Total	31.010	308			

a. Dependent Variable: compliance

b. Predictors: (Constant), Technological Reforms, Tax Enforcement Reforms, Tax Administration Reforms

4.7.2 Multiple Regression

Table 4.13 presents the Regression Coefficients and the Significance of the Regressions (p-value). From the regression result, the coefficient of tax administration reforms is .290. This implies that one unit change in tax administration reforms, increases tax compliance by .290 units holding other factors constant. Therefore, tax administration reforms were found to have statistically significant effect on tax compliance of family owned businesses in Mombasa County ($\beta = 0.255$; $t = 3.017$; $p < 0.05$). From the regression result, the coefficient of tax enforcement reforms is .252. This implies that one unit change in tax enforcement reforms, increases tax compliance by .252 units holding other factors constant. Therefore, tax enforcement reforms were found to have statistically significant effect on tax compliance of family owned businesses in Mombasa County ($\beta = 0.232$; $t = 4.001$; $p < 0.05$). From the regression result, the coefficient of technological reforms is .729. This implies that one unit change in technological reforms, increases tax compliance by .729 units holding other factors constant. Therefore, technological reforms were found to have statistically significant effect on tax compliance of family owned businesses in Mombasa County ($\beta = 0.688$; $t = 9.915$; $p < 0.05$).

Table 4.14: Multiple Regression (Coefficients)

Model		Unstandardized Coefficients		Standardized Coefficients		Sig.
		B	Std. Error	Beta	t	
1	(Constant)	1.009	.188		5.362	.000
	Tax Administration Reforms	.290	.096	.255	3.017	.003
	Tax Enforcement Reforms	.252	.063	.232	4.001	.000
	Technological Reforms	.729	.074	.688	9.915	.000

a. Dependent Variable: compliance

$$Y = 1.009 + 0.290X_1 + 0.252X_2 + 729X_3$$

Where:

Y = Tax Compliance

β_0 = Constant

X_1 = Tax Administration Reforms

X_2 = Tax Enforcement Reforms

X_3 = Technological Reforms

e_i = Stochastic term

4.8 Discussion of the Key Findings

This section discusses the research findings presented in the previous section based on the objectives and hypotheses of the study. The general objective of the study was to investigate the effects of tax policy reforms on tax compliance of family owned businesses in Mombasa County. The variables under study were tax administration reforms, tax enforcement reforms and technological reforms.

4.8.1 Effect of Tax Administration Reforms on Tax Compliance

Pearson Bivariate correlation was used to compute the correlation between influence of tax administration reforms and tax compliance of family owned businesses in Mombasa County. There was a strong positive and highly significant correlation between tax administration reforms and tax compliance ($r = 0.659$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of tax administration reforms on tax compliance of family owned businesses in Mombasa County ($\beta = 0.255$; $t = 3.017$; $p < 0.05$). These findings are consistent with Mengere (2014) who revealed that KRA has come up with effective systems and tax administration measures that have enhanced protection of revenue collection, efficient and effective provision of services to public and taxpayers. The system has on-line services such as; electronic transactions, enquiries and electronic applications for KRA processes. The revised administrative and systems has components such as Taxpayer Register (TRE), Tax Returns Processing (TRP), Banks Collection (BCL), Taxpayer Services (TPS), External Information Management (EIM), Data Base Management (DBM), Taxpayer Account (TCA), Payment Plans Processing and Control (PPP) and Tax Credits and Refunds (TCR). All these have contributed greatly to the tax collections growth.

4.8.2 Effect of Tax Enforcement Reforms on Tax Compliance

Pearson Bivariate correlation was used to compute the correlation between influence of tax enforcement reforms and tax compliance of family owned businesses in Mombasa County. There was a strong positive and highly significant correlation between tax enforcement reforms and tax compliance ($r = 0.408$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of tax administration reforms on tax compliance of family owned businesses in Mombasa County ($\beta = 0.232$; $t = 4.001$; $p < 0.05$). These study findings are supported by Donnelly and Heneghan (2010) who found that higher audit probabilities and severe penalties encourage tax compliance. Sagas, Nelimalyani and Kimaiyo (2015) established that tax enforcement had a positive impact on the overall tax structure and on the individual tax handles. The designed tax authorities audit policy can have important effects on production decision by firms. The nature of such effects depends on whether firms

compete or collude. Accordingly, an appropriate designed audit policy may not only achieve greater compliance and higher net revenue, (Frank, 2010).

4.8.3 Effect of Technological Reforms on Tax Compliance

Pearson Bivariate correlation was used to compute the correlation between influence of technological reforms and tax compliance of family owned businesses in Mombasa County. There was a strong positive and highly significant correlation between technological reforms and tax compliance ($r = 0.755$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of tax administration reforms on tax compliance of family owned businesses in Mombasa County ($\beta = 0.688$; $t = 9.915$; $p < 0.05$). The same views were echoed by Barako (2015) who assessed the efficacy of Itax system on tax administration in Kenya. The study was descriptive in nature. The study found that Itax implementation led to an increase in the variability of the revenue return. This was attributed to the simplification, standardization and harmonization of tax procedures to reduce inefficiency within tax administration. According to the study, Itax led to simpler and more streamlined processes to pay and collect taxes, reduced tax officials' discretionary power, increased predictability, lessened the burden for firms and individuals to comply and hence reduced the opportunities for corruption. This resulted improved efficiency in tax administration.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study sought to establish the effects of tax policy reforms on tax compliance of family owned businesses in Mombasa County. The tax policy reforms in the study were tax administration, tax enforcement and technological reforms which were independent variables of the study. This chapter provides a summary of the findings of the study based on the objectives of the study, presents the conclusions from the findings and gives recommendations to the beneficiaries of the study and areas of further research in order to fill the gaps identified in the study.

5.2 Summary of Findings

The first objective of the study was to examine the effect of tax administration reforms on tax compliance of family owned businesses in Mombasa county. Tax administration reforms was found to be satisfactory in explaining tax compliance. Further, results showed that tax administration reform is a good predictor of tax compliance. Correlation analysis revealed that tax administration reform was positively and significantly associated to tax compliance. Regression of coefficient revealed that there was a positive and significant relationship between tax administration reform and tax compliance. This means that an improvement in tax administration reforms lead to an improvement in tax performance.

The second objective of the study was to examine the effect of tax enforcement reforms on tax compliance of family owned businesses in Mombasa county. Tax enforcement reforms was found to be satisfactory in explaining tax compliance. Further, results showed that tax enforcement reform is a good predictor of tax compliance. Correlation analysis revealed that tax enforcement reform was positively and significantly associated to tax compliance. Regression of coefficient revealed that there was a positive and significant relationship between tax enforcement reforms and tax compliance. This means that an improvement in tax enforcement reforms lead to an improvement in tax performance.

The third objective of the study was to examine the effect of technological reforms on tax compliance of family owned businesses in Mombasa county. Technological reforms were found to be satisfactory in explaining tax compliance. Further, results showed that technological reforms are a good predictor of tax compliance. Correlation analysis revealed that technological reforms were positively and significantly associated to tax compliance. Regression of coefficient revealed that there was a positive and significant relationship between technological reforms and tax compliance. This means that an improvement in technological reforms lead to an improvement in tax performance.

5.3 Conclusions

5.3.1 Tax Administration Reforms

Based on the findings, the study concluded that tax administration reforms have a positive and significant effect on tax compliance. Tax bands, tax returns management policies, tax audit policies, tax remittance/payment policies and taxpayer regimes, recruitment policies and tax collection enforcement policies affect tax compliance

5.3.2 Tax Enforcement Reforms

Based on the findings, the study concluded that tax enforcement reforms have a positive and significant effect on tax compliance. The study concludes that tax enforcement approaches and techniques to address tax compliance assist in solving tax evasion cases, assists in improving on rental tax avoidance and increase of more tax payers into the taxable blanket. Lower tax rates make it less attractive to evade taxes as opposed to high rates. High penalty rates will increase compliance but only marginally. This penalty rates should be kept at an optimum level not to discourage taxpayers. Also consider uniform penalty rates for all tax heads. The intuition is that high tax rates increase the tax burden and, hence, lower the disposable income of the taxpayer.

5.3.3 Technological Reforms

Based on the findings, the study concluded that technological reforms have a positive and significant effect on tax compliance. Technological reforms in Kenya such as the iTax system provides efficient and effective services to taxpayers and public and reduce interaction with staff, improve tax collection, facilitate seamless sharing of information

across Kenya and relevant third parties for data-matching purposes in order to detect non-compliance and to facilitate combined enforcement actions.

5.4 Recommendations

1. Tax Administration Reforms

Tax administration especially tax bands, tax returns management, tax audit policies, tax remittance/payment policies and taxpayer regimes and tax collection enforcement policies affect tax compliance. Therefore, emphasis should be increased on improving tax administration to broaden the tax base so that existing tax rates can be reduced without affecting government revenues.

2. Tax Enforcement reforms

There is need for a well-functioning tax enforcement system to increase tax compliance, tax audits and tax assessment. The tax system should be able to tap the gains from economic growth. This would be enhanced by ensuring efficient computerization of systems to increase compliance as it would improve the interaction of the tax authority with taxpayers and facilitate follow-up using the Personal Identification Number. Computerization would also make it easier to consolidate payment of all taxes and levies.

3. Technological Reforms

In embracing new technological reforms, KRA should keep in mind their primary purpose of improving taxpayer compliance and adopt new technologies in a systematic manner that supports their business direction and compliance initiatives. The aim is to create a robust compliance program that helps maximize taxpayers' compliance and minimizes the costs of compliance whilst being effectively supported by appropriate technology.

5.5 Areas for Further Research

1. The study sought to investigate the effects of tax policy reforms on tax compliance of family owned businesses in Mombasa County. This called for the analysis of Mombasa County, thus area for further studies could consider other counties for purpose of making a comparison of the findings with those of the current study.
2. The study used only three variables that is tax administration, tax enforcement and technological reforms as the only variables that affect tax compliance of family owned

businesses in Mombasa County. Future studies can incorporate other variables which are not captured by this study.

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APPENDICES

Appendix I: Letter of Introduction to Respondents

Dear Respondent,

RE: ASSISTANCE WITH STUDY FOR PGD RESEARCH PROJECT

My name is Catherine Ngima, a student at the Kenya School of Revenue Administration/Jomo Kenyatta University of Agriculture and Technology pursuing a Post Graduate Diploma in Tax Administration.

In partial fulfillment of the requirements, I am carrying out a research on “Effect of tax policy reforms on tax compliance of family owned businesses in Mombasa county

I am kindly requesting you to take a few moments to respond to the questions. Your response will be of great help to both our study and the understanding of issues connected to the topic. We therefore assure you that no source will be identified.

Thank you

Yours faithfully,

Catherine Ngima.



Kenya School of Revenue
Administration



ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/106

27th February 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 Tax Administration.

Name	Admission Number
CATHERINE NGIMA	HDB336-C016-4930/2016

The above- mentioned student is in his final year of study at the school and currently conducting research on **“EFFECTS OF TAX POLICY REFORMS ON TAX COMPLIANCE OF FAMILY OWNED BUSINESSES 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 her collect information that relates to her research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

Mumia B.J.

For Principal – KESRA, Mombasa Campus



Tulipe Ushuru Tujitegeme!



Appendix II: RESEARCH QUESTIONNAIRE

This questionnaire is meant to gather information regarding your views on the effect of tax policy reforms on tax compliance of family owned businesses in Mombasa County

CONFIDENTIALITY CLAUSE:

The responses you provide will be used for academic research purposes, will be strictly confidential and will be handled ethically.

SECTION A: BASIC INFORMATION

1. Education Level achieved

High school [] College [] Bachelor's Degree [] Master's Degree [] PhD []

2. Kind of business

a. Family business, owned and managed []

b. Family business, owned, but not managed []

3. Age of the business

a. Below 3 years []

b. Between 3 – 5 years []

c. Between 6 – 10 years []

d. Above 10 years []

SECTION B: TAX ADMINISTRATION

Tax Administration involves Management, conduct, direction and supervision of the execution and application of Government, country or states taxation laws and related statutes (Wallace, 2016).

Rate the extent to which the following aspects of tax administration reforms affect tax compliance of family owned businesses in Mombasa County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
1	Introduction of the TPA act has simplified tax legislation					
2	The new VAT rates encourage tax compliance					
3	Tax remittance/payment policies enhance tax compliance					
4	Tax returns management policies enhance tax compliance					
5	The tax legislations covering family owned businesses are simple and clear					

SECTION B: TAX ENFORCEMENT

Tax Enforcement includes Systems by which Authorities act in an organized manner to enforce taxation laws by punishing tax payers who violate the rules and norms regarding taxation (Organization for Economic Co-operation & Development, 2015).

Rate the extent to which the following aspects of tax enforcement reforms affect tax compliance of family owned businesses in Mombasa County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
1	Compliance assist in solving tax evasion cases amongst tax payers					
2	Tax Compliance assists in improving on tax avoidance amongst tax payers.					
3	Tax assessment helps to improve tax payers compliance					
4	Audit department often conduct tax audits on tax payers					
5	Tax audit helps tax payers on compliance					

SECTION C: TECHNOLOGICAL REFORMS

The focus here is on Itax system and its influence on compliance.

Rate the extent to which the following aspects of technological reforms affect tax compliance of family owned businesses in Mombasa County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
1	Using Itax payments has made it easy for us to make tax remittances accurately, conveniently and on time					
2	Filing out tax returns through Itax has reduced the enterprise's money and time related costs considerably					
3	We have conveniently used the Itax registration system to make amendments of the enterprise's tax details whenever necessary.					
4	Able to access specific information needed from KRA simply through text messages.					
5	Remitting out taxes through mobile payments has enhanced tax compliance					

SECTION D: TAX COMPLIANCE OF FAMILY OWNED BUSINESSES

Compliance refers to registration with KRA as taxpayer, keeping of business records, filing of self-assessment returns and payment of taxes when they are due (Nyangau, 2017).

Rate the extent to which the following aspects of tax administration reforms affect tax compliance of family owned businesses in Mombasa County.

Strongly Agree=5, Agree=4, Uncertain=3, Disagree=2, Strongly Disagree=1

	Statement	1	2	3	4	5
1	Family owned businesses file tax returns every month					
2	Family owned businesses declare correct monthly income					
3	Family owned businesses file tax returns only to avoid penalties					
4	KRA has offered an enabling environment for tax filing					

Appendix III: Sample Frame

1.	DemixLtd	192	Tracks Building & Construction Co Ltd
2.	World Premium Chemical Laboratory Ltd	193	Trade Base Co Ltd
3.	Mombasa Real Estates Agencies Limited	194	Tradeline Express Ltd
4.	Swale House Partners Inc.	195	Tradewinds International Cargo Ltd
5.	TransNational Computer LLC	196	World Freight Logistics
6.	Nescho Suppliers & Hardwares	197	Winban Cargo Services Ltd
7.	World Tracking Company	198	World Link Freight Co Ltd
8.	Daniel Chege Web Designs	199	World Link Logistics
9.	Mombasa Commercial & Industrial Enterprises Ltd	200	Yasir Agencies
10.	Romollas Hardware	201	Wings of Good Hope
11.	Yascom Africa	202	World Leather Freighters
12.	Alltech Appliances & Services	203	Dee Pee Distributors Ltd
13.	Coast Battery Distributors	204	Fulus Bureau De Change Ltd
14.	Kibmatloss Assessors	205	Hasman Traders
15.	Maritime Forex Bureau Ltd	206	Island Forex Bureau
16.	Dunamis Tech and Online Solutions	207	Jorg's Forex Bureau Ltd
17.	Pakhus Enterprises	208	Union Freight Services Ltd
18.	Fuji Trading	209	Waheguru Transporters
19.	Kingston Trading	210	Universal Freight & Logistics (K) Ltd
20.	Burhan's Boutique	211	Walford Meadows Ltd
21.	Dipek	212	United Vanlines Ltd
22.	Commercial Cleaning Services	213	Penguin Forex Bureau Ltd
23.	Westin Enterprises Ltd	214	Wadia Construction Co Ltd
24.	Finsbury Trading Ltd	215	United Clearing Company Ltd
25.	Rakal Ltd	216	Vora Construction Co Ltd
26.	Fort Jesus Forex Bureau Ltd	217	United (E A) Warehouses Ltd
27.	Premium Wood And Hardware	218	Voyage Services Ltd
28.	Abubaker Wholesalers	219	United Builders & Contractors (Africa) Ltd
29.	Afham Trading	220	Kingston Trading Co Ltd
30.	Avenue Forex Bureau	221	Union Logistics Ltd
31.	Bahaji Holdings CO Ltd	222	Leo Forex Bureau Ltd
32.	Coast Forex Bureau Ltd	223	Privateer Enterprise
33.	Cool Products Ltd	224	Pwani Forex Bureau Ltd
34.	Dawood Emporium	225	Waki Clearing & Forwarding Agent

35.	Vivek Investments Ltd	226	Peponi Wholesalers
36.	Savla Enterprises Ltd	227	Privateer Enterprise Ltd
37.	Transeast Ltd	228	Trade Masters Marketing Ltd
38.	Tullalink International Ltd	229	Unimar Africa Trading
39.	Transfleet Limited	230	Wholesalers Ltd
40.	Tulon Freight & Travel	231	Tripro Clearing & Forwarding Co Ltd
41.	Transeast Ltd	232	Trishul Construction Ltd
42.	Emirate Agencies Ltd	233	Tristar Transport Ltd
43.	Dharamshi Stores	234	Tradewise Logistics (K) Ltd
44.	Transafrik Corporation Ltd	235	Trivela Ltd
45.	Tss Express Ltd	236	Trading Floor Ltd
46.	Trans Africa Merchants (K) Ltd	237	Trontech Kenya Ltd
47.	Transafrik Corporation Ltd	238	Trading Trucks Ltd
48.	Acmat Trading Co Ltd	239	Tropical Focus (K) Ltd
49.	Al Ain Trading Establishment Ltd	240	Trancity Gargo Forwarders Ltd
50.	Al Ashraf Trading Co Ltd	241	Tropical Fresh Ltd
51.	Alsaafi Wholesale Trading & CO Ltd	242	Tripro Clearing & Forwarding Co Ltd
52.	Al wahat Ltd	243	Trishul Construction Ltd
53.	Al Zahra Traders	244	Tristar Transport Ltd
54.	Asma Trading Co Ltd	245	Tradewise Logistics (K) Ltd
55.	Audler Trading CO Ltd	246	Trivela Ltd
56.	Everest Wholesalers	247	Dhanani & CO Ltd
57.	Bahaji Store	248	Diani Tourist Bazaar
58.	Copro Enterprises	249	East Africa Provision Mart
59.	Trans Africa Merchants (K) Ltd	250	Espaf Traders
60.	Tropical Sky Cargo Ltd	251	Fiji Wholesalers
61.	Trans Express	252	Generation Wholesalers
62.	Tropics Sun Travels Ltd	253	Hamoud Trading Agencies
63.	Trans Express Bus Services	254	Hasnain Trading CO
64.	Truck Forwarders Co Ltd	255	Mukilink Trading CO
65.	Trans Ocean Express Ltd	256	Mumin Enterprises
66.	Truckers Kenya Ltd	257	Nelcom Trading Ltd
67.	H p tajbhai & CO Ltd	258	Oryx Trading International Ltd
68.	Hussaba Trading Co Ltd	259	Valesco Holdings
69.	Kagwi Wholesale Traders	260	Waruhiu Construction Ltd
70.	Tropical Sky Cargo Ltd	261	Valji Karsan Contractors
71.	Trans Express	262	Wasafiri Services
72.	Tropics Sun Travels Ltd	263	Valji Visram & Co
73.	Trans Express Bus Services	264	Washline Agencies Ltd
74.	Truck Forwarders Co Ltd	265	Valmo Ltd
75.	Trans Ocean Express Ltd	266	Waterwaves Agencies Ltd
76.	Truckers Kenya Ltd	267	Vanga Express Limited
77.	Transafrik Corporation Ltd	268	Valesco Holdings

78.	Marben Enterprises	269	Waruhiu Construction Ltd
79.	Universal Link Limited	270	West Coast East Africa Ltd
80.	Walmo Clearing & Forwarding Co	271	Verity Cargo Services Ltd
81.	Ltd	272	Westcon Contractors Ltd
82.	Uplands Cargo Conveyors Ltd	273	Vibrasi Enterprises Ltd
83.	Walsord Meadows	274	Western Bus Services
84.	Uplift Express (Kenya) Ltd	275	Victoria Aquatics & Mercantile Ltd
85.	Wambuka Freighters Ltd	276	Western Logistics Services Ltd
86.	Universal Link Limited	277	Victoria International Logistics Ltd
87.	Walmo Clearing & Forwarding Co	278	West Coast East Africa Ltd
88.	Ltd	279	Verity Cargo Services Ltd
89.	Uplands Cargo Conveyors Ltd	280	Westcon Contractors Ltd
90.	Walsord Meadows	281	Vibrasi Enterprises Ltd
91.	Uplift Express (Kenya) Ltd	282	Western Bus Services
92.	Wambuka Freighters Ltd	283	Victoria Aquatics & Mercantile Ltd
93.	Urgent Cargo Handling Ltd	284	Western Logistics Services Ltd
94.	Wandey Freight Services	285	Victoria International Logistics Ltd
95.	Utu Bora Transport Agencies	286	West Coast East Africa Ltd
96.	Wansar Kenya Ltd	287	Verity Cargo Services Ltd
97.	V Naran Mulji Properties Ltd	288	Westcon Contractors Ltd
98.	Warentokil (K) Ltd	289	Vibrasi Enterprises Ltd
99.	Vaded (K) Ltd	290	Warton Agencies
100.	Urgent Cargo Handling Ltd	291	Vakkep Building Contractors Ltd
101.	Wandey Freight Services	292	Waru Enterprises Ltd
102.	Utu Bora Transport Agencies	293	Waylinks Services Ltd
103.	Wansar Kenya Ltd	294	Vanity Freighters
104.	V Naran Mulji Properties Ltd	295	Wayto Associates Ltd
105.	Warentokil (K) Ltd	296	Vapco Construction Co
106.	Vaded (K) Ltd	297	Welfast Construction Co Ltd
107.	Urgent Cargo Handling Ltd	298	Warton Agencies
108.	Wandey Freight Services	299	Vakkep Building Contractors Ltd
109.	Utu Bora Transport Agencies	300	Waru Enterprises Ltd
110.	Wansar Kenya Ltd	301	Waylinks Services Ltd
111.	V Naran Mulji Properties Ltd	302	Vanity Freighters
112.	Warentokil (K) Ltd	303	Wayto Associates Ltd
113.	Vaded (K) Ltd	304	Vapco Construction Co
114.	Urgent Cargo Handling Ltd	305	Welfast Construction Co Ltd
115.	Wandey Freight Services	306	Warton Agencies
116.	Utu Bora Transport Agencies	307	Vinbush Enterprises Ltd
117.	Wansar Kenya Ltd	308	Widenet Freight Agencies
118.	V Naran Mulji Properties Ltd	309	Vincenzo Hotel Contractors Ltd

119	Warentokil (K) Ltd	310	Wigedoje Enterprises Ltd
120	Willfield Freighters Co Ltd	311	Vinep Forwarders Limited
121	Visaro Construction Co	312	Wigglesworth Exporters Ltd
122	Willing Freight Services	313	Vintage Warehouse Agencies
123	Vishvakarma Joiners & Builders	314	Wilkesy & Macgeorge Ltd
124	Willmon Freight Agencies	315	Virchand Virpal & Sons Ltd
125	World Cargo Logistics Ltd	316	Vinbush Enterprises Ltd
126	Wilsaki Freight Forwarders Ltd	317	Widenet Freight Agencies
127	Willfield Freighters Co Ltd	318	Vincenzo Hotel Contractors Ltd
128	Visaro Construction Co	319	Wigedoje Enterprises Ltd
129	Willing Freight Services	320	Vinep Forwarders Limited
130	Vishvakarma Joiners & Builders	321	Wigglesworth Exporters Ltd
131	Willmon Freight Agencies	322	Vintage Warehouse Agencies
132	World Cargo Logistics Ltd	323	Wilkesy & Macgeorge Ltd
133	Premchand Depar & CO	324	Virchand Virpal & Sons Ltd
134	Pwani Trading Agencies Ltd	325	Vinbush Enterprises Ltd
135	Raichand Panachand & CO	326	Widenet Freight Agencies
136	Roma Trading CO Ltd	327	Vincenzo Hotel Contractors Ltd
137	Sahem Bin Abeid & CO	328	Wigedoje Enterprises Ltd
138	Wrap & Pack Cargo (K) Ltd	329	Vinep Forwarders Limited
139	Ziofreight Clearing & Forwarding Co	330	Wigglesworth Exporters Ltd
140	Ya-Fatah Clearing & Fowarding	331	Vintage Warehouse Agencies
141	Zobra Builders Limited	332	Wilkesy & Macgeorge Ltd
142	Yalfa Cargo Handling Ltd	333	Asfaw Trading Co Ltd
143	Zobra Constr & Co	334	Allcliff Agencies
144	Yara East Africa Ltd	335	Asg Transport Ltd
145	Zomark Freighters	336	Alliance Cargo Forwarders Ltd
146	Westin Enterprises Ltd	337	Ashdhi Co. Ltd
147	Zounhaize(K)Ltd	338	Alliance Logistics (K) Ltd
148	Weston Logistics Ltd	339	Asia Pacific Clearing & Forwarding Ltd
149	Zula Transporters	340	Allports Forwarders Ltd
150	Wrap & Pack Cargo (K) Ltd	341	Ask Cargo Ltd
151	Ziofreight Clearing & Forwarding Co	342	Al-Mubarak Forwarders 138
152	Ya-Fatah Clearing & Fowarding	343	Associated Building & Civil
153	Zobra Builders Limited	344	Engineering Contractors
154	Yalfa Cargo Handling Ltd	345	Almug (K) Ltd
155	Sanostadi Trading CO	346	Asfaw Trading Co Ltd
156	Shah Mathod Dharahi & CO	347	Allcliff Agencies
157	Sojpar Gosar & CO	348	Asg Transport Ltd
158	Sorakant Wholesalers	349	Alliance Cargo Forwarders Ltd
159	Wem Freight Consultants Co Ltd	350	Ashdhi Co. Ltd
160	Venture Africa Co Ltd	351	Zafora Investments

161	Wermort Flowers	352	Worldwide C Frieght Ltd
162	Venus Maritime (K) Ltd	353	Zakhem Construction (Kenya) Ltd
163	Westgate Cargo Marketing	354	Worldwide E A Ltd
164	Victoria Nile Freight Services	355	Zeft Freighters
165	Whispers Investments (K) Ltd	356	Worldwide Kenya Ltd
166	Victory Construction Co Ltd	357	Zein Freight Services
167	Whiteline Ltd	358	Worldwide Logistics Ltd
168	Wem Freight Consultants Co Ltd	359	Zigler Express Ltd
169	Venture Africa Co Ltd	360	Worldwide Movers Kenya Ltd
170	Wermort Flowers	361	Zafora Investments
171	Venus Maritime (K) Ltd	362	Worldwide C Frieght Ltd
172	Westgate Cargo Marketing	363	Zakhem Construction (Kenya) Ltd
173	Victoria Nile Freight Services	364	Worldwide E A Ltd
174	Whispers Investments (K) Ltd	365	Zeft Freighters
175	Victory Construction Co Ltd	366	Worldwide Kenya Ltd
176	Whiteline Ltd	367	Yuston Cargo Ltd
177	Afri Global Ltd	368	Worldrich Services Ltd
178	Alfa Logistics	369	Zilphique Enterprises
179	Amalgaed Agencies	370	Afreen Enterprises
180	Amritlal Premchand & Company	371	Yuston Cargo Ltd
181	Anwarali & Brothers Ltd	372	Worldrich Services Ltd
182	Apollo Eleven Properties Ltd	373	Zilphique Enterprises
183	Arcpro Agencies Ltd	374	Afreen Enterprises
184	Arcpro Logistics Ltd	375	Avandu General Merchants Ltd
185	Arkan Holdings Ltd	376	Ayman Travels
186	Beeline Enterprises Ltd	377	Azusa Ltd
187	Wakara Enterprises	378	B T A Bigtimer Agencies Ltd
188	Velji Muljee Store	379	Vaghji Velji & CO
189	Tayari Wholesalers (1995) Ltd	380	United Traders (Mombasa) Ltd
190	Tamu Enterprises	381	Stocklot Market and Trading Ltd
191	Squaredeal Traders	382	Stezan General Traders