

**DETERMINANTS OF TAX COMPLIANCE BY PUBLIC TRANSPORT
SAVINGS AND CREDIT COOPERATIVE SOCIETIES IN KENYA: A CASE OF
PUBLIC TRANSPORT SAVING AND CREDIT COOPERATIVES IN NYERI
COUNTY**

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2019

DECLARATION

This research project is my original work and has never been submitted for any award in any other institution.

Signature Date

Lilian Wakarima Muraya

HDB336/C016/2072/2016

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

Signed..... Date.....

Mr. Cyrus Mutuku

KESRA

DEDICATION

This work is dedicated to my husband, Gilbert Gitonga, for his constant encouragement throughout the study. Also I dedicate it to my dear friend, Doreen, who strengthened me never to give up hope in life. To my children, Jeremy and Vanessa, who understood me during my academic pursuit. Above all, I am eternally grateful to the Almighty God, who gave me the knowledge and strength to the end.

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LIST OF ABBREVIATIONS

EAC	- East Africa Community
GDP	- Gross Domestic Product
KRA	- Kenya Revenue Authority
OECD	- Organization for Economic Cooperation and Development
PSV	- Public Service Vehicle
SACCOS	- Savings and Credit Cooperative Society
SMES	- Small and Medium Enterprises
SSA	- Sub-Saharan Africa
US	- United States

OPERATIONAL DEFINITION OF TERMS

Tax compliance – is the level of obedience or default of taxpayers with taxpayers in their countries (Beesoon & Hemavadi, 2016).

Tax knowledge - is the level of tax awareness to tax legislation (Oladipupo & Obazee, 2016)

Compliance costs –refer to cost incurred by taxpayers’ during the compliance of the number of tax laws and procedure in their respective countries (Sapiei et al., 2014).

Deterrence sanctions – refers to the probability that the taxpayers will be audited and found to be non-compliance by the state (Oladipupo & Obazee, 2016).

Taxpayers’ Perception – represent taxpayers’ tendency to respond positively or negatively to a given situation (Batranea et al., 2013).

ABSTRACT

Tax is the main source of revenue in Kenya. Money incurred from taxation is used to provide public services and goods to the citizens. Indeed, taxation in the informal business sector including SMEs and public transport continue to face serious issues. This research project is aimed at studying the determinants of tax compliance by public transport savings and credit cooperative societies in Kenya. A cross sectional descriptive research design was agreed and population was made of 37 public transport Sacco's in Nyeri County hence a census of the 37 office administrators of the public transport SACCO's in Nyeri town was pursued and a questionnaire used for data collection. The questionnaires were administered to the office administrators by the researcher and there after collected after one week. The collected data was summarized using descriptive statistical tools comprising the mean and frequencies and the binary logistic regression used to examine the association between the tax compliance determinants and tax compliance by public transport SACCO's. The study revealed that deterrence sanctions positively ($B = 0.354$) and significantly ($P\text{-value } 0.001 < 0.05$) affected public transport SACCOs tax compliance while taxpayers' perception positively ($B = 0.525$) and insignificantly ($P\text{-value } 0.503 > 0.05$) affected public transport SACCOs in Nyeri County tax compliance. The study also revealed that tax knowledge had significantly ($P\text{-value } 0.001 < 0.05$) and positively ($B = 1.016$) affected tax compliance by public transport SACCOs in Nyeri County. Finally, the findings show a negative ($B = -1.213$) and significant ($P\text{-value } 0.001 < 0.05$) relationship between tax compliance costs and tax compliance by public transport SACCOs in Nyeri County. The multiple logistic regression results established that deterrence sanctions had a positive ($B = 0.438$) and significant ($P\text{ value} = 0.001 < 0.05$) effect on tax compliance by public transport SACCOs while taxpayers' perception had a positive ($B = 0.348$) but an insignificant ($P\text{ value} = 0.660 > 0.05$) relationship with tax compliance by public transport SACCOs. The study also revealed that tax knowledge had a significant ($P\text{ value} = 0.009 < 0.05$) and positive ($B=1.464$) effect on tax compliance by public transport SACCOs. The results further established a negative ($B=-1.524$) and significant ($P\text{ value} = 0.004 < 0.05$) relationship between tax compliance costs and tax compliance by public transport SACCOs in Nyeri County. The results led to the conclusion that noncompliance sanctions, knowledge in taxation and costs associated with compliance mostly affected tax compliance by public transport SACCOs in Nyeri County. The study suggested that severe fines and penalties should be imposed on non-complaint public transport SACCOs and frequent tax audits should be carried out by the Kenyan tax authority. The study also suggest that KRA should ensure transparency and accountability during collection of taxes and that KRA should carry out tax training programs among public transport SACCOs to enhance tax knowledge and awareness as this would motivate SACCOs pay taxes and file tax returns.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Tax is the key to economic, social and political development of any country (Marandu, Mbekomize & Ifezue, 2015). Taxes remain an integral factor of government long term operations and key in the creation and redistribution of societal services (Pukeliene & Kažemekaityte, 2016). Tax revenues usually solve immediate human development challenges not limited to the outbreak of famine and emergency medical care and the long-term financing of public infrastructure services such as roads, airports, hospitals and schools (Gerger et al., 2014). By mobilizing tax revenues, governments create tax havens, improving basic public services and reduce development assistance and reliance on individual resources (Ali, Fjeldstad & Sjørnsen, 2013). Tax compliance is therefore an increasing international interest of tax authorities and policymakers, as tax evasion seriously jeopardizes governments' ability to increase public revenues (Beesoon & Hemavadi, 2016).

Tax compliance is a key factor in any economy, since compliance enhances tax revenues, which are critical for national development (Maciejovsky, Schwarzenberger & Kirchler, 2012). However, inconsistencies between taxpayers are a constant and growing global problem and especially among various taxation authorities in most states across the world as it is difficult to make sure all citizens are complaint based on a county's existing tax framework (Palil & Mustapha, 2011). Tax evasion tax revenues are estimated at \$ 3.1 trillion globally or around 5.1% of global GDP. This represents about 54.9% of health care spending lost through tax evasion (Marandu et al., 2015). Non-compliance is an urgent issue throughout the European Union, especially as not all tax obligations have been reported, which has led to lower government revenues and thus affecting the optimal implementation of social assistance policies (Pukeliene & Kažemekaityte, 2016).

Compliance with tax regulations remain to be a significant research topic of interest in a large number of developing countries (Tilahun & Yidersal, 2014). Statistics reveal that less than 5% of taxpayers' in Asian counties comply with the payment of income taxes in

compared to 50% in countries in the western world. Furthermore, in developing countries only about 15% taxpayer income is generated from taxation, compared with about 57% in developed countries (Mas'ud et al., 2014). The average tax evasion in developing countries is between 35% and 55% of gross domestic product (GDP), which continue to worsen than in developed countries such as the United States (Al-Maghrebi, Ahmad & Palil, 2016). In Malaysia, for example, tax revenues account for 51% of the Malaysian national budget, but the country experiences a 20% tax gap (Al-Maghrebi et al., 2016).

It is worth noting in Africa, tax avoidance and evasion significantly affects most of the countries domestic tax revenue performance with a big number of sub Saharan countries being mostly affected (Ali et al., 2013). According to Akinboad (2014), about half of sub-Saharan countries mobilize less than 17% of their GDP for tax revenues, compared to about 35% in OECD countries. In addition, most African countries face a number of challenges in optimizing taxation while pursuing development goals (Marandu et al., 2015). For instance, in Ethiopia it is evidenced by the current low tax-to-GDP ratio of 11%, which is much worse in comparison to 25-35% average of developed states, and 18-25% in emerging states (Adimassu & Jerene, 2016).

In the East African region, various counties have implemented various tax reforms since the 1990s to broaden the tax bases, improve compliance and improve other aspects of tax revenue management, and streamline taxes to improve the investment climate. However, the mobilization of domestic resources through taxes is still low. Between 2006 and 2008, the region's tax rate ranged between 12.3% and 22.1%, compared with 25.4% in South Africa and 35.6% on average among OECD states (Ali, Fjeldstad & Sjørusen, 2014). Munyentwali (2014) posits that despite the vital share of tax revenues in total government expenditures, tax to GDP ratio remains low in Rwanda amounting 15.0% in 2014/2015 compared to the average of 18% in some developing countries. Uganda is also characterized by low compliance with income tax, given its many encouragements of intentional tax compliance (Tusubira & Nkote, 2013).

Like many other developing countries, Kenya uses the tax weapon to achieve the objectives of sufficient revenue and ensure that revenues are fairly increased and the deterrent effect of taxation minimized (Munyeki & Olweny, 2016).). Over the years, the

Kenyan government has executed several revenue administration improvements to enhance revenue collection (Nzioki & Osebe, 2014). Notably, one of the key measures to enhance revenue in Kenya was the introduction of self-assessment schemes (SAS) in 1992. However, despite various administrative strategies, tax noncompliance remains relatively low (Munyeki & Olweny, 2016). For example, in the financial year 2011/2012, KRA could collect 707.4 billion shillings from the target of 717 billion shillings. In addition, Kenya is ranked a low-income country with the difficult task of ensuring effective and efficient tax administration to ensure tax compliance (Abdul & Wang'ombe, 2018).

1.1.1 Overview of Public Transport SACCOs

SACCO are the abbreviation description of “Savings and Credit Cooperative” societies, which are a particular form of cooperative societies registered under the Cooperative Societies Act (SASRA, 2015). The Public Service Vehicles (PSVs), commonly referred to as “*matatu*” is the commonly used form of public transport in Kenya, estimated to be used by 80% of the daily commuters (Okwako, 2017). The sector also plays a significant part in creating incomes for the owners and creating employment to many in the informal sector (for example the bus conductors, drivers, bus cleaners) and the formal sector which entails insurance agents and firms which provide indemnity against accidents and personnel of the fuel stations where these vehicles fuel (Okwako, 2017)

As a new requirement for the registration of PSV operators, the Transportation Ministry and the Transport Licensing Board issued a decree in December 2010 requiring all public transport operatives to set up or join SACCO or bus firms on behalf of individual investors providing a range of services (McCormick et al., 2013). The idea was that the government could effectively regulate the public transport sector through the newly created institutions and ensure that *matatus* pays taxes through SACCO. The Traffic Licensing Board and the Department of Cooperatives are responsible for screening SACCO and Companies. More than 450 SACCO and companies were registered after two years of implementation (Maina, 2016).

Matatus in Kenya works partly informally; they choose to comply with some laws and others do not, as many other companies in the informal sector do (Okwako, 2017). Most people join the sector to find work, earn more money, and / or avoid taxes and other regulations (Maina, 2016). Their main source of income is the fares paid by travelers. Prices vary and they have a large volume of unregistered cash transactions (Njoroge, 2015). As such, it's projected that the public transport sector has an annual turnover of over 73 billion shillings, but a large percentage of the revenue generated is not taxable (Okwako, 2017). Thus, it's vital to assess the key aspects affecting public transport savings and credit cooperative societies in Kenya tax compliance.

1.2 Statement of the Problem

Tax evasion is a growing international interest of tax authorities and policymakers as they seriously jeopardize governments' ability to generate the necessary public revenues. This problem is much common in emerging states, particularly African counties (Adimassu & Jerene, 2016). Tax avoidance and evasion are an obstacle to the socio-economic development of different countries, especially developing countries (Munyentwali, 2014). In emerging nations, especially in Sub-Saharan Africa, which are characterized by weak institutions, the degree of tax mobilization is relatively low. Gross domestic product (GDP) tax revenue is only 15% in the SSA, compared to 35% in the OECD states (Nikiema & Zahonogo, 2017).

In Kenya, the public transport (*matatus*) makes an important sector of the informal sector (Maina, 2016). However, according to the KRA 7th corporate plan (2018/19 - 2020/21) in the financial year 2017/2018 there were only 11,129 registered taxpayers from the informal sector against a target of 170,000 taxpayers (KRA, 2018). In addition, statistics revenue from the KRA indicate that tax revenue dropped from 13.8% in the financial year 2016/17 to 5.1% in the financial year 2017/18. Further, data from KRA indicates that only six (6) targets out of the 22 key targets were fully met within the plan period, translating to an achievement rate of 27%, which was short of the 100% target (KRA, 2018). With the transport sector, statistics from the Kenya National Bureau of Statistics (KNBS) indicate that *matatus* owners make an average net income of Kes. 5,000 – 10,000 per day however revenues statistics indicate very few *matatus* owners submit

income taxes. As such, efforts to achieve tax revenue from the sector have been unsuccessful, although SACCO was created to ensure tax compliance (Maina, 2016). In addition, efforts to regulate the *matatu* sector usually face heavy resistance from *matatu* operators and as numerous efforts to introduce electronic payments have failed (Njoroge, 2015).

Empirically, different authors among them Pukeliene and Kažemekaityte (2016), Sapiei, Kasipillai and Eze (2014), Tsubira and Nkote (2013), Munyeki and Olweny (2016), Karanja (2014) have explored tax compliance determinants in different sectors of the economy like SMEs, other forms of SACCOs and individuals. The studies however do not provide conclusive results, which can be generalized to the public transport SACCOs. In addition, the few studies that have been done on public transport in the country have not covered taxation of public transport sector. This opens up an empirical literature gap, which this research strives to fill by examining the determinants of tax compliance by public transport savings and credit cooperative societies in Kenya.

1.3 Research Objectives

1.3.1 General Objective

The main objective for this research is to study the determinants of tax compliance by public transport savings and credit cooperative societies in Kenya

1.3.1 Specific Objectives

1. To establish how deterrence sanctions affect tax compliance by public transport SACCOs in Kenya
2. To examine how taxpayers' perception influence tax compliance by public transport SACCOs in Kenya
3. To determine how tax knowledge affect tax compliance by public transport SACCOs in Kenya
4. To assess how tax compliance costs influence tax compliance by public transport SACCOs in Kenya

1.4 Research Questions

1. What is the effect of tax deterrence sanctions on tax compliance by public transport SACCOs in Kenya?
2. What is the influence of taxpayers' perception on tax compliance by public transport SACCOs in Kenya?
3. What is the effect tax of knowledge on tax compliance by public transport SACCOs in Kenya?
4. What is the influence of tax compliance costs influence tax compliance by public transport SACCOs in Kenya?

1.5 Significance of the Study

The results documented by the research may be of value to public transport SACCOS administrators, as they may use the study recommendations to improve tax compliance. The management of SACCOs will also get additional information on the factor that they influence their tax compliance behavior. Secondly, the findings of the research will be of value to policymaking institutions in Kenya like the Kenyan taxation authority (KRA) and the National Transport and Licensing Board to develop strategic policies to reduced Kenyan public transport SACCOs tax noncompliance. Lastly, the study will further the current theoretical knowledge on compliance with taxes by public service vehicles. The paper will also form a basis for additional studies on the concept of tax compliance.

1.6 Scope of the Study

This research sought to assess the determinants of tax compliance by public transport savings and credit cooperative societies in Kenya. The research precisely majored on tax deterrence sanctions, taxpayers' perception, knowledge in tax and costs incurred during compliance. The study was administered among public transport saving and credit cooperatives in the County of Nyeri. The target population was 37 PSV SACCOs operating in the County. The unit of analysis was the 37 office administrators of the 37 public transport SACCOs. The census technique in sample examination was utilized as the population is small and well known. Hence, the 37 public transport SACCOs in the

County was the sample size for the study. The census method was employed for the research since the sample was too small.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the study theories, presents a conceptual framework, explores several studies conducted by different researchers in the empirical review section, identifies research gaps, and finally the chapter summary.

2.2 Theoretical Review

2.2.1 The Economic Model of Tax Compliance

This model was coined by Allingham and Sandmo (1972). Most importantly it is centered on the estimated utility and deterrence theory. The expected utility assumption views taxpayers as perfectly amoral utility maximizers who choose to avoid taxes when the expected gain outweighs the tax evasion costs (Maciejovsky et al., 2012). According to this theory, taxpayers are analyzing alternative delivery methods such as tax avoidance, probability of detection, and subsequent consequences, and then choose an alternative way to maximize their expectations for risk-adjusted tax returns (Abdul-Jabbar, 2009).

The theory addresses the effects of sanctions and threats, which discourage unwanted behavior by tightening sanctions and ensuring that they are imposed (Ali et al., 2013). Their theoretical analysis proposes that penalties and / or penalties determine the behavior of taxpayers and that increasing penalties and a higher probability of being discovered would result in lower non-compliance (Abdul-Jabbar, 2009). The model argues that tax payers no longer view evasion of taxes as a criminal offence, but a coherent tactic tax payers use to minimize their tax obligation and sometimes consider evasion better than the cost of litigation, detection and fines (Batrancea, Nichita & Batrancea, 2013).

The models assume compliance with tax rules is a function of three dissuasive variables; tax rates, tax audits and probability of discovery. However, it has laid the groundwork for understanding compliance, but has been criticized for not incorporating psychological and sociological factors that have their own incentives to enforce taxpayers without enforcement (Mas'ud et al., 2014). The economic method to tax compliance and its extension is based on the assumption that an individual pays taxes only because of the economic consequences of gambling losses and fears disclosure and punishment (Marandu et al., 2015). The theory explains that tax evasion decreases as the likelihood of audits and fines increases, as the expected utility of evasion also decreases.

2.2.2 The Institutional Anomie Theory

The Institutional Anomie Theory (IAT) is a sociological theory that asserts that individuals make decisions based on socialized values that can contradict each other but balance each other and create behaviors that society sees as normal (Maciejovsky et al., 2012). According to the theory when you have an imbalanced set of values, decisions made about that amount can lead to deviant behavior, such as everyday crime (Marandu et al., 2015). The IAT theory states that as the prosocial standards worsen, the potential frequency of deviant behavior, such as tax evasion, may increase. This deterioration of prosocial standards is particularly severe when existing cultural values emphasize the acquisition of material and economic rewards and delay ethical considerations in society or organization (Bame-Aldred et al., 2013).

The IAT explains that tax evasion can be enhanced or reduced by particular dimension of culture of a specific community (Maciejovsky et al., 2012). The IAT specifies cultural values that lead to deviant behavior, suggesting that the elimination of social rules and norms may prevail under the effect of particular cultural systems (Bame-Aldred et al., 2013). According to the IAT, individualized cultural values encourage decision-makers to choose a goal that is not in the interest of ethical or legal means to achieve goals. In these companies, companies are more willing to deviate from accepted standards and avoid taxes (Nikiema & Zahonogo, 2017). On the contrary, cultures which collectivist tend to support a stronger collective anchoring in the idea that social members are interdependent and as such discourage individual gain at the expense of the collective. This implies that

individualistic cultural values should encourage societies to avoid taxes (Batrancea et al., 2013).

2.2.3 Theory of Planned Behavior

Ajzen (1985) proposed the planned behavioral theory and states that individuals are usually expected to act if they rate the proposed behavior as positive (perceptions) and if they believe that others want it (behavioral norm) (Batrancea et al., 2013). The theory proposes a model that can measure how human activities are performed. It predicts the occurrence of certain behaviors, provided the behavior is intentional (Marandu et al., 2015). The theory is based on the assumption that people are generally quite rational and systematically use their information (Bame-Aldred et al., 2013).

The central principle this theory is that there is an immediate determinant of behavior, namely the intention of the person to do or not to do something. Again, this intention is perceived as being determined by three things: perceptions, subjective norms and subjective management of specific behavior (Marandu et al., 2015). The model is used to categorize different determinants of taxes noncompliance (Batrancea et al., 2013). Under the model, tax compliance is conceived as a function of three broad factors: perception, subjective norms, and subjective control (Maciejovsky et al., 2012).

2.2.4 The Slippery Slope Framework

Kirchler et al. (2008) theorized this model which states that compliance with tax obligations depends on the tax authority's power and taxpayers' trust in the tax authorities (Maciejovsky et al., 2012). This theory argues that deterrence instruments such as audits and fines are a strength, while trust depends primarily on how authorities approach taxpayers, including tax obligations. According to the theory, authorities can ensure high or even full tax compliance by relying on only one of two factors of trust or power (Tsikas, 2017).

The framework assumes that (individual) tax compliance is given by both the authorities of the state and its credibility, and that it moderates both dimensions (Kogler, Muehlbacher & Kirchler, 2013). As a result, the diminishing return on trust and power in terms of tax compliance is because of the fact that additional confidence (or power) leads

to a reduction in tax compliance once a factor is already well developed (Savitri, 2016). The theory is that high or even full tax compliance can be achieved by the authority of the authorities "or by trust in the authorities themselves (movement along the strength / tax compliance and trust / axis adjustment). However, when the confidence is low, the increase in power positively enhances compliances with payment of taxes and vice versa (Tsikas, 2017).

2.3 Conceptual Framework

The conceptual of this study was made of independent variables which included the deterrence sanction, taxpayers' perception, knowledge in taxations and costs associated with tax compliance. The dependent variables on the other hand will be tax compliance as diagrammatically depicted by figure 2.1

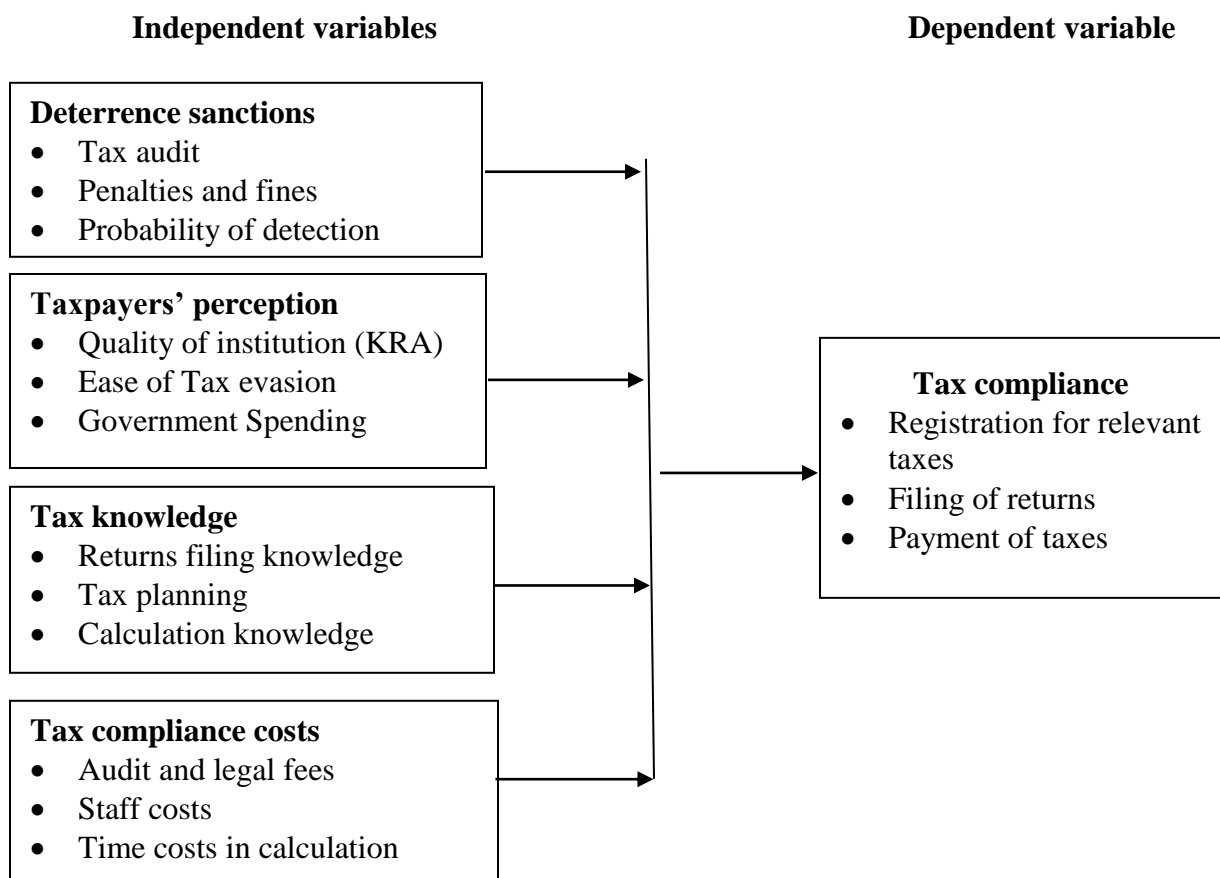


Figure 2.1 Conceptual Framework

2.3.1 Deterrence Sanctions

Deterrence aspects, such as the likelihood of tax authorities like being scrutinized and uncovered by tax authorities, reduce the taxpayers' noncompliance. A tax penalty is a repressive measure imposed to prohibit an act or to ensure the required action, such as non-compliance with a timely submission or filling in false or underestimated declarations is undertaken (Oladipupo & Obazee, 2016). Sanctions and frequent audits by tax authorities positively enhance compliance with the payment of taxes. In the same vein, the obligation to present audited books to the tax authority increase the payment of taxes and the compliance behavior (Akinboade, 2014). The deterrence theory supports that sanctions and the likelihood of an audit enhance payment of taxes. This means that taxpayers would not be tax evaders if the likelihood of an audit and a fine were high (Gerger et al., 2014).

2.3.2 Taxpayers Perception

Perceptions are by and large acknowledged to effect compliance behavior as they tend to respond to a positive or negative situation for a taxpayer. In the event that a taxpayer obtains information from a reference group that non-compliance is acceptable, compliance levels in general decreases. Further, integrating cultural and social standards of taxpayers with the organizational principles of the tax authority increase compliance (Batrancea et al., 2013). Perception is a positive or negative rating that contains individual objects. Taxpayers with a positive perception to tax evasion tend to be less stimulating, while taxpayers with a negative perception to tax evasion are more comfortable. Taxpayers with a positive perception towards tax authorities or trusted tax authorities are therefore more comfortable (Munyentwali, 2014).

2.3.3 Tax Knowledge

Tax knowledge denotes a sign of the taxpayer's sensitivity or awareness to taxation laws. Acquiring taxation knowledge entails learning about tax laws and other acquiring additional information on taxation. On the key factors, which facilitate the acquisition of taxation knowledge is going through the formal training and education on taxation rules and regulations (Oladipupo & Obazee, 2016). Knowledge and information levels

significantly affects taxpayer behavior. Better-educated taxpayers should learn more about tax laws and policies and better assess compliance. Better-educated taxpayers should learn more about tax laws and policies and better assess compliance. Taxpayer awareness of crime and sanctions is seen as one of the factors driving tax compliance, as it encourages taxpayers to comply with tax laws and regulations in order to evade (Akinboade, 2014).

2.3.4 Tax Compliance Costs

Tax compliance costs are the costs of the taxpayer resulting from his tax compliance obligations (Sapiei et al., 2014). Compliance costs are cash expenditures in accordance with regulatory requirements, such as laws or regulations. Compliance costs usually include all compliance costs, including planning and administration, as well as direct time and expense for document archiving. The amount of the compliance costs of the taxpayer may be that the taxpayer decides to avoid taxes in order to compensate for the excessive costs of compliance (Munyentwali, 2014). Costs incurred by the taxpayer in discharging its tax obligations beyond its tax liability. This is the gross cost of compliance and includes three main components: financial costs, time costs and psychological costs (Palil & Mustapha, 2011).

2.3.5 Tax Compliance

This is the level to which a taxpayer obeys a country's tax laws and regulations. Evasion of taxes arises when an individual does not adhere to the laws of taxation or fails to meet his tax obligations intentionally or unintentionally. Tax compliance is also defined as the problem of reporting actual income, and it is also stated that tax compliance behavior has been affected by a situation where taxpayers have to make decisions in uncertainty (Beesoon & Hemavadi, 2016). Compliance with tax regulations requires compliance with tax reporting requirements. That is, the taxpayer follows the registration of the relevant taxes such as income tax, pay as you earn (PAYE) and withholding tax and VAT (Musau, 2015) as well as the correct filing of the corresponding tax declaration with the tax laws, regulations and court decisions applicable at the time of filing a tax return (Abdul-Jabbar, 2009).

2.4 Empirical Review

2.4.1 Deterrence Sanctions

Dinku and Alamirew (2018) examined the impact of productivity of audits, tax investigations and sanctions on improving voluntary taxpayer compliance through secondary macroeconomic data. Using descriptive and inferential statistics, the result showed that the degree of voluntary tax payment was influenced by productivity of the statutory audit, tax investigations and sanctions. The study resolved that subsequently the productivity gains of the audit, tax investigations and sanctions for improving voluntary taxpayers have been significant.

Thiga and Muturi (2015) examined factors that affect compliance with tax rules by SMEs in Kenya, focusing on SMEs in Kiambu. The study employed questionnaires and oral interview for data collection and sample size 400 was obtained from a target population of 2541 SMEs. The authors documented that tax fines and penalties significantly enhanced compliance with taxes by SMEs. The study recommended the harmonization of tax sanctions and fines and the creation of at least two areas to ensure that those who do not receive sanctions receive them.

Tilahun and Yidersal (2014) in Ethiopia assessed how tax system and deterrence sanctions influenced tax compliance. Using questionnaires for data collection and the regression model for analysis. The authors' predicted that the awareness of state expenditure, fines and penalties, personal finance challenges and recommendations from friend and families had a major effect on tax compliance but the respondents gender did not have a critical influence.

Munyentwali (2014) used a multinomial logistic regression analysis to examine factors that influence tax compliance in both the formal and informal sectors, and the survey sample included 793 respondents. The study showed that income levels sanction rates, tax positions, tax system fairness and social standards are statistically significant factors affecting formal sector compliance with taxes; for the informal sector, it was found that only tax perception and government spending affected compliance levels.

2.4.2 Taxpayers Perception

Nikiema and Zahonogo (2017) analyzed the taxpayers' compliance behavior in SSA using a generalized modeling of structural equations with data from a survey on Afrobarometer 5 (2011/2013) in 29 SSA countries. The results showed that the perception of individuals to pay taxes was highly reliant on the value of institutions. In particular, when the quality of institutions was considered good, individuals tend to pay taxes. The results also show indirect effects of the quality of institutions across institutional components. The perception of the individual about fraud, the quality of public services and social interactions influences tax compliance behavior.

Akinboade (2014) examined the tax compliance determinants of SMEs in Cameroon. A sample of 575 was used and the regression model for analysis. The authors documented that high registration costs and time-consuming processes support non-compliance by SMEs. The research also found that the perception of a complex tax system resulted in violations and the lengthy process of compliance led to a mismatch between the SME owners.

Karanja (2014) explored the landlord's tax compliance determinants in Kenya. Using a descriptive survey the author selected forty-five (45) landlords in Nairobi and questionnaires to collect data. The study using the regression equation documented that the attitudes and perceptions of tax fraudsters, peers, and financial and family responsibilities affect voluntary tax compliance. The study also showed that respondents' social standards and income greatly affected compliance.

Ali, Fjeldstad and Sjursen (2013) examined the factors that determine the tax behavior of individuals among EAC states and South Africa, based on perception data from five Afrobarometer surveys. Using binary logical regression, the author documented that individual's perception on tax evasion enhanced the probability of tax evasion in South Africa and Kenya. In Tanzania and South Africa, the research established that information in taxation affected tax compliance. Lastly, the research found that government spending affected compliance of taxes by individual in the four states

2.4.3 Tax Knowledge

A study by Munyeki and Olweny (2016) observed the elements that influence the tax payments of SMEs in Kenya. The research assumed a qualitative survey and interviewing method to collect primary data from SMEs in the Uasin Gishu region. The study has shown that SMEs are exposed to different economic conditions than large companies that generate high tax burdens. The research also establish that mindfulness of the tax system by SMEs, taxation services quality and the priorities of public spending greatly influence their decisions on tax relief. Nevertheless, the research establish that tax knowledge had no significant correlation with tax administration practice and the tax collection process.

Beesoon and Hemavadi (2016) investigated the impact of individual taxpayers in Mauritius to comply with taxes. The study focused on economic, institutional, social and individual factors. The study data was collected through a survey and interviews with over 200 participants and analyzed by thematic analysis. The authors documented a significant association between knowledge in taxation and compliance with tax payment and that tax compliance was primarily affected by the probability of auditing, government spending, sanctions, personal financial constraints and the influence of reference groups.

Nzioki and Osebe (2014) assessed the factors that affect property tax compliance in Nakuru, Kenya. The research adopted an explanatory research design and 271 respondents and questionnaires for data collection. Both descriptive and inferential statistics revealed that knowledge in taxation positively affected compliance with rental taxes, whereas deterrence sanctions positively influenced evasion of taxes, while perceived tax evasion had a negative impact.

Tusubira and Nkote (2013) examined the link between income tax compliance and level of income for SMEs in Uganda. A descriptive cross-section study was adopted and questionnaires used to gather data from 326 SMEs. The study showed that income tax gains are multi-dimensional and significant predictors of payment of taxes. The authors made recommendations that the Ugandan tax administration carry out intensive tax

training with hands-on knowledge of taxpayers to improve the compliance of income tax by SMEs in Uganda.

2.4.4 Tax Compliance Costs

In their study by Sapiei, Kasipillai and Eze (2014) assessed the determinants of taxpayer conduct in relative to corporate tax reporting requirements in Malaysia. The study method adopted by the researcher for data collection was a questionnaire. The findings revealed that the age of the business, the tax liability and the tax complexity constaly influence the likelihood of tax defaults on under reporting, overspending and total non-compliance. Nevertheless, the research established that tax compliance costs had a negligible link with non-compliance by corporate taxpayers.

In addition, Zachary, Kariuki and Mwangi (2017) in Kenya evaluated the tax compliance aspects of MSES in Embu, with a focus on compliance costs. The population included all 615 registered SMEs in Embu County. This study used a sample of 185 SMEs, which were selected by simple random sampling. Inferential statistics such as regression, analysis of variance, and t-tests were used for analysis. The authors documented a noteworthy relation amongst compliance costs and SMEs tax compliance.

Finally, Abdul and Wang'ombe (2018) used the Structural Equation Modelling (SEM) to investigate how compliance behavior of corporates was influenced by compliance costs. The findings revealed that tax compliance in Kenya meaningfully decreased with rising tax compliance costs. The research recommended that tax authorities and legislators emphasis on measures to decrease these tax compliance costs.

2.5 Research Gaps

The study made a review of different studies among them Thiga and Muturi (2015), Tilahun and Yidersal (2014), Munyeki and Olweny (2016), Tusubira and Nkote (2013), Zachary, Kariuki and Mwangi (2017) who concentrated on SMEs compliance behavior determinants and not PSV Sacco's. Munyentwali (2014) further assessed tax compliance determinants both in formal and informal sectors and mostly focused on SMEs. Akinboade (2014) focused SMEs tax compliance determinants whereas Abdul and Wang'ombe (2018) assessed compliance costs and compliance behavior among medium

and large corporates. Further, Beesoon and Hemavadi (2016) investigated what affects the individual taxpayers while Nzioki and Osebe (2014) evaluated tax compliance determinants amongst property owners in Kenya. Majority of the reviewed studies context was SMEs whose operations are different from those of public transport SACCO thus a shortage in literature which necessitates an assessment of the factors influencing tax compliance by public transport SACCOs in Kenya.

2.6 Summary

The chapter examined the deterrence theory, which suggests that the behavior of taxpayers' behavior can be affected by elements like the rate of tax rate, which enhances avoidance of taxes and the likelihood that fraud will be detected and sanctioned to determine the costs. The study also examined the institutional anomie theory, which assumes that instability in society leads to tax evasion by individuals through erosion or abandonment of moral and social principles, and the planned behavior theory that encourages people to become more likely behavior when they rate the proposed behavior as positive. Finally, the study examined a slippery framework stating that compliance with tax regulations by the tax authorities rest on the power and trust of the taxpayer in the tax authorities. The study further reviewed a quantity of studies and identified empirical gaps in these studies.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the study design, the target population, the sample, and the sample design. The chapter also presents the research tool, a pilot study, a data collection process and the technique of data analysis.

3.2 Research Design

A study design involves a plan for collection and analysis of data and how the research questions will be answered and the sources in which the collected will be specified (Upagade & Shende, 2012). A cross sectional descriptive research design was adopted to realize the goals of this research. The cross sectional descriptive research design is a systematic empirical study in which the researcher has no direct control over an independent variable because its manifestation has already appeared or cannot be manipulated (Sekaran & Bougie, 2011). Cross sectional descriptive design was used to enable the study collect comprehensive data on the population under study and thus providing relevant and specific information. The design was suitable because the study deals with the relationship between the variables and development of generalization that have collective validity.

3.3 Target Population

This refers the set of all cases conforming to a given set of specifications where the sample is drawn from (Sekaran & Bougie, 2011). The study's population was made up of 37 public transport SACCOs in Nyeri County. The unit of study was the 37 office administrators of the 37 public transport SACCOs.

3.4 Sample and Sampling Design

Sampling is a statistical process used to select a subset (called a sample) of a population of interest for purposes of observation and statistical inferences about that population (Sekaran & Bougie, 2011). The sample, on the other hand, is a smaller group of subjects

from the available population (Kombo & Tromp, 2009). This research administered a census of the 37 public transport SACCOs in Nyeri County. The census method in sample determination was applied. Upagade and Shende (2012) posit that if the population is small then the entire population should be used. Leaving out any of the respondent from the study population (through sampling) gives results that may not be generalized to the population of interest. Through census, the results were representative of the population characteristics and also eliminates bias.

3.5 Research Instrument

Data was gathered using a structured questionnaire. Sekaran and Bougie, (2011) defines a questionnaire as a predefined set of questions that respondents typically record in more defined alternatives. The questionnaire comprised two sections where section A gathered demographic data while section B comprised of Likert scale questions and gathered data on the research variables. A likert scale is an indicator of the interval that specifically uses 5 anchors that are strongly disagree, disagree, neutral, agree and strongly agree, and usually measures the degree of approval or disapproval.

3.6 Pilot Study

Piloting is used to assess specific questions, the layout, the order of the questions and instructions prior to the main study (Kombo & Tromp, 2009). The pilot study enables the assessments of questionnaires and interview guides so that those who prove inadequate or vague to improve their quality can increase reliability. Questionnaires were pre-tested in a pilot study of 10 randomly selected respondents from various SACCOs in Thika one week before the study started to uncover ambiguities.

3.6.1 Reliability and Validity

The instrument's reliability provides information about how free it is from random errors or to what extent it provides consistent results on repeated measurements (Kombo & Tromp, 2009). To address the reliability of the data collection instrument for the study, questions were adopted from previous studies. To verify the validity of the search tools, questionnaires were prepared and submitted to the supervisor and other experts for cross-

checking and content dependency. The questionnaires validity and reliability was assessed through piloting.

3.7 Data Collection Procedure

Data collection is a process of collecting and measuring information on monitored variables in an established systematic way that allows you to answer these research questions, test hypotheses, and evaluate results (Sekaran & Bougie, 2011). The author used primary data, gathered via questionnaires. The questionnaires were administered to the office administrators of the public transport Sacco's in the County of Nyeri. Before administering the questionnaire, appropriate permissions were obtained.

3.8 Data Analysis

Descriptive and inferential statistics were employed for analysis of data with the help of SPSS software. Descriptive statistics were adopted to summarize data through frequencies, percentages and average values. The studied data was represented using tables and graphs. A Binary logit regression model was adopted using SPSS. Logit regression is a dichotomous discrete choice model where the dependent variable (responsiveness) is a dummy that takes a value of zero or one depending on whether the public transport Sacco's are tax compliant or non-compliant. The model assumed the following form

$$Pr.(Y) = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where,

Y = Tax Compliance, which was a dummy with a value of 1 for tax compliance and a value of 0 for non-compliance.

X_1 = Deterrence sanctions

X_2 = Taxpayers perception

X_3 = Tax compliance costs

X_4 = Tax knowledge levels

α & ε = constant and the error term

$\beta_1 - \beta_4$ = Coefficients of the model

Pr = Probability

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This section depicts the response rate results, the demographic analysis results, descriptive statistics results on the study variables and lastly the results of the binary logistic regression.

4.2 Response Rate

The study performed a census of the 37 public transport SACCOs in Nyeri County and obtained complete data from 34 SACCOs. The 34 SACCOs made up a response rate of 92% which was considered sufficient for the study since it was more than 50% as supported by Mugenda and Mugenda (2008) who asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good. Figure 4.1 shows the summarized results

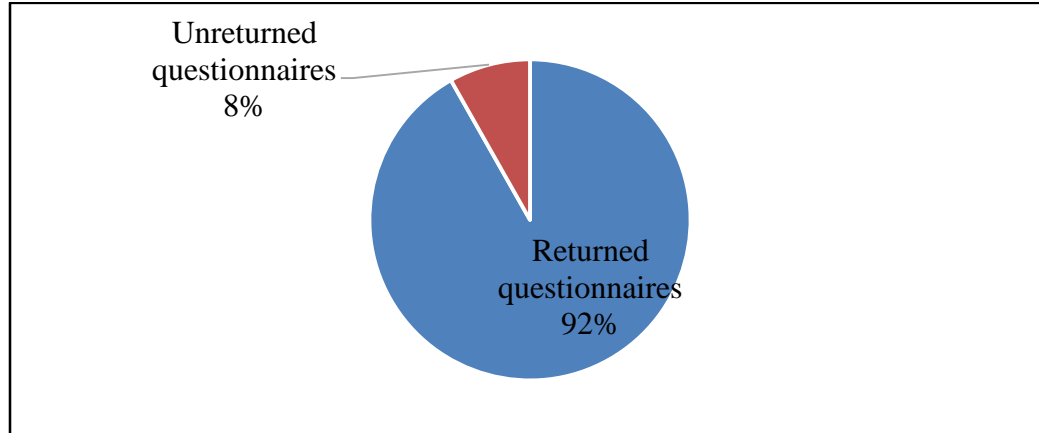


Figure 4.1: Response Rate

4.3 Demographic Analysis

This section depicts the respondents work period and age of the Sacco's

4.3.1 Period Worked

This examined the period the respondents had worked with the respective SACCOs.

Figure 4.2 shows the results

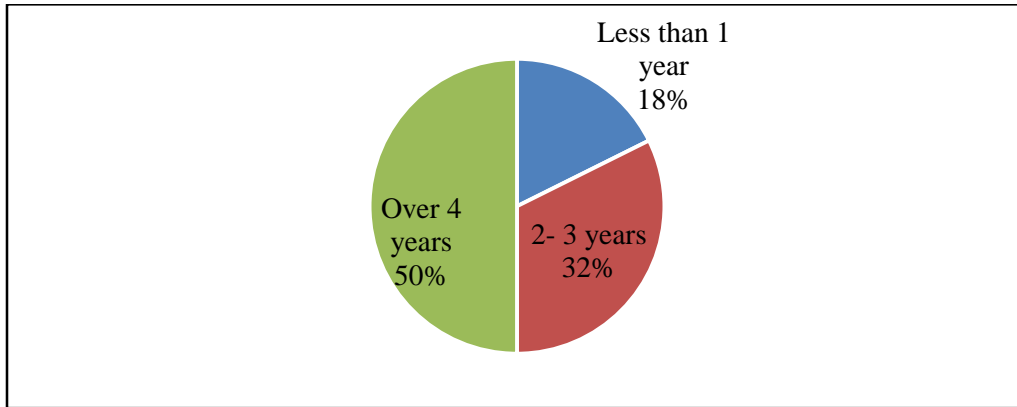


Figure 2.2: Period Worked

The findings on figure 4.2 indicates that 50% of the respondents had worked for more than 4 years whilst 32% had worked for a period of 2 to 3 years. The findings also reveal that 18% of the respondents had worked for less than one year. The findings indicates that majority of the respondents had worked with the SACCOs for more than two years hence they had satisfactory information about their jobs.

4.3.2 Years in Operation

This section sought to examine the number of years the Sacco's has been in operation.

Figure 2.3 illustrates the findings

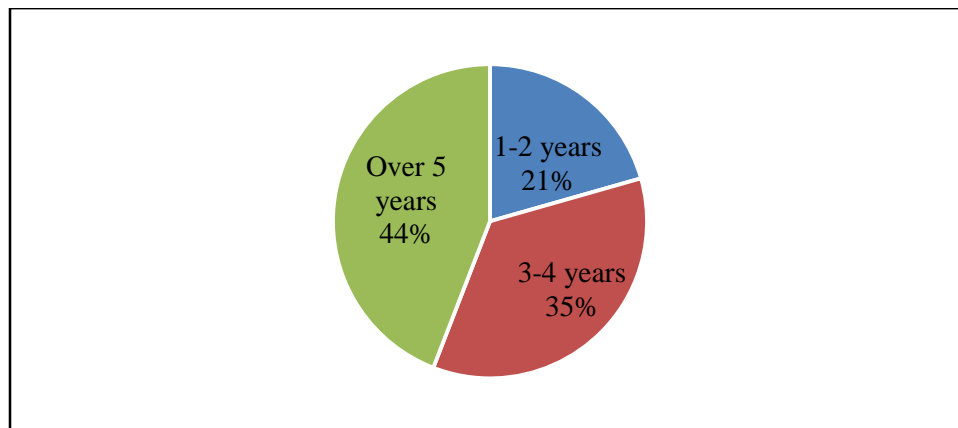


Figure 4.3: Years in Operation

Figure 2.3 shows that 44% of the SACCOs had been in action for more than 5 years while 35% had been in operation for a period of 3 to 4 years. The findings further show that 21% of the SACCOs were in operation for a period of 1-2 years. The findings show that most of the SACCOs had been in operation for more than 2 years.

4.4 Deterrence Sanctions

This section sought to determine what was the effect of tax deterrence sanctions on tax compliance by public transport SACCOs in Kenya? The unit thus assessed number of questions on how noncompliance deterrence sanctions affects tax compliance by SACCOs. The unit also indicates the regression findings on the link amongst deterrence sanctions and tax compliance. Table 4.1 and 4.2 shows the results.

Table 4.1: Descriptive Results on Deterrence Sanctions

	1	2	3	4	5	Mean	Std. Dev
Tougher penalties encourages payment of taxes	0	0	11.8%	47.1%	41.2%	4.29	.676
Higher fines inhibit Sacco's non compliance	0	11.8%	8.8%	38.2%	0	2.97	.904
Audit probability enhances tax payment	0	8.8%	11.8%	41.2%	38.2%	4.06	.983
Reporting noncompliance enhance Sacco's tax compliance	0	8.8%	17.6%	35.3%	38.2%	4.03	.969
Most fines and penalties are unfair and highly oppressive	0	32.4%	32.4%	35.3%	0	3.03	.834

Table 4.2: Regression Results on the Relationship between Deterrence Sanctions and Tax Compliance

		Model Significance					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-1.022	.389	6.907	1	.009	.360
		Model Summary					
Step	-2 Log likelihood	Cox & Snell R Square			Nagelkerke R Square		
1	39.189 ^a	.03			.05		
		Coefficients					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Deterrence	.354	1.072	.609	1	.001	1.425
	Constant	-2.328	3.984	.341	1	.559	.098

a. Variable(s) entered on step 1: Deterrence

The descriptive results on table 4.1 indicates that the respondents were in agreement that tough fines motivates payment of taxes as indicated by a mean value of 4.29, which matches the scale value of 4 in the likert scale. The respondents however disagreed that Higher fines inhibit Sacco's non-compliance as indicated by a mean value of 2.97 which stands for disagree in the likert scale. The respondents also agreed that audit probability enhances tax payment and that reporting noncompliance enhance Sacco's tax compliance as indicated by mean values of 4.06 and 4.03 respectively. The respondents were however, neutral on whether most fines and penalties are unfair and highly oppressive as indicated by the mean value of 3.03, which stand for neutral in the likert scale respectively.

The logistic regression results on table 4.2 reveal that Cox & Snell R Square was 0.03, which shows that the independent variables (deterrence sanctions) accounted to 3% of the dependent variable (tax compliance). The model critical findings show that the carried logistic model is significant as shown by the P value of $0.009 < 0.05$. This is an indication that the study model is significant and fit to carry out the analysis of independent variables. The coefficient results revealed that deterrence sanctions had a positive ($B = 0.354$) and significant ($P\text{-value } 0.001 < 0.05$) influence on tax compliance by public transport SACCOs. This reveal a unit growth in tax deterrence sanctions indicates growth in tax compliance public transport SACCOs by 0.354 units. The results hence concludes that any growth in tax deterrence sanctions positively and significantly influence tax compliance public transport SACCOs in Nyeri County.

4.5 Taxpayers Perception

This section sought to determine what was the effect of taxpayers' perception on tax compliance by public transport SACCOs in Kenya? The section evaluated a number of questions on how taxpayers' perception affects tax compliance by SACCOs. The section also shows the regression results on the link amongst taxpayers' perception and tax compliance. Table 4.3 and 4.4 illustrates the study results.

Table 4.3: Descriptive Results on Taxpayers Perception

	1	2	3	4	5	Mean	Std. Dev
Collected taxes are used for the uplifting of the welfare of citizens	20.6%	38.2%	20.6%	20.6%	0	2.41	1.048
Tax officers are approachable, honest and helpful to SACCOs	0	32.4%	38.2%	29.4%	0	2.97	.797
Tax administration and collection is transparent and openly done	17.6%	23.5%	32.4%	26.5%	0	2.68	1.065
KRA is able to detect people not paying the right amount of tax	0	20.6%	55.9%	23.5%	0	3.03	.674
Tax evasion should attract a long jail sentence	11.8%	26.5%	11.8%	32.4%	17.6%	3.18	1.336

Table 4.4: Regression Results on the Relationship between Taxpayers Perception and Tax Compliance

		Model Significance					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-1.022	.389	6.907	1	.009	.360
		Model Summary					
Step		-2 Log likelihood	Cox & Snell R Square		Nagelkerke R Square		
1		38.825 ^a	.014		.020		
		Coefficients					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Perception	.525	.784	.448	1	.503	1.690
	Constant	-2.538	2.324	1.192	1	.275	.079

a. Variable(s) entered on step 1: perception.

The findings on table 4.3 indicates that the respondents disagreed that collected taxes are used for the uplifting of the welfare of citizens and that tax officers are approachable, honest and helpful to SACCOs as indicated by mean values of 2.41 and 2.97 which corresponds to the scale value of 2 which stands for disagree respectively. The respondents also disagreed that tax administration and collection was transparent and openly done as indicated by a mean value of 2.68. The respondents were however neutral on whether KRA is able to detect people not paying the precise amount of tax and that tax evasion should attract a long jail sentence as indicated by mean value of 3.03 and 3.18 respectively.

The logistic regression results on table 4.4 indicate that Cox & Snell R Square was 0.014, which shows that the independent variables (taxpayers' perception) accounted to 1.4% of

the dependent variable (tax compliance). The model significance findings show that the adopted logistic model is significant as shown by the P value of $0.009 < 0.05$. This is an indication that the study model is significant and fit to carry out the analysis of independent variables. The coefficient results revealed that taxpayers' perception had a positive ($B = 0.525$) and insignificant ($P\text{-value } 0.503 > 0.05$) effect on tax compliance by public transport SACCOs. This shows a unit growth in taxpayers' perception increase tax compliance public transport SACCOs by 0.354 units. The result hence conclude that a growth in taxpayers' perception positively but insignificantly influences tax compliance public transport SACCOs in Nyeri County.

4.6 Tax Knowledge

This section examined what is the effect of tax of knowledge on tax compliance by public transport SACCOs in Kenya? The unit evaluated a numerous questions on how tax knowledge affect tax compliance by SACCOs. The section also shows the regression results on the relation amongst tax knowledge and tax compliance. Table 4.5 and 4.6 shows the results.

Table 4.5: Descriptive Results on Tax Knowledge

	1	2	3	4	5	Mean	Std. Dev
Taxation knowledge enables fast assessment of tax liability	0	11.8%	11.8%	35.3%	41.2%	4.00	.985
Inadequate knowledge on tax systems hinders tax compliance	0	8.8%	14.7%	35.3%	41.2%	4.06	1.013
Kenyan tax authority needs to emphasize on taxation training	0	0	0	58.8%	41.2%	4.41	.500
SACCOs have adequate knowledge on incomes to include or exclude	29.4%	29.4%	14.7%	26.5%	0	2.38	1.181
High levels of tax knowledge encourage taxes payment	0	0	14.7%	38.2%	47.1%	4.32	.727

Table 4.6: Regression Results on the Relationship between Tax Knowledge and Tax Compliance

Model Significance							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 0	Constant	-1.022	.389	6.907	1	.009	.360
Model Summary							
Step		-2 Log likelihood		Cox & Snell R Square		Nagelkerke R Square	
1		38.415 ^a		.026		.037	
Coefficients							
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 ^a	Knowledge	1.016	1.102	7.849	1	.001	2.761
	Constant	-4.949	4.315	1.316	1	.251	.007

a. Variable(s) entered on step 1: Knowledge.

Table 4.5 indicate that the respondents were in agreement that taxation information enhances fast assessment of tax liability as indicated by a mean value of 4.00 which resembles to the scale value of 4 which represents for agree in the likert scale. The respondents also were in agreement that limited information on tax laws and systems hampers tax compliance and that the Kenyan tax authority should emphasize on taxation training as indicated by mean values of 4.06 and 4.41 respectively. The findings further reveal that the respondents disagreed that SACCOs have satisfactory information on which income to include or exclude as shown by a mean value of 2.38 respectively. The respondents also agreed that high degree of tax awareness motivate taxes payment as indicated by a mean value of 4.32 respectively.

The logistic regression results on table 4.6 show that Cox & Snell R Square was 0.026, which reveals that the independent variables (tax knowledge) accounted to 2.6% of the dependent variable (tax compliance). The model significance findings show that the carried logistic model is significant as shown by the P value of $0.009 < 0.05$. This is an indication that the study model is significant and fit to carry out the analysis of independent variables. The coefficient results revealed that tax knowledge had a positive (B = 1.016) and significant (P-value $0.001 < 0.05$) influence on tax compliance by public transport SACCOs. This shows a unit growth in tax information enhances tax compliance public transport SACCOs by 1.016 units. The result hence show that a growth in tax information positively and significantly has an effect on tax compliance public transport SACCOs in Nyeri County.

4.7 Tax Compliance Costs

This unit examined what is the effect of tax compliance costs on tax compliance by public transport SACCOs in Kenya? The research evaluated several questions on how tax compliance costs affect tax compliance by SACCOs. The section also shows the regression findings on the link among tax compliance costs and tax compliance. Table 4.7 and table 4.8 shows the results.

Table 4.7: Descriptive Results of Tax Compliance Costs

	1	2	3	4	5	Mean	Std. Dev
High compliance costs discourage SACCOs from tax compliance	0	17.6%	11.8%	50.0%	20.6%	3.74	.994
Compliance costs reduces SACCOS profits and growth	0	8.8%	17.6%	38.2%	35.3%	4.21	1.048
Technology and online platforms reduces tax compliance cost	0	11.8%	14.7%	55.9%	17.6%	4.54	1.130
Compliance costs in some cases exceed tax payable by SACCOs	17.6%	35.3%	17.6%	29.4%	0	2.59	1.104
Probability of tax evasion is affected by high compliance costs	0	17.6%	20.6%	38.2%	23.5%	3.68	1.036

Table 4.8: Regression Results on the Relationship between Tax Compliance Costs and Tax Compliance

Model Significance							
Step 0	Constant	B	S.E.	Wald	df	Sig.	Exp(B)
		-1.022	.389	6.907	1	.009	.360
Model Summary							
Step	-2 Log likelihood	Cox & Snell R Square			Nagelkerke R Square		
1	37.451 ^a	.053			.077		
Coefficients							
Step 1 ^a		B	S.E.	Wald	df	Sig.	Exp(B)
	Costs	-1.213	.932	7.696	1	.001	.297
	Constant	2.951	3.032	.947	1	.330	19.128

a. Variable(s) entered on step 1: Costs.

The results on table 4.7 shows that the respondents were neutral on whether high compliance costs discourage SACCOs from tax compliance as represented by a mean value of 3.74 respectively. The respondent however agreed that compliance costs reduces SACCOS profits and growth and that technology and online platforms lower tax

compliance cost as shown by an average values of 4.21 and 4.54 respectively. The respondents disagreed that compliance costs in some cases surpass tax payable by SACCOs though they were neutral on whether the probability of tax evasion is influenced by high compliance costs as indicated by the average values of 2.59 and 3.68 respectively.

The logistic regression results on table 4.6 indicate that Cox & Snell R Square was 0.053, which shows that the independent variables (tax compliance costs) accounted to 5.3% of the dependent variable (tax compliance). The model significance findings reveal that the carried logistic model is significant as shown by the P value of $0.009 < 0.05$. This is an indication that the study model is significant and fit to carry out the analysis of independent variables. The coefficient results revealed that tax compliance costs had a negative ($B = -1.213$) and significant ($P\text{-value } 0.001 < 0.05$) influence on tax compliance by public transport SACCOs. This show a unit growth in tax compliance costs reduces tax compliance public transport SACCOs by 1.213 units. The results hence concludes that an increase in tax compliance costs negatively and significantly influences tax compliance public transport SACCOs in Nyeri County.

4.8 Correlation Matrix

Correlation analysis was undertaken to assess the strength and degree of association among the study variables. The results were as follows

Table 4.9: Correlation Matrix

	Tax compliance	Deterrence sanctions	Taxpayers perception	Tax knowledge	Tax compliance costs
Tax compliance	1				
Deterrence sanctions	.057	1			
Taxpayers perception	.116	.076	1		
Tax knowledge	.160	-.020	.123	1	
Tax compliance costs	-.231	.011	-.072	.199	1

The results on table 4.8 shows that there was a weak and positive correlations between deterrence sanctions (0.057), taxpayers' perception (0.116), tax knowledge (0.160) and

tax compliance. The results however show that there was a weak and negative correlation between tax compliance costs (-0.231) and tax compliance.

4.9 Multiple Logistic Regression

A multiple logistic regression was undertaken to establish the joint relationship among the study variables. The result were as follows

Table 4.10: Multiple Logistic Regression

Model Significance							
	B	S.E.	Wald	df	Sig.	Exp(B)	
Step 0	Constant -1.022	.389	6.907	1	.009	.360	
Model Summary							
Step	-2 Log likelihood	Cox & Snell R Square		Nagelkerke R Square			
1	35.431 ^a	.108		.157			
Coefficients							
	B	S.E.	Wald	df	Sig.	Exp(B)	
Step 1 ^a	Deterrence sanctions	.438	1.066	5.169	1	.001	1.550
	Taxpayers perception	.348	.792	.193	1	.660	1.416
	Tax knowledge	1.464	1.193	4.417	1	.009	4.325
	Compliance costs	-1.524	1.027	4.446	1	.004	.218
	Constant	-4.332	6.951	.388	1	.533	.013

a. Variable(s) entered on step 1: Deterrence sanctions, taxpayers' perception, tax knowledge, compliance costs.

The model significance results on table 4.9 indicate that the adopted logistic model is significant as shown by the P value of $0.009 < 0.05$. This is an indication that the study model is significant and fit to carry out the analysis of independent variables. The model summary results shows that the Cox & Snell R Square was 0.108, which indicates that the independent variables (deterrence sanctions, taxpayers' perception, tax knowledge and compliance costs) accounted to 10.8% of the dependent variable (tax compliance). Thus, 89.2% of the variation was accounted by other factors which the study did not consider and the error term. The results further show that deterrence sanctions had a positive ($B = 0.438$) and significant ($P \text{ value} = 0.001 < 0.05$) effect on tax compliance by public transport SACCOs while taxpayers' perception had a positive ($B = 0.348$) but an insignificant ($P \text{ value} = 0.660 > 0.05$) relationship with tax compliance by public transport SACCOs. The study also revealed that tax knowledge had a significant ($P \text{ value} = 0.009 < 0.05$) and positive ($B=1.464$) effect on tax compliance by public transport

SACCOs. Finally, the results established a negative (B=-1.524) and significant (P value = 0.004<0.05) relationship between tax compliance costs and tax compliance by public transport SACCOs in Nyeri County. From the results the following regression was obtained

$$Pr.(Y) = -4.332 + 0.438X_1 + 0.348X_2 + 1.464X_3 - 1.524X_4$$

With, Y being Tax Compliance, which was a dummy with a value of 1 for tax compliance and a value of 0 for non-compliance, X_1 = Deterrence sanctions, X_2 = Taxpayers perception, X_3 = Tax compliance costs and X_4 = Tax knowledge levels

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter highlights a summary of the study findings, the conclusions as per the research results, recommendations and the suggestions for further research

5.2 Summary

5.2.1 Deterrence Sanctions

The study results established that imposition tougher penalties encouraged payment of taxes but higher fines did not inhibit Sacco's tax noncompliance respectively. The findings also revealed that audit probability enhances tax payment and that reporting noncompliance enhance Sacco's tax compliance respectively. The logistic regression results revealed that deterrence sanctions had a positive ($B = 0.354$) and significant (p value $0.001 < 0.05$) affect tax compliance by public transport SACCOs. This show a unit growth in tax deterrence sanctions increases tax compliance public transport SACCOs by 0.354 units. The result hence concludes that a growth in tax deterrence sanctions positively and significantly affects tax compliance public transport SACCOs in Nyeri County. The multiple logistic regression results revealed that deterrence sanctions had a positive ($B = 0.438$) and significant (P value = $0.001 < 0.05$) effect on tax compliance by public transport SACCOs. The findings are supported by Dinku and Alamirew (2018) which supported that the degree of voluntary tax compliance was significantly related to the productivity of the statutory audit, tax investigations and sanctions. Thiga and Muturi (2015) revealed that tax compliance sanctions make the largest contribution to tax compliance. Munyentwali (2014) revealed that sanction rates, tax positions, fairness and fairness of the tax system and social standards are statistically significant in influencing the level of taxation.

5.2.2 Taxpayers' Perception

The study findings established that the respondents disagreed that collected taxes were used for the uplifting of the welfare of citizens and that tax officers are approachable,

honest and helpful to SACCOs respectively. The findings also revealed that tax administration and collection was not open and clearly done respectively. The logistic regression results revealed that taxpayers' perception had a positive ($B = 0.525$) and insignificant ($P\text{-value } 0.503 > 0.05$) influence on tax compliance by public transport SACCOs. This reveals a unit increase in taxpayers' perception increases tax compliance public transport SACCOs by 0.354 units. The multiple logistic regression results revealed that taxpayers' perception had a positive ($B = 0.348$) but an insignificant ($P\text{ value} = 0.660 > 0.05$) relationship with tax compliance by public transport SACCOs. The finding therefore concludes that an increase in taxpayers' perception positively but insignificantly affects tax compliance public transport SACCOs in Nyeri County. The findings are however contrary to those of Nikiema and Zahonogo (2017) who found that perceptions of the individual about fraud, the quality of public services and social interactions influences tax compliance behavior. Karanja (2014) found that the perceptions and insights of tax fraudsters, peers, and financial and family responsibilities affect voluntary compliance with rental income tax.

5.2.3 Taxation Knowledge

The study results revealed that taxation knowledge enables fast assessment of tax liability and that insufficient information on tax laws and systems hampers tax compliance respectively. The research also revealed that the Kenyan tax authority (KRA) should emphasize on taxation education and that SACCOs did not have adequate knowledge on which income to include or exclude respectively. The results further revealed that high levels of tax knowledge encourage taxes payment. The logistic regression results revealed that tax knowledge had a positive ($B = 1.016$) and significant ($P\text{-value } 0.001 < 0.05$) influence on tax compliance by public transport SACCOs. This indicates a unit growth in tax knowledge increases tax compliance public transport SACCOs by 1.016 units. The multiple logistic regression results revealed that tax knowledge had a significant ($P\text{ value} = 0.009 < 0.05$) and positive ($B=1.464$) effect on tax compliance by public transport SACCOs. The finding hence show that a growth in tax knowledge positively and significantly influence tax compliance public transport SACCOs in Nyeri County. The findings are supported by Beesoon and Hemavadi (2016) showed that tax knowledge has

a significant impact on tax compliance and that tax compliance. Nzioki and Osebe (2014) indicated that tax information and education had a positive impact on property tax compliance. Nevertheless, Munyeki and Olweny (2016) found that tax knowledge had no significant correlation with tax administration practice.

5.2.4 Tax Compliance Costs

The results established that tax compliance costs discourage SACCOs from tax compliance and that compliance costs reduces SACCOs profits and growth whereas technology and online platforms decrease tax compliance cost respectively. The findings indicated that compliance costs in some cases compliance costs did not exceed tax payable by SACCOs. The logistic regression results revealed that tax compliance costs had a negative ($B = -1.213$) and significant ($p \text{ value } 0.001 < 0.05$) effect on tax compliance by public transport SACCOs. This indicates a unit increase in tax compliance costs decreases tax compliance public transport SACCOs by 1.213 units. The multiple logistic regression results revealed a negative ($B = -1.524$) and significant ($P \text{ value } = 0.004 < 0.05$) relationship between tax compliance costs and tax compliance by public transport SACCOs in Nyeri County. The finding therefore concludes that an increase in tax compliance costs negatively and significantly affects tax compliance public transport SACCOs in Nyeri County. The findings are supported by Zachary, Kariuki and Mwangi (2017) showed a significant positive correlation between the costs of compliance with tax regulations and compliance with tax regulations by SMEs. Abdul and Wang'ombe (2018) showed that tax compliance in Kenya significantly decreased with rising tax compliance costs. However, Sapiei, Kasipillai and Eze (2014) found that tax compliance costs had a slight link with non-compliance by corporate taxpayers.

5.3 Conclusion

The results of the research show that tax noncompliance deterrence sanctions had a positive and significant effect on tax compliance by public transport SACCOs in Nyeri County. The study grounded on this results concludes that noncompliance sanction among them fines, penalties and probability of being audited significantly enhance tax compliance by public transport SACCOs in Nyeri County. The research results also established that taxpayers' perception had a positive but an insignificant relationship with

tax compliance by public transport SACCOs in Nyeri County. Based on this results the research concludes that taxpayers' perception does not significantly affect tax compliance by public transport SACCOs in Nyeri County.

In the same vein, the research indicated that that tax information had a major positive effect on tax compliance by public transport SACCOs in Nyeri County. The study based on this observation concludes that tax knowledge significantly affects tax compliance by public transport SACCOs in Nyeri County. Finally, the results revealed a negative and significant link between tax compliance costs and tax compliance by public transport SACCOs in Nyeri County. According to this findings, the study comes to a conclusion that tax compliance costs significantly influences tax compliance by public transport SACCOs in Nyeri County.

5.4 Recommendations

The research results led to the conclusion that deterrence sanction significantly enhance tax compliance by public transport SACCOs in Nyeri County. Therefore this study hence recommends that among tough fines and penalties should be imposed on non-complaint public transport SACCOs and frequent tax audits should be carried out by the Kenya Revenue Authority among the SACCOs to ensure full tax compliance.

Secondly, the findings led to the observation that taxpayers' perception had a positive but an insignificant relationship with tax compliance by public transport SACCOs in Nyeri County. The study however recommend that KRA should ensure transparency and accountability during collection of taxes and the government should ensure that the collected taxes are effectively used to uplift the wellbeing of the citizen as such would encourage tax payment.

Further, in the study it was concluded that tax knowledge significantly affects tax compliance by public transport SACCOs in Nyeri County. The research thus recommends that KRA is mandated to ensure they adopt tax training programs among public transport SACCOs to enhance tax knowledge and awareness as such would encourage SACCOs pay taxes and file tax returns.

Lastly, the research concluded that tax compliance costs significantly affects tax compliance by public transport SACCOs in Nyeri County. Based on this observation the study recommends that public transport SACCOs should the services of accountants in addition to training their administrators on taxation and tax compliance to ensure they are they are knowledgeable on tax filling and payment to cut down compliance costs.

5.5 Suggestions for Further Research

This study focused on deterrence sanctions, taxpayers' perception, tax knowledge and tax compliance costs and their effect on tax compliance by public transport SACCOs in Nyeri County. However, there are other factors, which may influence compliance to taxes by SACCOs. This study therefore suggest a similar study, which considers a different set of variables. The study also considered public transport SACCOs, however in Kenya there are large companies, which provide public transport services and also logistic firms which deal with transportation of good both in Kenya and in the other East African Countries. This study therefore recommends a similar topic with the context being public transport companies and logistic firms in Kenya.

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APPENDICES

Appendix I: Questionnaire

I am a Post Graduate Diploma Tax Administration (PGD-Tax) student at Kenya School of Revenue Administration. The aim of this questionnaire is to collect data on the determinants of tax compliance by public transport SACCOs in Kenya. The purpose of the study is to fulfill the award of the Post Graduate Diploma Tax Administration (PGD-Tax) at Kenya School of Revenue Administration. The information obtained therefore will be used for academic purposes and will be treated confidential. Please respond where appropriate

Section I: Background Information

1. Name of the SACCO (Optional) _____
2. Indicate the number of years you have been working with Sacco
Less than 1 year () 2- 3 years () Over 4 years ()
3. Indicate the number of years the Sacco has been in operation
1-2 years () 3-4 years () Over 5 years ()

Section II:

Part A: Deterrence Sanctions

4. What is your level of agreement with the following statements on tax deterrence sanctions and tax compliance? Use a scale of 1 to 5 where 1= Strongly Disagree 2= Disagree, 3=Neutral, 4= Agree and 5 = Strongly Agree.

Statement	1	2	3	4	5
The imposition of tougher penalties by KRA encourages the payment of taxes					
Tougher penalties encourages payment of taxes					

Higher fines inhibit Sacco's non compliance					
Audit probability enhances tax payment					
Reporting noncompliance enhances Sacco's tax compliance					
Most fines and penalties are unfair and highly oppressive					

Part B: Taxpayers' Perception

5. What is your level of agreement with the following statements on the taxpayer perception and tax compliance? Use a scale of 1 to 5 where 1=Strongly Disagree. 2=Disagree, 3=Neutral, 4= Agree and 5 = Strongly Agree.

Statement	1	2	3	4	5
Taxes collected by KRA are used for the uplifting of the welfare of tax payers					
Collected taxes are used for the uplifting of the welfare of citizens					
Tax officers are approachable, honest and helpful to SACCOs					
Tax administration and collection is transparent and openly done					
KRA is able to detect people not paying the right amount of tax					
Tax evasion should attract a long jail sentence					

Part C: Tax Knowledge Levels

6. What is your level of agreement with the following statements on tax knowledge levels and tax compliance? Use a scale of 1 to 5 where 1=Strongly Disagree. 2=Disagree, 3=Neutral, 4= Agree and 5 = Strongly Agree.

Statement	1	2	3	4	5
Knowledge on taxation enables SACCO members and operators to assess their tax liability correctly and to file tax returns on time					
Taxation knowledge enables fast assessment of tax liability					
Inadequate knowledge on tax systems hinders tax compliance					
Kenyan tax authority needs to emphasize on taxation training					
SACCOs have adequate knowledge on incomes to include or exclude					
High levels of tax knowledge encourage taxes payment					

Part D: Tax Compliance Costs

7. What is your level of agreement with the following statements on tax compliance costs and tax compliance? Use a scale of 1 to 5 where 1=Strongly Disagree. 2=Disagree, 3=Neutral, 4= Agree and 5 = Strongly Agree.

Statement	1	2	3	4	5
The amount incurred when filling returns and paying taxes discourage SACCOs from complying with tax payment					
High compliance costs discourage SACCOs from tax compliance					
Compliance costs reduces SACCOS profits and growth					
Technology and online platforms reduces tax compliance cost					
Compliance costs in some cases exceed tax payable by SACCOs					
Probability of tax evasion is affected by high compliance costs					

Part E: Tax compliance

8. Please indicate if you complied with the following or not (tick as appropriate)

Item	Yes	No
Registered for i-tax		
Registered for Income Tax Corporation		
Registered for VAT		

9. Please indicate if you have been filing the following returns or not (tick as appropriate)

Item	Yes	No
Income tax Corporation		
VAT		
Withholding tax		

10. What is your opinion about other SACCOS who do not pay taxes that they owe on their income?

Not wrong at all Wrong but understandable Wrong and punishable

Thank you for your time

Appendix II- List of SACCOs in Nyeri County

1. 2 MGIN Cooperative Savings & Credit Society Limited
2. 2NK Sacco Society Limited
3. 3NCK Sacco Ltd
4. Central Line Savings & Credit Co-Operative Society Limited
5. Chakana Savings And Credit Co-Operative Society Limited
6. Datima Travellers Transport Savings And Credit Co-Operative Society
7. Gakanango Savings And Credit Co-Operative Society Limited
8. Gathuthi Savings And Credit Cooperative
9. Kamuna Sacco Limited
10. Kangema Travellers Savings And Credit Co-Operative Society Ltd
11. Karombu
12. Kasamuthi Travellers Sacco
13. Mt. Kenya Transport Sacco Ltd
14. MTN Sacco Ltd
15. Muigana Sacco
16. Namuga Cooperative Savings And Credit Society Limited
17. Namukika Cooperative Savings And Credit Society Limited
18. NOKK Sacco Society Limited
19. Nyakati Matatu Investors Sacco Society Limited
20. Nyekicha Savings And Credit Cooperative Society Ltd
21. Nyemuna Savings And Credit Cooperative Society Limited
22. Nyena Co-Operative Savings And Credit Society Limited
23. Nyenya Co-Operative Savings & Credit Society Ltd

24. Nyeri Shuttle Limited
25. Inana Seven Seater
26. Kiemwa Sacco
27. Mathioya Express Sacco
28. Mukanyeki Shuttles Company Limited
29. Muna Transporters Sacco Ltd
30. Muranga Shuttle
31. Muranga Supreme Shuttle Limited
32. Nanaisio Shuttle
33. Nanyuki Express Cabs Services Cooperative Savings And Credit Society Limited
34. NIM Sacco Society Ltd
35. Nuclear Sacco
36. Nyesuma Sacco
37. Rware Travellers Sacco