

**FACTORS AFFECTING THE COLLECTION OF PRESUMPTIVE TAX AMONG THE
SMALL TAXPAYERS IN KISUMU CENTRAL BUSINESS DISTRICT**

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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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To God I express gratitude for His grace that helped me to come up with this project. I also thank my supervisor; Dr. Emmah Omwenga for the support and encouragement he gave me while I was developing and working on this project

DEDICATION

To family members and friends

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENT.....	iii
DEDICATION.....	iv
LIST OF TABLES	ix
LIST OF FIGURES	x
ACRONYMS AND ABBREVIATIONS.....	xi
OPERATIONAL DEFINITION OF TERMS.....	xii
ABSTRACT.....	xiii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Global Perspective of Collection of Presumptive Tax	1
1.1.2 Regional Perspective of Collection of Presumptive Tax.....	2
1.1.3 Kenyan Perspective of Collection of Presumptive Tax.....	3
1.1.4 Small and Medium Enterprises.....	3
1.2 Statement of the Problem.....	5
1.3 Objectives of the Study.....	6
1.3.1 General Objective.....	6
1.3.2 Specific Objectives.....	6
1.4 Research Questions.....	7
1.5 Significance of the Study.....	7
1.5.1 The Kenya Revenue Authority.....	7
1.5.2 Policy Makers.....	7
1.5.3 The Small and Medium Enterprises	7
1.5.4 Scholars and Researchers	7
1.6 Scope of the Study	8
1.7 Limitations of the Study.....	8

CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical Review	9
2.2.1 Theory of Optimal Taxation.....	9
2.2.2 The Ability to Pay Theory of Taxation	10
2.2.3 Allingham and Sandmo Theory.....	10
2.3 Conceptual Framework.....	11
2.4 Review of Study Variables	12
2.4.1 Presumptive Tax	12
2.4.2 Cost of Compliance	13
2.4.3 Level of Awareness	13
2.4.4 Penalties and Interests	14
2.4.5 Technology	14
2.5 Empirical Review.....	15
2.5.2 Cost of Compliance and Collection of Presumptive Tax	15
2.5.3 Level of Awareness and Collection of Presumptive Tax	16
2.5.4 Penalties and Interests and Collection of Presumptive Tax	16
2.5.5 Technology and Collection of Presumptive Tax	18
2.6 Critique of the Existing Literature	19
2.7 Summary of the Literature Review.....	20
2.8 Research Gaps.....	20
CHAPTER THREE	22
METHODOLOGY	22
3.1 Introduction.....	22
3.2 Research Design.....	22
3.3 Target Population.....	22
3.4 Sampling Frame	23
3.5 Sample and Sampling Technique.....	23
3.6 Data Collection Instruments	24
3.7 Data Collection Procedure	24

3.8 Pilot Testing	24
3.8.1 Reliability of Research Instruments	25
3.8.2 Validity of Research Instruments	25
3.9 Data Analysis and Presentation	25
CHAPTER FOUR.....	27
DATA ANALYSIS AND DISCUSSION.....	27
4.1 Introduction.....	27
4.2 Response Rate.....	27
4.3 Reliability and Validity Results	28
4.4 General Information.....	28
4.4.1 General Information of Respondents.....	29
4.4.2 General Information on Firms	29
4.5 Descriptive Statistics.....	30
4.5.1 Cost of Compliance	30
4.5.2 Level of Awareness	30
4.5.3 Penalties and Interests	31
4.5.4 Technology	32
4.5.5 Collection of Presumptive Tax	32
4.6 Diagnostic Tests.....	33
4.6.1 Normality Test.....	33
4.6.2 Heteroscedasticity Test.....	34
4.6.3 Multicollinearity Test	35
4.7 Regression Results	35
CHAPTER FIVE	38
SUMMARY, CONCLUSION AND RECOMMENDATIONS	38
5.1 Introduction.....	38
5.2 Summary of the Findings.....	38
5.2.1 Cost of Compliance and Collection of Presumptive Tax	38
5.2.2 Level of Awareness and Collection of Presumptive Tax	38
5.2.3 Penalties and Interests and Collection of Presumptive Tax	39

5.2.4 Technology and Collection of Presumptive Tax	39
5.3 Conclusion	39
5.4 Recommendations of the Study	40
5.5 Areas for Further Research	41
REFERENCES.....	42
APPENDICES.....	49
APPENDIX I: QUESTIONNAIRE	49
APPENDIX II: LETTERS OF INTRODUCTION	52

LIST OF TABLES

Table 4.1: Reliability Results.....	28
Table 4.2: General Information of Respondents.....	29
Table 4.3: General Information on Firms	29
Table 4.4: Cost of Compliance	30
Table 4.5: Level of Awareness	31
Table 4.6: Penalties and Interests.....	31
Table 4.7: Technology	32
Table 4.8: Collection of Presumptive Tax	33
Table 4.9: Multicollinearity Test	35
Table 4.10: Model Summary	35
Table 4.11: Analysis of Variance.....	36
Table 4.12: Beta Coefficients.....	36

LIST OF FIGURES

Figure 2.1: Conceptual Framework	12
Figure 4.1: Response Rate	27
Figure 4.2: Histogram	33
Figure 4.3: Normal PP Plot.....	34
Figure 4.4: Heteroscedasticity Test	34

ACRONYMS AND ABBREVIATIONS

AMD	:	Armenian Dram
CBD	:	Central Business District
EAC	:	East African Community
EATGN	:	East Africa Tax and Governance Network
ECA	:	Europe and central Asia
GEL	:	Georgian Lari
IAS	:	International Accounting Standards
IFRS	:	International Financial Reporting Standards
ITA	:	Income tax Act
KRA	:	Kenya Revenue Authority
MET	:	Operated a Micro-Enterprise Tax
OECD	:	Organization for Economic Co-operation and Development
SMEs	:	Small Medium enterprises
TRA	:	Tanzania Revenue Authority
TShs	:	Tanzanian shillings
TSO	:	Tax Service Office
VAT	:	Value Added Tax

OPERATIONAL DEFINITION OF TERMS

Cost of compliance – It refers to the expenses that the tax payer incurs so as to remain compliant with the tax provisions (Sanford, Godwin, Hardwick, & Slemrod, 1989)

Level of knowledge – It describes the skills and understanding of the tax payers as it regards their tax obligations and requirements and the applicable rules (Aondo, 2018)

Penalties and interests – This describe the measures adopted to deter the tax payers from engaging in illegal activities like failing to register, file and pay their tax obligations (IFRS, 2017)

Presumptive tax – It is an amount of tax that is fixed and predetermined that the firm should pay on a periodic basis especially firms in the informal sector of the economy (Memon, 2012)

Technology – It refers to the use of advanced systems including the i-tax systems in administration of taxes (Oxford University, 2019).

ABSTRACT

There is currently unresolved debate with two views on whether factors of collection of presumptive tax would increase or decrease tax collection among the tax payers. Kenya is rated among countries with low rate of tax compliance around the world. The low rate of compliance has largely been evidenced by failure of the Kenya Revenue Authority to meet revenue collection targets. Broadly, the study sought to establish the factors affecting the collection of presumptive tax among the small and medium taxpayers in Kisumu CBD. Specifically, the study looked at costs of compliance, level of awareness, penalties and interests and technology and their influence on collection of presumptive taxes. The following three theories provided anchorage to the study: the theory of optimal taxation, ability to pay theory of taxation and the Allingham and Sandmo Theory. A descriptive design was adopted and a total of 269 SMEs were targeted from Kisumu Central Business District. Using stratified random sampling, the study sampled out 160 SMEs as the sample size. Information for the study was gathered from primary sources with use of questionnaires. The analysis of the collected data was done descriptively and inferentially. It was shown that the significant factors influencing payment of presumptive taxes include costs of compliance, penalties and interests, level of knowledge and technology. The study concludes that costs of compliance, penalties and interests, level of knowledge and technology all have significant effect on collection of presumptive taxes. The study recommends that Kenya Revenue Authority should consider the costs of compliance that tax payers meet under the presumptive tax system as allowable deductions. The Kenya Revenue Authority should consider the costs of compliance that taxpayers meet under presumptive tax as allowable deductions. There is need for KRA to increase expenditure on tax payers' awareness and education programs so that more tax payers are aware of their various tax obligations including the need to pay presumptive taxes. KRA should do targeted awareness programs on taxpayers who may not have the knowledge regarding the due date and availability of penalties and interests to enhance more collection of presumptive taxes. KRA should integrate the registration and filling of presumptive taxes into the i-tax platforms so as to save on the costs that the tax payers incurs and thus increased collection of presumptive taxes.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Presumptive tax is the application of indirect ways in determination and ascertaining of the tax liabilities. This is slightly different from the normal way of determining tax liability as informed by the accounts of the tax payers. The need for increased revenues collected for economic use has created the need for many countries to adopt the use of presumptive tax systems. The available literature does not offer conclusive evidence on what factors influencing collection of these presumptive taxes are creating the gap that the present study sought to fill.

1.1.1 Global Perspective of Collection of Presumptive Tax

In most developed countries like Germany, the concept of presumptive tax dates back to late 1990s and it aimed at enhancing private sector development while enhancing the level of compliance of the tax payers as it regards their tax obligations. Largely, the goal of presumptive tax was to ensure that tax payers are voluntarily compliant especially among small business entities (Engelschalk & Loeprick, 2016). Although most countries have made attempts to abolish presumptive tax systems among small business entities, these efforts have been deemed to be unsustainable in economic sense. Some of these countries include Rome that abolished the presumptive tax system in 2010, but reintroduced in 2013. The reintroduction of the presumptive tax in Rome made it compulsory for all firms including the incorporated and those that are not incorporated. Before being abolished, a total of 92,000 tax payers used the system accounting for 20% of the businesses that are eligible. However, during its reintroduction, a total of 60,000 of tax payers were registered.

In Armenia, the presumptive tax was abolished in the year 20-08 as seen as a tax reform but this saw an increase in the threshold of VAT to \$180,000. This meant that scrapping of the presumptive tax was unsustainable and thus was reintroduced in 2013 (Engelschalk & Loeprick, 2016). In Pakistan, the concept of presumptive tax first emerged in 1980s with the aim of enhancing and increasing the amount of tax revenues collected. It was believed that by increasing the collected revenues, it would be possible to fund the national budget and thus enhance the growth of the economy of Pakistan. Since then, a number of reforms have been registered as far as this presumptive

tax in Pakistan is concerned. During the start of 1980s, the tax authority in Turkey was convinced that 85% of the filed income declarations were deemed to come from tax payers from low tax brackets. The audit of the suspected cases of evasion reported that 50% of the incomes were not declared at all. In response to this increased case of noncompliance, a new presumptive technique was reintroduced by the Turkey's government in 1983 (World Bank, 1991). In Bulgaria, Pashev (2005) did a study on the role played by presumptive taxes on the economy. The study concentrated on the analysis of the economic as well as social effects of presumptive taxes on the economy of the country. It was shown that the efforts to optimize the revenues collected from presumptive taxes involve a tradeoff between the costs and benefits.

1.1.2 Regional Perspective of Collection of Presumptive Tax

In the effort to expand the available base of taxes, the concept of presumptive tax emerged in Zimbabwe as early as 2005 (Maposa, Dalu, & S., 2013). The informal traders who are required to pay this presumptive tax include individuals operating restaurants and those in cottage industry as well as miners that operate on a small scale (Masarirambi, 2013). This has resulted into an increase in the amount of revenues collected by the government of Zimbabwe. A study was conducted in Zimbabwe by Zivanai, Manyani, Hove, Chiriseri and Mudzura (2014) to determine how effective the presumptive tax system was. Specifically, the study was interested at determining the reasons why small businesses are subjected to presumptive taxes and how this affects their ability to remain viable in the increasingly changing business environment. It was noted that the tax authority of Zimbabwe needs to increase the expenditure on education and promotional efforts for creating more information among the tax payers regarding presumptive taxes. It was shown that presumptive taxes have an inverse interaction with the ability of the SMEs to generate profits and thus remain viable. The emerging recommendations from the study was the need for increased campaigns on presumptive taxes in Zimbabwe as well as leveraging on technologies to detect individuals defaulting payment of presumptive taxes.

In Zambia, the presumptive tax was introduced by the government so as to enhance the level of motivation of the operators in the informal sector of the economy. This was meant to ensure that participants in the informal sector have a chance to take part in matters of taxation in the economic system. The government of Zambia levied presumptive taxes on an annual basis with clearly established parameters including the carrying capacities of vehicles as well as the

revenues generated from business entities. In Tanzania, the presumptive tax system in 2009 and the levying of this tax is informed by the level of income or turn over that is generated from business activities in the informal sector of the economy with the lowest bracket being 3 million (TRA, 2013). Ethiopia is one of the economies in Africa that is largely cash-based with a large number of small-scale traders and businesses. Therefore, the efforts to tax this sector result and support the drive to grow and enhance the growth of the economy as a whole which is one of the objectives of governments. (Benjamin & Mbaye, 2012)

1.1.3 Kenyan Perspective of Collection of Presumptive Tax

The role played by taxation on growth of the economy of Kenya as a whole cannot be overlooked. Taxation in Kenya has impacted on all forms of business including the small-scale entities like the SMEs. According to Simiyu (2008), taxation is an evil that that is necessary as it is not possible for the government to get all the required resources for the growth of the economy. Taxation has helped the Kenyan government to fund and operationalize a number of projects including investment in infrastructure like the Standard Gauge Railway system and the provision of social amenities to citizens.

In Kenya, any resident individual earning a turn over from business that does not go beyond Kshs. 5 million during any year of income is required to pay presumptive taxes. The following are the individuals who are liable to payment of presumptive taxes in Kenyan context: resident individuals with businesses generating income less than Kshs. 5 million, are issued or required to have trade or business permit by the county government. Thus, individuals without certificates is exempted from paying presumptive tax. Furthermore, any resident individual who owns a business that generates revenues above Kshs. 5 million in every year is not required to pay presumptive taxes. Such businesses may include companies that are incorporated and the firms that engage in professional as well as management services.

1.1.4 Small and Medium Enterprises

There are various indicators that can be used to identify and categorize SMEs forming the basis of their definition. These indicators include the number of employees they employ, the assets they have as well as the annual turnover generated (Kinyua, 2014). SMEs play an important role in view of the efforts by governments to enhance the growth of economies since they open up

chances for employment to millions of people. The Economic Survey Report (2016) estimate that SMEs contribute total of 70% towards the growth of the economy of Kenya and about 80% of the people in Kenya are employed in this sector. In Kenya, SMEs are largely recognized as businesses operating in the larger jua kali or the informal sector of the economy. The government of Kenya view an SME as any form of business that employ 9-10, 10-50 and 50-99 employees as micro, small and medium enterprises respectively.

However, most of these SMEs are currently facing challenges as far as tax matters is concerned. For example, Odongo (2014) found that most SMEs have very low levels of tax compliance. The low levels of complying to tax among most SMEAs has been brought about by many factors which include bad bookkeeping, low turnover revenues and changes on SMEs ' ownership that occur frequently (Nakiwala, 2010). There are problems linked to the rates of tax compliance among the Kenyan SMEs due to the nature of the firms (Simiyu, 2013). Kenya's turnover tax implemented by the 2007 Finance Act specifically targeted SMEs, especially those with an annual gross income which is lower than 5 million (Osebe, 2013). It is therefore against this background that the present study sought to determine factors affecting collection of presumptive tax with reference to SMEs operating bin Kisumu County.

1.2 Statement of the Problem

The passing of the Finance Act 2018 resulted into recognition of presumptive taxes in Kenya. The aim of this was to have recognition and consideration for the need of private sector development and enhance compliance of the tax payers. Effective management of the compliance behavior of the tax payers required concentrated efforts to mobilize the tax payers while minimizing the costs of administering taxes in an economic system. The essence of introduction of presumptive Taxes was to enhance or increase ability of the tax payers to voluntarily comply with tax obligations. This was also to enhance and allow examination of the declared returns with low revenues. According to KRA report (2018) turn over tax was at Kshs. 4,163,921 as of January 2018 national wide with Ksh. 53 million being from tax office of Kisumu. Within the same time horizon but for 2019, a total of Kshs. 50 was collected from presumptive taxes in Kisumu tax office with the national wide revenue from the same standing at Kshs. 9,893,883 (KRA, 2019). These statistics point out a decreasing trend in collection of presumptive taxes.

A number of studies have been conducted on presumptive taxes. For instance, using a case of Zimbabwean SMEs, Zivanai, Manyani, Hove, Chiriseri and Mudzura (2014) evaluated the effectiveness of presumptive mechanisms of taxation and how it affects ability of these firms to generate profits. It was shown that there is need for more education programs so as to enhance the ability of the tax payers as it regards presumptive taxes. A negative link was identified between presumptive taxes and the ability of SMEs to generate profits. In Rwanda, Eissa, Murray and Zietlin (2017) examined the fiscal effect of presumptive taxes on viability of enterprises. It was shown that presumptive taxes may negatively affect growth of the firms especially those at the star up. In Harare, Newman (2019) did an analysis of the presumptive taxes and their influence on revenue collection. It was established that high tax rates affected the effectiveness of presumptive taxes. In Bulgaria, Pashev (2005) did a study on presumptive taxes and their role in shaping the growth of the economy. Ogembo (2019) sought to determine the effectiveness of presumptive taxes among low- and middle-income countries. Dube and Casale (2019) looked at presumptive taxes in the context of Zimbabwe.

The available literature on presumptive tax especially among developing economies like Kenya is scarce and thus making it hard to make informed decisions (Holmes, 2002). The only available

but limited literature is on general guidelines for taxing SMEs IFC (2007) and some few efforts to summarize the practices of every country (Engelschalk, 2004). There exists little and scarce evidence on presumptive taxes for policy makers to create sustainable policies for enhancing the level of tax revenues collected.

Most of the aforementioned studies focused on other developed countries away from Kenya creating a conceptual gap. Other studies focused on the role played by presumptive taxes on ability of firms to generate profits or the economy to grow which conceptually differ from the present study hence resulting into gaps. To fill these gaps, the current study sought to determine factors affecting the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.

1.3 Objectives of the Study

This research was guided by the following objectives.

1.3.1 General Objective

- i. To establish the factors affecting the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.

1.3.2 Specific Objectives

- i. To find the effect of cost of compliance on collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.
- ii. To determine the effect of the level of Knowledge/Awareness on the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.
- iii. To establish the effects of Penalties and interests on the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.
- iv. To ascertain the effects of technology on the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.

1.4 Research Questions

- i. What is the effect of cost of compliance on the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District?
- ii. what is the effect of the level of Awareness affect the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District?
- iii. Do Penalties and interests affect the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District?
- iv. Does technology affect the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District?

1.5 Significance of the Study

The results of the study would be important to the following beneficiaries:

1.5.1 The Kenya Revenue Authority

The KRA would rely on the findings of the study to come up with sound regulations and guidelines as it regards administration of presumptive taxes. The findings would recommend the best way through which KRA can optimize the revenues collected from presumptive taxes as informed by the key findings from the analysis.

1.5.2 Policy Makers

The policy makers in this context include the National Treasury that institute in place various regulations for instance the Finance Acts. The study would guide the operationalization of these regulations formulated as far as collection of presumptive taxes is concerned.

1.5.3 The Small and Medium Enterprises

The study would raise awareness among SMEs in Kenya that generate a revenue of less than Kshs. 5 million in a year. This is because it would remind them of their obligations to pay presumptive taxes.

1.5.4 Scholars and Researchers

Scholars and academicians carrying out similar studies in future will be able to review the literature documented in this study. The study will recommend areas that future studies need to address.

1.6 Scope of the Study

The key focus of the study was on factors that affect collection of presumptive taxes. Specifically, the study looked at cost of compliance, level of awareness, penalties and interests and technology and how they affect collection of presumptive taxes. The study was carried out among SMEs operating in Kisumu CBD. The study was carried out in the month of October, 2019.

1.7 Limitations of the Study

During data collection, respondents had fear that information being collected would be used for intimidating them give the nature and sensitivity of the information that was being sought by the study. To overcome this challenge, the study provided assurance to all respondents that the information that was being sought was only to be used for the sake of academics. As such, no one was to be intimidated or blackmailed for giving the information that the study was seeking.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter reviews literature that is relevant to the study factors affecting the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District. The review is centered on key theories as well as past empirical studies done. The conceptual framework is presented with key variables and the measurement of each of the variable. The reviewed literature will be summarized, criticized as well as analyzed to bring out gaps.

2.2 Theoretical Review

It is from the theoretical review that the key theories that provide anchorage to the study are reviewed and examined. Theories are important because they add meaning to the study, they may be used in coming with the specific constructs for measuring the study variables of interest (Dickson, Hussein, & Agyem, 2018). The study shall be guided by three theories: theory of optimal taxation and the ability to pay theory of taxation and the Allingham and Sandmo Theory.

2.2.1 Theory of Optimal Taxation

The theory was formulated by Alm (1996) and it establish a nnumber of assumptions that shape and form an optimal tax system of an economic system. Some of these assumptions that shape and influence an optimal tax system of an economy include the fact that specified amount of tax revenues is required to be realized for the operations of the government (Alm, 1996)

The government is seen as an institution that strives to maximize the social welfare in an economic system. The term welfare is broad such that it covers the quality of the environment and the time for leisure. The total sum of utilities at an individual level form the social welfare of the economic system. The bundles of resources that are scarce shape and determine the utility of each and every individual in an economic system. At the same time, people have consistent as well as individualistic forms of preferences as they strive to ensure that their respective utilities are maximized on the basis of the budgets in place. However, there exists inequalities from the fact that different people have different abilities to earn and raise tax revenues besides the fact they people have different combination of skills sets (Jacobs, 2013). The relevance of this theory

to the study is that it views and considers presumptive tax as any other form of tax that aims at maximizing the social welfare of the members of the society in an economic system.

2.2.2 The Ability to Pay Theory of Taxation

Kendrick (1939) proposed this theory and it argues that the ability to pay by the tax payers is largely shaped and explained in terms of the sacrifice. The theory provided justification and need for use of progressive systems of taxation. There are some assumptions that guide this ability to pay theory: the fact that increases supply of money results into reduction in marginal utility, the sacrifices that tax payers make so as to pay taxes and thus remain compliant and how this sacrifice can be expressed in quantitative terms.

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. This theory suggests that the payers of presumptive tax should pay unconditionally and according to paying capacity.

2.2.3 Allingham and Sandmo Theory

This theory was advanced by Allingham and Sandmo (1972). The theory argues that the government is able to deter non tax compliance through arranging of sanctions and audits. In the event that the tax payers perceive the expenses of tax evasion to be too small, he or she may decide to break a fiscal law and circumvent his or her tax obligations, assuming that the likelihood of him or her being identified or audited are unlikely to occur. If the tax payers perceive the compliance costs to be high, they are also likely to evade tax. Involving and burdensome tax systems and processes tend to encourage cumbersome hence leading to tax evasion. Tax payers who fear high and punitive tax rates are going to evade tax. Allingham and

Sandmo (1972) pioneered income tax avoidance, where a rational and moral taxpayer maximized the desired utility which depends solely on income. When caught, the agent must pay the associated penalties for the sum of evaded profits. A primary stable comparative finding is that more or less tax compliance with competing income and replacement effects that occur when the tax rate changes.

The effect of substituting promotes fraud since the rate of tax raises the marginal benefit of cheating. On the opposite, the impact on taxes appears to discourage avoidance as an increase in rates of tax brings about the feeling of making the taxpayer feel worse off with declining absolute risk aversion, thereby reducing the chances of taking risks. The resulting impact is therefore ambiguous. Shlomo Yitzhaki (2002), however, found that substitution effect disappears when the penalty is levied on the sum of evaded taxes, as is the case under the present laws of tax. The premium levied on hidden income rises in a proportion manner to the rate of tax at the original maximum, and therefore there is no consequence of substitution. It is the residual profit benefit which allows the taxpayer to engage in less cheating. Therefore, better compliance becomes the net effect. The conclusion of Yitzhaki (2002) may be the most crucial discovery in the literature on early tax evasion, having inspired several impressive extensions. Collection of presumptive tax is largely influenced by how tax payers are compliant with the presumptive system itself as explained by this AS theory.

2.3 Conceptual Framework

The conceptual framework is a diagrammatic illustration of the study variables together with their measurement. The conceptual framework usually has constructs that help in formulation of the items on the questionnaire. Figure 2.1 is the conceptual framework of the study comprising of collection of presumptive taxes as the dependent and costs of compliance, level of awareness, penalties and interests and technology as the independent study variables.

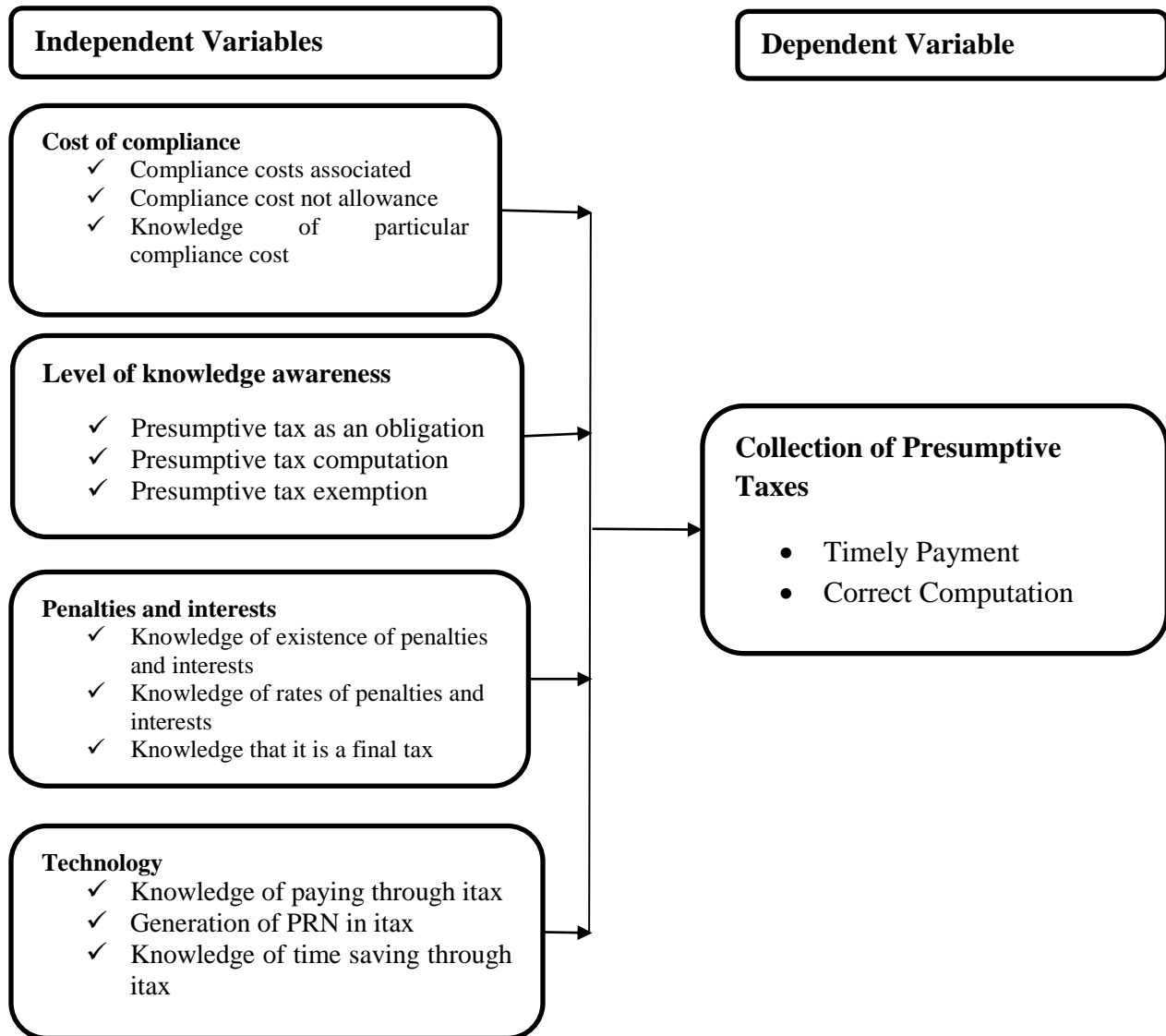


Figure 2.1: Conceptual Framework

2.4 Review of Study Variables

The study has two key variables; the independent as well as the dependent variable. This section reviews literature on the variables of the study.

2.4.1 Presumptive Tax

This is an amount of tax that is predetermined and fixed and it is required to be paid periodically by firms operating in the informal sector of the economy. Proxies are used in determination and computation of the amount of tax due and payable under the presumptive system. It is easy for one to compute and determine the amount of tax to pay under the presumptive tax system. At the

same time, the tax payer is not required to maintain a record of transactions in the effort to provide an account of tax. This makes it easier for the tax payers to pay and remain compliant with taxes (Memon, 2012). In most cases, the presumptive tax system has largely been recommended for smaller businesses largely operating in the informal sectors of the economy (Jaramillo, 2003). The costs of compliance as well as administration of presumptive taxes are very low (Thuronyi, 1996).

Taube and Tedesse (1996) gave three categories of presumptive taxes: standard, estimated and minimum assessments. In standard assessment, there is a fixed amount that is used to determine tax payable on the income that the business generates. For estimated assessment, the tax authority makes estimates on the basis of some established indicators. Minimum tax is usually levied irrespective of the income activities of the firm.

2.4.2 Cost of Compliance

The costs of compliance are borne by tax payers as they try to stay and abide by the provisions of the tax laws (Kirchler E. M., 2007). In the effort for tax payers to remain compliant, they usually meet some costs which are largely called cost of compliance. However, these costs can be avoided in the event that a specific form and type of tax is abolished (Ariff, 1997). Several measures have been established in measuring the costs of compliance for instance the time it takes to remain compliant with the established tax laws and the number of required tax payments (Evans & Joseph, 2015)

2.4.3 Level of Awareness

The level of awareness is shaped and determined by the knowledge of the tax payers. Level of awareness has largely been related with the ability of the tax payers to comprehend the laws and various provisions guiding administration of taxes. It has been widely acknowledged that increased efforts to enhance the level of knowledge of the tax payers results into increased compliance behaviors. Maseko (2010) did a study on knowledge and its influence on ability of SMEs to comply with taxes. It was established the tax knowledge enhances awareness which make tax payers to be more compliant and thus increased revenue collection. Mukasa (2011) also documented presence of positive link between tax knowledge and compliance and thus revenue collection.

Eriksen and Fallan (1996) noted that knowledge is an important factor that shape and determine the preferences of the tax payers as it regards whether to comply with taxes. Fiscal knowledge has been seen to be correlated with the attitudes of the tax payers as it regards taxes as well as the ability to understand the provisions of tax laws. Nomala (2010) looked at the role played by tax education and it was shown that it is determinant of voluntary compliance of the tax payers.

2.4.4 Penalties and Interests

The rationale for use of penalties is that they act as deterrence measures for tax payers to avoid noncompliance behavior. The deterrence model argues that majority of the tax payers are compliant with the provisions of tax so as to avoid the interests and penalties. This is however influenced and shaped by the assessment of the tax payers that the risks and costs of the penalties are much far beyond the benefits of noncompliance (Doran, 2009). Thus, in order for the tax payers to remain compliant, the costs of the interests and penalties should outweigh the benefits of noncompliance. In other words, the decision to comply with taxes including presumptive taxes is shaped and influenced by a critical analysis and assessment of the risks of noncompliance for instance the penalties and interests' payable against the benefits that would accrue in successful tax evasion practice.

2.4.5 Technology

The rise and rapid advancement of new technologies around the world have impacted on how tax authorities administer taxes. A sound tax system should be able to gather as well as utilize information in manner so that enhance the amount of revenues collected. IT has supported and justified the need for tax reforms in majority of the countries around the world including Kenya that has recently implemented the I-tax system (Bird & Zolt, 2008.) However, effectiveness of the these technologies require that tax payers have the required skills and knowledge so as to interact with the systems.

2.5 Empirical Review

This section reviews past studies on the variables of the study that include; Presumptive tax, cost of compliance, level of awareness, penalties and interests and technology.

2.5.1 Cost of Compliance and Collection of Presumptive Tax

Zachary, Kariuki, & 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, et al., (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, & 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) looked at 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.

2.5.2 Level of Awareness and Collection of Presumptive Tax

There is a growing body of literature focusing on the role played by the tax payers knowledge on tax matters. Redae & Sekhon, (2016) did a study to determine the influence of tax knowledge on compliance behavior of the tax payers in the context of Ethiopia. It was shown that tax knowledge is a significant predictor of the compliance behavior of the tax payers. Poudel, (2017)) did a study on tax knowledge and its influence on compliance behavior with reference to teachers in learning institutions in Nepal. It was shown that tax knowledge significantly influences tax compliance behavior. In Nigeria, Oladipupo & Obazee, (2016.) revealed that tax knowledge influences the ability of tax payers to comply with tax matters. Aondo, (2018) focus on assessment of how tax knowledge influences tax compliance, a case of SMEs in Nakuru County was used and a positive relationship was established. Bernard, Memba, & Oluoch, (2018.) in a related study looked at tax knowledge and tax compliance taking a case of investors under the Export Processing Zone Program. The finding was that tax knowledge influences tax compliance.

Bahari and Ling (2009) did a study whose aim was to determine the interaction between tax education and the compliance behaviour of the tax payers. It was shown that majority of the firms had desire and need to learn and have information on tax matters. Palil (2010) examined the role played by the knowledge of self assessment system of taxation on ability of the tax payers in Malaysia to comply. Knowledge was found to be a significant factor and driver of compliance behaviour of the tax payers.

2.5.3 Penalties and Interests and Collection of Presumptive Tax

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 & 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 shows 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 positive influence on the ability of the tax payers to comply with tax matters.

Gemmell, (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 the tax payers to comply with their tax obligations. Yunus, Ramli, & Syuhada, (2017) 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.

Olokooba, Awodun, Akintoye, & Adebowale, (2018) looked at tax offences in the context of Nigeria. The paper critically looks at what covers an offence, their categories as well as penalties. It was established that tax offences constitute of both civil as well as criminal vices in an economy. In Nigeria, where some of the tax offences are more serious hence attracting severe punishment, other offences are mild while even others are mild requiring only fines. It is worthwhile to establish that the laws of taxation give authority to administrators to use both civil and criminal sanctions for enforcing compliance behavior.

Raihana, Khadijah and Salwa (2014) looked at the role played by threats of punishment on compliance among the tax payers. This study was conducted in Malaysia. The study adopted mixed-modes survey methodologies to realize the objectives. The findings showed that threat of punishment does not significantly influence compliance with taxes among tax payers. Not only do threats of punishment insignificantly influence compliance but they also bring about feelings of being non-compliant as far as tax matters are concerned. The willingness of tax payers to remain tax compliant diminishes with an increase in the number of threats. In Tanzania, there are generally interest, penalties and offences that govern matters of taxation. Some of the interests arise from underestimation of payable tax and failure to pay the tax. Penalties include failure to keep a record of documents, failure to file tax returns, making misleading or false statements, abetting and aiding.

2.5.4 Technology and Collection of Presumptive Tax

Polycap, (2017.) revealed that computerized systems have contributed positively to the performance of customs department. Independent variables cargo security and tax clearance time had a positive significant impact on the performance. Revenue collection and tax administration had an insignificant impact hence there may be other many factors which affect revenue collection other than computerized systems. Bett & Yudah, (2017.) identified that online taxpayer registration, online tax return processing, online compliance and monitoring activities, and electronic tax payments make a substantial contribution to KRA, Rift Valley Region's revenue collection. Madegwa & Namusonge, (2018) noted that in Trans Nzioa county

government office, the online system of automating revenue collection processes greatly influences efficiency.

Otieno, et al., (2013.) in their study revealed that there exists a correlation between systems of information and internal control systems together with collection of revenues both in terms of efficiency and performance in collecting revenues. Nevertheless, council staff's aversion to reform derailed the full introduction of IS. The research is useful in collecting revenue for the present study in order to fully incorporate IS, and more precisely e-payment system. Another research by (Kinyanjui & Kahonge, 2013.) proposed the creation of a system to monitor the flow of traffic, allocation and availability of parking space in the Nairobi streets but failed to manage the penalty involved in the system of payment, a problem to be addressed carefully by the present study. A report by (Kirichu, 2014) study was vocal in e-payment agitation in Nairobi County and the parking industry using mobile parking management system, but the report was aware of the obstacles that could be overcome.

2.6 Critique of the Existing Literature

As with regards to the cost of compliance, it was observed that compliance costs can only be avoidable if taxation is abolished. It was observed that compliance is encouraged by the spirit of the law (i.e. fear of legal sanctions). From the observations, compliance costs are majorly being observed to emanate from legal obligations, however there are other costs like costs of; Record keeping, accounting fees, audit fees, consultation fees, among others that needs to be factored in. The study established majorly that general knowledge of tax enhances compliance since there is an ability to understand the laws and regulations of taxation. However, others found out that tax compliance is not necessarily influenced by specific knowledge of tax regulations.

The research observed that in modern day and error, technology is the way to go in revenue collection. Revenue collection agencies should however not give overemphasis to technology at the expense of those who utilize the same technology to achieve results. Employee empowerment should be at the core of the revenue collection agencies. The major findings of the research focused on employee work ethics, culture alignment, internal professional development and employee ethics. There is also a need to have good employee taxpayer ratio to enhance revenue collection and compliance.

2.7 Summary of the Literature Review

The chapter has reviewed two theories that provide anchorage to the study; these are theory of optimal taxation, the ability to pay theory of taxation and the expediency theory of taxation. The chapter has looked at the conceptual framework showing the study variables. The study will have the independent as well as the dependent variables. The independent variables will be; the cost of compliance, the level of awareness, penalties and interests, technology and work force while collection of presumptive tax will be the dependent variable. Each of these variables has been operationalized into measurable items. The empirical studies are provided on each of these independent variables.

2.8 Research Gaps

Zachary, Kariuki and Mwangi (2017) looked at compliance costs and the ability of SMEs in Embu to comply with the same. 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 and not in Kenya where the tax regimes are different. Redae and Sekhon (2016) did a study to determine the influence of tax knowledge on compliance behavior of the tax payers in the context of Ethiopia. Poudel (2017) did a study on tax knowledge and its influence on compliance behavior with reference to teachers in learning institutions in Nepal, where It was shown that tax knowledge significantly influences tax compliance behavior. In Nigeria, Oladipupo and Obazee (2016) revealed that tax knowledge influences the ability of tax payers to comply with tax matters. The studies were not conducted in the context of Kenya and hence local studies would be recommended.

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. The studies were conducted in other advanced economies and not in Kenya. 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. Olokooba, Awodun,

Akintoye and Adebawale (2018) looked at tax offences in the context of Nigeria. These studies were not conducted in Kenya creating contextual gaps.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter focuses on the design as well as the target respondents of the study. The means of selecting the representative sample, the methods used in gathering the views of the respondents as well as the analysis of the results are also detailed.

3.2 Research Design

Research design is a guide that determines how the study is to be carried out (Merriam, 2015). The study adopted a descriptive research design. A descriptive design is used to report the way things are in their state. The design was suited to the study since it helped in determining the factors that influence the collection of presumptive taxes.

3.3 Target Population

A group of items that have common features that can be observed which are of interest to the researcher is commonly described as the population (Thomas, 2017). It is from the entire population that the study comes up with the target population. The target population helps in generalization of the results of the study (Cooper & Schindler, 2015). There are about 4125 SMEs operating within Kisumu County. This study targeted 269 SMEs with operations in Kisumu Central Business District as indicated in Table 3.1. The research targeted Kisumu since a similar research has never been conducted there before and the city has got so many SMEs.

Table 3.1: Target Population

Organization	Population	Sample Proportion
General merchants	190	70.5
M-Pesa services	29	11.
Health Institutions	7	2.5
Restaurants	25	9.2
Hardware's	18	6.8
Total	269	100.0

Source; Kisumu County (2019)

3.4 Sampling Frame

Sampling frame refers to a list of the elements that form the basis of drawing the actual sample to be included in the study. It could cover a list of units, institutions or functions and individuals in an organization (Quinlan, Babin, Carr, & Griffin, 2019).

Fowler (2009) views a sampling frame as a group of individuals with a same chance of being picked or selected. The sampling frame of this study was constituted by 160 respondents. The 160 are SME taxpayers located in Kisumu CBD. The respondents were randomly selected by to ensure representativeness.

3.5 Sample and Sampling Technique

To sample is to select representative elements from the population for inclusion in the study. Sampling is important because it ensures that manageable size of respondents is included in the study. (Cooper & Schindler, 2015). The study adopted stratified random sampling technique to select respondents. First, the respondents were stratified based on their operations; General merchants, M-pesa services, health institutions, and hotels.

Sample size is a representation of the entire population of the study. Sampling is usually conducted because it is not economical to conduct a study using a large population. The following formula by Yamane (1967) was used to determine the sample the sample size;

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

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) = $269 / (1+269(0.0025))$

$$=269 / 1.6725$$

n=160 respondents

The sample size is shown in Table 3.2.

Table 3.2: Sample Size

Organization	Population	Sample Proportion	Sample Size
General Merchants	190	70.50%	113
M-pesa Services	29	10.90%	18
Health Institutions	7	2.55%	4
Restaurants	25	9.21%	15
Hardware's	18	6.77%	11
Total	269	100.0	160

3.6 Data Collection Instruments

The study collected primary data with the use of questionnaires. Primary data was used because it represents the first hand source of information for the study. Questionnaires contain close ended questions. The questionnaires were divided into sections based on the objectives of the study. The questions on the questionnaire were structured on 1-5 Likert scale where 1=strongly disagree and 5=strongly agree.

3.7 Data Collection Procedure

Before carrying out the actual study, the study conducted a pilot study among 10 respondents who were not included in the final population and sample size of the study. The aim of the pilot study was to test for reliability and validity of the instruments of the study. Once the research instruments had been found to be valid and reliable, the study sought for an introduction letter from the University which stated the purpose of the study as being for academic reason. The management team of the selected presumptive taxpayers was notified in advance in written on the study.

3.8 Pilot Testing

The essence of piloting the instruments of the study was to ensure that they are as reliable and valid as possible. A total of 10 respondents were purposively selected so as to pilot the instruments. These respondents were excluded from the sampled respondents who participated in the final study. This was meant to avoid or reduce possible biasness.

3.8.1 Reliability of Research Instruments

The instrument of the study is deemed to be reliable when it gives results that are consistent (Lee & Lings, 2008). The study used internal measure of consistency largely described as Cronbach Alpha to determine reliability of the instruments and the value above 0.7 shows that the instrument is reliable (Blumberg, Cooper, & Schindler, 2005)

3.8.2 Validity of Research Instruments

An instrument of the study is deemed to be valid when it gives results on the basis of what it is designed to measure (Gall, Gall, & Borg, 2007). The study engaged the project supervisor in reviewing and checking the items on the questionnaires to ensure that they are in line with the provided constructs in the conceptual framework (Robert & Alison, 2015).

3.9 Data Analysis and Presentation

Once data has been gathered from the field, it should undergo the analysis process. The collected information was entered into SPSS tool and the analysis was done with aid of means, standard deviations as well as regression analysis. The study adopted multiple regression as detailed below:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where:

Y = collection of presumptive tax

X_1 = Cost of compliance

X_2 = Level of Knowledge/awareness

X_3 = Penalties and interests

X_4 = Technology

β = constant,

β_1 , β_2 , and β_3 and β_4 = Regression Coefficients

e = Error Term.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

This chapter is set out to present the findings of the analysis on the primary data that was gathered from the field by the researcher. The study relied on primary data that was exclusively gathered with the aid of questionnaires. Once this data has been gathered, it was entered into the SPSS tool in readiness for analysis. The findings were analyzed and presented using Tables and Figures.

4.2 Response Rate

The study issued out a total of 160 questionnaires to the respondents where only 114 of them were received as having been dully filled up. This was equivalent to a response rate of 71% as illustrated in Figure 4.1.

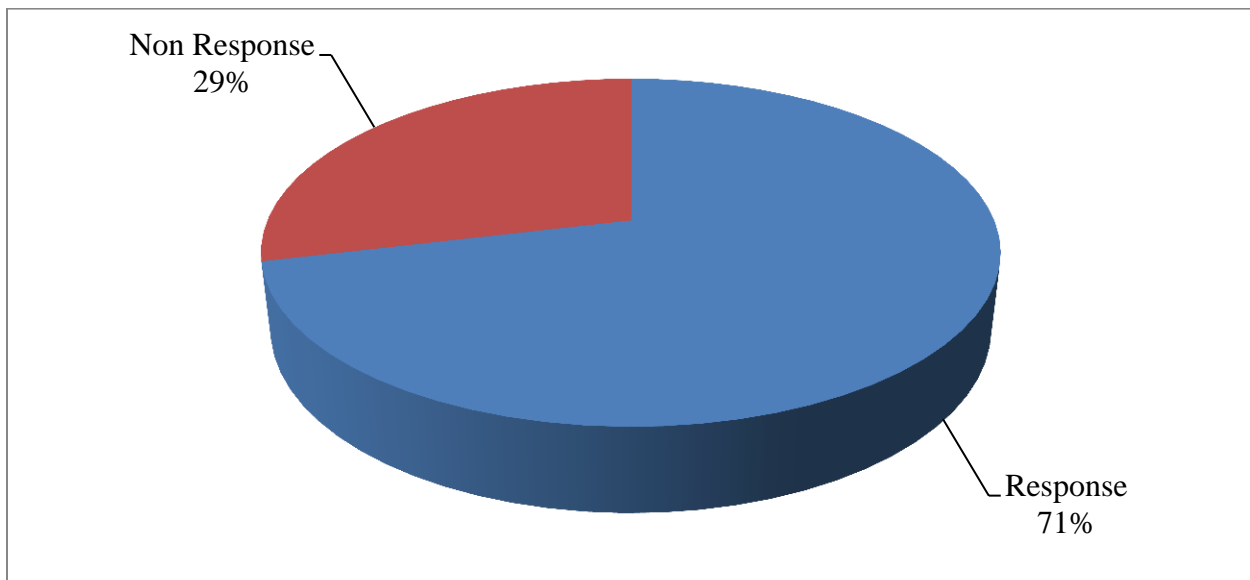


Figure 4.1: Response Rate

This response rate was sufficient and concurred with Patten (2016) who noted that response rates of above 70% are deemed to be sufficient for the sake of presentation of the results in a study.

4.3 Reliability and Validity Results

The study piloted the instruments of the study to determine their validity and reliability. Validity of the instruments of the study was determined by checking to ensure that the items on the questionnaires measured the underlying constructs in the conceptual framework. This was achieved by the supervisor and during the defense for the proposal where the items of the questionnaire were carefully scrutinized to ensure they are in line with the measures and constructs that were provided under the conceptual framework for each of the variables examined.

For the sake of determining reliability, the piloted instruments were coded and then used to compute the values of Cronbach Alpha Coefficients as summarized in Table 4.1.

Table 4.1: Reliability Results

Variable of the Study	No. of Items	Cronbach Alpha Coefficient (α)	Remarks
Cost of compliance	4	0.886	$\alpha > 0.7$ hence reliable
Level of Awareness	8	0.753	$\alpha > 0.7$ hence reliable
Penalties and Interests	5	0.739	$\alpha > 0.7$ hence reliable
Technology	6	0.779	$\alpha > 0.7$ hence reliable
Collection of Presumptive Tax	3	0.723	$\alpha > 0.7$ hence reliable

From the findings in Table 4.1, all the variables recorded the values of Cronbach Alpha Coefficient above 0.7; this infers that the scale used in the study was reliable. This finding is in line with Blumberg, Cooper and Schindler (2005) who indicated that Cronbach Alpha Coefficients above 0.7 indicate that the instruments of the study are reliable.

4.4 General Information

The general information of the respondents as well as the covered firms are presented in subsequent sections.

4.4.1 General Information of Respondents

The general information on the respondents of the study is summarized in Table 4.2.

Table 4.2: General Information of Respondents

Category	Classification	Frequency	Percentage
Gender of the Respondents	Male	80	70.2
	Female	34	29.8
	Total	114	100.0
Levels of Education	Certificate	12	10.5
	Diploma	62	54.4
	Degree	34	29.8
	Masters	6	5.3
	Total	114	100.0

From Table 4.2, majority of the respondents (70.2%) were male having attained diplomas (54.4%) as their highest level of education. This infers that respondents of the study were educated and thus able to read and interpret the research questions.

4.4.2 General Information on Firms

The findings on the general information of the studied firms are shown in Table 4.3.

Table 4.3: General Information on Firms

Category	Classification	Frequency	Percentage
Length of Organizational Existence	5-10 years	22	19.3
	10-15 years	72	63.2
	above 15 years	20	17.5
	Total	114	100.0
Average Employee Base	1- 5	34	29.8
	5-10	33	28.9
	10-15	37	32.5
	above 15	10	8.8
	Total	114	100.0

From Table 4.3, majority of the studied firms (63.2%) had been in operation for 10-15 years, which was long enough with an employee base of 10-15 employees (32.5%). These findings indicate that the studied firms had been in place for a longer period of time and thus were suitable for being used as case studies.

4.5 Descriptive Statistics

Descriptive statistics were used to report the findings on statements that had been formulated on a five point Likert scale. This entailed the use of means and standard deviations. The findings are indicated in subsequent sections.

4.5.1 Cost of Compliance

The findings on cost of compliance are indicated in Table 4.4.

Table 4.4: Cost of Compliance

	Mean	Std. Dev
I know the compliance costs associated with presumptive tax compliance	3.87	.993
I know that the firm incurs compliance costs to comply with presumptive tax	4.15	.985
I know that compliance cost is a hindrance to presumptive tax compliance	4.19	1.020
I know that compliance costs are not allowable deductions in presumptive tax	4.05	.857

From Table 4.4, majority of the respondents agreed on the various statements provided under compliance costs. For instance, respondents agreed that compliance cost was a hindrance to presumptive tax compliance and that the firm incurs compliance costs to comply with presumptive tax besides the fact that compliance costs was not allowable deductions in presumptive tax. All these statements had highest values of standard deviation of above 4.00; showing the respondents largely agreed on them. The findings contradict Thuronyi (1996) who noted that the costs of compliance as well as administration of presumptive taxes are very low.

4.5.2 Level of Awareness

The findings on the level of awareness are indicated in Table 4.5.

Table 4.5: Level of Awareness

	Mean	Std. Dev
I know that the business is obligated to pay presumptive tax	4.01	.968
I know the consequences of failing to pay presumptive tax	3.68	1.018
I know that presumptive tax is one of payment of 15% of license fee	3.67	.993
I am aware that presumptive tax is a replacement of Turn Over Tax	3.70	.882
I am aware that Presumptive Tax regime will not apply to; a person whose income is exempts from tax under the First Schedule of Income Tax Act and has a valid exemption certificate.	3.91	.945
I am aware that Presumptive Tax regime will not apply to a person who would otherwise pay tax under this regime but elects by notice in writing to the Commissioner not to be subjected to the Presumptive Tax.	3.74	.871
I am aware that Presumptive Tax regime will not apply to a resident person whose gross turnover from business exceeds Kshs. 5 million in a year of income.	3.84	1.156

Table 4.5 shows values of mean under the level of awareness; where all these are above 3.5. This means that respondents agreed on each of these statements under thus the level of awareness as far as collection of presumptive tax was concerned. The highly practiced aspects of level of awareness included having knowledge that business was obligated to pay presumptive tax (M=4.01). These findings are supported by Maseko (2010) who established the tax knowlwgde enhances awareness which make tax payers to be more compliant and thus increased revenue collection.

4.5.3 Penalties and Interests

The descriptive statistics on interests and penalties are shown in Table 4.6.

Table 4.6: Penalties and Interests

	Mean	Std. Dev
I am aware of the interests for failing to pay the presumptive tax on time	3.58	.897
I have knowledge that there are tax penalties in case the tax is not paid on time	3.65	1.060
I know that due date for payment of the tax shall be at the time of payment for the business permit	3.69	.961
I have knowledge that I am not required to file a tax return on the income from the business that qualifies under presumptive tax regime.	3.57	1.032
I know that 5% of the tax due and a late payment of interest 1% per month as outlined in the Tax Procedures Act, 2015.	3.61	.892

From the findings in Table 4.6, most of the respondents agreed on various statements of interest and penalties as the factors that influence collection of collection of presumptive tax. Specifically, respondents strongly agreed on having knowledge that due date for payment of the tax shall be at the time of payment for the business permit (M=3.69), the knowledge of presence

of tax penalties in case the tax was not paid on time (M=3.65) and the awareness that 5% of the tax due and a late payment of interest 1% per month as outlined in the Tax Procedures Act, 2015 (M=3.61). The findings are in line with Swistak (2016) who revealed that tax penalties although they are critical as enforcement mechanisms may adversely affect the ability of the firms to comply with taxes.

4.5.4 Technology

The findings of descriptive statistics on technology are shown in Table 4.7.

Table 4.7: Technology

	Mean	Std. Dev
I am aware that I will have to log onto iTax to make payment for Presumptive Tax	4.08	.907
I know that I am required to generate a Payment Registration Number (PRN) on iTax under Presumptive Tax Payment	3.80	.785
I know that I can pay the presumptive tax due through M-Pesa Pay Bill Number 572572	3.92	.838
I know that I can pay presumptive tax through any other partner bank	3.75	1.166
I know that iTax makes it easy to comply with presumptive tax collection.	3.43	1.159
I know that iTax saves my time in complying with presumptive tax collection	3.49	1.225

Table 4.7 gives the findings on technology as another factor that affect collection of presumptive tax. From the results, most of the respondents were in agreement on various statements under technology and how it influences collection of presumptive tax. Respondents of the study highly agreed on the fact that they were aware that they had to log onto iTax to make payment for Presumptive Tax (M=4.08) and having knowledge as it regarded payment of presumptive tax due through M-Pesa Pay Bill Number 572572 (M=3.92).

4.5.5 Collection of Presumptive Tax

Table 4.8 summarizes results on collection of presumptive taxes.

Table 4.8: Collection of Presumptive Tax

	Mean	Std. Dev
I am aware that the firm pays presumptive tax.	4.08	1.117
Our accountant computes the correct percentage of presumptive tax	4.13	1.234
Our business pays presumptive tax on time	4.12	1.176

From the results of Table 4.8, most of the studied firms had accountants who computed the correct percentage of presumptive tax (M=4.13), the businesses paid presumptive tax on time (M=4.12) and respondents were aware that the firm paid presumptive tax (M=4.08).

4.6 Diagnostic Tests

It was important to carry out diagnostic tests before running regression analysis. This was meant to test and ensure that the data is in line with the assumptions of regression analysis.

4.6.1 Normality Test

The essence of normality test was to ensure that the data for regression analysis is normally distributed. The study used histograms and PP plots to test for normality of the data asset as illustrated in subsequent figures.

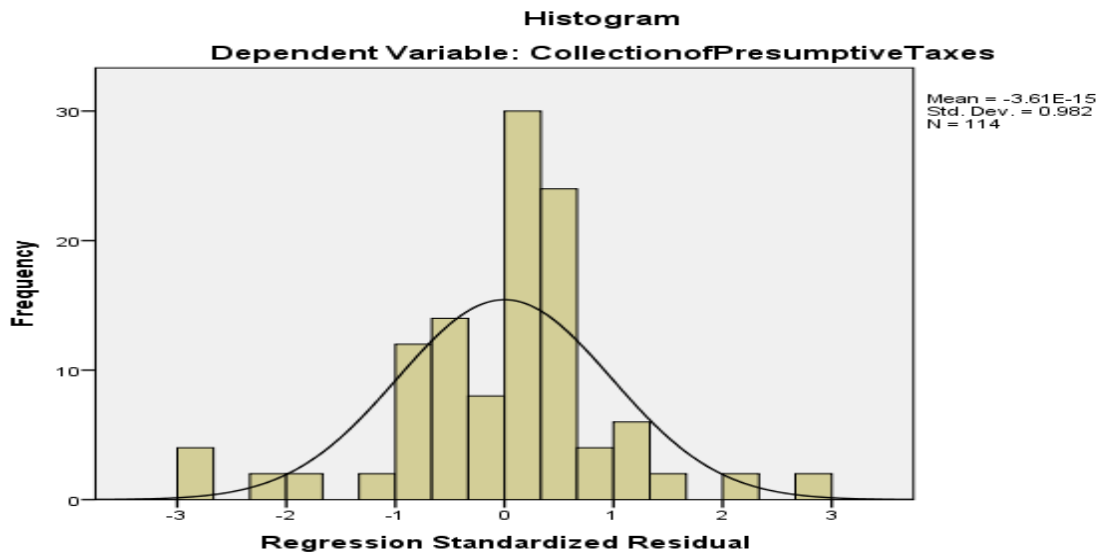


Figure 4.2: Histogram

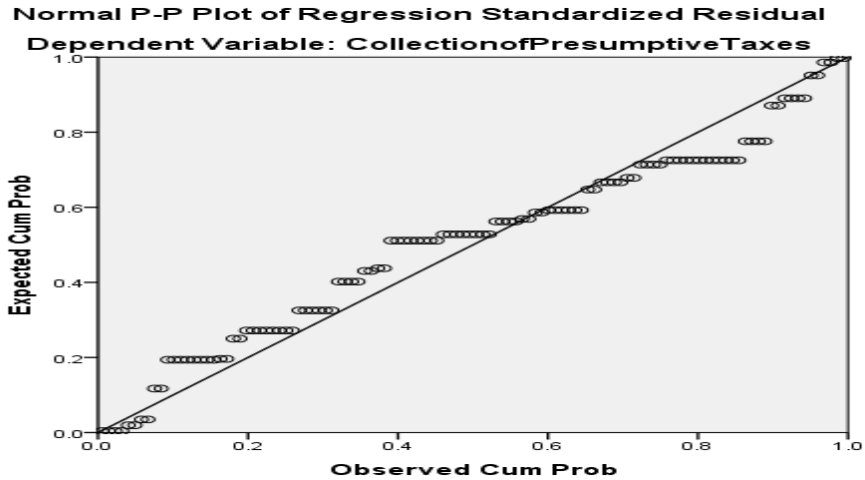


Figure 4.3: Normal PP Plot

From the results in Figures 4.2 and 4.3; the implication is that the data for the study is normally distributed. This is because for the Normal PP plot, the data points fall closely along the Normal PP line.

4.6.2 Heteroscedasticity Test

The study used Scatter Plots to test for presence of heteroscedasticity in the data set. Consider Figure 4.4.

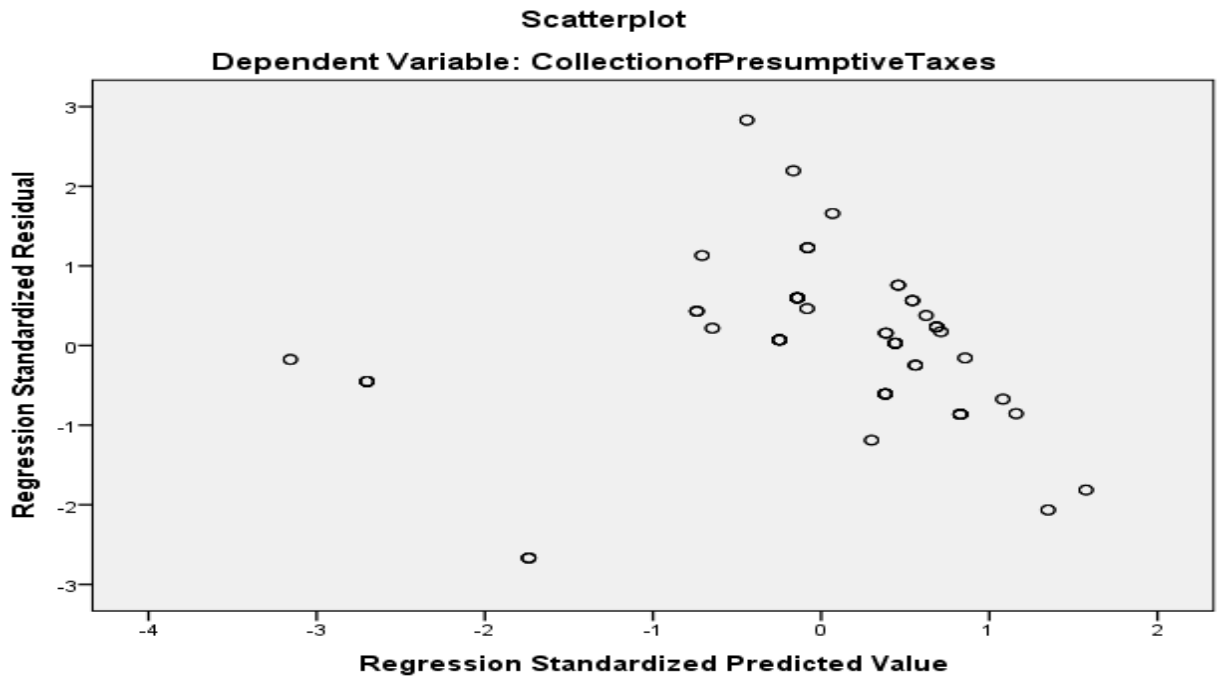


Figure 4.4: Heteroscedasticity Test

From the results in Figure 4.4, the data points on the scatter plot are widely spread with no clearly established pattern. This could be an indicator of absence of heteroscedasticity in the data set of the study.

4.6.3 Multicollinearity Test

To test for multicollinearity, the study used the values of Variance of Inflation Factors (VIF) and the findings are indicated in Table 4.9.

Table 4.9: Multicollinearity Test

	Collinearity Statistics	
	Tolerance	VIF
Cost of Compliance	.644	1.553
Level of Awareness	.238	4.205
Penalties and Interests	.420	2.379
Technology	.172	5.804

a. Dependent Variable: Collection of Presumptive Taxes

From the results in Table 4.9, all the variables had VIF values within the range of 1-10; this signifies absence of multicollinearity and the thus the data set was suitable for being used to run regression analysis as detailed in subsequent sections.

4.7 Regression Results

Regression analysis was conducted to determine the combined effect of the identified factors on collection of presumptive tax. The findings of the model summary are shown in Table 4.10.

Table 4.10: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.920 ^a	.846	.840	1.29632

a. Predictors: (Constant), Technology, Cost of Compliance, Penalties and Interests, Level of Awareness

From Table 4.10, the value of R is 0.920; this implies that the studied factors have a strong joint relationship with collection of presumptive tax. The coefficient of determination R square is 0.846; this indicates that 84.6% change in collection of presumptive tax is jointly explained by the identified and studied factors. The adjusted R square is 0.840; this implies that 84.0% change in collection of presumptive tax is jointly explained by technology, cost of compliance, penalties and interests, level of awareness. The findings of the ANOVA are indicated in Table 4.11.

Table 4.11: Analysis of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	1006.795	4	251.699	149.780	.000 ^b
Residual	183.170	109	1.680		
Total	1189.965	113			

a. Dependent Variable: Collection of Presumptive Taxes

b. Predictors: (Constant), Technology, Cost of Compliance, Penalties and Interests, Level of Awareness

As shown in Table 4.11, the value of F calculated is taken as 149.780 with significance of 0.000 which is less than 0.05. This means that the overall model of the study was significant. The findings of the regression beta coefficients and the p-values are indicated in Table 4.12.

Table 4.12: Beta Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.037	.841		.044	.965
Cost of Compliance	.507	.045	.531	11.344	.000
Level of Awareness	.498	.053	.722	9.367	.001
Penalties and Interests	.184	.049	.100	3.755	.002
Technology	.891	.070	1.151	12.713	.003

a. Dependent Variable: Collection of Presumptive Taxes

Consider equation v below:

$$Y = .037 + .507X_1 + .498X_2 + .184X_3 + .891X_4 + e$$

Where:

Y = collection of presumptive tax

X₁ = Cost of compliance

X₂ = Level of Knowledge/awareness

X₃ = Penalties and interests

X₄ = Technology

e = error term

Thus, when all the variables of the study are held constant, collection of presumptive tax would be at 0.037. A unit change in cost of compliance when all the factors are held constant would

lead to 50.7% change in collection of presumptive tax. A unit change in level of awareness holding other factors constant would lead to 18.4% change in collection of presumptive tax . A unit change in penalties and interests other factors kept constant would result into 89.1% change in collection of presumptive tax. At 5% level of significance, the study established that cost of compliance $p < 0.05$ has significant effect on collection of presumptive tax. Level of awareness $p < 0.05$ was found to have significant effect on collection of presumptive tax. Nomala (2010) looked at the role played by tax education and it was shown that it is determinant of voluntary compliance of the tax payers. Penalties and interests $p < 0.05$ have significant effect on collection of presumptive tax. The finding contradicts Raihana, Khadijah and Salwa (2014) who showed that threat of punishment does not significantly influence compliance with taxes among tax payers. Olokooba, Awodun, Akintoye and Adebowale (2018) established that tax offences constitute of both civil as well as criminal vices in an economy. Technology $p < 0.05$ was found to have significant effect on collection of presumptive tax. The finding is supported by Polycap (2017) who revealed that computerized systems have contributed positively to the performance of customs department.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter is set out to summarize the findings of the analysis from the primary data that was gathered from the field. The findings are summarized as informed by the established objectives of the study. The conclusions are also provided as guided by the specific objectives and the key findings. The recommendations are provided with suggestions for further research.

5.2 Summary of the Findings

This section shall summarize the findings of the study as informed by the specific objectives. The study had four specific objective variables: costs of compliance, level of awareness, penalties and interests and technology and how they influence collection of presumptive taxes. Three theories provided anchorage to the study namely theory of optimal taxation, ability to pay theory of taxation and the Allingham and Sandmo Theory.

5.2.1 Cost of Compliance and Collection of Presumptive Tax

The first objective was set out to determine the influence of costs of compliance on collection of presumptive taxes. From the findings of descriptive statistics, the study noted that majority of the respondents agreed on various statements provided under cost of compliance. Majority of the respondents agreed that compliance cost was a hindrance to presumptive tax compliance and that the firm incurs compliance costs to comply with presumptive tax besides the fact that compliance costs was not allowable deductions in presumptive tax. Regression analysis indicated that the cost of compliance has significant effect on collection of presumptive taxes.

5.2.2 Level of Awareness and Collection of Presumptive Tax

The second objective of study was to determine the influence of level of awareness on collection of presumptive taxes. Majority of the respondents agreed on each of these statements under thus the level of awareness as far as collection of presumptive tax was concerned. The highly practiced aspects of level of awareness included having knowledge that business was obligated to pay presumptive tax. Regression results showed that level of awareness has significant effect on collection of presumptive taxes.

5.2.3 Penalties and Interests and Collection of Presumptive Tax

The study sought to determine the influence of penalties and interests on collection of presumptive taxes. The findings of descriptive statistics indicated that majority of the respondents agreed on the various statements provided under penalties and interests. Specifically, respondents strongly agreed on having knowledge that due date for payment of the tax shall be at the time of payment for the business permit, the knowledge of presence of tax penalties in case the tax was not paid on time and the awareness that 5% of the tax due and a late payment of interest 1% per month as outlined in the Tax Procedures Act, 2015. From regression, the study found out that penalties and interests have significant effect on collection of presumptive taxes.

5.2.4 Technology and Collection of Presumptive Tax

The last objective of the study was to establish the effect of technology on collection of presumptive taxes. The results of descriptive statistics indicated that most of the respondents agreed on the various statements provided under technology and how it influences collection of presumptive taxes. Respondents of the study highly agreed on the fact that they were aware that they had to log onto iTax to make payment for Presumptive Tax and having knowledge as it regarded payment of presumptive tax due through M-Pesa Pay Bill Number 572572. Regression results indicated that technology has significant effect on collection of presumptive taxes

5.3 Conclusion

The study sought to determine the influence of costs of compliance on collection of presumptive taxes. It was shown that cost of compliance is a significant factor influencing collection of presumptive taxes. It was noted that cost of compliance was among the hindrances to presumptive tax compliance. Majority of the firms incur compliance costs to comply with presumptive tax. These compliance costs are not allowable deductions in presumptive tax and this affects its collection.

The study sought to determine the influence of level of awareness on collection of presumptive taxes. It was shown that the level of awareness has significant effect on collection of presumptive tax. Level of awareness was established as one of the factors common among the firms that

affects collection of presumptive taxes. Most of the firms are aware of their obligation to pay presumptive tax.

The study sought to determine the influence of penalties and interests on collection of presumptive taxes. It was shown that penalties and interests have significant effect on collection of presumptive taxes. Most firms of the firms have knowledge regarding the due date for payment of presumptive taxes, the knowledge of the availability of penalties and interests under the presumptive tax system. Probably, this made the tax payers to comply hence collection of presumptive taxes.

The study sought to establish the effect of technology on collection of presumptive taxes. From the results, it was shown that technology is a significant factor affecting collection of presumptive taxes. Majority of the firms were aware of their obligation to log into i-tax system for payment of presumptive taxes and the mobile payment of presumptive taxes through m-pesa platforms. ‘

5.4 Recommendations of the Study

Based on the results, the study makes the following recommendations:

The Kenya Revenue Authority should consider the costs of compliance that tax payers meet under the presumptive tax system as allowable deductions. Efforts should be put in place at KRA to share the costs of compliance of presumptive taxes with the tax payers so that they do not bear all these costs.

The study recommends the need to increase expenditure on tax payers’ awareness and education programs so that more tax payers are aware of their various tax obligations including the need to pay presumptive taxes.

The study recommends the need to do targeted awareness programs on taxpayers who may not have the knowledge regarding the due date and availability of penalties and interests to enhance more collection of presumptive taxes

The study recommends the need for KRA to integrate the registration and filling of presumptive taxes into the i-tax platforms so as to be able to monitor those who don't consistently pay and enforce payments for the same.

5.5 Areas for Further Research

This study focused on determining the factors that influence payment of presumptive taxes. Specifically, the focus of the study was on four factors: costs of compliance, level of awareness, penalties and interests and technology. These four factors were found to jointly explain 84.0% change in collection of presumptive taxes. This shows that apart from the identified factors, there exists other items with an influence on collection of presumptive taxes which future studies should focus on. Furthermore, the study concentrated on SMEs operating in Kisumu CBD, hence future studies should be conducted in other counties in Kenya.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: GENERAL INFORMATION

1) What is your gender

Male Female

2) What is your highest level of education?

Certificate Diploma Degree

Masters PhD

Other (Please explain) -----

3) How long has the organization been in existence?

1- 5 years 5-10 years

10-15 years above 15 years

4) What is the average number of employees in the firm?

1- 5 5-10

10-15 above 15

SECTION B: COST OF COMPLIANCE AND PRESUMPTIVE TAX COMPLIANCE

5. These are statements on knowledge of cost of compliance and its effect on collection of presumptive tax. Please indicate the extent to which you agree or disagree with each of these statements describes your business. Use the scale of 1-5 where: 1=Strongly Disagree (SD), 2=Tend to Disagree (TD), 3 Neutral (N) 4=Agree (A) and 5=Strongly Agree (SA)

Item	1	2	3	4	5
I know the compliance costs associated with presumptive tax compliance					
I know that the firm incurs compliance costs to comply with presumptive tax					
I know that compliance cost is a hindrance to presumptive tax compliance					
I know that compliance costs are not allowable deductions in presumptive tax					

SECTION C: LEVEL OF AWARENESS/KNOWLEDGE AND PRESUMPTIVE TAX COLLECTION.

6. These are statements on level of awareness/knowledge and its effects on presumptive tax collection. Please indicate the extent to which you agree or disagree with each of these statements describes your business. 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
I know that the business is obligated to pay presumptive tax					
I know the consequences of failing to pay presumptive tax					
I know that presumptive tax is one of payment of 15% of license fee					
I am aware that presumptive tax is a replacement of Turn Over Tax					
I am aware that Presumptive Tax regime will not apply to; a person whose income is exempt from tax under the First Schedule of Income Tax Act and has a valid exemption certificate.					
I am aware that Presumptive Tax regime will not apply to a person who would otherwise pay tax under this regime but elects by notice in writing to the Commissioner not to be subjected to the Presumptive Tax.					
I am aware that Presumptive Tax regime will not apply to a resident person whose gross turnover from business exceeds Kshs. 5 million in a year of income.					
I am aware that Presumptive Tax regime will not apply to any income derived from; management and professional services; or rental business; or incorporated companies.					

SECTION D: PENALTIES AND INTERESTS AND PRESUMPTIVE TAX COLLECTION

7. These are statements on penalties and interests and its effect on presumptive tax collection. Please indicate the extent to which you agree or disagree with each of these statements describes your business. 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
I am aware of the interests for failing to pay the presumptive tax on time					
I have knowledge that there are tax penalties in case the tax is not paid on time					
I know that due date for payment of the tax shall be at the time of payment for the business permit					
I have knowledge that I am not required to file a tax return on the income from the business that qualifies under presumptive tax regime.					
I know that 5% of the tax due and a late payment of interest 1% per month as outlined in the Tax Procedures Act, 2015.					

SECTION E: TECHNOLOGY AND PRESUMPTIVE TAX COLLECTION

8. These are statements on technology and its effect on presumptive tax collection. Please indicate the extent to which you agree or disagree with each of these statements describes your business. 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
I am aware that I will have to log onto <u>iTax</u> to make payment for Presumptive Tax					
I know that I am required to generate a Payment Registration Number (PRN) on <u>iTax</u> under Presumptive Tax Payment					
I know that I can pay the presumptive tax due through M-Pesa Pay Bill Number 572572					
I know that I can pay presumptive tax through any other partner bank					
I know that <u>iTax</u> makes it easy to comply with presumptive tax collection.					
I know that <u>iTax</u> saves my time in complying with presumptive tax collection					

SECTION F: COLLECTION OF PRESUMPTIVE TAX.

10. These are statements on collection of presumptive tax. Please indicate the extent to which you agree or disagree with each of these statements describes your work situation. 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
I am aware that the firm pays presumptive tax.					
Our accountant computes the correct percentage of presumptive tax					
Our business pays presumptive tax on time					

THANK YOU

APPENDIX II: LETTERS OF INTRODUCTION



Kenya School of Revenue
Administration



KENYA REVENUE
AUTHORITY

ISO 9001:2015 CERTIFIED

REF: KESRA/NBI/036

18th October, 2019

TO WHOM IT MAY CONCERN


RE: REQUEST FOR RESEARCH PERMIT:
MARTIN KINYANJUI NGUGI - REG. NO. HDB336-C016-0394/2018

This is to confirm that the above named is a student at Kenya School of Revenue Administration (KESRA) Nairobi Campus pursuing Post Graduate Diploma in Tax Administration.

The named student is undertaking Research on “Factors affecting the collection of presumptive tax among the small and medium taxpayers in Kisumu Central Business District.”

The purpose of this letter is to request your good office to assist the above student with the information required to enable him finalize his project.

Thank you.


Dr. Marion Nekesa PHD,
Head, Academic Research
KESRA



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Tulipe Ushuru Tujitegeme !

**KENYA
VISION 2030**

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