

**FACTORS AFFECTING REMITTANCE OF DIRECT TAXES AMONG
SMALL AND MEDIUM ENTERPRISES IN KISUMU COUNTY**

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DECLARATION

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

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

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ABBREVIATIONS AND ACRONYMS

KESRA	Kenya School of Revenue Administration
KRA	Kenya Revenue Authority
NSE	Nairobi Securities Exchange
SMEs	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
WHT	Withholding Taxes

DEFINITION OF TERMS

Cost of remittance these are the expenses the business incur in order to maintain the books of accounts and thus comply with taxes (Evans, Lignier & Tran-Nam, 2013).

Direct Taxes Direct taxation is defined as taxation imposed upon the person who is intended to be the final bearer of the burden of payment (Djankov, Ganser, McLiesh, Ramalho & Shleifer, 2010).

Cost of deterrent factors these are put in place to ensure that people comply with taxes. They accrue after an offence has been committed by the tax payers (Esmaeel, 2013).

Liquidity It is the ability of the firm to meet its short term obligations as and when they fall due (Eichfelder & Schorn, 2012).

ABSTRACT

Business incomes are expected to be taxed in Kenya and this is guided by Section 4 of the Income Tax Act in Kenya. Taxes that can be paid on income tax include pay as you earn corporate taxes as well as withholding taxes. All these are generally seen as direct taxes. This study sought to determine factors affecting remittance of direct taxes among Small and Medium Enterprises in Kisumu County. The study was guided by the following specific objectives; to establish the effect of liquidity on remittance direct taxes among Small and Medium Enterprises in Kisumu County, to assess the effect of costs of deterrent factors on remittance of direct taxes among Small and Medium Enterprises Kisumu County and to determine the effect of cost of remittance on remittance of direct taxes among Small and Medium Enterprises in Kisumu County. The study was informed by three theories namely; ability-to-pay approach theory and Allingham and Sandmo Theory (AS theory). A cross sectional descriptive research design will be used. The study targeted 500 SMEs in Kisumu town. The study will adopt stratified random sampling technique to select 222 respondents which shall be arrived at using Yamane (1975) formula. The study collected primary using questionnaires. The analysis of the collected data was conducted using means, standard deviation and regression analysis. The findings were presented using pie charts and graphs. The study revealed that liquidity, costs of deferent factors and costs of remittance all have a significant effect and relationship with remittance of direct taxes. The study concludes that that liquidity, costs of deferent factors and costs of remittance are critical factors influencing remittance of direct taxes. The study recommends that the management of the SMEs to make decisions that enhance the level of liquidity of their firms and thus positively enhancing their ability to remit direct taxes. KRA should seal all the loopholes and establish more stringent penalties and interests for the tax payers who do not remit their direct taxes. KRA should minimize the costs that tax payers meet in remitting their direct taxes.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Every nation requires revenue from taxes so as to finance the operations and activities for the people (Economics Online, 2015). A tax is considered and defined as compulsory level that the states impose to people. Government finances the budget and expenditure largely through imposition of taxes (Salami, Apelogun, Omidia & Ojoye, 2015) in addition to use of debts. Traditionally, taxation has been used a major source of revenue to fund the operations of the government (Edame & Okoi, 2014), but it also helps in redistributing the level of wealth in an economic system (Ojo, 2009). There are two broad classes of taxes that the government can levy: direct and indirect taxes (Abata, 2014). This study focused on direct taxes that cover income tax (pay as you earn), corporate taxes as well as withholding taxes. Direct taxes are deemed to be equitable to the side of the consumers since the higher the level of income, the more that taxes. At the same time, it is possible to attain the condition of certainty with direct taxes since the tax payers are fully aware of the amount of tax dues to pay. There are associated disadvantages with direct taxes including higher possibility for evasion by the tax payers (Entin, 2004).

1.1.1 Global Perspective on Remittance of Direct Taxes

In the context of Indonesia, Inasius (2019) looked at factors that influence the ability of SMEs to comply. It was shown that perceptions of fairness and equity and probability of being detected are key factors that shape and influence the ability of the tax payers to comply with taxes. Referral groups were also found to play an important role in shaping the compliance behavior of the tax payers. In Malaysia, Hamid, Noor, Zam, Hussin and Dangi (2018) looked at factors that influence SMEs to comply with taxes. It was shown that the degree of complexity is an important factor as far as compliance behavior of the tax payers is concerned.

Like most EOCED members, Canada is one country that relies heavily on direct taxes for financing the operations. Using a case of developing counties, Azizi (2018) was interested at determining the influence of worker's remittance on supply of labor with reference to developing

economies. The key findings indicated that remittance by workers enhances and raise per capita expenditure on health systems in an economic system. In Italy, it is estimated that over 183 billion euros have been lost within the period of 2016-2017 on account of non-remittance of direct taxes by firms. The same problem has been witnessed in Greece.

1.1.2 Regional Perspective on Remittance of Direct Taxes

Deyganto (2018) did a study on factors that shape the ability of the tax payers to voluntarily comply with tax obligations, using Ethiopian context. It was shown that knowledge of the penalties and interests and simplicity of the tax system have an influence on compliance behavior of the tax payers. In some developing countries including Zambia, personal income taxes including PAYE account for the largest the total revenues collected at the personal level. The justification for this is that it is easier to collect PAYE with low associated administrative costs. According to Akhand (2002), enhancing compliance of the tax payers is one the challenges that tax agencies face especially among developing economies.

In Ethiopia, Hamelmal (2017) was keen to bring out the factors influencing income tax revenues from businesses. This study was informed by the consistent fluctuation in the level and amount of revenues collected from business income. It was shown that tax rates, compliance costs and the level of liquidity of the business inform and shape the amount of tax revenues that are remitted by firms to the government. Thus, in the event that the firm has low business activity, it shall be considered to have low level of liquidity and thus the possibility of noncompliance to pay taxes.

1.1.3 Kenyan Perspective on Remittance of Direct Taxes

It is the responsibility of the Kenya Revenue Authority (KRA) to handle all the issues of taxation in Kenya on behalf of the government. There are various forms of direct taxes in Kenya including corporate tax and the personal income tax including PAYE (KRA, 2018). Munyeki and Olweny (2018) conducted a study to examine the factors influencing tax remittance among SMEs in Kenya. The focus of the study was on tax knowledge and its influence on ability of the tax payers to remit their tax due and obligations. Specifically, the study was interested at determining the influence of unique conditions of the firm, the various perceptions of the

operators of the SMEs, the level of knowledge of tax as it pertains the tax laws and how they shape the ability of SMEs to remit taxes. It was revealed that SMEs have unique business challenges and conditions as compared to larger firms which affect their ability to remit tax dues. These conditions act as a burden for the SMEs to remit their tax dues. The laws governing taxation were considered to negatively shape and influence the ability of SMEs to comply with taxation.

A study was conducted by Robin (2018) with reference to SMEs operating in Naivasha to determine factors influencing their ability to comply with taxes. It was shown that tax rates and the complexity of the procedures involved in filling have influence on compliance behavior of the tax payers. Various recommendations were put forward by this study including the need for ensuring and enhancing the learning ability of the tax payers. The other recommendation was the need to lower the rates of taxation as this would make the tax payers to comply with taxes and thus remit their tax dues on time. The laws and regulations governing and regulating taxations should be simplified to ensure that tax payers are able to understand such they are not as complex.

1.1.5 Small and Medium Enterprises in Kenya

Small and Medium Enterprises largely operate in the informal sector of the economy (Lans, Hulshnik, & Mulder, 2008). SMEs are recognized on the basis of the number of employees that they absorb (Kinyua, 2014). According to Hall and Harvie (2003), SMEs play an important role as far as the growth of an economy is concerned. The Economic Survey Report (2016) shows that SMEs contributed a total of 70% towards the growth of the economy of Kenya and about 80% of the people in Kenya are employed in this sector.

Majority of the people employed in the SMEs sector are young people within the age of 18 to 35 years, out of which half them are women (Ouma, et al, 2009). In Kisumu County, majority of the SMEs have not significantly contributed towards the amount of revenues generated despite their large numbers. According to Ndemo (2015), most SMEs in Kisumu County have not registered their activities for the purpose of taxation. This makes it hard for tax systems to crack down and track on their actual contribution towards the economy in terms of taxes. Hence, an analysis of the factors influencing remittance of direct taxes among these SMEs is critical.

1.2 Statement of the Problem

Majority of the SMEs in African continent operate in the informal sector. Despite their relatively large numbers, most of the SMES in Kisumu County are not tax compliant. Given the fact that majority of these firms operate in the informal sector, it becomes hard for the tax agencies to crack down and monitor how they remit taxes. Furthermore, majority of these SMEs have not registered for tax purpose. It is therefore important that an investigation is conducted to bring out the factors influencing remittance of direct taxes among these SMEs.

The available literature on remittance of direct taxes is influenced by mixed and inconsistent results. For instance, Robin (2018) was interested at establishing the factors that influence compliance with taxes among SMEs using a case of those firms operating in Nakuru County. The rate of taxation, procedures for filling and tax accountability were identified as key in shaping and influencing compliance behavior of the tax payers. Ali (2015) did a study in Uganda to examine the factors that influence the attitude to comply with taxes. The identified factors included tax knowledge and the attitudes of the tax payers. Inasius (2019) studied factors determining ability of SMEs to comply with taxes using a case of Indonesian firms. It was shown that referral groups and the tax knowledge have significant influence on ability of the tax payers to comply with taxes. Hamid, Noor, Zam, Hussin and Dangi (2018) examined the factors influencing ability of small firms to comply with taxes using a case of firms in Malaysia. It was shown that complexity of the tax system influence the ability of the tax payers to comply. Deyganto (2018) examined factors behind the ability of the tax payers to voluntarily comply with taxes using evidence from Ethiopia. The identified factors influencing the ability of the tax payers to comply with taxes included penalties, probability of being audited and the rates of taxes.

Thus, although literature has focused on direct taxes, some of the studies were carried out in other countries away from Kenya like India, Nigeria, Brazil and Romania. Other studies combined direct and indirect taxes as they influence tax compliance hence did not specifically look at direct taxation and its influence on compliance. None of the reviewed study focused on determining the factors that influence remittance of direct taxes. This created gaps which the current study sought to fill by examining the factors affecting remittance of direct taxes among Small and Medium Enterprises in Kisumu County.

1.3 Objectives of the Study

The study had the general and specific objectives as indicated below;

1.3.1 General Objective

The general objective of the study was to establish the factors affecting remittance of direct taxes among Small and Medium Enterprises in Kisumu County.

1.3.2 Specific Objectives

The study was guided by the following specific objectives;

- i. To establish the effect of liquidity on remittance of direct taxes among Small and Medium Enterprises in Kisumu County
- ii. To assess the effect of the cost of deterrent factors on remittance of direct taxes among Small and Medium Enterprises Kisumu County
- iii. To determine the effect of cost of remittance on remittance of direct taxes among Small and Medium Enterprises in Kisumu County

1.4 Research Questions

The study sought for answers to the following research questions;

- i. What is the effect of liquidity on remittance of direct taxes among Small and Medium Enterprises in Kisumu County?
- ii. How does cost of deterrent factors affect remittance of direct taxes among Small and Medium Enterprises Kisumu County
- iii. What is the effect of cost of remittance on remittance of direct taxes among Small and Medium Enterprises in Kisumu County?

1.5 Significance of the Study

The findings of the study would be important to the management of mid-sized firms, Kenya Revenue Authority, policy makers as well as scholars and academicians.

1.5.1 Management of Small and Medium Enterprises

The management of Small and Medium Enterprises in Kenya would rely on the findings of the study to establish sound strategies of generating more profits to cover taxes and meet the expenses while setting aside some for shareholders and business expansion. Through this study, the management team of Small and Medium Enterprises companies would be able to understand the link and connection between direct taxes and tax compliance.

1.5.2 The Kenya Revenue Authority

The Kenya Revenue Authority is the government tax agency responsible for collection of taxes on behalf of the government. The findings of the study would inform sound policies and regulations as it regards direct taxes and their influence on tax compliance of firms.

1.5.3 Policy Makers

Policy makers are body corporates and individuals who are charged with the responsibility of formulation and implementation of economic policies and decisions for the growth of the economy. Such policy makers will be able to understand the role played by direct taxes on tax compliance among mid-sized companies. This way, any formulated policy would be aligned with the findings and suggestions of this study.

1.5.4 Scholars and Academicians

The study will add to the existing literature and information on direct taxes and their influence on tax compliance. Future scholars carrying out similar studies would be able to carry out literature review as this would be readily available from this study.

1.6 Scope of the Study

The study looked at liquidity, cost of deterrent factors and cost of remittance and their influence on remittance of direct taxes. The study was conducted among Small and Medium Enterprises in Kisumu County. Kisumu County was used because it is one of the rapidly emerging cities in Kenya with so many SMEs coming up yet the level of revenue generation has remained low.

The study was conducted in the month of October, 2019. Data for the study was primary in nature and it was collected with the aid of the questionnaires.

1.7 Limitations of the Study

The study was limited to the factors influencing direct tax remittance. The study was limited to SMEs operating in Kisumu town. The study was informed by two theories: ability-to-pay approach theory and the Allingham and Sandmo Theory (AS theory). Conceptually, the study focused on liquidity, cost of deterrent factors as well as costs of remittance and their influence on remittance of direct taxes. The study was limited to primary sources of information that was gathered using questionnaires.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter looks at the theories that formed anchorage to the study. The conceptual framework of the study is presented with a review of the variables. The past studies will be reviewed under the empirical review section. The critique of the literature, summary and research gap will also be presented.

2.2 Theoretical Review

A theoretical review looks at the key theories that form anchorage to the study. The study will be supported by three theories: ability-to-pay approach theory and the Allingham and Sandmo Theory (AS theory)

2.2.1 Ability-to-Pay Approach Theory

This theory can be traced back to 16 century as proposed by Rousseau (1712-1778). The theory argues that the ability of the tax payers to pay the taxes should be used and informs the amount of taxes to levy. This idea forms the basis of progressive system of taxation; which largely means that as the level of income of the tax payers increases, the amount of taxes to pay should also go up. The key rationale and justification of the ability to pay is the sacrifice by the tax payers. Payment of taxes is considered as the deprivation of the tax payers the tax payers ensure that their income is surrendered to the government which could otherwise be used for individual and personal reasons.

However, there exists a challenge in measurement of equity of sacrifice in this theory. This is because one can measure this in marginal, absolute or proportional rate. According to Akakpo (2009), the ability to pay is a concept where the tax payers pay the tax which they are in position to remit. The current study evaluates the finding to assess whether the principles under the ability to pay theory is fully adhered to in the case of corporate tax compliance among Kenyan SMEs.

2.2.2 The Allingham and Sandmo Theory (AS Theory)

It is Allingham and Sandmo (1972) who advanced this theory. The theory argues that the government can bring about deterrence to tax evasion among tax payers through use of audits and sanctions. In the event that the tax payers conceive that the costs of compliance are very low, he/she may be motivated to violate the established regulations of the taxation. If the tax payer is of the view that he/she will not be detected even if he/she evades, the level of noncompliance would be high. Additionally, in the event that the tax payers consider the costs of compliance as being high, they shall be motivated to evade taxes. The procedures and systems used in administration of taxes also may act as avenues for noncompliance of the tax payers. The tax payers who are of the view that the tax rates and interests and penalties are so high shall likely evade taxes and thus fail to comply.

According to Allingham and Sandmo (1972), inability to remit taxes is influenced by how the tax payers assess and analyze the risk and benefits of failing to comply. Yitzhaki (2002) argues that when penalties are imposed on the amount of taxes evaded, more people would be encouraged not to comply with taxes. This theory will therefore be used to explain how costs of deterrent factors like interests and penalties include remittance of direct taxes.

2.3 Conceptual Framework

A conceptual framework is a diagrammatic representation of the variables of the study together with the indicators of each of the items (Mugenda & Mugenda, 2012). Figure 2.1 is the study conceptual framework.

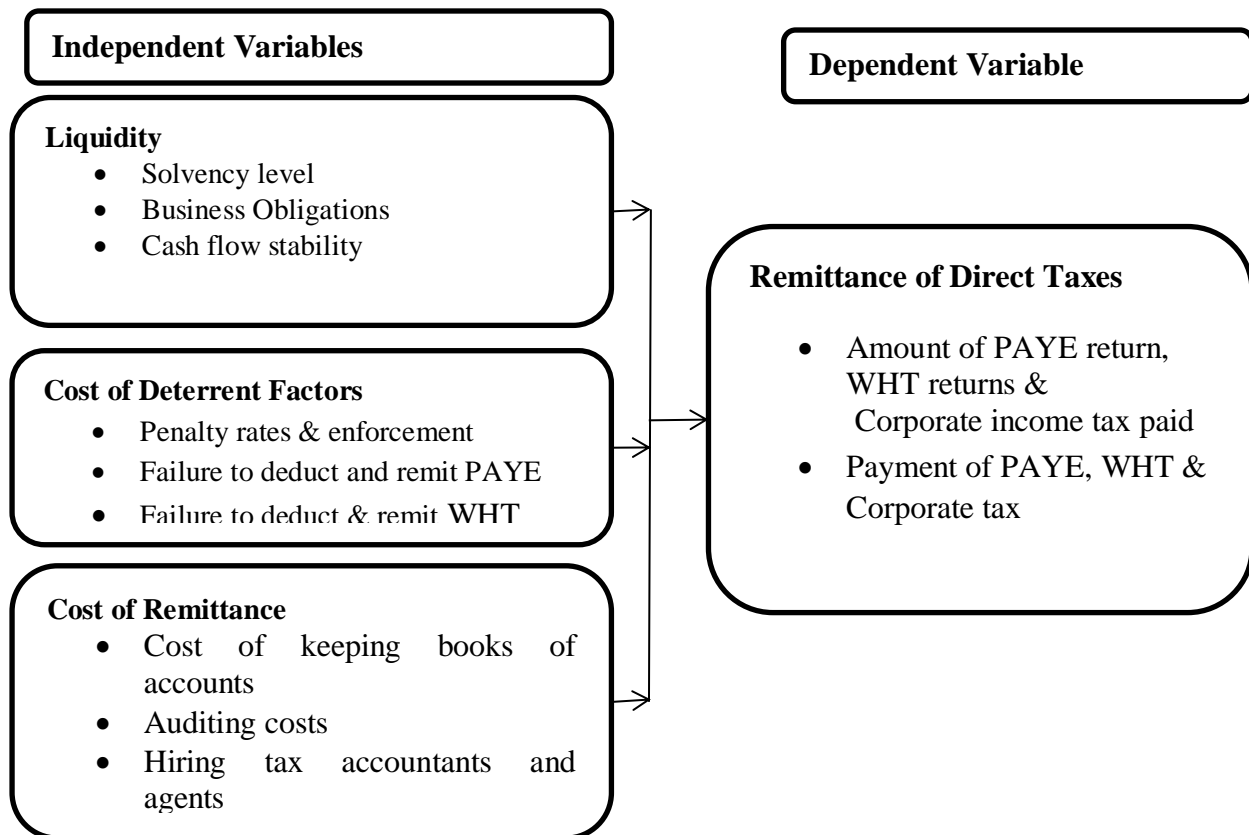


Figure 2.1: Conceptual Framework

2.3.1 Liquidity

Liquidity is the ability of the firm to meet its most current obligations when they are decalated due. Liquidity helps the firm to fulfill its immediate commitments without being compelled to dispose of the financial assets in place (Shiu, 2004). Highly liquid firms perform better and thus more compliant as compared to less liquid firms. Liquidity can be determined by the available cash flows in the firm. When a firm does not have adequate level of cash flows, it may be forced to sell off securities at a low value of market so as to meet the obligations. This may adversely affect their financial performance and thus ability to pay taxes.

Liquidity is an important component of every firm since it influences and determines its ability to meet the short term obligations as they arise. One of the components of liquidity is the level of solvency of the firm. Various stakeholders of the firm are so much interested in the solvency position to evaluate and determine the level of risk exposure (Qasim, Ramiz & .Rehman, 2011). Solvency is used in reference to how abler an organization is in meeting its obligation in the event of liquidation or cessation. Solvency shapes and influence the financial viability of the

entity over a given long term period of time. It is used to evaluate and determine the ability of the firm to meet its long term obligations (Mason, 2009).

2.3.2 Costs of Deterrent Factors

There are several measures that a tax agency can use to deter noncompliance behavior of the tax payers. These measures include the use of interests and penalties and the punishments (Kirchler et al 2007). Increasing the rate of fines and interests makes it hard for the tax payers to evade taxes and thus a deterrence mechanism. Other studies argue that a rise in the penalties may bring about unexpected outcomes and thus the possibility of more avoidance (Kirchler et al, (2007). Alm et al. (1992) argue that fines have no significant influence on ability of the tax payers to comply with taxes. Friedland et al. (1978) on the other hand confirmed that compliance behavior of the tax payers is influenced by fines and the probability of being caught in the event of an audit.

The rates of interests penalties may not only bring about compliance but may also stand out as a barrier to formalization of the operations of the business. There are other factors that inform and influence the firm to carry out operations in the informal sector. These include stiff regulations, high rate of taxes and the rates of tax penalties (Yunus & Ramli, 2018). The influence of tax penalties on formalization of the firm is not consistent. There are two views of penalties as far as formalization of the firm is concerned: as a barrier or a driver for formalization. Penalties would turn out as a barrier to the business when they are far spread or when the tax agency abuses them (Bâzgan, 2018).

2.3.3 Cost of Remittance

Remittance of various tax heads result into various costs that the tax payers should incur. There exist wide variations in the estimates of the compliance burdens around the world. It is complex and hard to quantify the costs of remittance of direct costs (Cai, Chen & Wang, 2018). Remittance costs are the expenses incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities (Buettner, Holzmann, Kreidl & Scholz, 2019). There are various arguments that form the basis and justification for investigation of the cost of remittance. One of these justifications is that high rates of taxes and complexities may increase the rate and degree of fraud and thus inability to comply with taxes. High remittance

costs of direct taxes results into diminished competitive positioning of the country at large. Slemrod and Yitzhaki (1996) noted that cost of remittance is one of the components of social costs of taxation. Some of the costs incurred in remittance include the expenses the firm incurs to look for tax accountants and experts.

2.3.4 Remittance of Direct Taxes

Brown and Mazur (2003) explain tax remittance as a complex term to define because it's a multi-faceted measure. But they went further and define it in three aspects that include reporting, payment and filing compliance. Kircler (2007) defines tax remittance as taxpayer's willingness to pay tax with outermost honesty. The complex on tax remittance is seen on the following perspectives; the details required are too much in terms tax rules involved especially when it comes to computerized aspect of tax compliance decision (Richardson, 2006).

Andreoni, Erard and Feinstein (1998) define tax remittance as willingness of taxpayer to obey tax laws in order for a country to obtain its economy equilibrium. Kircler (2007) also defines tax remittance as taxpayer's willingness to pay tax with outermost honesty. Cummings (2007) defines tax evasion as the failure by taxpayer to comply with tax obligation. According to Rile (2011) tax noncompliance undermines revenue collection; it diminishes government mobilization of resources. According to William and Round (2009) tax penalties, inadequate understanding, high tax rates and high cost of compliances are some of the factors that lead to tax fraud and noncompliance.

2.4 Empirical Review

Empirical review focuses on the past but relevant studies on the variables of the study. This section looks at the past empirical studies on the variables of the study.

2.4.1 Liquidity and Remittance of Direct Taxes

Chorvat (2015) used a case of firms in United States of America to determine the influence and link between taxation and liquidity of the firm. This was also an empirical study that focused on review of past materials and information relevant to liquidity and its interaction with taxation. The study established that liquidity is one of the factors influencing the ability of the firm to comply with taxes. Artavanis and Spyridopoulos (2018) were keen to determine the interaction

between liquidity and the ability of the tax payers to evade taxes in Greece. The study established that firms facing financial challenges and bankruptcy proceedings have little contribution towards taxes of the country. Such firms may be forced to default payment of taxes so as to survive. This shows that liquidity plays an important role as far as compliance with taxes is concerned. Khidmat and Rehman (2014) sought to determine the influence of solvency and liquidity on ability of firms in Pakistan to generate profits. The reviewed literature showed that management of liquidity is an important aspect of the firm striving to generate profits and thus remain compliant as far as payment of taxes is concerned. The study focused on a total of 36 firms in Pakistan. Solvency which is an important component of liquidity was found to have an inverse and significant influence on ability of the firm to generate profits and thus compliance with taxes.

Ezugwu and Akubo (2014) used a case of some selected firms in the context of Nigeria to determine the interaction between the corporate tax rate and the level of liquidity. Specifically, the study was interested at establishing whether high rates of taxes at the corporate level are associated with liquidity issues and challenges. In total, 41 firms were covered by the study. It was shown that high corporate tax rates has negative influence on liquidity position of the firm. Listokin (2010) was interested at determining the interaction between taxation and the level of liquidity. This was an empirical review and thus information was gathered by looking at past studies that are relevant to the subject of consideration. It was shown that a liquid firm is deemed to be solvent and would thus readily comply with payment of taxes. A liquid organization is one which is able to meet its current obligations using the current assets as and when they are deemed to be due.

2.4.2 Cost of Deterrent Factors and Remittance of Direct Taxes

Swistak (2016) did a study on penalties and their influence on ability of SMEs to comply. The literature reviewed indicated that small firms should get special attention because at some point, some of these firms are not able to fulfill their obligations of taxation. The study specifically focused on discussion of the role as well as effectiveness of the penalties as far as making the tax payers to be compliant was concerned. It was shown that tax penalties although they are critical as enforcement mechanisms may adversely affect the ability of the firms to comply with taxes. It

was shown an increase in severity of the penalties may not necessarily produce the intended results of making the tax payers to comply with taxes.

Mohdali, Isa and Yusoff (2014) used a case of firms in Malaysia to predict the interaction between threats of punishment and the ability of the tax payers to comply. From literature reviewed, it was shown that threat of punishment has emerged as one of the mechanisms and avenues of enhancing the compliance behavior of the tax payers. This was a mixed mode survey study and the results showed that threats of punishment have no significant influence on ability and the willingness of the tax payers to comply with tax obligations. It was shown that tax payers are motivated to avoid payment of taxes whenever they feel that they are being threatened by the tax authorities. On overall, it was shown that treats of punishment only trigger possibility of the tax payers to be less compliant.

Devos (2013) looked at enforcement measures and penalties and their influence on ability of the tax payers to comply using a case of tax payers in Australia. The literature of compliance behavior of the tax payers show that there exist a number of factors that shape and determine the ability and behavior of the tax payers to comply with taxes. The study adopted mixed research method with use of surveys and interviews. It was shown that less degree of penalties and detection has postive influence on the ability of the tax payers to comply with tax matters.

Gemmell and Ratto (2018) was keen to determine the interaction between the information on tax penalties and the ability of the tax payers to comply with reference to firms in New Zealand. Experimental design was used in this study in realization of the formulated objectives. It was shown that availing and communicating penalty information has negative influence of the ability of the tax payers to comply with their tax obligations. Yunus and Ramli (2018) concentrated on SMEs operating in Malaysia to determine the influence of tax penalties on ability of the SMEs to comply. The review of previous studies showed that the penalty system of the country is among the measures of enhancing and strengthening the ability of the tax payers to comply. The study concentrated on punishment and tax rate, education and knowledge as the components of tax penalties. The design that the study used was quantitative and the focus was among the selected SMEs in Malaysian context. It was shown that tax penalties have significant influence on ability of the tax payers to comply with taxes. The key elements of tax penalties covered including

knowledge, education, and punishment and rate of taxes were found to have significant interaction with the ability of the tax payers to comply with taxes in an economic system.

2.4.3 Cost of Remittance and Remittance of Direct Taxes

Stamatopoulos, Hadjidema and Eleftheriou (2017) used a case of firms in Greece to determine the factors influencing tax compliance costs. The study specifically focused on corporate income taxes that entities are obliged to pay. The design used was survey. It was shown that the size of the firm, age and the sector that the firm operates, its location as well as legal status has an influence on ability to comply with taxes. Zachary, Kariuki and Mwangi (2017) looked compliance costs and the ability of SMEs in Embu to comply. The design used in this study was descriptive and a total of 615 SMEs formed the study population. From these, 185 SMEs were sampled out and included in the study. Information for the study was gathered with aid of questionnaires. It was shown that the tax of compliance and the ability of the tax payers to comply are positively and significantly related with each other. It was concluded that the costs of compliance and ability of the tax payers to pay their taxes are positively related with each other. Marcuss, Contos, Guyton, Langetieg, Lerman, Nelson and Vigil (2013) looked at the costs of compliance and their interaction with income taxes. The study was conducted in the context of South Africa. The study was conducted via the use of electronic surveys. It was shown that an increase in costs of compliance negatively influence the ability of tax payers to comply with their tax obligations.

Bernard, Memba and Oluoch (2018) looked at the influence of costs on ability of the tax payers to comply with taxes. The study focused on investor in the Export Processing Zones. The study leveraged on survey design covering 152 firms and the census was used. It was shown that the cost of compliance had a significant influence on ability of the tax payers to comply with taxes. These costs of compliance included indirect as well as direct costs including the costs of auditing, the cost inured in hiring of the personnel, experts and the agents, time that one tax in completion of tax assessment and filling of returns as well as keepings staff so as to comply. It was concluded that costs incurred to remain compliant have significant influence on ability of the tax payers to comply. The implication of the results is that tax payers would be more complaint

when the costs of compliance are less and when the system of taxation is as simplified as possible.

Mogeni (2014) was keen to determine the interaction between costs of compliance and the ability of the tax payers to comply with taxes. The focus of the study was among the firms listed at the Nairobi Securities Exchange. Information for the study was gathered with the use of questionnaires. The analysis indicated that costs of compliance are negatively correlated with ability of the tax payers to comply. The findings further indicated that fines and penalties are positively related with ability of the tax payers to comply.

2.6 Critique of Literature

Several studies have been carried out on remittance of direct taxes although in different contexts. Chorvat (2015) used a case of firms in United States of America to determine the influence and link between taxation and liquidity of the firm. Artavanis and Spyridopoulos (2018) were keen to determine the interaction between liquidity and the ability of the tax payers to evade taxes in Greece. Khidmat and Rehman (2014) sought to determine the influence of solvency and liquidity on ability of firms in Pakistan to generate profits. Ezugwu and Akubo (2014) used a case of some selected firms in the context of Nigeria to determine the interaction between the corporate tax rate and the level of liquidity. Listokin (2010) was interested at determining the interaction between taxation and the level of liquidity. Swistak (2016) did a study on penalties and their influence on ability of SMEs to comply. Mohdali, Isa and Yusoff (2014) used a case of firms in Malaysia to predict the interaction between threats of punishment and the ability of the tax payers to comply. Devos (2013) looked at enforcement measures and penalties and their influence on ability of the tax payers to comply using a case of tax payers in Australia.

2.7 Summary

Gemmell and Ratto (2018) was keen to determine the interaction between the information on tax penalties and the ability of the tax payers to comply with reference to firms in New Zealand. Yunus and Ramli (2018) concentrated on SMEs operating in Malaysia to determine the influence of tax penalties on ability of the SMEs to comply. Stamatopoulos, Hadjidema and Eleftheriou (2017) used a case of firms in Greece to determine the factors influencing tax compliance costs. Zachary, Kariuki and Mwangi (2017) looked compliance costs and the ability of SMEs in

Embu to comply. Marcuss, Contos, Guyton, Langetieg, Lerman, Nelson and Vigil (2013) looked at the costs of compliance and their interaction with income taxes. Bernard, Momba and Oluoch (2018) looked at the influence of costs on ability of the tax payers to comply with taxes. Mogeni (2014) was keen to determine the interaction between costs of compliance and the ability of the tax payers to comply with taxes.

2.8 Research Gaps

Several studies have been carried out on direct taxes and compliance. For instance, Yunus and Ramli (2018) looked at penalties and their influence on compliance behaviour in Malaysia and not in Kenya hence creating a contextual gap. The study by Mogeni (2014) on compliance costs and ability to comply was limited to listed firm at the NSE, some of which are not SMEs hence creating contextual gap. The study by Stamatopoulos, Hadjidema and Eleftheriou (2017) was done in Greece and not in Kenya hence creating contextual gap. Smulders, Stiglingh, Franzsen and Fletcher (2017) did a study that merely focused on determinants of compliance costs and not remittance costs hence creating conceptual gap. The study was carried out in South Africa and not in Kenya. Zachary, Kariuki and Mwangi (2017) looked at compliance costs and payment of taxes and not specifically on remittance hence conceptual gap. The study looked at SMEs in Kiambu and not in Kisumu hence contextual gap. Lopes and Martinsb (2013) looked at the psychological costs of tax compliance and it was done in Portugal creating contextual gap. Bernard, Momba and Oluoch (2018) focused on the influence of cost of tax compliance on tax compliance among investors in the Export Processing Zones in Kenya. The focus of the study was among EPZ firms in Kenya and not the SMEs which creates contextual gap.

CHAPTER THREE RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the methodologies that shall be used as far as answering the formulated research questions was concerned. The type of design, the targeted respondents as well as the means of determining the sample size of the study are discussed. The means of gathering the information from respondents are also well explained. The chapter also covers how the collected information was processed to make inferences and deductions.

3.2 Research Design

Kothari (2004) noted that a research design is a formal structure that details how the researcher will go about collecting and analyzing the data. A research design helps in attaining the objectives of the study. A cross sectional descriptive research design will be employed to achieve the objectives of the study. The study used a cross sectional design because it will cover a number of SMEs in Kisumu County. According to Mugenda and Mugenda (2003), a descriptive design helps in collection of sufficient data in order to answer the research questions. According to Maxwel (2012), this design reduces the possible chances of biasness in the study that would affect reliability of the results

3.3 Target Population

Mugenda and Mugenda (2003) define population as a whole set of individual cases or objects with familiar clear characteristics. The target population on the other hand is the proportion of the population that the researcher draws references for generalization purpose (Mugenda & Mugenda, 2003). The target population comprised of 500 SMEs operating in Kisumu town as shown in Table 3.1.

Table 3.1: Target Population

Classification	Number of firms	Sample Proportion (%)
Manufacturing firms	146	29.1
Service firms	202	40.4
Intermediary and Processing Firms	92	18.3
Others	61	12.2
Total	500	100

Source; Kisumu County (2018)

3.3 Sampling Frame

A sampling frame lists all items that the researcher draws a representative proportion for attaining the study objectives. The sampling frame of the study comprised of a list of classification of SMEs that is available at Kisumu County.

3.4 Sample and Sampling Technique

Sampling is the process of selecting representative elements of the population to be included in the final study. The study used stratified random sampling techniques to select respondents. According to Levy and Lemeshow (2013), stratified random sampling involves stratification or segregation of sampling elements, followed by random selection of the subjects from each stratum. The study used the formula by Yamane (1967) to determine the sample the sample size;

$$n = N / (1 + Ne^2)$$

n = is the desired sample size (when population is less than 10,000)

N = is the target population

e = is the acceptable margin of error estimated at 0.05 (at 95% confidence interval)

Therefore, Sample size (n) = $500 / (1+500(0.0025))$

= $500 / 2.25$

n=222 SMEs

The population was stratified and random selected as shown in Table 3.2.

Table 3.2: Sample Size

Classification	Number of firms	Sample Proportion (%)	Sample Size
Manufacturing firms	146	29.1	65
Service firms	202	40.4	90
Intermediary and Processing Firms	92	18.3	41
Others	61	12.2	27
Total	500	100	222

Source; Kisumu County (2018)

3.6 Data Collection Instruments

The study relied on primary data collected by use of questionnaires. Some questions on the questionnaire were structured to ease the process of analysis (Creswell, 2013). The study instruments were distributed among the targeted respondents using various points of reference

like the managers of departments. The questionnaire comprised of questions related to both the dependent and independent variables. To enhance reliability and accuracy of the data, respondents were guarded during the questionnaire filling time. This went a long way to improving on the response rate.

3.7 Data Collection Procedures

The study obtained an introduction letter from Jomo Kenyatta University of Agriculture and Technology and from National Commission for Science, Virtualization and Innovation (NACOSTI) as an authority to collect data. Permission was then sought from relevant authorities before administering the research instrument. Due to the busy schedules of employees, the researcher opted to use drop and pick later method whereby the researcher dropped the questionnaire at respondents' place of work and left them for responses and then picked up after they have been filled for duration of one week.

3.8 Pilot Study

A pilot study can be conducted using 10% of respondents drawn from the entire study population (Mugenda & Mugenda, 2003). The study will carry out pilot testing to determine validity and reliability of the instruments. The pilot testing was conducted among respondents who were included in the final sample size of the study.

3.8.1 Reliability of the Data Collection Instrument

The instruments of the study are said to be valid when they measure consistent results over every successive trail (Zohrabi, 2013). McHugh (2012) argues that the sample size the sample size of respondents to be used for piloting the instruments range from 5-10 individuals. Cronbach Alpha was used in determining and ensuring that the instruments of the study are as reliable as possible. According to Ong (2012), values of Cronbach Alpha Coefficient above 0.7 show that the instrument of the study is reliable.

3.8.2 Validity of Data Collection Instrument

The instruments of the study are said to be valid when they measure what they are designed to measure (Zohrabi, 2013). It is the extent which the rationale and justification of a given phenomenon is aligned with the reality of the world (McMillan & Schumacher, 2014). The study

used both content and constructs validity. This meant that questionnaires were to be structured into a number of sections to make sure that every section covered information required by the specific objectives. Furthermore, the study used the supervisor to review the items on the questionnaires so as to ensure that they are in line with the specific constructs provided in the conceptual framework.

3.9 Data Analysis and Presentation

Data analysis is the process through which the collected information is processed to make inferences and deductions as it pertains a given subject matter (Grbich, 2012). Another version of data analysis is offered by Rollinson (2014) the process where the formulated research questions are provided with answers. The analysis of the data was done with the aid of SPSS software using descriptive and inferential statistics. The aim of using descriptive statistics was to enable the researcher to importantly illustrate an allocation of gains or measurement using statistics or indices. The data collected was aligned with the research questions and objectives so that conclusions are drawn for comprehensive observations and discussion that led to useful conclusions and recommendations for the research study.

The model to be adopted took the following form:

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

Where Y = Remittance of direct taxes

β_0 = Constant

$\beta_1, \beta_2, \beta_3$ and β_4 are relationship between direct taxes and tax compliance

ε = error term

X_1 = Liquidity

X_2 = Cost of deterrent factors

X_3 = Cost of remittance

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter gives the findings of the analysis on the primary data that was gathered from the field with the aid of questionnaires. Once data had been collected from the field, it was cleaned and entered into SPSS tool for analysis. The findings were analyzed using means, standard deviations as well as correlation and regression analysis.

4.1.1 Response Rate

The study distributed out 222 questionnaires to SMEs in Kisumu City. From these questionnaires, 163 of them were completely filled up and returned to the researcher. This was equal to a response rate of 73.4%. The response rate is illustrated in Figure 4.1.

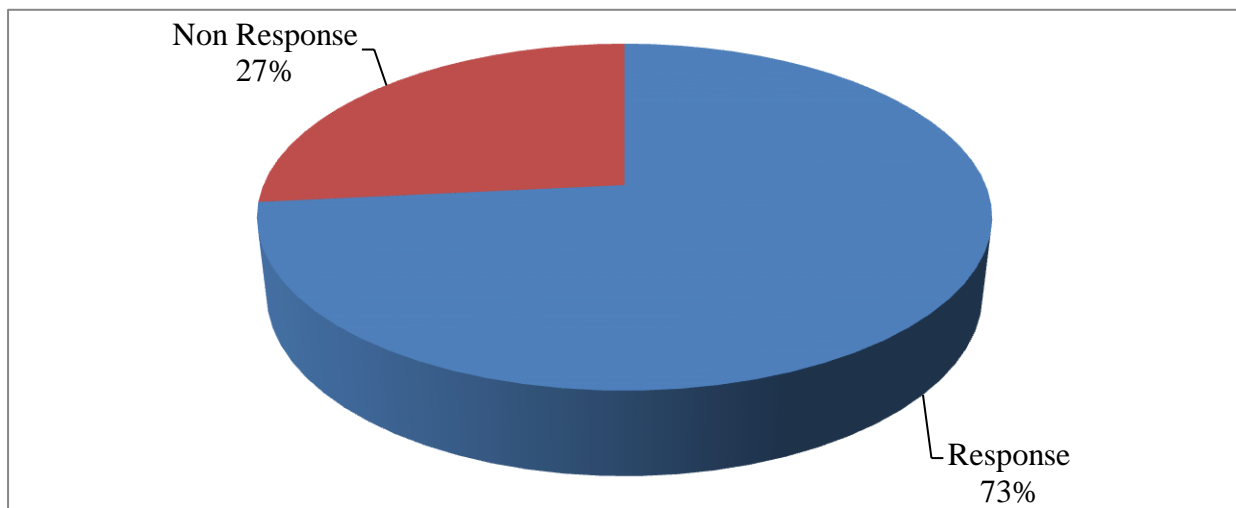


Figure 4.1: Response Rate

The findings in Figure 4.1 are consistent with Yin (2015) who noted that a response of 70% and above is adequate to analyze and present the findings.

4.1.2 Pilot Study Results

The instruments of the study were piloted to ensure that they are reliable and valid as possible. The findings of reliability are indicated in Table 4.1 as determined by Cronbach Alpha coefficients.

Table 4.1: Reliability Results

Objective Variable	Items	Cronbach Alpha Coefficient (α)	Remark
Liquidity	7	0.723	$\alpha > 0.7$ hence reliable scale
Cost of Deterrent Factors	7	0.884	$\alpha > 0.7$ hence reliable scale
Cost of Remittance	7	0.719	$\alpha > 0.7$ hence reliable scale
Remittance of Direct Taxes	6	0.747	$\alpha > 0.7$ hence reliable scale

From the findings in Table 4.1, it can be inferred that the instruments of the study were reliable as the values of Cronbach Alpha coefficients are all above 0.7. The finding is consistent with Ong (2012) who argued that an instrument is regarded as reliable if the Cronbach Alpha Coefficients are at least 0.7.

4.2 General Information

The study sought to determine the general information of the respondents and the studied firms. The findings are presented in subsequent sections.

4.2.1 Gender Distribution

The findings on gender distribution of the study respondents are shown in Table 4.2.

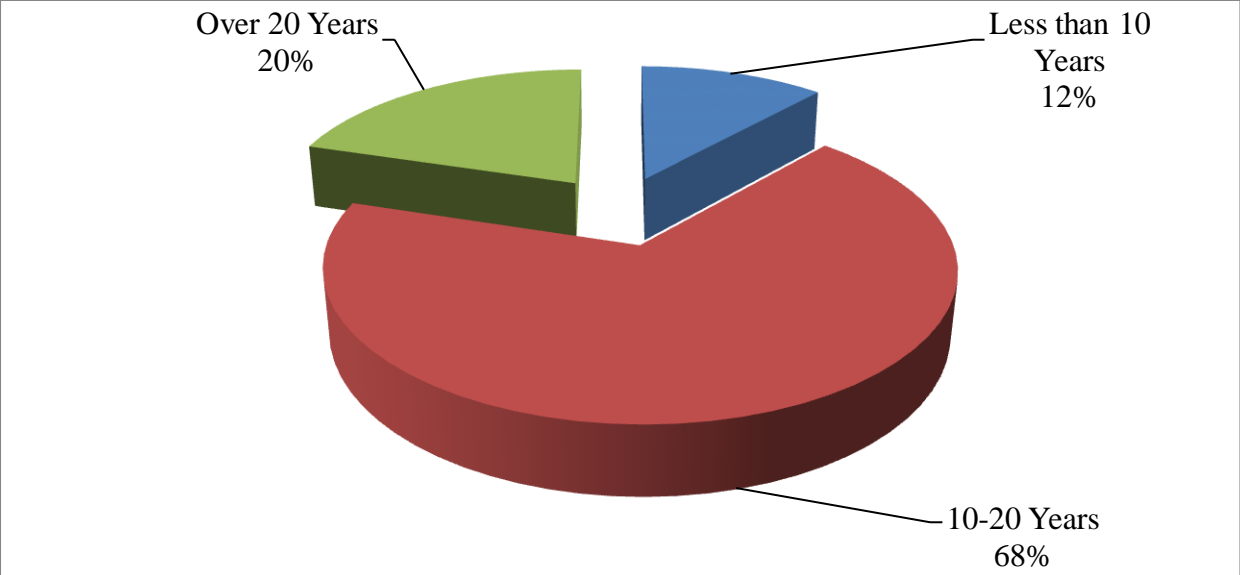
Table 4.2: Gender Distribution

	Frequency	Percentage (%)
Male	103	61.7
Female	60	35.9
Total	163	100.0

The results in Table 4.2 indicate that while 61.7% of the respondents were male, 35.9% were female. This shows that there was gender diversity in the study as both male and female respondents were included in the study.

4.2.2 Length of Organizational Existence

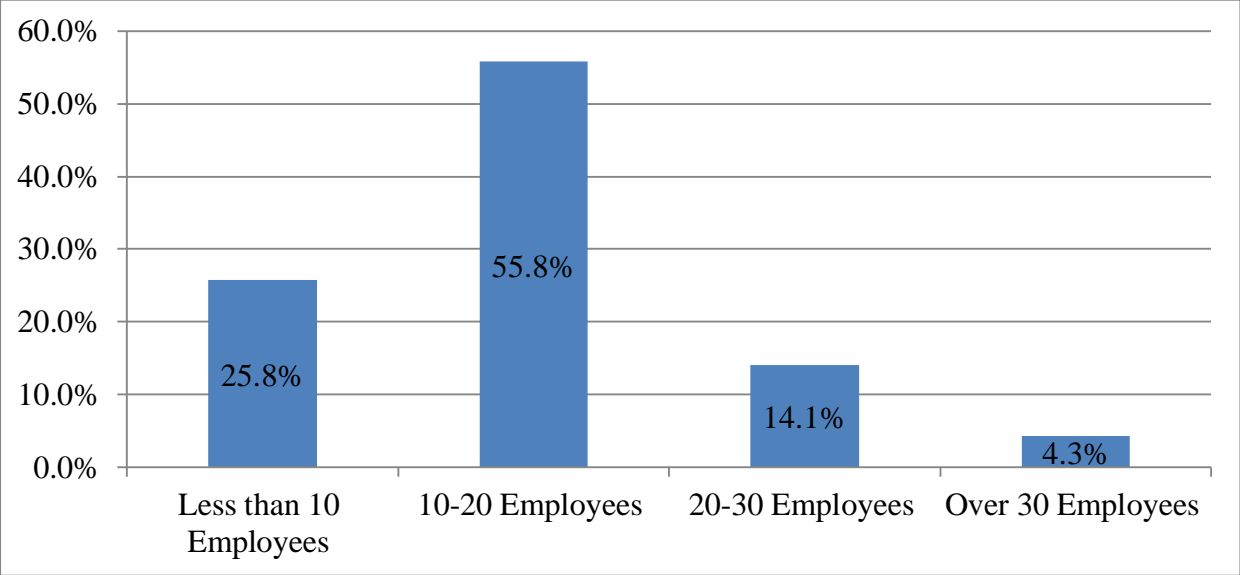
Figure 4.2 indicates the findings on the number of years that the studied firms had been in operation.



As shown in Figure 4.2, most of the studied firms (68%) had been in operations for a period of 10-20 years. This shows that the studied firms were stable and thus qualified to pay direct taxes as sought by the study.

4.2.3 Average Number of Employees in the Firm

The findings on number of employees in the studied firms are shown in Figure 4.3.



The findings in Figure 4.3 indicate that majority of the studied firms 55.8% had 10-20 employees. This implies that the studied firms were large enough on the basis of the employee base and thus qualified to remit PAYE taxes as sought by the study.

4.3 Remittance of Direct Taxes

Table 4.3 gives the findings of remittance of direct taxes as the dependent variable of the study.

Table 4.3: Remittance of Direct Taxes

Item	Mean	Std. Dev
The firm pays the amount of PAYE due on time	3.73	.491
The firm pays the WTH on time	3.72	.455
Corporate taxes are paid on time in the firm	3.63	.694
The amount of PAYE paid by the firm is accurate	3.79	.622
The firm ensures that accurate WHT is paid	3.69	.581
Accurate amount of corporate tax is paid by the firm	3.62	.755

From Table 4.3, majority of the studied firms agreed that they paid accurate amount of PAYE (M=3.79) which was one on time (M=3.73). Respondents also agreed that withholding taxes in their firm was paid on time (M=3.72) and this amount was accurate⁴ (M=3.69). Respondents also agreed (M=3.63) that Corporate taxes were paid on time in their firm and that this amount was accurate as possible (M=3.62).

The implication of these findings is that majority of the studied firms generally remitted taxes as sought by the study.

4.4 Factors influencing Remittance of Direct Taxes

The findings on the factors influencing remittance of direct taxes are summarized in subsequent sections.

4.4.1 Liquidity

The findings on liquidity as a factor influencing remittance of direct taxes are shown in Table 4.4 below.

Table 4.4: Liquidity

Item	Mean	Std. Dev
The firm files WHT returns because it is solvent	3.78	.929
The firm files PAYE returns on time because it is solvent	3.83	.694
The number of obligations of to be paid determines the amount of PAYE to be paid by the firm	3.61	1.015
An increase in total number of obligations means the firm would remit less corporate tax	3.46	.841
The firm remits WHT based on the number of obligations	3.56	.678
The firm remit PAYE because the cash flows generated from operations are stable	3.77	.982
The firm projects the future cash flows before remitting PAYE taxes	3.67	.609

From Table 4.4, respondents of the study generally agreed (M=3.83) that their firm filed PAYE returns on time because it was solvent. Respondents agreed that their firm filed WHT returns because it was solvent (M=3.78). Respondents also agreed that their firm remitted PAYE because the cash flows generated from operations were stable (M=3.77). Respondents of the study said that their firm projected the future cash flows before remitting PAYE taxes (M=3.67). The study established that number of obligations of to be paid determined the amount of PAYE to be paid by most of the firms (M=3.61). However, respondents were not sure whether an increase in total number of obligations meant the firm would remit less corporate tax (M=3.46). The overall implication of the findings in Table 4.4 is that on overall; most of the studied firms were generally solvent and thus liquid and thus remitted direct taxes. The statements of liquidity are supported by low values of standard deviations showing that respondents shared same views and opinions on each of the statements. The finding is in line Shiu (2004) who argued that liquidity helps the firm to fulfill its immediate commitments without being compelled to dispose of the financial assets in place.

4.4.2 Cost of Deterrent Factors

Table 4.5 gives the findings of cost of deterrent factors as factor influencing remittance of direct taxes.

Table 4.5: Cost of Deterrent Factors

Item	Mean	Std. Dev
The penalty rates are so high for the business	3.98	.997
The high penalty rates encourage us to submit PAYE on time	3.92	.609
There is strict enforcement of the penalties which force us to comply with PAYE	3.63	.694
I am aware that failure to deduct PAYE attracts a penalty	3.88	.929
I have knowledge that failure to remit the deducted PAYE results into penalties	3.75	.717
The firm deducts WHT to avoid penalties	3.76	.706
The firm remits the deducted WHT to avoid interests	3.91	.766

As shown in Table 4.5, majority of the respondents agreed that penalty rates were so high for the business (M=3.98). Respondents of the study further said that these high penalty rates encouraged them to submit PAYE on time (M=3.92). Respondents agreed that their firm remitted the deducted WHT to avoid interests (M=3.91). Majority of the respondents of the study were aware that failure to deduct PAYE attracted a penalty (M=3.88). Respondents of the study agreed that their firm deducted WHT to avoid penalties (M=3.76). Most of the respondents agreed that they were knowledgeable that failure to remit the deducted PAYE resulted into penalties (M=3.75). Respondents of the study agreed that there were strict enforcement of the penalties which force their firm to comply with PAYE (M=3.63). The findings in Table 4.5 are in line with Devos (2013) who looked at enforcement measures and penalties and their influence on ability of the tax payers to comply using a case of tax payers in Australia and showed that less degree of penalties and detection has positive influence on the ability of the tax payers to comply with tax matters.

4.4.3 Cost of Remittance

The findings of cost of remittance on remittance of direct taxes are indicated in Table 4.6.

Table 4.6: Cost of Remittance

Item	Mean	Std. Dev
The firm maintains all the books of accounts to record the taxes paid	3.55	.817
Keeping costs of accounts is costly top the firm	3.68	.521
The firm contracts auditors to check the books of accounts kept	3.89	.810
Hiring of auditors to check the books of accounts is so costly to the firm	3.70	.298
I am forced to hire tax accountants so as to comply with corporate tax	3.69	.581
I incur a cost to hire tax accounts so that I comply with PAYE	3.88	.929
The firm hires tax agents at a cost to compute corporate tax due	3.56	.841

From Table 4.6, majority of the respondents agreed (M=3.89) that their firm contracted auditors to check the books of accounts kept. Most of the respondents agreed (M=3.88) that they incurred a cost to hire tax accounts so that they comply with PAYE. Respondents agreed that hiring of auditors to check the books of accounts was so costly to their firms (M=3.70). Most of the respondents agreed that they were forced to hire tax accountants so as to comply with corporate tax (M=3.70). Most of the respondents agreed that keeping costs of accounts was costly top the firm (M=3.68). Most of the respondents agreed that their firm hired tax agents at a cost to compute corporate tax due (M=3.56) and that their firm maintained all the books of accounts to record the taxes paid (M=3.55). This means that respondents agreed on each of the statements under review on costs of remittance as being a factor that influence their ability to remit direct taxes.

4.5 Correlation Results

Correlation analysis was conducted to establish relationship between the identified factors and remittance of direct taxes. The findings are presented in Table 4.7.

Table 4.7: Correlation Results

		Remittance of Direct Taxes	Liquidity	Cost of Deterrent Factors	Cost of Remittance
Remittance of Direct Taxes	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	163			
Liquidity	Pearson Correlation	.477**	1		
	Sig. (2-tailed)	.000			
	N	163	163		
Cost of Deterrent Factors	Pearson Correlation	.789**	.280**	1	
	Sig. (2-tailed)	.000	.000		
	N	163	163	163	
Cost of Remittance	Pearson Correlation	.631**	.559**	.757**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	163	163	163	163

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

From Table 4.7, liquidity has the value of Pearson Correlation $r=0.477$ with $p<0.05$; thus it can be deduced that liquidity has a positive relationship with remittance of direct taxes. Chorvat (2015) established that liquidity is one of the factors influencing the ability of the firm to comply with taxes. Artavanis and Spyridopoulos (2018) established that firms facing financial challenges and bankruptcy proceedings have little contribution towards taxes of the country.

Cost of deterrent factors ($r=0.789$, $p<0.05$) has positive relationship with remittance of direct taxes. Swistak (2016) showed that an increase in severity of the penalties may not necessarily produce the intended results of making the tax payers to comply with taxes. Mohdali, Isa and Yusoff (2014) indicated that treats of punishment only trigger possibility of the tax payers to be less compliant.

Cost of remittance ($r=0.631$, $p<0.05$) has positive relationship with remittance of direct taxes. Stamatopoulos, Hadjidema and Eleftheriou (2017) revealed that the size of the firm, age and the sector that the firm operates, its location as well as legal status has an influence on ability to comply with taxes. Zachary, Kariuki and Mwangi (2017) indicated that the tax of compliance and the ability of the tax payers to comply are positively and significantly related with each other. It was concluded that the costs of compliance and ability of the tax payers to pay their taxes are positively related with each other.

4.6 Regression Results

The study conducted regression analysis to establish the effect of the identified factors on remittance of direct taxes. The findings are shown subsequent sections.

4.6.1 Model Summary

The findings of the model summary of the study are shown in Table 4.8.

Table 4.8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.870 ^a	.757	.753	.65623

a. Predictors: (Constant), Cost of Remittance, Liquidity, Cost of Deterrent Factors

The findings in Table 4.8 indicate the coefficient of determination R square as 0.757; this shows that the model of the study was fit. The value of the adjusted R square on the other hand is 0.753; this implies that 75.3% change in remittance of direct taxes is explained by cost of remittance, liquidity and the cost of deterrent factors.

4.6.2 Analysis of Variance

The study conducted Analysis of Variance (ANOVA) at 5% level of significance and the findings are summarized in Table 4.9.

Table 4.9: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	213.799	3	71.266	165.491	.000 ^b
Residual	68.471	159	.431		
Total	282.270	162			

a. Dependent Variable: Remittance of Direct Taxes

b. Predictors: (Constant), Cost of Remittance, Liquidity, Cost of Deterrent Factors

The study established that the value of F calculated is 165.491 and the p-value is 0.000 which is less than 0.05. This shows that the overall regression model of the study was significant.

4.6.3 Regression Beta Coefficients

The beta coefficients and the p-values of the model are shown in Table 4.10.

Table 4.10: Regression Beta Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-11.337	1.324		-8.563	.000
Liquidity	.094	.044	.103	2.136	.036
Cost of Deterrent Factors	.413	.063	.408	6.556	.000
Cost of Remittance	.688	.106	.464	6.491	.000

a. Dependent Variable: Remittance of Direct Taxes

From Table 4.10, the following equation is formulated:

$$Y = -11.337 + .094X_1 + .413X_2 + .688X_3 + \varepsilon \dots \dots \dots (i)$$

Where Y= Remittance of direct taxes

ε = error term

X₁= Liquidity

X₂= Cost of deterrent factors

X₃= Cost of remittance

Therefore, when all the variables are held constant, remittance of direct taxes would be at -11.337. A unit change in liquidity keeping other factors constant would lead to 9.4% increase in remittance on direct taxes. A unit change in cost of deterrent factors other factors kept constant would lead to 41.3% increase in remittance of direct taxes. A unit change in costs of remittance holding other factors constant would lead to 68.8% increase in remittance of direct taxes.

Basing on interpretation of the p and t-values at 5% and 1.96 level of significance respectively, it can be deduced that the liquidity ($p < 0.05$) and ($t > 1.96$) has significant effect on remittance of direct taxes. Khidmat and Rehman (2014) showed that management of liquidity is an important aspect of the firm striving to generate profits and thus remain compliant as far as payment of taxes is concerned. Ezugwu and Akubo (2014) revealed that high corporate tax rates have negative influence on liquidity position of the firm. Listokin (2010) showed that a liquid firm is deemed to be solvent and would thus readily comply with payment of taxes.

Costs of deterrent factors ($p < 0.05$ & $t > 1.96$) have significant effect on remittance of direct taxes. Devos (2013) said that less degree of penalties and detection has positive influence on the ability of the tax payers to comply with tax matters. Gemmell and Ratto (2018) noted that availing and communicating penalty information has negative influence of the ability of the tax payers to comply with their tax obligations. Yunus and Ramli (2018) showed that tax penalties have significant influence on ability of the tax payers to comply with taxes.

Cost of remittance ($p < 0.05$ & $t > 1.96$) have significant effect on remittance of direct taxes. Marcuss, Contos, Guyton, Langetieg, Lerman, Nelson and Vigil (2013) showed that an increase in costs of compliance negatively influence the ability of tax payers to comply with their tax obligations. Bernard, Memba and Oluoch (2018) noted that the cost of compliance had a significant influence on ability of the tax payers to comply with taxes. Mogeni (2014) indicated that fines and penalties are positively related with ability of the tax payers to comply.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The analyzed findings of the study shall be summarized in this chapter based on the objectives. The conclusions are also provided as informed and determined by the findings from the analysis. The chapter makes recommendations based on the key findings of the analysis. The chapter also has areas for further studies.

5.2 Summary of the Findings

This section is a summary of the findings of the study based on the specific objectives:

5.2.1 Liquidity and Remittance of Direct Taxes

Respondents of the study agreed that their firm filed PAYE returns on time because it was solvent. Respondents agreed that their firm filed WHT returns because it was solvent. Respondents also agreed that their firm remitted PAYE because the cash flows generated from operations were stable. Respondents of the study said that their firm projected the future cash flows before remitting PAYE taxes. The study established that number of obligations of to be paid determined the amount of PAYE to be paid by most of the firms. The findings of correlation analysis indicated that liquidity has a positive relationship with remittance of direct taxes. Regression results indicate that liquidity has significant effect on remittance of direct taxes.

5.2.2 Cost of Deterrent Factors and Remittance of Direct Taxes

Majority of the respondents agreed that penalty rates were so high for the business. Respondents of the study further said that these high penalty rates encouraged them to submit PAYE on time. Respondents agreed that their firm remitted the deducted WHT to avoid interests. Majority of the respondents of the study were aware that failure to deduct PAYE attracted a penalty. Respondents of the study agreed that their firm deducted WHT to avoid penalties. Most of the respondents agreed that they were knowledgeable that failure to remit the deducted PAYE resulted into penalties. Correlation results showed that cost of deterrent factors have positive

relationship with remittance of direct taxes. From regression analysis, the study established that costs of deterrent factors have significant effect on remittance of direct taxes

5.2.3 Cost of Remittance and Remittance of Direct Taxes

Majority of the respondents agreed that their firm contracted auditors to check the books of accounts kept. Most of the respondents agreed that they incurred a cost to hire tax accounts so that they comply with PAYE. Respondents agreed that hiring of auditors to check the books of accounts was so costly to their firms. Most of the respondents agreed that they were forced to hire tax accountants so as to comply with corporate tax. Most of the respondents agreed that keeping costs of accounts was costly top the firm. Most of the respondents agreed that their firm hired tax agents at a cost to compute corporate tax due. The findings of correlation analysis indicated that cost of remittance have postive relationship with remittance of direct taxes. From regression analysis, the cost of remittance was found to have significant effect on remittance of direct taxes.

5.3 Conclusion

The study set out to determine the effect of liquidity on remittance of direct taxes. From correlation results, the study found out that liquidity has a postive relationship with remittance of direct taxes. Regression results indicated that liquidity has significant effect on remittance of direct taxes. Thus, liquidity is a key factor influencing remittance of direct taxes.

The study sought further to determine the effect of the cost of deterrent factors on remittance of direct taxes. The findings of correlation analysis indicated that the costs of deterrent factors have postive relationship with remittance of direct taxes. The findings of regression analysis indicated that the costs of deterrent factors have significant effect on remittance of direct taxes. Thus, the cost of deterrent factors is key factors including remittance of direct taxes.

The last objective was established to determine the effect of cost of remittance on remittance of direct taxes. Correlation results indicated that cost of remittance has postive relationship with remittance of direct taxes. Regression analysis results showed that costs of remittance have significant effect on remittance of direct taxes. Thus, the costs of remittance are among the key factors influencing remittance of direct taxes.

5.4 Recommendations of the Study

Based on the findings of the study; the study makes the following recommendations:

Since liquidity has positive influence on remittance of direct taxes, the study recommends to the management of the SMEs to make decisions that enhance the level of liquidity of their firms and thus positively enhancing their ability to remit direct taxes. The management team of SMEs should ensure that all decisions made are aimed at improving the level of solvency and thus liquidity of their organizations.

The study established that the costs of deterrent factors have positive influence on remittance of direct taxes. This study therefore recommends that KRA should seal all the loopholes and establish more stringent penalties and interests for the tax payers who do not remit their direct taxes.

The findings of the study indicated that costs of remittance have positive and significant effect on remittance of direct taxes. Therefore, the study recommends that KRA should minimize the costs that tax payers meet in remitting their direct taxes.

5.5 Areas for Further Studies

The present study was interested at determining the factors that influence remittance of direct taxes. Specifically, the study focused on cost of remittance, liquidity and cost of deterrent factors and how they influence remittance of direct taxes. From the findings, it was shown that these factors (on cost of remittance, liquidity and cost of deterrent factors) jointly explained 75.3% change in remittance of direct taxes. Thus, apart from these factors, it means that there exist other variables and items with an influence on ability of the tax payers to remit their direct taxes which should be a focus of the future studies.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

1. What is your gender?

Male () Female ()

2. How long has your organization been in existence?

Less than 10 Years ()

10-20 Years ()

Over 20 Years ()

3. What is the average number of employees in your organization?

Less than 10 Employees ()

10-20 Employees ()

20-30 Employees ()

Over 30 Employees ()

SECTION B: LIQUIDITY

5. These are statements on rates of liquidity. Please indicate the extent to which you agree or disagree with each of these statements describes your firm. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

Item	1	2	3	4	5
The firm files WHT returns because it is solvent					
The firm files PAYE returns on time because it is solvent					
The number of obligations of to be paid determines the amount of PAYE to be paid by the firm					
An increase in total number of obligations means the firm would remit less corporate tax					
The firm remits WHT based on the number of obligations					
The firm remit PAYE because the cash flows generated from operations are stable					
The firm projects the future cash flows before remitting PAYE taxes					

SECTION C: COST OF DETTERENT FACTORS

6. These are statements on cost of deterrent factors. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

Item	1	2	3	4	5
The penalty rates are so high for the business					
The high penalty rates encourage us to submit PAYE on time					
There is strict enforcement of the penalties which force us to comply with PAYE					
I am aware that failure to deduct PAYE attracts a penalty					
I have knowledge that failure to remit the deducted PAYE results into penalties					
The firm deducts WHT to avoid penalties					
The firm remits the deducted WHT to avoid interests					

SECTION D: COST OF REMITTANCE

7. These are statements on cost of remittance. Please indicate the extent to which you agree or disagree with each of these statements describes firm. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

Item	1	2	3	4	5
The firm maintains all the books of accounts to record the taxes paid					
Keeping costs of accounts is costly top the firm					
The firm contracts auditors to check the books of accounts kept					
Hiring of auditors to check the books of accounts is so costly to the firm					
I am forced to hire tax accountants so as to comply with corporate tax					
I incur a cost to hire tax accounts so that I comply with PAYE					
The firm hires tax agents at a cost to compute corporate tax due					

SECTION E: REMITTANCE OF DIRECT TAXES

β. These are statements on remittance of direct taxes. Please indicate the extent to which you agree or disagree with each of these statements describes your firm. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2= Tend to Disagree (TD), 3 Tend to Agree (TA) 4=Agree (A) and 5=Strongly Agree (SA)

Item	1	2	3	4	5
The firm pays the amount of PAYE due on time					
The firm pays the WTH on time					
Corporate taxes are paid on time in the firm					
The amount of PAYE paid by the firm is accurate					
The firm ensures that accurate WHT is paid					
Accurate amount of corporate tax is paid by the firm					