

**DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG SMALL
SCALE ENTERPRISES IN KILIFI COUNTY**

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TECHNOLOGY**

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DECLARATION

This research project is my original work and has not been presented for a degree in any other university or institutions.

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

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DEDICATION

I would like to dedicate this research work to the almighty God for his grace, wisdom and knowledge to carry on this academic work even with other attached responsibilities. I dedicate this work to my mother who kept praying for me and always celebrated in my achievements.

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I would like to extend my special gratitude to my supervisor Mr. Thomas Ongallo for his understanding, patience and scholarly guidance in every step of the preparation of this project. His comments and support shaped the development of this project. I also thank the Kenya School of Revenue Administration for giving me an opportunity to pursue a course leading to the post graduate diploma in tax administration. This course has broadened my knowledge and has armed me with adequate skills in tax matters.

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ABBREVIATIONS AND ACRONYMS

ETR	Electronic Tax Register
GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
KRA	Kenya Revenue Authority
MLE	Maximum Likelihood Estimation
OECD	Organization for Economic Co-operation and Development
PAYE	Pay As You Earn
Probit	Probability + unit
SMEs	Small and Medium Enterprises
SSEs	Small Scale Enterprises
SPSS	Statistical Package of Social Sciences
ToT	Turnover Tax
ZIMRA	Zimbabwe Revenue Authority

DEFINITION OF KEY TERMS

Non Compliance:	This refers to the failure by individual or organization to meet the tax obligations whether deliberate or unintentional (Gichuki, 2015).
Small Scale Enterprises:	A small scale enterprise, or more simply, a small business, is one marked by a limited number of employees and a limited flow of finances and materials (Baru, 2016).
Tax Administration:	Management, conduct, direction and supervision of the execution and application of Government, country or state's taxation laws and related statutes (Emran & Stiglitz, 2015).
Tax Avoidance:	Tax avoidance is about getting round the law to reduce a tax liability to the tax collectors (Munga, 2019).
Tax Compliance:	Tax compliance is taxpayers' willingness to pay their tax liability as per tax laws and regulations (Kipkemoi, 2015).
Tax Compliance cost:	It refers to the expenditure of time or money in conforming with government requirements such as legislation or regulation (Livoi, 2017).
Tax Knowledge:	Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information (Blough, 2017).

ABSTRACT

The small business taxpayers who do not qualify for VAT pay the turnover tax. This tax was aimed at bringing businesses in the informal sector into the tax bracket. These businesses include small scale manufacturing firms and Jua Kali businesses, agricultural enterprises and transport industries. The general objective of the study was to investigate the determinants of turnover tax compliance among small scale enterprises in Kilifi County. The study focused on the following variables; taxation knowledge, tax compliance cost and taxpayer perception. The study was guided by the following theories; Fischer tax compliance model, the Allingham and Sandmo theory and Theory of planned behavior. This study adopted stratified sampling technique which was seen to be viable and more accurate given the target population. The target population comprised of 252 registered SSEs in Kilifi County from different sectors in Kilifi County. A pilot study was undertaken on 10 of the respondents to test the reliability and validity of the questionnaire. Primary data was collected using questionnaires. Quantitative data was analyzed using SPSS version 25. Descriptive analysis measures such as frequency, percentage, mean and standard deviation was used in data interpretation. Regression analysis was used to examine the effects of the independent variables; taxation knowledge, tax compliance cost and taxpayer perception and turnover tax compliance (the dependent variable). The R^2 analysis was used to measure the goodness of fit of the model being assessed. Correlation analysis was used to determine the strength of relationship between the variables. The study found out that there was a positive and significant relationship between taxation knowledge and turnover tax compliance. Further, the study found out that there was a positive and significant relationship between tax compliance cost and turnover tax compliance. Lastly, the study found out that there was a positive and significant relationship between taxpayer perception and turnover tax compliance. Based on the findings, the study concluded that taxation knowledge, tax compliance cost and taxpayer perception have a positive and significant effect on turnover tax compliance. The study recommends that continuous tax education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. Further, in response to tax compliance costs, the government should endeavor to implement tax policies in the form of concessions that produce favorable outcomes for the SSEs. Lastly, there is need for a more simplified tax system since this will increase the perception of fairness on tax system and ultimately fosters tax compliance.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Small and medium-sized enterprises (SMEs) are an important part of the taxpayer population in any country around the globe. Their taxation usually poses a number of challenges. They are numerous but contribute relatively little to the state coffers, while often absorbing a large share of scarce tax administration resources much needed elsewhere in administering the tax system. Moreover, low levels of tax compliance are observed among SMEs, particularly among the self-employed, thus further reducing potential tax collections and increasing the tax administration effort (Nguyen, Pham, Le, Truong & Tran, 2020). Many countries address these issues by adopting simplified tax regimes for SMEs and implementing dedicated compliance strategies (Rahayu, Setiawan & Troena, 2017). While the primary objective of a well-designed simplified tax regime is to improve efficiency of small businesses taxation, by reducing both compliance costs and tax administration effort, the compliance-enhancing strategies aim at the inclusion and more efficient use of different administrative instruments that allow more taxpayers to be brought into the tax net, encourage existing taxpayers to voluntarily fulfill their tax obligations, and ultimately to create a widespread culture of paying taxes (Ovute & Eyisi, 2017).

The risk of voluntary non-compliance is also higher in the case of small businesses (Naicker & Rajaram, 2019). Many SMEs, even if incorporated, are managed by the owners. Unlike professional managers or accountants in large companies, they do business using their own capital and have different interests in its use. Their personal risk-aversion may be lower as any gains arising from tax evasion directly accrue to business manager-owners. For this reason, they are more sensitive to changes in the financial situation, unfair treatment by tax administration or simply tempted by existing opportunities. Unquestionably, there are more opportunities for small businesses to be non-compliant than for larger ones – they can use cash transactions, disguise their private consumption

as business inputs, or hide actual wage payments (Rantelangi & Majid, 2017). By doing so they manipulate their sales, margins, profits, and even taxable wages paid to their employees. More importantly, it is easier for them not to be formalized at all. Specific tax concessions available for small businesses offer further avenues for tax abuse, e.g. hiding below the eligibility threshold in a presumptive tax (Organization for Economic Co-operation & Development, 2015).

Many external and internal factors influence the establishment, operation, growth and development of SMEs. The developed countries put SMEs in the focus of their economic strategies and programs with specific macroeconomic policies measures, such as targeted fiscal policy to SMEs, tax exemptions and special taxation schemes that directly affect the reduction of operating costs, improve liquidity and competitiveness of SMEs (Salehi, Khazaei & Tarighi, 2019). In Vietnam, SMEs serve as a vehicle to create jobs for local communities. The government of Vietnam has identified and prioritized the development of SMEs as one of its strategic objectives (Gherghina, Botezatu, Hosszu, & Simionescu, 2020). Despite the importance of these businesses for the country and regions, these businesses still face many challenges. One of the most onerous and time-consuming challenges is ensuring tax compliance. Tax compliance is defined as the preparation, submission and payment of taxes due within the specified time periods (Naicker & Rajaram, 2019; Nguyen, 2019).

Italy is known to have one of the highest SMEs tax evasion rates among OECD countries (Buehn & Schneider, 2016), of which ToT evasion represents a significant share. Indeed, Italy is estimated to have the fifth highest ToT gap among European Union countries (CASE, 2016). Although evasion is a nationwide issue, the propensity to evade is known to be heterogeneous across regions and sectors (Pomeranz, 2015). According to estimates provided by the Italian Revenue Agency, the regional propensity to evade tends to be lower in the north of the country, higher in the center, and especially high in the south (Langenmayr, 2017).

Tax is the most reliable and significant source of revenue by the government of Zimbabwe, contributing more than 60% to the national budget (Ministry of Finance 2013 and 2014). The rapid growth of informal sector signifies a large number of potential taxpayers

(Maseko & Manyani, 2017). According to Fjeldstad and Mick (2019), SMEs do not keep proper financial records, and this makes it difficult for the Zimbabwe Revenue Authority to collect revenue from them. Economic challenges have resulted in the shrinking of the tax base in Zimbabwe (ZIMRA, 2015). Salehi *et al.* (2019) assert that in 2012, Zimbabwe had 3,5 million small scale traders with an estimated turnover of US \$7,4 billion. Formal companies have scaled down operations and others have closed shop (ZIMRA, 2015). Confederation of Zimbabwe Industries (CZI) (2015) report estimates that industrial capacity utilization ranged between 34% and 57% during the period 2009-2015. As a result, the Zimbabwean economy has a large number of small scale traders as they attempt to fill the void left by large companies which have succumbed to economic challenges. Small scale trader's activities constitute as much as 70% of economic activity and that they contribute more than 60% of the country's GDP (Rahayu et al., 2017).

The small business taxpayers who do not qualify for VAT pay the turnover tax. This tax was aimed at bringing businesses in the informal sector into the tax bracket. These businesses include small scale manufacturing firms and Jua Kali businesses, agricultural enterprises and transport industries (Mwiti, 2016). According to Munga (2019), the turnover tax rate was set at three percent. Turnover tax does not apply to rental income, management or professional fees or training fees, income subject to withholding tax as a final tax and income of incorporated companies (Income Tax Act, Cap 470). Turnover Tax(ToT) is a tax charged on gross sales of a business as per Sec. 12(c) of the Income Tax Act. First introduced vide Finance Act 2006, replaced by Presumptive Income Tax vide Finance Act 2018 then reintroduced vide Finance Act 2019.

The SMEs in Kenya are characterized by the ease of entry and exit, the small scale nature of activities, self-employment with a high proportion of family workers and apprentices, the little amount of capital and equipment, their labour intensive technology, the low level of skills, the low level of organization with little access to organized markets, the unregulated and competitive markets, the limited access to formal credit, the low levels of education and training and the limited access to services and amenities (Malonza, 2016).

According to Kipkemoi (2015), every sector of operations has smaller operations. These include textile industry, manufacturing, finance, security, food and hotels, transport,

service sector to mention a few. Employment within the Sector accounted for 74.2 per cent of the total persons in employment. The sector contributes up to 18.4 per cent of the country's Gross Domestic Product (GDP). The sector is, therefore, not only a provider of goods and services but also a driver in promoting competition and innovation, and enhancing the enterprise culture which is necessary for private sector development and industrialization (Gichuki, 2015). It is expected that by the year 2030, Kenya would have been transformed into a newly industrialized nation. If the country has to make this leap, then the small enterprises are expected to play a key role in this transformation. To play this role, the small enterprises must succeed and the failure rate characterizing the sector be minimized if not abolished (Livoi, 2017).

1.2 Statement of the Problem

The small scale enterprises (SSEs) sector which accounts for the largest portion of the country's GDP remains under taxed, according to Public Budgeting Office (2015), out of the total revenue target of Ksh. 442 million in 2013/2014, Kenya Revenue Authority only managed to get Ksh. 136 million from Turn Over Tax (TOT) about 30% of the initially set target. The Tax compliance in this sector is low despite its productivity. According to KRA sixth corporate plan, it is noted that there are 2.7 million SSEs businesses in the country are not registered for tax purposes (KIPPR, 2015). The nature of the industry is that it operates in the informal set-up therefore making it harder for the government to enforce taxation measures and ensure compliance. Therefore, success in taxation in this industry depends on voluntary compliance (Baru, 2016).

The large numbers of SSEs, their high turnover rates and their sheer diversity presents challenges to the tax authority (Karingi, Wanjala, Pamba & Nyakang'o, 2015). Attempts have been made to bring the SSEs sector into the tax bracket by the introduction of TOT in 2008. But despite these efforts, by mid-2015, only 735 SSEs had adopted the tax system out of a possible 2,371 SSEs in Kilifi County representing a 31% uptake of TOT (KRA, 2015). This is further complicated by the inability of SMEs to maintain books of accounts for their transactions and complexities that are inherent in the regular tax regimes (Omondi, 2015).

According to a study done by Karingi et al., (2015), the main challenges that affect the TOT adoption rate among small scale traders are: lack of training on TOT to staff, inadequate attention by the tax administration towards the informal sector, mobility of SMEs making compliance difficult and poor attitude towards government and taxation. According to KRA. in total revenue collected from the TOT system is Kshs. 221 million against a target of Kshs. 645 million which is far from attaining the set target of creating an additional Kshs 2,400 million per year. On TOT recruitment, the performance has on average been below 50% (Mwangi, Gachoka & Siagi, 2015).

Reviews of past researches investigated in Kenya on tax compliance among small scale traders assessed other contextual issues that impacted tax collection among SMEs. Mwiti (2016) carried out a study on effect of tax reforms on compliance with turnover tax among small and medium enterprises in industrial area, Nairobi. Musau (2015) assessed factors influencing tax compliance among SMEs in Nairobi County. Onyiego (2018) examined factors influencing Value Added Tax compliance among the construction firms in Kisumu County. Lidetu and Semma (2018) investigated factors Affecting the performance of Value Added Tax revenue collection administration practices. A Case of Wolaita Zone Revenue Authority, Southern Ethiopia. There is little empirical evidence on the determinants of turnover tax collection among SSEs. It is against this backdrop that this research was undertaken to fill the gap by investigating the determinants of turnover tax compliance among small scale enterprises in Kilifi County.

1.3 Objectives of the Study

This section outlined the objectives which were addressed by the study. The objectives were categorized into general objective and specific objectives.

1.3.1 General Objective

The general objective of the study was to investigate the determinants of turnover tax compliance among small scale enterprises in Kilifi County.

1.3.2 Specific Objectives

The study sought to address the outlined specific objectives;

- i. To assess the effect of taxation knowledge on turnover tax compliance among small scale enterprises in Kilifi County.
- ii. To analyze the effect of tax compliance cost on turnover tax compliance among small scale enterprises in Kilifi County.
- iii. To evaluate the effect of taxpayer perception on turnover tax compliance among small scale enterprises in Kilifi County.

1.4 Research Questions

- i. What is the effect of taxation knowledge on turnover tax compliance among small scale enterprises in Kilifi County?
- ii. What is the effect of tax compliance cost on turnover tax compliance among small scale enterprises in Kilifi County?
- iii. What is the effect of taxpayer perception on turnover tax compliance among small scale enterprises in Kilifi County?

1.5 Significance of the Study

1.5.1 Kenya Revenue Authority

This study will be of great importance to KRA in the identification and solving of the problems that it has always encountered in meeting revenue collection targets, and the challenges faced by small scale traders in trying to comply with turnover tax. The study will provide the authority with better ways to collect turnover tax from small scale traders which have been posing a great challenge and the collections have been diminishing with the passage of time. The study will also be useful in providing solutions that can be used to expand the tax base by reaching more business people. This research aims at filling up the knowledge gap by explaining the various factors that can be used in the improvement of tax compliance as well as collection of turnover tax in Kilifi County.

1.5.2 Scholars

The scholars studying taxation of small scale traders will use the results of this study as a reference material for further research since for a long time, tax issues on SSEs have always been viewed as a complex subject that should be left largely to tax experts and the

government. Huge information gaps therefore have been existing on issues relating to tax policy, tax administration and tax performance.

1.5.3 Kenya School of Revenue Administration (KESRA)

The report from this study will be part of KESRA library together with reports on studies from other researchers. It will add to the secondary sources that will provide KESRA students with useful information especially those who will be interested in examining taxation of small and medium-size enterprises. They may apply the knowledge gained from this study on other fields of study.

1.5.4 National Government

The evidence from this study is expected to benefit the National Government which might have been seeking for reasons why KRA has not been successful in collection of turnover tax in Kenya. The study will provide the Kenyan government policy makers with useful insights on the most critical factors to consider for purposes of improved service delivery to the public and efficient and effective tax collection policies. This results into improvement on the general tax collection in our country and consequently propelling economic growth.

1.5.5 Small Scale Enterprises

This study will capture original data from the taxpayers who pay turnover tax and this will enable them to provide the data that can be used to find a solution to the challenges they face while trying to comply with the tax laws. Businesses will also find this study relevant since they will be sensitized and will thus understand their obligations in payment of taxes to the revenue authority.

1.6 Scope of the Study

This study was limited to the determinants of turnover tax compliance among small scale enterprises in Kilifi county. The study targeted small scale enterprises operating in this region since tax noncompliance is a common problem in the region. Small scale enterprises in Kilifi County were suitable for this study because a good number of them operate along the coastal beaches due to its tourist potential and that tax revenue authority does not closely supervise and monitor how these business enterprises prepare their

financial statements and how they determine their exact tax liabilities. The study took a period of 5 months.

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 are; Fischer tax compliance model, the Allingham and Sandmo theory and Theory of planned behavior.

2.2.1 Fischer Tax Compliance Model

Gurawa and Mansor (2015) carried out a comprehensive literature review of the tax compliance and identified 14 key factors that affect tax compliance. These factors are categorized by Fischer and associates who categorised them into 4 groups in his expanded model (Fischer Model): (i) demographic (age, gender and education) (ii) noncompliance opportunity (income level, income source and occupation), (iii) attitudes and perceptions (fairness of the tax system and peer influence) and (iv) tax system/structure (complexity of the tax system, probability of detection and penalties and tax rates). Thus Fisher model of tax compliance incorporates economic, sociological and psychological factors into a comprehensive one.

According to Gichuki (2015), education as a demographic variable relates to the taxpayers' ability to comprehend and comply or not comply with the tax laws. Gichuki further explains that two aspects of education have been distinguished: "the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities". This knowledge is considered to be important for attitudes towards tax compliance. Emran and Stiglitz (2015) have included education as a background variable in their experiment. They find that those with more fiscal knowledge had more positive tax ethics scores

(attitudes towards tax compliance will be discussed below) than those with lower fiscal knowledge.

Bo, Slemrod and Thoresen (2015) also found that specific tax knowledge was positively linked to taxpayer attitude. The study conducted by Junpath *et al.* (2016) reveal that higher education is directly linked to an increased likelihood of tax compliance. By using randomized response technique for a mail questionnaire survey of Australian individuals, Houston and Tran (2016) also find that taxpayers without tertiary education tend to have lower proportions of tax compliance than their counterparts with tertiary education. In addition, Baru (2016) also reports that general education level is significantly related to tax evasion.

This model resonates well with the first independent variable of taxation knowledge. According to Fischer tax compliance model, those with more fiscal knowledge had more positive tax ethics scores (attitudes towards tax compliance will be discussed below) than those with lower fiscal knowledge. Specific tax knowledge is positively linked to taxpayer attitude. This model argues that higher education is directly linked to an increased likelihood of tax compliance.

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 negative 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.

Wagacha (2019) 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. Wagacha (2019) result is maybe the absolute most significant finding in the early tax evasion writing, having prodded a ton of wonderful extensions. Companies 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 tax compliance cost. Taxpayers would evade tax when they perceive the cost of compliance as high (Ng'eni, 2016).

2.2.3 Theory of Planned Behavior

Theory of Planned Behavior states that the emergence of behavior is determined by taxpayer behavior intention. It is because the intention of behaving is a motivation that influence tax payer behavior. The intention to behave indicates how much a person's desire to try or devise a plan. Strong intention to behave will influence the individual behavior (Naicker & Rajaram, 2019). A taxpayer who portrays an optimistic attitude towards the objectives of the tax systems is likely to have a positive impact on tax compliance and vice versa (Nguyen, 2019). As opposed to the economic theories that emphasized on increase audits, coercive and penalties to mitigate tax compliance issues; the psychological theories instead stressed on the changing trends of individual attitudes towards the tax systems.

Maseko and Manyani (2017) revealed three determinants of intention to behave, which are (1) the attitude toward the behavior, (2) subjective norm, and (3) perceived behavioral control. The third determinant showed first, the attitude of the individual's beliefs influences the individual behavior, whether it is positive or negative behavior. In this study, the attitudes towards tax compliance behavior are how confident the taxpayer on the implementation of tax compliance and taxpayer evaluating the results of the tax compliance behavior. Second, subjective norm is social influence perception in forming the behavior. Someone could be affected or not affected by social influences. In this study, subjective norms are the beliefs about the taxpayer social influence strength or other factors in the environment that motivates taxpayers to make tax compliance or not perform tax compliance. Third, perceived behavioral control is the belief and the individual's perception of other factors beyond the individual that will affect individual behavior. In this study, perceived behavioral control is the belief of taxpayers on how strong the supervision system carried to minimize tax noncompliance or maximize tax compliance.

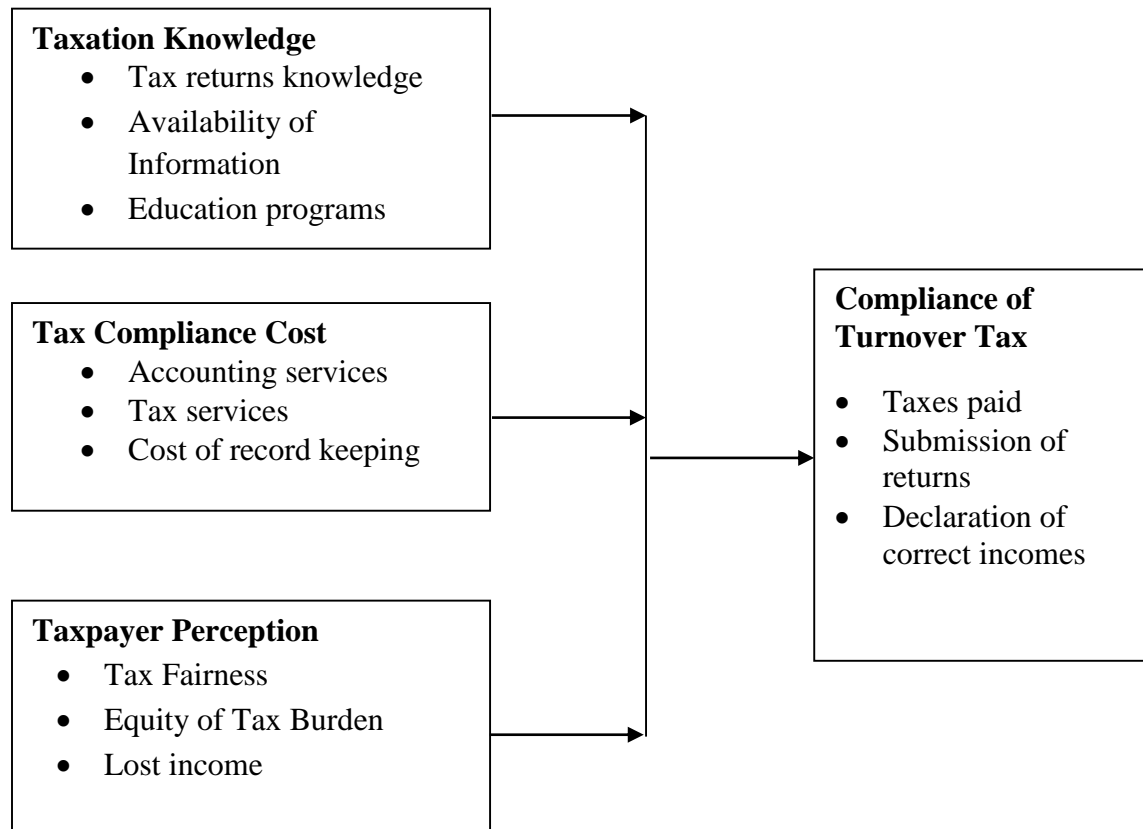
A taxpayer who portrays an optimistic attitude towards the objectives of the tax systems is likely to have a positive impact on tax compliance and vice versa (Livoi, 2017). As opposed to the economic theories that emphasized on increase audits, coercive and penalties to mitigate tax compliance issues; theory of planned behavior instead stress on the changing trends of individual attitudes towards the tax systems.

This theory fosters and is within the ambit of the third variable of this study; to evaluate the effect of tax payer perception on collection of turnover tax among small scale enterprises in Kilifi county. KRA should come up with strategies to change taxpayers' attitude and perception towards tax compliance. it has been proven that attitude, subjective norm, perceptual behavior, and perceptions of taxpayers towards the government have certain effects on the intention to comply with tax obligations.

2.3 Conceptual Framework

The conceptual framework reveals the relationship and linkage that exists between the dependent variable and the independent variables. Kothari (2013) 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 the effect of (tax

knowledge, tax compliance cost and tax payer perception) on turnover compliance among small scale enterprises in Kilifi County.



Independent Variables

Dependent Variable

Fig 2.1: Conceptual Framework

2.4 Review of Literature on Variables

2.4.1 Taxation Knowledge

Standard models assume that tax payers are fully informed of all the aspects that cover the tax reporting processes. However, this is a strong assumption and not the case (Munga, 2019). Tax research has shown that the degree of information is an important factor on the behavior of tax payers and how it influences tax evasion. Less educated tax payers are less exposed to tax compliance information and are less informed about relevant tax compliance information and thus are more prone to tax evasion. Some tax payers find the complexity of tax information more difficult to understand than others. This complexity

may lead to unintentional non-compliance if tax payers have problems maybe in filling of tax returns (Richardson & Sawyer, 2015).

Baru (2016) states that, in addition to tax education about tax laws, tax education also plays a major role in determining taxpayers' compliance behavior. Therefore, a step ahead, for example continuous education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters (Blough, 2017). Previous literature supports the direct, negative relationship between educational level and taxpayer compliance but a direct relationship between income level and tax compliance is unclear. Fagbemi, Uadile and Noah (2016) also postulate that greater education is directly linked to a likelihood of tax collection. They argue that educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Fagbemi *et al.*, (2016) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.

Previous studies have evidenced that general tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them (Emran & Stiglitz, 2015). Given evidence that tax knowledge affects understanding of taxpayers, an obvious explanation that has been raised by previous researchers is whether enhancement of tax knowledge will increase tax compliance (Cummings, Martinez-Vazquez, McKee & Torgler, 2019).

Gichuki (2015) claimed that 'knowledge about tax law is assumed to be important for preferences and attitudes towards taxation. There is little research that explicitly considers how attitude towards taxation is influenced by specific knowledge of tax regulations'. The research done by Gurawa and Mansor (2015) illustrated the importance of tax education in a tax system and thus improvement in tax compliance among SSEs. They suggested that fiscal knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws.

2.4.2 Tax Compliance Cost

Taxpayers incur two main types of compliance costs: gross monetary compliance costs and psychological costs. Gross monetary compliance costs include both actual money paid and opportunity costs relating to the time and other resources expended when complying with tax laws (Mwiti, 2016). Psychological costs, on the other hand, involve the estimation of stress and anxieties resulting from complying with tax laws, normally measured using a Likert scale (Fagbemi et al., 2016). Cummings et al., (2019) calculated net compliance costs which deduct cash flow benefits, tax relief and managerial benefits resulting from tax obligation from the gross compliance costs. Taxpayers benefit financially from using tax collected before their due for payment to a tax authority. Similarly, taxpayers reduce their tax liabilities by deducting tax compliance costs when calculating income taxes. Finally, the improvement in accounting information, for example, might enhance taxpayers' decision-making abilities. In this study, tax compliance costs refer to the actual money paid in the process of complying with tax laws.

Tax compliance costs can arise for many reasons. Slemrod (2016), who reviewed the causes of tax compliance costs in the UK, and Shekidele (2019), who studied them in Tanzania, established that tax compliance costs decreased with a reduction in the number of tax rates, coupled with the harmonization of definitions and compliance procedures. Likewise, KMPG (2016) in the UK, and Evans (2015) in the UK and Australia, reported that tax compliance costs decrease with an increase in the stability of tax laws coupled with less frequent introduction of new tax laws, because taxpayers incur fewer costs and lose less time as they become conversant with the existing tax laws. Lignier and Evans (2014) attributed the increase in tax compliance costs of Australia's SMEs to the introduction of sales taxes, which required extensive accounting records. Other facilitative factors include the introduction of a self-assessment tax system and withholding of transfer compliance costs by taxpayers from tax authorities (Slemrod, 2016).

The World Bank's development indicator for "time to prepare and pay taxes" shows that while preparing and paying taxes requires 210 hours on average in high income OECD countries, the required time extends to 1080 hours in Bolivia and Vietnam and even 2600 hours in Brazil. In Kenya the time for preparing and paying taxes amount to 417 hours in

a year (Wagacha, 2019). In countries where compliance costs are very high, the probability of the taxpayer complying with such a great variety of taxes is low. This study conceptualizes that, compliance to tax policies implies that, one has to honor their tax payments, fines and penalties. Also one has the responsibility to provide accurate information to the tax authority for the purposes of tax calculations and finally, do tax filling. Therefore, the cost of compliance to taxation play a key role in determining taxpayers' willingness to pay tax.

Internationally, the use of external advisors by SMEs is increasing with estimates of between 52% and 75% of SMEs utilizing the services of external tax advisors (Gurawa & Mansor, 2015). It is estimated that between 60% and 80% of South African businesses use tax practitioners to help them with their tax compliance obligations. SMEs thus regularly engaged the services of external service providers, and payments to these advisors thus have an impact on the cost of tax compliance for small businesses (Faridy, 2017).

Gherghina, Ștefan, Botezatu, Hosszu and Simionescu (2020) in one of the largest studies of its kind conducted on the tax compliance costs incurred by small businesses in South Africa, investigated the value and determinants of external tax compliance costs incurred by South African small businesses found that small businesses paid (in 2019) on average R9 882 for assistance from external tax advisors. It was also established from the survey results that external tax compliance costs increased as the size of the business – based on turnover – increased. The costs were also found to be regressive, with the smaller businesses spending disproportionately more than those with a higher turnover.

2.4.3 Taxpayers Perception

Perception towards tax and its general compliance levels among SSEs has been identified as one of the major factors that influence compliance (Redae & Sekhon, 2016). Savitri and Musfialdy (2016) opine that tax evasion is a universal phenomenon that takes place in all societies and economic systems including both developed and developing countries and it's influenced by many factors among them attitudes and perceptions. According to Junpath, Kharwa and Stainbank (2016), the growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance. This is in contrasting

between the benefits received for the tax given and the equity of the taxpayer's burden in reference to that of other individuals. It is thus seen that taxpayers who believe that the tax system is unfair are more likely to commit tax noncompliance behavior.

According to Olaoye, Ayeni-agbaje and Alaran-ajewole (2017), tax fairness consists of at least two different dimensions. "One dimension appears to involve the equity of the trade - the benefits received for the tax given. The other dimension appears to involve the equity of the taxpayer's burden in reference to that of other individuals". Omondi (2015) argued that unfairness of the tax system may reflect enterprises' perceptions that they are overpaying taxes in relation to the value of the services provided by government or in relation to what other taxpayers pay. Ovute and Eyisi (2017) found that taxpayers' need and ability to pay are the most significant variables related to perceptions of fairness of the tax system. A survey conducted by Nguyen et al. (2020) indicates that respondents who believe that the tax system is unfair are more likely to commit tax noncompliance behavior.

Tax compliance can have psychological connotations and as such perceived fairness plays a pivotal role in shaping compliance behavior (OECD, 2015). Of some of the empirical evidence, Nguyen (2019) argued that the odds of non-compliance increase when economic agents perceive a tax system to be unfair. Similar argument was posted by Munga (2019) who indicated that the perceived fairness of tax system plays a significant impact on behavior towards tax remittances.

Taking cognizant of the internet of doing things, tax administration has incorporated technology. This entails that there has been a wave of increase in the complexity of the tax systems. Naicker and Rajaram (2019) argued that, a more complex system increases non-compliance. Confirming to this assertion, Nguyen (2019) added that lack of understanding of tax laws undermines tax revenue productivity hence reduces the levels of compliance. As a solution to that, Munga (2019) recommended that tax rules be simple, clear and comprehensible. This allows taxpayers to comprehend and understand the processes involved in tax remittances. Literature therefore suggests that a more simplified tax system increases the perception of fairness on tax system and ultimately fosters tax

compliance. Basing on these revealed literature, a significant inverse relationship between complexity of a tax system and fairness of the tax system cannot be ruled out.

2.4.4 Turnover Tax Compliance

Filing returns and paying taxes also can be extremely burdensome and difficult for SMEs, particularly if the forms are complex, the requested information hard to obtain, and return filing requires time-consuming visits to a local tax office in order to comply with tax obligations (Langenmayr, 2017). For tax administrators, SME returns represent the bulk of forms received and processed. These returns, unlike large taxpayer's returns, have a disproportionate number of inconsistencies, missing information, and (presumed) unintentional errors. High benefits can be realized where there is return simplification, plain language instructions, bank payment processing, reductions in filing and payment frequency, and e-filing and e-payment acceptance (Fjeldstad & Mick Moore, 2019).

According to Kopczuk *et al.* (2016), ToT collection has long been a subject of interest to the Kenya Revenue Authority since it has a direct effect on revenue collection. This study will find out how rate of tax, level of taxpayer's awareness and tax laws influence turnover tax compliance by SMEs who form the largest number of taxpayers in Kenya. This topic has recently also attracted the attention of the general public as budget deficits have continuously been growing in Kenya as a state. The budget deficit for 2019/2020 financial year is Ksh. 607 billion as put by Kenya's treasury. This is an increase of Ksh.31 billion from Ksh.576 billion budget gap in 2018/2019 (Wagacha, 2019).

Small businesses form the core group of hard-to-tax taxpayers. It is not uncommon in developing countries that a larger percentage of small businesses operate in the informal rather than in the formal economy (Kipkemoi, 2015). While small businesses in no way constitute the only source of underground economy activities, data about the size of the underground economy still can provide a proxy for the scope of the problem (Karingi *et al.*, 2015; Livoi, 2017).

Turnover tax also suffers from tax evasion. Tax evasion refers to illegal and unethical practices which were committed business that will lead to escape from taxation. Tax evasion occurs in various forms of action such as when the amount and/or the source of income are misrepresented, or tax reducing factors such as deductions, exemptions or

credits are deliberately overstated (Fjeldstad & Mick Moore, 2019). Tax evasion occurs in the informal economy where the whole activity takes place in an informal manner. This means the business is not only evading tax payments but is also not registered as formal enterprise at all (Fagbemi *et al.*, 2016).

According to Gurawa and Mansor (2015), a presumptive turnover tax can simplify tax administration and compliance costs and hence benefit both tax administrators and taxpayers. However, a high turnover tax, such as that in Rwanda, may play a negative role by encouraging small firms to avoid paying the tax via underreporting of gross revenues causing additional revenue authority auditing. This interaction may form a vicious circle, diverting resources from both government and business to the “hide and catch” game. The result could be an unhealthy tax environment that encourages expansion of the informal economy (Baru, 2016).

2.5 Empirical Review

Kanyinga (2016) in his study of the effect of tax reforms on compliance with turnover tax among small and medium enterprises in industrial area, Nairobi concluded that most SMEs indicated that they use e-tax registration and file their return online. KRA has embraced information technology in its operations to improve TOT compliance among small and medium enterprises in Kenya. SMEs agreed that introduction of the SIMBA, ITMS, ITR and EFT and computerization are the main drivers to compliance and hence more revenue collection. SMEs indicated that they have been trained by KRA on how to comply with turnover tax. From the explanations given it could be concluded that compliance increases with being taught how to calculate the tax payments and how to file returns while registering for turnover tax. Therefore, majority agreed that training on TOT affects its compliance to a large extent. From the ones who knew about the training they knew how to calculate the turnover tax. It can be concluded that training of TOT improves accounting standards of most businesses and that the businesses are able to grow as a result of proper bookkeeping and accounting.

Kimaru and Jagongo (2014) studied the adoption of turnover tax in Kenya: a snapshot of small and medium enterprises in Gikomba market. 53.7% of the respondents indicated that tax compliance influenced adoption of turnover tax to a great extent. They were

followed by, 31.7% of them who indicated to a very great extent. In another study by Omondi (2015), the findings have showed that tax awareness increases the level of tax compliance among the small scale traders. most traders were familiar with tax requirements there were gaps such as knowledge on tax payer identification pin number, knowledge on store and safeguard their records for period stipulated under the existing laws, understanding when they are mandated to pay tax due for assessment, knowledge on which income should be allowable in determining the taxable income and knowledge on declaration of all income for the purposes of taxation. The findings showed tax awareness and education having a positive and significant effect on the tax compliance. Among other factors identified having influence on tax compliance was knowledge especially in terms of the education level.

Nduruchi (2017) in his study findings and earlier discussion, it was noted that cost influence tax compliance negatively and significantly contributing 9.6% variability to tax compliance by SMEs when other factors are held constant. The Kenya Revenue Authority should consider revising the cost of tax product downwards. Additionally, Kenya Revenue Authority should make the tax filing process convenient, easy and costless. Similarly, Kenya revenue authority, should not impose penalties on late filing of taxes. The tax computation should be as easy as possible to enhance eligible tax payers' compliance.

2.6 Critique of Existing Literature

The study by Kipkemoi (2015) fails to show how tax rate regime is positively related to compliance of TOT which is in line with Naicker and Rajaram (2019) finding that businesses fail to comply with tax due to high tax regime which increases the burden on those taxpayers who try to comply with the tax law. The lower and simple tax rate regime improves tax compliance. Online tax filing is related to tax compliance. This implies that online tax filing reduces tax compliance burden and make submitting of tax returns easier as taxpayers don't have to queue at revenue authority filing returns.

The study by Kimaru and Jagongo (2014) failed to recommend that to have a fully functioning turnover tax system among SMEs in Kenya, the small traders should be made to understand the tax administration through the turnover tax education so that they are encouraged to pay taxes promptly. The computation of taxes should also be made simple

and comprehensible to all small scale businessmen. That K.R.A should make more frequent friendly visits to the small traders to educate all traders in the importance of adopting the turnover tax through channels like seminars, door to door, mobile tax clinics should be enforced in thorough manner. That there should be a reduced complexity of the tax rules, frequency of submitting tax returns and an increase in the level of government involvement in levying and collecting of taxes under the tax policies affecting turnover tax compliance.

Previous studies by Karingi *et al.*, (2015); KIPPRA (2014); Omondi (2015); Ovute and Eyisi (2017) on tax compliance found that tax reforms indeed enhance tax compliance. However, these studies were general in methodology where they looked at tax compliance in terms of aggregates, not specific to each enterprise. Tax revenues from various sources (Karingi *et al.*, 2015; KIPPRA, 2014; Omondi, 2015); Ovute & Eyisi,2017) were regressed on their tax bases. The study concluded that the tax system had failed to raise necessary revenues. However, the shortcomings of the study were that it never considered other important determinants of tax revenue, for instance the unusual circumstances that could have affected tax revenue productivity. It also never disintegrated tax revenue data by source hence it was difficult to say which tax bases contributed more to the exchequer.

Studies by Karingi *et al.*, (2015); KIPPRA (2014); Omondi (2015); Ovute and Eyisi (2017) concur with OECD (2015) that a significant number of businesses also fail to register or file tax declarations. This only increases the burden on those taxpayers who try to comply with the tax law, and discourages their future compliance. The result is a vicious cycle which tends to preserve the status quo. Only meaningful reforms to the tax system can break the cycle and result in an improved business climate which will stimulate economic growth. From this outcome, it shows that most of the businesses saw the necessity of tax compliance in ensuring most businesses adopted the turnover tax system. Majority, 41.5% of the respondents indicated that to great extent total businesses tax compliance costs tend to be higher for large companies, as a percentage of sales they are significantly higher for SMEs, while, 8.1% of the investors indicated to a little extent. For higher compliance burden for latter tax system, 65.9% investors in the busy market indicated it tends to discourage SME creation to great extent, according to a majority,

62.6% of them reducing tax compliance costs by lowering the overall tax burden on small businesses helps to a great extent achieve more neutral tax treatment of firms of varying sizes.

2.7 Research Gaps

Various studies have been conducted on tax compliance. Savitri and Musfialdy (2016) carried out a study on the determinants of tax evasion behavior by small to medium enterprises (SMEs) in Harare Metropolitan Province, Zimbabwe with a focus on tax burden, marital status and income. Baru (2016) assessed the Influence of tax understanding, Tax Awareness and Tax Amnesty toward Taxpayer Compliance with a special focus on understanding and tax amnesty. Mwiti (2016) carried out a study on effect of tax reforms on compliance with turnover tax among small and medium enterprises in industrial area, Nairobi. Rantelangi and Majid (2017) examined tax compliance determinants in self-assessment system (SAS): empirical evidence from Nigeria. Gherghina et al., (2020) examined and modelled the causes of tax default among small and medium scale enterprises (SMEs) in the Tamale Metropolis of Ghana. Junpath et al. (2016) conducted a study on the impact of taxpayer education on tax compliance in South-Africa. However, there exist both contextual and objective gaps. The literature review affirmed that much of the empirical studies undertaken in the topic under study had been undertaken outside Kenya. Hence, there was definite need to focus the study in the Kenyan context to add to literature with evidence from the experiences of small scale enterprises in Kenya towards ToT compliance.

The only study that has been carried out that is close to the current study is that which was conducted by Mwiti (2016) who sought to assess factors influencing tax compliance among SMEs in Nairobi County. This study therefore intends to fill these pertinent gaps by adding value to existing literature by providing empirical evidence to the selected independent variables on the determinants of turnover tax compliance among small scale enterprises in Kilifi county.

2.8 Summary

The study was guided by the Fischer tax compliance model, the Allingham and Sandmo theory and Theory of planned behavior. These theories explained the effect of (taxation

knowledge, tax compliance cost and tax payer perception) on ToT compliance among SSEs in Kilifi County. The conceptual framework for this study attempted to explain an integrative view of the determinants of turnover tax compliance among small scale enterprises in Kilifi county. In addition, empirical review was conducted where past studies both global and local were reviewed in line with the following criteria, title, scope, methodology resulting into a critique of the literature. It is from these critiques that the research gap was identified. The three independent variables discussed included; taxation knowledge, tax compliance cost and tax payer perception and ToT compliance among SSEs in Kilifi County as dependent variable.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines how the study was 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

Cooper and Schindler (2013) define a research design as the scheme, outline or plan that is used to generate answers to research problems. According to Jayamaha, Grigg & Mann (2018), research design can be thought of as the structure of research. This research problem will be studied through the use of cross-sectional descriptive study design. Cross-sectional study design will be selected because of the advantages that it proffers in saving cost and time in data collection and also the reason that it allows for standardization of interview questions. This allows for testing of hypothesis.

3.3 Target Population

Kothari (2013) describes target population as total items about which information is desired. Target population of this study will comprise of all registered small scale enterprises by the County Government of Kilifi as at 31st December, 2019, that had been in operations for over three years with a focus on the owners and/or managers of these small scale enterprises. The target population will comprise of 252 registered SSEs in Kilifi County from different sectors as classified by the County Government of Kilifi registry as shown in Table 3.1.

Table 3.1: Target Population

S/No.	Sector	Population
1	Boutique	32
2	Retail	60
3	Beauty	48
4	Restaurants	62
5	Groceries	50
TOTAL		252

Source: County of Kilifi Register of Prequalified Vendors (2020)

3.4 Sampling Frame

Sampling frame describes a complete list of all cases in the largest population from which the research draws a sample (Cooper & Schindler, 2013). Also a sampling frame can be described as a representation of all items of the units of interest that constitute the population from which a sample is selected. For the purpose of this study, the sampling frame was sourced from County of Kilifi Register of Prequalified Vendors (2020). This therefore constituted of either owners or employees hired to operate the Small scale enterprises. The sampling frame will consist of all registered SSEs in all the Business Sectors (Industries) in the County Government of Kilifi.

3.5 Sample Size and Sampling Technique

A sample design refers to a plan to be used in obtaining a sample from a population. It is a technique or procedure which a researcher adopts when selecting sample items (Kothari, 2013). The study used stratified random sampling. This sampling method was suitable because of ease of assembling the sample and it was also considered as a fair way of selecting a sample from a given population since every member is given equal opportunity of being selected. According to Bryman (2014), the bigger the size of the sample, the lower the possible error in taking a broad view of the population. The sample size is the

number of sampling units selected from the population for investigation (Kothari ,2013).
The researcher used Yamane formula.

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

Where,

n = is the desired sample size

N = is the population size

e = margin of error (at 95% confidence level

Therefore, sample size was given as,

$$n = 252 / (1 + 252(0.05)^2) = 155$$

Table 3.2: Sample Size Determination

S/No.	Sector	Population (N)	Sample (n)
1	Boutique	32	20
2	Retail	60	37
3	Beauty	48	30
4	Restaurants	62	38
5	Groceries	50	30
TOTAL		252	155

3.6 Data Collection Instruments

The research utilized survey questionnaires and key informant interviews as the main research tools. The use of questionnaire was considered appropriate since the data was generated from primary source. Questionnaire was used to collect data from the sampled SSEs employees and owners. A five point Likert-scale was used in designing closed ended questions where respondents were asked to rate their opinion from two extremes, for instance; strongly agree and strongly disagree. In addition, interviews were used to collect data from key informants which will act as a back-up of data from the questionnaire.

3.7 Data Collection Procedures

Creswell (2013) define data collection as the precise, systematic gathering of information relevant to the research sub-problems, using methods such as interviews, participant observations, focus group discussion, narratives and case histories. Some questionnaires were administered with the help of two research assistants while others were administered via mail due to the busy schedules of the respondents.

To enhance the response rate, the study considered the research ethical issues that include confidentiality and anonymity. The researcher explained to the respondents the importance of the study and sought permission prior to the research date. The study assured the respondents of the confidentiality and anonymity of their identities, the respondents were briefed in cases where there were challenging questions. Voluntary participation by respondents was enhanced.

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 (Cooper & Schilder, 2013). According to Kothari (2013), 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 10 small scale enterprises 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, 2013).

3.8.1 Validity

According to Cohen and Morrison (2015), validity is the accuracy and meaningfulness of inferences, which are based on the research results. In other words, validity is the degree to which results obtained from the analysis of the data actually represent the phenomenon under study. Validity of the instruments was obtained to determine judgment and intuitive. The use of validity was to determine whether the research truly measures that which intended to measure or how truthful the research results are. Factor analysis was thus used to test of validity in this study. 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 be reliable. The recommended value of 0.7 is the cut-off of reliability (Bryman, 2014).

3.8.2 Reliability

It refers to consistency throughout a series of measurements. For example, if a respondent gives out a response to a particular item, he is expected to give the same response to that item even if he is asked repeatedly. One of the ways by which reliability of data can be tested is by finding out the agency that collected such data, and if the data conforms to the rest of the population. The greater the degree of consistency and stability in an instrument, is the greater its accuracy and reliability. If the agency has used proper methods in collection of data, statistics may be relied upon (Creswell, 2013).

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 (Kothari, 2013).

3.9 Data Analysis and Presentation

The data was collected, processed and analyzed with respect to the study objectives, using both descriptive and inferential statistics. The tool of analysis used for this study was Statistical Package for Social Sciences (SPSS) version 25. The data was analyzed using descriptive statistics such as mode, median, mean, standard deviation. Study findings were tested by use of F-tests (ANOVA) and t-tests to measure and determine the statistical significance between the variables and to draw conclusions of the study. Correlation and multiple linear regression analyses were also used to determine the relationship between tax compliance determinants and collection of turnover tax of SSEs in Kilifi County.

The relevancy and relationships will be determined by simple regression and correlation analysis techniques where;

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

Y – Collection of turnover tax of SSEs in Kilifi County (outcome as a result of changes in any or all the variables, X_1 to X_4)

' B_0 – is a constant, the results when all variables X_1 to X_3 are zero.

X_1 – Taxation Knowledge

X_2 – Tax Compliance Cost

X_3 – Taxpayer Perception

' b_1 – b_3 – Regression coefficients

ε – error 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 taxation knowledge, tax compliance cost and tax payer perception and how they affect the dependent variable which was the turnover tax compliance among small scale enterprises in Kilifi County.

4.2 Response Rate

The study targeted 155 respondents in investigating the determinants of turnover tax compliance among small scale enterprises in Kilifi County of which 135 respondents responded making a response rate of 87% as summarized in table 4.1. This response rate was appropriate since Bryman (2014) 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	135	87%
Non responses	20	13%
Total	155	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 Study Results

4.3.1 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-Olkin (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 Cohen and Morrison (2015), the sample is termed adequate when KMO ranges from 0 and 1. Table 4.2 illustrates that the KMO was above 0.50 levels implying that the variables had an acceptable degree of sampling adequacy for factor analysis.

Table 4.2: Factor analysis -KMO and Bart

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin	Measure of Sampling Adequacy.	.795
Bartlett's Test of Sphericity	Approx. Chi-Square	243.079
	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 4.2. Factor 1 was based on five items that represented taxation knowledge; Factor 2 was based on five items that represented tax compliance cost; Factor 3 was based on five items that represented tax payer perception and Factor 4 with five items represented turnover tax compliance among small scale enterprises in Kilifi County.

The Kaiser-Meyer-Olkin measures of sampling adequacy shows the value of test statistic as 0.795, 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.

4.3.2 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 4.3 shows the results.

Table 4.3: Reliability Test

Scale	Cronbach's Alpha	Number of Items	Remarks
Taxation Knowledge	.866	5	Accepted
Tax Compliance Cost	.891	5	Accepted
Tax Payer Perception	.821	5	Accepted
Turnover Tax Compliance	.802	5	Accepted

From the pretest, all the alpha values were more than 0.7 as indicated in Table 4.3. Taxation knowledge had an alpha value of 0.866, tax compliance cost had Cronbach's alpha value of 0.891, tax payer perception had an alpha value of 0.821 and turnover tax compliance had a Cronbach's alpha value of 0.802. 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 4.3 it is clear that the research instrument was reliable with Cronbach's alpha value of above 0.7. These results correlate with Cooper and Schindler (2013) 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.

4.4 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 and age of business existence. The research targeted 155 respondents in regard to investigating the determinants of turnover tax compliance among small scale enterprises in Kilifi County.

4.4.1 Level of Education

The outcomes depicted in Table 4.4 shows that respondents with the highest percentage at 45% had obtained Bachelor’s degrees. It was also observed that 24% of the respondents had obtained education from colleges. 21% of the respondents, however, indicated they had a postgraduate qualification (that is, Masters and Doctorate degrees). This implies that majority of the respondents in the study area had acquired education from colleges and universities. Very few respondents (that is, 10% 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	10
College	33	24
Undergraduate	61	45
Postgraduate	28	21
TOTAL	135	100

4.4.2 Age of Business

The study sought to determine the age of SSEs in the study area. It was found out that majority of SSEs as shown in Table 4.5, were in operation for more than 10 years, representing 49% of the SSEs in the study area. About 32% of SSEs were more than 6 years but less than 10 years old since inception. Few businesses were still new and have

been in operation for less than 3 years accounting for 4%. 49% of the SSEs had been in existence for more than 10 years.

Table 4.5: Age of Business

Level	Frequency	Percent (%)
Below 3 years	6	4
Between 3 – 5 years	20	15
Between 6 – 10 years	43	32
Above 10 years	66	49
TOTAL	135	100

4.5 Descriptive Analysis

The following presents the findings on the various study variables.

4.5.1 Taxation Knowledge

The study sought to assess the effect of taxation knowledge on turnover tax compliance among small scale enterprises in Kilifi County. Table 4.6 summarizes respondents' level of agreement on the effect of taxation knowledge on turnover tax compliance among small scale enterprises in Kilifi County. The statement that knowledge about tax laws plays a major role in determining ToT compliance had a mean score of 4.28. The statement that effective tax education can change the attitude and perception of property owner towards tax compliance had a mean score of 4.20. The statement that SSEs have adequate knowledge on tax rate, basis of taxation and compliance requirements had a mean score of 4.31. The statement that KRA has created a lot of public awareness on turnover tax had a mean score of 4.21. The statement that taxpayer awareness has enabled tax payers file their returns easily had a mean score of 4.19.

These study findings are supported by Baru (2016) who states that, in addition to tax education about tax laws, tax education also plays a major role in determining taxpayers' compliance behavior. Therefore, a step ahead, for example continuous education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and

understanding of tax matters. Blough (2017) supports the direct, negative relationship between educational level and taxpayer compliance. Fagbemi, Uadile and Noah (2016) also postulate that greater education is directly linked to a likelihood of tax collection. They argue that educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance. Fagbemi et al., (2016) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.

Table 4.6: Taxation Knowledge

	N	Mean	Std. Deviation
Knowledge about tax laws plays a major role in determining ToT compliance	135	4.28	.568
Effective tax education can change the attitude and perception of property owner towards tax compliance	135	4.20	.454
SSEs have adequate knowledge on tax rate, basis of taxation and compliance requirements	135	4.31	.525
KRA has created a lot of public awareness on turnover tax	135	4.21	.442
Taxpayer awareness has enabled tax payers file their returns easily	135	4.19	.465
Valid N (listwise)	135		

4.5.2 Tax Compliance Cost

The study sought to analyze the effect of tax compliance cost on turnover tax compliance among small scale enterprises in Kilifi County. Table 4.7 summarizes respondents' level of agreement on the effect of tax compliance cost on turnover tax compliance among small scale enterprises in Kilifi County. The statement that avoidance costs contain planning

and research costs and they are considered as additional expenditures to increase the opportunities for avoidance had a mean score of 4.04. The statement that it is difficult to measure compliance cost when determining the time (hours per month) that tax payers spend on complying with their tax obligations had a mean score of 4.33. The statement that increasing burden of record keeping for tax purposes affects ToT compliance had a mean score of 4.16. The statement that main reason for using external tax professionals is that technical knowledge is not readily available internally had a mean score of 4.04. The statement that external costs and spending are a significant element of tax compliance costs had a mean score of 3.96. These findings concur with Gurawa and Mansor (2015) who argue that internationally, the use of external advisors by SMEs is increasing with estimates of between 52% and 75% of SMEs utilizing the services of external tax advisors. According to Faridy (2017), it is estimated that between 60% and 80% of South African businesses use tax practitioners to help them with their tax compliance obligations. SMEs thus regularly engaged the services of external service providers, and payments to these advisors thus have an impact on the cost of tax compliance for small businesses.

Table 4.7: Tax Compliance Cost

	N	Mean	Std. Deviation
Avoidance costs contain planning and research costs and they are considered as additional expenditures to increase the opportunities for avoidance	135	4.04	.700
It is difficult to measure compliance cost when determining the time (hours per month) that tax payers spend on complying with their tax obligations	135	4.33	.501
Increasing burden of record keeping for tax purposes affects ToT compliance	135	4.16	.370
Main reason for using external tax professionals is that technical knowledge is not readily available internally	135	4.04	.591
External costs and spending are a significant element of tax compliance costs	135	3.96	.663
Valid N (listwise)	135		

4.5.3 Taxpayer Perception

The study sought to evaluate the effect of tax payer perception on turnover tax compliance among small scale enterprises in Kilifi County. Table 4.8 summarizes respondents' level of agreement on the effect of tax payer perception on turnover tax compliance among small scale enterprises in Kilifi County. The statement that SSEs are obligated to support the government by paying taxes had a mean score of 3.78. The statement that the tax system in place motivates me to voluntarily comply with my tax obligations depicted a mean score of 4.24. The statement that SSEs find it hard to comply with the tax laws as they are complicated had a mean score of 4.08. The statement that as small scale enterprises, we feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment had a mean score of 4.19. The statement that

KRA has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance had a mean score of 4.01.

These findings concur with Redae and Sekhon (2016) who opine that perception towards tax and its general compliance levels among SSEs has been identified as one of the major factors that influence compliance. Naicker and Rajaram (2019) argued that, a more complex system increases non-compliance. Confirming to this assertion, Nguyen (2019) added that lack of understanding of tax laws undermines tax revenue productivity hence reduces the levels of compliance. Junpath, Kharwa and Stainbank (2016) suggests that a more simplified tax system increases the perception of fairness on tax system and ultimately fosters tax compliance. Basing on these, a significant inverse relationship between complexity of a tax system and fairness of the tax system cannot be ruled out.

Table 4.8: Taxpayer Perception

	N	Mean	Std. Deviation
SSEs are obligated to support the government by paying taxes	135	3.78	.630
The tax system in place motivates me to voluntarily comply with my tax obligations	135	4.24	.448
SSEs find it hard to comply with the tax laws as they are complicated	135	4.08	.702
As small scale enterprises, we feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment	135	4.19	.649
KRA has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance	135	4.01	.473
Valid N (listwise)	135		

4.5.4 Turnover Tax Compliance

The respondents were requested to state their individual opinions on five specific statements regarding turnover tax compliance among small scale enterprises in Kilifi County. The statement that small scale enterprises file tax returns every month depicted a mean score of 4.24. The statement that small scale enterprises file tax returns only to avoid penalties had a mean score of 4.35. The statement that as a small scale enterprise, we have always declared actual income received from all sources to the tax authority had a mean score of 3.96. The statement that as a SSEs, we are always keeping up to date records and books of accounts had a mean score of 3.79. The statement that as a business, we have registered as taxpayers for all the taxes we qualify for without being forced to had a mean score of 4.39.

Table 4.9: Turnover Tax Compliance

	N	Mean	Std. Deviation
Small scale enterprises file tax returns every month	135	4.24	.427
Small scale enterprises file tax returns only to avoid penalties	135	4.35	.478
As a small scale enterprise, we have always declared actual income received from all sources to the tax authority	135	3.96	.727
As a small scale enterprises, we are always keeping up to date records and books of accounts	135	3.79	.603
As a business, we have registered as taxpayers for all the taxes we qualify for without being forced to	135	4.39	.490
Valid N (listwise)	135		

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. Pearson Bivariate correlation coefficient was used to determine the correlation between the dependent variable, turnover tax compliance and the independent variables; taxation knowledge, tax compliance cost and taxpayer perception. As stated by Creswell (2013), 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, 2013).

From table 4.10, the results generally indicate that independent variables (taxation knowledge, tax compliance cost and taxpayer perception) were found to have positive significant correlations on turnover tax compliance among small scale enterprises in Kilifi County at 5% level of significance. There was a strong positive and highly significant correlation between taxation knowledge and turnover tax compliance ($r = 0.670, P < 0.05$). There was a strong positive and highly significant correlation between tax compliance cost and turnover tax compliance ($r = 0.655, P < 0.05$). There was a strong positive and highly significant correlation between taxpayer perception and turnover tax compliance ($r = 0.683, P < 0.05$). The results imply that independent variables; taxation knowledge, tax compliance cost and taxpayer perception significantly influenced turnover tax compliance among small scale enterprises in Kilifi County.

Table 4.10: Pearson Correlations

		Tax			
		Taxation Knowledge	Compliance Cost	Taxpayer Perception	ToT Compliance
Taxation Knowledge	Pearson	1			
	Correlation				
	Sig. (2-tailed)				
	N	135			
Tax Compliance Cost	Pearson	.495**	1		
	Correlation				
	Sig. (2-tailed)	.000			
	N	135	135		
Taxpayer Perception	Pearson	.506**	.562**	1	
	Correlation				
	Sig. (2-tailed)	.000	.000		
	N	135	135	135	
ToT Compliance	Pearson	.670**	.655**	.683**	1
	Correlation				
	Sig. (2-tailed)	.000	.000	.000	
	N	135	135	135	135

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

4.7 Regression Analysis

4.7.1 Model Summary

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; taxpayer perception, taxation knowledge, tax compliance cost and the dependent variable; turnover tax compliance. The model, shown in table 4.11, explains 66% of the variance (R Square = 0.660) on turnover tax compliance. Clearly, there are factors other than the three proposed in this model which can be used to predict turnover tax compliance among small scale enterprises in Kilifi County. However, this is still a good model as pointed out by Cohen and Morrison (2015) the model is acceptable in social science if adjusted R square value is not lower than 0.10. This implies that 66% of the relationship is explained by the identified three factors namely; taxpayer perception, taxation knowledge and tax compliance cost. The rest 34% is explained by other factors not considered in the model.

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.812 ^a	.660	.652	.19703

a. Predictors: (Constant), Taxpayer Perception, Taxation Knowledge, Tax Compliance Cost

4.7.2 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 = 84.593, 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 4.12, 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 determinants of turnover tax compliance among small scale enterprises in Kilifi County. This shows that the overall model was significant and that taxpayer perception, taxation knowledge and tax compliance cost have an effect on turnover tax compliance.

Table 4.12: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.852	3	3.284	84.593	.000 ^b
	Residual	5.086	131	.039		
	Total	14.937	134			

a. Dependent Variable: ToT Compliance

b. Predictors: (Constant), Taxpayer Perception, Taxation Knowledge, Tax Compliance Cost

4.7.3 Regression Coefficients

Table 4.13 presents the regression coefficients and the significance of the regressions (p-value). From the regression result, the coefficient of taxation knowledge is .417. This implies that one unit change in taxation knowledge, increases turnover tax compliance by .417. Therefore, taxation knowledge was found to have statistically significant effect on turnover tax compliance among small scale enterprises in Kilifi County ($\beta = 0.354$; $t = 5.730$; $p < 0.05$). From the regression result, the coefficient of tax compliance cost is .324. This implies that one unit change in tax compliance cost, increases turnover tax compliance by .324. Therefore, tax compliance cost was found to have statistically significant effect on turnover tax compliance among small scale enterprises in Kilifi County ($\beta = 0.286$; $t = 4.440$; $p < 0.05$). From the regression result, the coefficient of taxpayer perception is .451. This implies that one unit change in taxpayer perception, increases turnover tax compliance by .451. Therefore, taxpayer perception was found to have statistically significant effect on turnover tax compliance among small scale enterprises in Kilifi County ($\beta = 0.343$; $t = 5.282$; $p < 0.05$).

Table 4.13: Multiple Regression (Coefficients)

Model		Unstandardized		Standardized		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.698	.315		2.214	.029
	Taxation Knowledge	.417	.073	.354	5.730	.000
	Tax Compliance Cost	.324	.073	.286	4.440	.000
	Taxpayer Perception	.451	.085	.343	5.282	.000

a. Dependent Variable: ToT Compliance

$$Y = 0.698 + 0.417X_1 + 0.324X_2 + 0.451X_3$$

Where:

$$Y = \text{ToT Compliance}$$

β_0 = Constant

X_1 = Taxation Knowledge

X_2 = Tax Compliance Cost

X_3 = Taxpayer Perception

e_i = Stochastic term

4.7.4 Discussion of the Key Findings

This section discusses the research findings presented in the previous section based on the objectives and research questions of the study. The general objective of the study was to investigate the determinants of turnover tax compliance among small scale enterprises in Kilifi County. The variables under study were taxation knowledge, tax compliance cost and taxpayer perception.

Pearson Bivariate correlation was used to compute the correlation between taxation knowledge and turnover tax compliance among small scale enterprises in Kilifi County. There was a strong positive and highly significant correlation between taxation knowledge and turnover tax compliance ($r = 0.670$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of taxation knowledge and turnover tax compliance among small scale enterprises in Kilifi County ($\beta = 0.354$; $t = 5.730$; $p < 0.05$). These study findings are supported by Baru (2016) who states that, in addition to tax education about tax laws, tax education also plays a major role in determining taxpayers' compliance behavior. Therefore, a step ahead, for example continuous education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. Blough (2017) supports the direct, negative relationship between educational level and taxpayer compliance. Fagbemi *et al.*, (2016) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more.

Pearson Bivariate correlation was used to compute the correlation between tax compliance cost and turnover tax compliance among small scale enterprises in Kilifi County. There was a strong positive and highly significant correlation between tax compliance cost and turnover tax compliance ($r = 0.655$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of tax compliance cost and turnover tax compliance among small scale enterprises in Kilifi County ($\beta = 0.286$; $t = 4.440$; $p < 0.05$). These findings concur with Gurawa and Mansor (2015) who argue that internationally, the use of external advisors by SMEs is increasing with estimates of between 52% and 75% of SMEs utilizing the services of external tax advisors. According to Faridy (2017), it is estimated that between 60% and 80% of South African businesses use tax practitioners to help them with their tax compliance obligations. SMEs thus regularly engaged the services of external service providers, and payments to these advisors thus have an impact on the cost of tax compliance for small businesses.

Pearson Bivariate correlation was used to compute the correlation between taxpayer perception and turnover tax compliance among small scale enterprises in Kilifi County. There was a strong positive and highly significant correlation between taxpayer perception and turnover tax compliance ($r = 0.683$, $P < 0.05$). Standard multiple regression was conducted and there was positive and statistically significant effect of taxpayer perception and turnover tax compliance among small scale enterprises in Kilifi County ($\beta = 0.343$; $t = 5.282$; $p < 0.05$). These findings concur with Redae and Sekhon (2016) who opine that perception towards tax and its general compliance levels among SSEs has been identified as one of the major factors that influence compliance. Naicker and Rajaram (2019) argued that, a more complex system increases non-compliance. Confirming to this assertion, Nguyen (2019) added that lack of understanding of tax laws undermines tax revenue productivity hence reduces the levels of compliance. Junpath, Kharwa and Stainbank (2016) suggests that a more simplified tax system increases the perception of fairness on tax system and ultimately fosters tax compliance. Basing on these, a significant inverse relationship between complexity of a tax system and fairness of the tax system cannot be ruled out.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study sought to investigate the determinants of turnover tax compliance among small scale enterprises in Kilifi County. Taxation knowledge, tax compliance cost and taxpayer perception were the 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

5.2.1 Taxation Knowledge

The first objective of the study was to assess the effect of taxation knowledge on turnover tax compliance among small scale enterprises in Kilifi County. Taxation knowledge was found to be satisfactory in explaining turnover tax compliance. Further, results showed that taxation knowledge is a good predictor of turnover tax compliance. Correlation analysis revealed that taxation knowledge was positively and significantly associated to turnover tax compliance. Regression of coefficient revealed that there was a positive and significant relationship between taxation knowledge and turnover tax compliance. This means that an improvement in taxation knowledge leads to an improvement in turnover tax compliance.

5.2.2 Tax Compliance Cost

The second objective of the study was to analyze the effect of tax compliance cost on turnover tax compliance among small scale enterprises in Kilifi County. Tax compliance cost was found to be satisfactory in explaining turnover tax compliance. Further, results showed that tax compliance cost is a good predictor of turnover tax compliance. Correlation analysis revealed that tax compliance cost was positively and significantly associated to turnover tax compliance. Regression of coefficient revealed that there was a positive and significant relationship between tax compliance cost and turnover tax

compliance. This means that an improvement in tax compliance cost leads to an improvement in turnover tax compliance.

5.2.3 Taxpayer Perception

The third objective of the study was to evaluate the effect of taxpayer perception on turnover tax compliance among small scale enterprises in Kilifi County. Taxpayer perception was found to be satisfactory in explaining turnover tax compliance. Further, results showed that taxpayer perception is a good predictor of turnover tax compliance. Correlation analysis revealed that taxpayer perception was positively and significantly associated to turnover tax compliance. Regression of coefficient revealed that there was a positive and significant relationship between taxpayer perception and turnover tax compliance. This means that an improvement in taxpayer perception leads to an improvement in turnover tax compliance.

5.3 Conclusions

5.3.1 Taxation Knowledge

The degree of information is an important factor on the behavior of tax payers and how it influences tax evasion. Some tax payers find the complexity of tax information more difficult to understand than others. This complexity may lead to unintentional non-compliance if tax payers have problems maybe in filling of tax returns. Tax knowledge has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them. Tax knowledge correlates with attitudes towards taxation and tax behavior can be improved by a better understanding of tax laws. Educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance.

5.3.2 Tax Compliance Cost

Taxpayers incur two main types of compliance costs: gross monetary compliance costs and psychological costs. Gross monetary compliance costs include both actual money paid and opportunity costs relating to the time and other resources expended when complying with tax laws. SMEs spend on tax advisers or accounting professionals to help them with their tax compliance obligations. Such costs include those that SSEs pay for external

advice on tax compliance. Depending on the size of the taxpayer, they range from fixed monthly payments covering all necessary tax advice to one-off payments for specific activities, such as handling a refund request. SSEs thus regularly engaged the services of external service providers, and payments to these advisors thus have an impact on the cost of tax compliance for small businesses.

5.3.3 Taxpayer Perception

Perception towards tax and its general compliance levels among SSEs has been identified as one of the major factors that influence compliance. The growing dissatisfaction with the fairness of tax system is the major causes for increasing tax noncompliance. This is in contrasting between the benefits received for the tax given and the equity of the taxpayer's burden in reference to that of other individuals. Its thus seen that taxpayers who believe that the tax system is unfair are more likely to commit tax noncompliance behavior. Unfairness of the tax system may reflect enterprises' perceptions that they are overpaying taxes in relation to the value of the services provided by government or in relation to what other taxpayers pay. Respondents who believe that the tax system is unfair are more likely to commit tax noncompliance behavior.

5.4 Recommendations

1. Continuous tax education programmes and effective monitoring mechanisms must be taken into account by tax authorities to ascertain that taxpayers have a good and reasonable knowledge and understanding of tax matters. Various channels like tax seminars, booklets and media channels will greatly improve the SSEs level of compliance as the great complexity associated with tax matters will be demystified.
2. In response to this concern about tax compliance costs, the government should endeavor to implement tax policies in the form of concessions that produce favorable outcomes for the SSEs. Such special tax concessions for small business fall mainly into two categories: positive concessions that provide a lower rate of taxation, an exemption or an accelerated deduction; and relieving concessions that excuse the taxpayer from requirements otherwise imposed. While the first category of provisions can be expected to have some impact on the burden of tax

compliance, it is the second category that is expected to have the more significant impact on the external compliance costs.

3. There is need for a more simplified tax system since this will increase the perception of fairness on tax system and ultimately fosters tax compliance. Making tax system fair and equitable among taxpayers based on the income and ability of taxpayers as much as possible is recommended. A close follow up must be made to assess the income of the taxpayers and identify as they clearly report their income in order to make tax fair and equitable. This because by developing the minds of tax fairness and equity, taxpayers more likely prefer to share tax burden. In addition, procedural fairness will influence the acceptance of decisions made by the tax authority and will build trust in the tax authority among SSEs. Procedural fairness is important for tax authorities, since by enacting fair procedures authorities support their legitimacy and trust.

5.5 Areas for Further Research

The study sought to investigate the determinants of turnover tax compliance among small scale enterprises in Kilifi County. This called for the analysis of SSEs in Kilifi County only, thus area for further studies could consider other counties for purpose of making a comparison of the findings with those of the current study. Moreover, the study used only three variables that is taxation knowledge, tax compliance cost and taxpayer perception as the only variables that affect turnover tax compliance. According to the coefficient of non-determination, 34% is explained by other factors not considered in the model. Therefore, future studies can incorporate other variables which are not captured by this study.

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APPENDICES
Appendix I: Letter of Introduction



ISO 9001:2015 CERTIFIED

KRA/KESRA/MSA/106

5th November 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
ALEX NGUMA KALAMA	HDB336-C016-4962/2016

The above mentioned student is in his final year of study at the school and currently conducting research on the **DETERMINANTS OF TURNOVER TAX COMPLIANCE AMONG SMALL SCALE ENTERPRISES IN KILIFI COUNTY**. The student is in the process of gathering data and thereafter, compile a report that will strictly be used for academic purposes only. The School would therefore like to seek your permission to allow him/her collect information that relates to his research from your organization.

Thank you in advance for your support and cooperation.

Yours sincerely,

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

Appendix II: RESEARCH QUESTIONNAIRE

This questionnaire is meant to gather information regarding your views on the determinants of turnover tax compliance among small scale enterprises in Kilifi 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 Postgraduate

2. Years the business has been in existence

a. Below 3 years

b. Between 3 – 5 years

c. Between 6 – 10 years

d. Above 10 years

SECTION B: TAXATION KNOWLEDGE

Rate the extent to which the following aspects of taxation knowledge affect turnover tax compliance among SSEs in Kilifi County.

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements.

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

	Statement	1	2	3	4	5
B1	Knowledge about tax laws plays a major role in determining ToT compliance					
B2	Effective tax education can change the attitude and perception of property owner towards tax compliance					
B3	SSEs have adequate knowledge on tax rate, basis of taxation and compliance requirements					
B4	KRA has created a lot of public awareness on turnover tax					
B5	Taxpayer awareness has enabled tax payers file their returns easily					

SECTION C: TAX COMPLIANCE COST

Rate the extent to which the following aspects of tax compliance cost affecting turnover compliance tax among SSEs in Kilifi County.

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements.

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

	Statement	1	2	3	4	5
C1	Avoidance costs contain planning and research costs and they are considered as additional expenditures to increase the opportunities for avoidance					
C2	It is difficult to measure compliance cost when determining the time (hours per month) that tax payers spend on complying with their tax obligations					
C3	Increasing burden of record keeping for tax purposes affects ToT compliance					
C4	Main reason for using external tax professionals is that technical knowledge is not readily available internally					
C5	External costs and spending are a significant element of tax compliance costs					

SECTION D: TAX PAYER PERCEPTION

Rate the extent to which the following aspects of tax payer perception affecting turnover tax compliance among SSEs in Kilifi County.

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements.

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

	Statement	1	2	3	4	5
D1	SSEs are obligated to support the government by paying taxes					
D2	The tax system in place motivates me to voluntarily comply with my tax obligations					
D3	SSEs find it hard to comply with the tax laws as they are complicated					
D4	As small scale enterprises, we feel that there is a lot that can be done on our tax systems to ease the work of preparation of tax returns and payment					
D5	KRA has put in place enough measures to ensure that taxpayers know of their obligations and reparations of noncompliance					

SECTION E: ToT COMPLIANCE AMONG SSEs

Please indicate on the scale provided below by ticking the extent to which you agree with the following statements.

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

	Statement	1	2	3	4	5
E1	Small scale enterprises file tax returns every month					
E2	Small scale enterprises file tax returns only to avoid penalties					
E3	As a small scale enterprise, we have always declared actual income received from all sources to the tax authority					
E4	As a small scale enterprises, we are always keeping up to date records and books of accounts					
E5	As a business, we have registered as taxpayers for all the taxes we qualify for without being forced to					

Appendix III: Sample Frame

1.	Abimaris Enteprires	140	Mifabu Enteprires
2.	Aggressive Suppliers Initiative	141	Millano Enteprires
3.	Aidrian Agencies	142	Mithimala Investments Kilifi
4.	Al Mubarak Company Limited	143	Mkapuni Youth Enteprires
5.	Almut Enteprires Ltd	144	Mkwajuni Garage
6.	Alronic Enterprise	145	Mtaani Enteprires
7.	Ambergold Ventures	146	Mtendesh Enteprires
8.	Amuj Line	147	Mufemu Contractors
9.	Angeltey Enteprires	148	Mult Options General Merchandise
10.	Annef General Supplies	149	Mumaki Emporium Ltd
11.	Antoma Super Market Enteprires	150	Mums Farms And Holdings Ltd
12.	Arsenal Springs Enteprires	151	Munjo Ventures
13.	Arwaz Enteprires	152	Mifabu Enteprires
14.	Abimaris Enteprires	153	Millano Enteprires
15.	Aggressive Suppliers Initiative	154	Mithimala Investments Kilifi
16.	Aidrian Agencies	155	Mkapuni Youth Enteprires
17.	Al Mubarak Company Limited	156	Mkwajuni Garage
18.	Almut Enteprires Ltd	157	Mtaani Enteprires
19.	Alronic Enterprise	158	Mtendesh Enteprires
20.	Ambergold Ventures	159	Mufemu Contractors
21.	Amuj Line	169	Mult Options General Merchandise
22.	Angeltey Enteprires	170	Mumaki Emporium Ltd
23.	Annef General Supplies	171	Mums Farms And Holdings Ltd
24.	Antoma Super Market Enteprires	172	Makarana Enteprires
25.	Mats Massive Markets	173	Malanga Enteprires
26.	Mavuno Global Solutions	174	Malindi Autofit Express Ltd
27.	Mbachumba Enteprires	175	Malindi Watamu Real Estate Ltd

28.	Mcsidi Enterprises	176	Maliphedy Supplier
29.	Kizumba Enterprises	177	Maplands Ventures Ltd
30.	Klinrick Investments	178	Maplands Ventures Ltd
31.	Lukyla General Contractors	179	Marezighe Enterprises
32.	Lumaka Enterprises	180	Marindwa Contractors Ltd
33.	Lunyawa Investments	181	Marjan Ventures
34.	Lwandani Enterprises	182	Marylup Enterprises
35.	Madzo Enterprises	183	Makarana Enterprises
36.	Magombe Enterprises	184	Malanga Enterprises
37.	Mahendo General Merchants	185	Malindi Autofit Express Ltd
38.	Lukyla General Contractors	186	Malindi Watamu Real Estate Ltd
39.	Lumaka Enterprises	187	Maliphedy Supplier
40.	Lunyawa Investments	188	Maplands Ventures Ltd
41.	Lwandani Enterprises	189	Maplands Ventures Ltd
42.	Melmax Consultancy	190	Marezighe Enterprises
43.	Knimor Enterprises Ltd	200	Lagro Enterprises
44.	Kuvuna Enterprises	201	Laliili Enterprises
45.	Labial Enterprises	202	Lamukani Agencies
46.	Lackyshia Enterprises	203	Laoje Investments
47.	Little Puppies	204	Leadech Agencies
48.	Mahiga-Ini Enterprises	205	Legnal Enterprises
49.	Melmax Consultancy	206	Lekeleke Logistics
50.	Knimor Enterprises Ltd	207	Lenka Enterprises
51.	Kuvuna Enterprises	208	Leroz Investments
52.	Kavini Limited	209	Ligram Limited
53.	Kayoeni Enterprises	210	Limat Part Enterprises
54.	Trishul Construction Ltd	211	Lint Mushrooms
55.	Tristar Transport Ltd	212	Worldrich Services Ltd
56.	Tradewise Logistics (K) Ltd	213	Zilphique Enterprises
57.	Trivela Ltd	214	Afreen Enterprises

58.	Dhanani & CO Ltd	215	Avandu General Merchants Ltd
59.	Diani Tourist Bazaar	216	Ayman Travels
60.	East Africa Provision Mart	217	Azusa Ltd
61.	Espaf Traders	218	B T A Bigtimer Agencies Ltd
62.	Fiji Wholesalers	219	Vaghji Velji & CO
63.	Generation Wholesalers	220	United Traders (Mombasa) Ltd
64.	Hamoud Trading Agencies	221	Stocklot Market and Trading Ltd
65.	Hasnain Trading CO	222	Stezan General Traders
66.	Mukilink Trading CO	223	Janjuka Enterprises
67.	Uplands Cargo Conveyors Ltd	224	Janmus Investments
68.	Walsord Meadows	225	Jodur Enterprises
69.	Uplift Express (Kenya) Ltd	226	Joesadan Enterprises
70.	Wambuka Freighters Ltd	227	Jokiroz Investments
71.	Universal Link Limited	228	Kadhu-Wa Developers Co. Ltd
72.	Walmo Clearing & Forwarding Co Ltd	229	Karesh Enterprises
73.	Laoje Investments	230	Kasada Enterprises
74.	Uplands Cargo Conveyors Ltd	231	Kentimm Investments
75.	Walsord Meadows	232	Key Resource Services Ltd
76.	Uplift Express (Kenya) Ltd	233	Kilifi Digital
77.	Wambuka Freighters Ltd	234	Kisdan Enterprises
78.	Urgent Cargo Handling Ltd	235	Janjuka Enterprises
79.	Wandey Freight Services	236	Janmus Investments
80.	Utu Bora Transport Agencies	237	Jodur Enterprises
81.	Wansar Kenya Ltd	238	Joesadan Enterprises
82.	V Naran Mulji Properties Ltd	239	Jokiroz Investments
83.	Warentokil (K) Ltd	240	Kadhu-Wa Developers Co. Ltd
84.	Vaded (K) Ltd	241	Karesh Enterprises
85.	Urgent Cargo Handling Ltd	242	Kasada Enterprises
86.	Wandey Freight Services	243	Kentimm Investments
87.	Utu Bora Transport Agencies	244	Key Resource Services Ltd

88.	Wansar Kenya Ltd	245	Kilifi Digital
89.	V Naran Mulji Properties Ltd	246	Kisdan Enterprises
90.	Warentokil (K) Ltd	247	Janjuka Enterprises
91.	Vaded (K) Ltd	248	Janmus Investments
92.	Urgent Cargo Handling Ltd	249	Jodur Enterprises
93.	Wandey Freight Services	250	Joesadan Enterprises
94.	Utu Bora Transport Agencies	251	Jokiroz Investments
95.	Wansar Kenya Ltd	252	Kadhu-Wa Developers Co. Ltd
96.	V Naran Mulji Properties Ltd	253	Karesh Enterprises
97.	Warentokil (K) Ltd	254	Kasada Enterprises
98.	Vaded (K) Ltd	255	Kentimm Investments
99.	Urgent Cargo Handling Ltd	256	Key Resource Services Ltd
100.	Wandey Freight Services	257	Kenel Enterprises Limited
101.	Utu Bora Transport Agencies	258	Kentimm Investments
102.	Wansar Kenya Ltd	259	Key Resource Services Ltd
103.	V Naran Mulji Properties Ltd	260	Kilifi New Face Enterprises
104.	Warentokil (K) Ltd	261	Kimulo Enterprises
105.	Willfield Freighters Co Ltd	262	Kenel Enterprises Limited
106.	Visaro Construction Co	263	Gautseru Ltd
107.	Willing Freight Services	264	Gebra Enterprises
108.	Vishvakarma Joiners & Builders	265	Gemini Logistics Limited
109.	Willmon Freight Agencies	266	Ghechi Enterprises
110.	World Cargo Logistics Ltd	267	Glowbal Water And Energy Solution
111.	Wilsaki Freight Forwarders Ltd	268	Goal End Enterprises
112.	Willfield Freighters Co Ltd	269	Grand Kilungu Ltd
113.	Visaro Construction Co	270	Gwachie Enterprises
114.	Willing Freight Services	271	Haljj Enterprises
115.	Vishvakarma Joiners & Builders	272	Halkin Enterprises
116.	Willmon Freight Agencies	273	Hamitrade Company Limited

117.	World Cargo Logistics Ltd	274	Hamsted Investments Ltd
118.	Premchand Depar & CO	275	Hamzana Investment Limited
119.	Pwani Trading Agencies Ltd	276	Helo Prime Limited
120.	Raichand Panachand & CO	277	Hobbs Agencies
121.	Roma Trading CO Ltd	278	Hubetal Enterprises
122.	Sahem Bin Abeid & CO	279	Integrated Facilities Solutions Limited
123.	Wrap & Pack Cargo (K) Ltd	280	Jaala General Supplies And Contractors
124.	Ziofreight Clearing & Forwarding Co	281	Jakapari Enterprises
125.	Ashana Investments	282	Kenel Enterprises Limited
126.	Asmart Tech Solutions	283	Gautseru Ltd
127.	Astapor Investments Ltd	284	Gebra Enterprises
128.	Jokiroz Investments Limited	285	Gemini Logistics Limited
129.	Joshumu Enterprises	286	Ghechi Enterprises
130.	Jugdish Investments	287	Glowbal Water And Energy Solution
131.	Kalambe Technicals	288	Goal End Enterprises
132.	Karesh Enterprises	289	Kisufi Investments
133.	Kasada Enterprises	290	Mellylivvy Enterprises
134.	Kavenya Service Station Ltd	291	Ashana Investments
135.	Kenel Enterprises Limited	292	Asmart Tech Solutions
136.	Kentimm Investments	293	Astapor Investments Ltd
137.	Key Resource Services Ltd	294	Jokiroz Investments Limited
138.	Kilifi New Face Enterprises	295	Joshumu Enterprises
139.	Kimulo Enterprises	296	Jugdish Investments