EFFECT OF ONLINE TAX SYSTEM ON VALUE ADDED TAX COMPLIANCE AMONG MICRO AND SMALL TAXPAYERS IN NAIROBI COUNTY. A CASE STUDY OF STAREHE SUB-COUNTY

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS, ACCOUNTING AND FINANCE, SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

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DECLARATION

I declare that this project is my original work and has not been presented for an award of a degree, diploma or certificate in any other college, institution or university.

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

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DEDICATION

This project is dedicated to my parents and siblings for their invaluable support and their encouragement. May the Almighty Lord bless them abundantly.

LIST OF ACRONYMS AND ABBREVIATIONS

DTD	Domestic Taxes Department
GDP	Gross Domestic Product
ICT	Information Communication Technology
iTAX	Integrated Tax System
KRA	Kenya Revenue Authority
PIN	Personal Identification Number
SPSS	Statistical Package of Social Sciences
VAT	Value Added Tax

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OPERATIONAL DEFINITION OF TERMS

Tax Compliance - This refers to the willingness of a taxpayer to comply with the tax rules of the country, for example by declaring income, filing a return, and paying all the taxes due and in a timely manner. (Kelvin Gitaru, 2017)

Tax Information The knowledge or facts provided about taxes. (Kelvin Gitaru, 2017)

Tax Administration Is the administration, management, conduct, direction, and supervision of the execution and application of a government, country or state tax law, tax legislation and their related statute. (MC Harmonious, 2016)

iTax It is a web-enabled and secure application system that provides a fully-integrated and automated solution for administration of domestic taxes. It enables Taxpayer internet based PIN registration, returns filing, payment registration to allow for tax payments and status inquiries with real-time monitoring of accounts (ICPAK, 2015)

ABSTRACT

Globally, the tax administration process is changing rapidly. Tax authorities worldwide are under obligation to maintain a modernized and responsive tax administration system in-order to curb vices such as tax evasion and noncompliance. In view of this, the primary goal of this study was to establish the effect of online tax system on value added tax compliance among micro and small taxpayers in Starehe sub-county. The study was guided by the following specific objectives: to establish the effect of online registration on VAT compliance among micro and small taxpayers in Starehe sub-county, to determine the effect of online filing on VAT compliance among micro and small taxpayers in Starehe sub-county and to analyze the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe sub-county. This study utilized compliance theories namely; the fiscal exchange theory, the economic deterrence theory, and the ability to pay theory. The study adopted descriptive research design. The target population was730 respondents. The study adopted a systematic sampling technique. A sample of 260 taxpayers was considered in this study. This study used primary data that was collected through questionnaires. Data analysis was done using descriptive statistics as well as inferential statistics with the help of the Statistical package for Social Scientists (SPSSVersion.24). The study findings indicated that online registration (B=0.141, p value=0.046), online filing (B=0.344, p value=0.028) and online remittance (B=0.428, p value=0.002) was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County. The study therefore concluded that online tax system influence VAT compliance among micro and small taxpayers. Based on the findings the study recommends that KRA embraces all the iTax system components, revenue collection, accounting KRA should strengthen its tax registration and processing systems to enhance efficiency.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Governments today are under an increasing pressure to improve the delivery of public services in cost-effective ways. To meet this challenge for example tax authorities are turning to e- government led solutions like electronic tax filing (e-filing) (Amitabh et al., 2008). According to (Maxwell, 2003) compliance is the degree to which the tax paying persons meets the tax obligation as set out in the appropriate legal and regulatory provisions. He adds that compliant tax payers make timely, proper and accurate declaration to the tax authority and voluntarily settle all the due tax liabilities.

Tax authorities around the world are using online tax administration systems to interact with taxpayers in tax collection, administration and compliance settings. Technology has influenced the way we work, play, and interact with others. The use of online systems to improve the effectiveness of tax administration, expand taxpayer services, and enhance tax compliance has come to attract increasing attention in developed and developing countries (Dowe, 2008). The rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect, on Value Added Tax compliance. Information technology, which includes telecommunications and computerized systems is set to increase tax processes substantially while saving both time and money, while at the same time affording customers a better service.

All the tax systems and data bases should be integrated and have available the tools required to combat tax non-compliance; facilitate tax compliance and satisfy information requirements at the operational and internal control levels for the effective management of a modern Tax Administration (CIAT Handbook for Tax Administrations - July 2000).For the purposes of this study we will look specifically at the VAT compliance whose legal and regulatory framework are imbedded in the Value Added Tax act (KRA, 2013). (Bello, 2017) Describes VAT as a tax on the value added generated at each stage of production and distribution.

1.1.1 Global Perspective

A study of South Korea and Turkey on User evaluation of tax filing web sites was done by Lee et al. (2005), to compare the design and the complexity of the web sites and the ease with which taxpayers are able to file tax returns and queries on their tax status. While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use and that was attributable to the fact that they relied on accounting professionals to do their tax returns online. On the other hand, South Korean system was considered less complex but few taxpayers were using it as expected. Having in place an electronic tax filing system is one thing, but being able to be used by taxpayers is another thing. This has influence on the current study in a way that the tax website ease of usage must be considered before such a system is rolled out to taxpayers. Other factors to be considered should also be the capacity of the system and the efficiency (Lee et al.,2005).

Amitabh et al. (2009) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of this study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility.

The implication of the findings to the current study is that for any online system to succeed whether for small, medium or large taxpayers' category there must be the ease of use, innovativeness and accessibility. In Malaysia, Ling and Nawawi (2010) carried out a survey on Integrating ICT Skills and tax software in tax education. The respondents were the tax practitioners and the study aimed at establishing the necessary skills required by taxpayers to fully utilize a tax online system. The study found that three skills are needed by a taxpayer to interact well with technology based tax system namely, spread sheet software, word-processing software and e-mail. The findings of this study has got implications on the current study in that in analyzing the effectiveness of electronic tax system, one must not ignore the mandatory skills that would be users of the system need to have. Failure to consider such skills may make the intention of the system not to be realized as confirmed by Maede (2002). He confirmed that despite the heavy investment that the Malaysian tax authority put in new online system, only 20% of the targeted taxpayers were able to use it after three years of implementation.

This was mainly attributed to lack of necessary user skills like computer literacy; however, taxpayer’s behavior also played a role.Electronic tax filing was first coined in United States, where the Internal Revenue Services (IRS) began offering tax return e-filing for tax refunds only (Muita, 2011). This has now grown to the level that currently approximately one out of every five individual taxpayers is now filing electronically. This however, has been as a result of numerous enhancements and features being added to the program over the years. Today, electronic tax systems have extended to other developed countries like Australia, Canada, Italy United Kingdom, Chile, Ireland, Germany, France, Netherlands, Finland, Sweden, Switzerland, Norway, Singapore, Brazil, Mexico, India, China, Thailand, Malaysia and Turkey (Ramayahet al., 2006).

According to a study conducted by Gidisu (2012), the following are the major usefulness Turkey is enjoying from the adoption of automation tax collection in the operation and management of municipalities: The automation of tax collection saves the cost and enhances the efficiency of the process. The adoption of the system in Turkey saved the country $23.1 million dollars as the system presented a platform for few workers to be employed with optimum efficiency: Another usefulness is time savings; in Turkey the new system of municipal management offers great deal of effective management as the system is employed to perform a multiple task within a limited timeframe. Automation of tax collection also brings about efficiency and effectiveness in the declaration and subsequent payment of tax due. The situation in Turkey indicated that the new system offers a framework for all tax payers to be tracked.

However, the purpose of the tax strategy in Turkey is to simplify tax laws and regulations and to harmonize tax law with European Union law. The development and utilization of modern technology in revenue mobilization has become a critical feature of every country particularly developing countries. This is as a result of the numerous usefulness modern technology offers in the development of municipalities.

1.1.2 Regional Perspective

SifileObert, Kotsai Rodgers, Mabvure Joseph Tendai and ChavundukaDesderio studied the effect of e-tax filing on tax compliance in Harare, Zimbabwe. The study concluded that that the respondents had a very positive attitude towards e-filing. They also concluded that e-filing is a positive step towards tax compliance but it does not lead to tax compliance on its own. Olaoye Clement Olatunji (Ph.D) &KehindeBusayoAyodele (2017) looked at the impact of information technology on tax administration in southwest, Nigeria, the study revealed that information technology online tax filing, online tax registration and online tax remittance affect tax productivity. The study concluded that information technology enhances the level of tax productivity and administration. It is therefore recommended that the respective agencies (federal, state and local government) responsible for tax collection should carry out one on one awareness in the form of seminars and sensitization of the process and suitability of information technology on tax administration. Berger (2011) said that South Africa improved its ranking on tax payments from number 32nd to 11th, largely due to the success of e-filing and the way in which returns are filed.

She further points out that in South Africa it takes 200 hours for a company to complete and file its tax return, compared to a global average of 268 hours. He further argues that most of the SMEs in South Africa are capable of using e-filing. Mongwaketse (2015) in a study on the effects of efiling on tax compliance found that only 58.3% of the respondents said they know and understand how to use e-filing indicating a lack of knowledge on the part of the taxpayer. The findings also revealed that the majority of respondent had basic tax knowledge, though an unusually big percentage still opted for the use of tax consultant as opposed to e-filing personally.

Tax policies are seen by SMES as an attempt made by the government to deter their growth according to Berhane (2012). Based on third hypothesis (H3) Williams (2014) also contemplated that there is a bad perception by SMES on tax policies in Rwanda and revealed that tax policies impact SMES growth negatively. Cuccia (2013) based his studies in Israel and contented that SMEs in Israel viewed tax compliance as an issue which stands against their religion and feel non-compliance has no effect on the performance of their business. Cannes and Cuccia (2012) noted that small business owners were remarkably open and honest about their tax evasion behavior. They argued that one potential reason of this openness is that tax payers may view tax evasion as a relatively minor offense. Karlinsky et al. (2014) argue that SMEs perceive tax cheating and shop lifting as being almost equivalent offences.

1.1.3 Local Perspective

In Kenya, especially in Kenya Revenue Authority, different studies have been done on the subject of technology and tax compliance with specific reference to tax filing. Muita (2010) and Makanga (2010). Makanga did a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on Large Taxpayers which included companies with a turn over Kshs. 750 million and above, or government ministries and corporations. The objective of the study was to evaluate the role Technology would play in Kenya to enhance tax compliance among large taxpayers. The study found that in the fast changing business world, technology has become part and parcel of any business growth.

Either KRA or Large Taxpayers must embrace modern technology to enhance efficiency in tax compliance. Muita (2010) in her MBA thesis has also done a related study on the factors that influence adoption and use of e-filing system among Large Taxpayers in Kenya. The study examined the skills required by the users of e-filing, the technology required and the tax authority's preparedness in enhancing the adoption of tax compliance based technology. The study found that for e-filing to effectively take off in Kenya skills, infrastructure and a conducive business environment are needed. Kamau (2014), sought to determine the impact of adoption of technology as a strategic tool in enhancing tax compliance in Kenya. The study focused on the large taxpayers of Kenya Revenue Authority. The study concludes that indeed the adoption of technology does impact on the tax compliance levels of the large taxpayers.

1.1.4 Concept of Value Added Tax Compliance

Value Added Tax, like any other tax, is vulnerable to evasion and fraud, although it has some distinctive features that make it less vulnerable than other forms of taxation (Keen & Smith, 2007). Over the last few years however, there has been a marked increase in losses of VAT revenue through evasion and fraud. In Kenya, the poor performance in VAT revenue has been exacerbated by VAT evasion which has been a major drawback on VAT revenue collection. VAT in Kenya has over the years been underperforming compared to other taxes. This tax has from fiscal year 2003/04 been stagnant contributing an average of 26% to the total government revenue (Statistical Annexe to the Budget Speech for Financial year 2010/11 & 2011/12). The trend has been recurring and has contributed to the shortfalls in total tax collections by KRA. Many reforms have been carried out on VAT which has led to numerous amendments in the VAT legislation.

Despite this, the National Treasury indicates that after two decades of reforms, VAT structure has become complex, inefficient and unproductive, contrary to some of the reasons why Kenya adopted it in the first place (Director of Economic Affairs, 2012). Noncompliance in VAT is not only a problem in Kenya. It is clear from the few studies that have been published that VAT evasion is widespread and involves significant revenue losses, though the extent varies considerably across countries. Over the last few years, however, there has been a marked increase in concern with losses of VAT revenue through evasion and fraud. Value Added Tax is a multi-stage consumption tax charged on the sale of goods and services at all stage of production and distribution chain.

The tax is charged on the supply of taxable goods or services in Kenya and the importation of taxable goods or services in Kenya. The tax is collected by registered traders and remitted to Kenya Revenue Authority, but the burden is shifted to consumers through higher prices. Value Added Tax is charged under the VAT Act Cap 476 under the laws of Kenya. Tax compliance is a process in which taxpayers adhere to the rules set by the relevant tax authorities such as payment of taxes due and filing of returns so that revenue can be collected effectively. VAT was introduced in Kenya in 1990 as a means of increasing the government tax collections by widening the tax base.

VAT is imposed by Kenya revenue Authority (KRA) as per the laws of the Value Added Tax Act 2013.The Value Added Tax is an indirect tax on consumption applicable on the sale of supplies at all levels of production and distribution. VAT registered taxpayer's acts as agents in collecting and remitting collected VAT to the government. The VAT paid on inputs in turn is claimed as credit when registered taxpayers declare output VAT on their sales (VAT Act 2013 Sec17).Suppliers of exempt goods & services (VAT Act 2013, first schedule) do not charge VAT on their supplies and cannot claim credit for VAT paid on their purchases. The VAT system also contains zero rated goods and services (VAT Act 2013, 2nd schedule). Businesses charge VAT at a rate of 0% on their supplies and are allowed to deduct the input tax paid on the purchase of those zero rated goods and services (VAT Act 2013 Sec 17). Value Added Tax compliance has become the key administrative approach for both personal and corporate taxation in developed countries.

Since the early 1980s the world has been experiencing an unprecedented pace of advancement in the field of information communication technology. These technological innovations are believed to have a profound impact on the tax compliance as they affect the way in which taxation is administered (Teltscher, 2002). In developing countries like Kenya, tax compliance has been constrained by the significant number of changes to the tax laws. This makes it difficult for taxpayers who do not have tax experts to comply since the tax laws are so complex and only a few tax specialists understand them. Kenya is ranked among low compliance countries with hard task of ensuring efficient and effective tax administration in order to ensure tax compliance which will enhance revenue collection (Oberholzer,2008).

1.2 Statement of the Problem

Compliance with taxation laws is a major concern for all tax authorities and it is not easy to have all taxpayers comply with the tax requirements (James and Alley 2004). Good compliance rates guarantee the government of the much needed revenue to finance the planned activities. Non- compliance denies the government the required revenue. KRA expects to achieve VAT compliance rate of 65% and raise the ratio of VAT to total revenue to 35% by 2018, (KRA 6th CorporatePlan,2015).According to Ngotho & Kerongo (2014), the level of compliance influences revenue collection by the revenue collecting agency. Failure to remit taxes is a major determent of revenue collection. Amitabh et al. (2009) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of this study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance.

This study was not focused on a specific area unlike this one that will focus on small taxpayers and will be based in Starehe sub-county whose population is different. Ayodeji (2014) looked at the Impact of electronic tax systems on Tax Administration in Nigeria. Even though Nigeria is developing country like Kenya. The topic was not specific on any category of taxpayers like this study which focused on small and micro enterprises. In Kenya, there are about twenty million registered taxpayers (KRA,2013).Out of this number less than five million taxpayers comprising of Large Taxpayers, Medium Taxpayers and Public Servants are active taxpayers. Majority of taxpayers fall in the category of small taxpayers which include everybody who has registered for and obtained a PIN number, such as small business owners, students and every other PIN holder.

Ritchie (2001), while studying a sample of small businesses for payment of the value added tax in New Zealand (GST), indicates that businesses with computerized accounting systems report a very minimal amount of time spent on end-of- year tax activities. In Kenya, the studies which have done have mainly focused on Large Taxpayers which are generally considered advanced in technology and understand the implications of noncompliance. Small taxpayers carry the burden of tax payment in Kenya, however no empirical studies have been done to establish the effect of electronic systems on VAT compliance among small tax payers in Starehe sub-county located in Nairobi County which is also the economic and political capital of the Republic of Kenya. The current study sought to fill the gap in knowledge by focusing on small taxpayers who are the majority of taxpayers in Kenya.

1.3 Objectives of the Study

The study was guided by a general objective and specific objectives.

1.3.1GeneralObjective

The general objective of this study was to establish the effect of online tax system on Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County.

1.3.2 Specific Objectives

The study was guided by the following specific objectives.

i. To establish the effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county,
ii. To determine the effect of online registration on VAT compliance among micro and small taxpayers in Starehe Sub-county
iii. To assess the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county.

1.4 Research Questions

i. What is the effect of online registration on VAT compliance among micro and small taxpayers in Starehe Sub-county?
ii. What is the effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-County?
iii. What is the impact of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county?

1.5 Justification of the Study

The study will be beneficial to the following:

1.5.1 Kenya Revenue Authority Management

It is anticipated that the results of this study will provide concepts and grounds on which to develop a framework. The knowledge accruing from this study could benefit the Government of Kenya and its revenue collection body Kenya Revenue authority in its effort to design suitable tax policies for micro and small taxpayers. The findings of the study will be of a high significance to Kenya Revenue Authority as the policies put in place by the Authority will enhance the micro and small taxpayer's compliance level hence meeting of revenue targets.

1.5.2 Policy Makers

This study will be useful to policy maker's concepts which to develop a framework to explore tax compliance behavior among micro and small taxpayers. It will open the underlying factors that promote tax compliance.

1.5.3 Micro and small taxpayers

The study will also be useful in educating micro and small taxpayers in matters relating to VAT tax obligation hence reducing the effect of penalties imposed on them.

1.5.4 Researchers and Scholars

Finally, the research will be of interest to scholars and researchers who may require developing and/or advancing their knowledge in the field of tax compliance and administration.

1.6 Scope of the Study

The general objective of the study was to determine the effects of online tax system on Value Added Tax compliance on micro and small enterprises in Nairobi County, Starehe sub-county in the Republic of Kenya on the persons who have registered for VAT and who ought or want to register for VAT. Starehe sub-county holds Nairobi central business Centre with the largest number of micro and small enterprises. It was easy to get data as the sampled businesses were easily assessable. The study was located in Starehe sub-county located in Nairobi County which is also the economic and political capital of the Republic of Kenya. The independent variables were online registration, online filing and online payments while the dependent variable was Value Added Tax compliance.

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CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discussed the theoretical framework, conceptual framework and empirical review of variables. Under theoretical framework three theories that relate closely to the topic have been analyzed, namely; the fiscal exchange theory, the economic deterrence theory, and the ability to pay theory while conceptual framework showed the relationship between the dependent and the independent variables. The empirical review has discussed all the variables and their relationship i.e. how independent variables are related to dependent variable. The chapter also critiques the study and expounds on the research gaps.

2.2Theoretical Framework

It is the guide for a research (Grant & Osanloo, 2014). It is a framework based on an existing theory in a field of inquiry that is related and/or reflects the hypothesis of a study. Sinclair (2007) as well as Fulton and Krainovich-Miller (2010) compare the role of the theoretical framework to that of a map or travel plan. Verma and Malick (1999:6) as well as Blumberg, Cooper and Schindler (2011:36) are of the opinion that the main role of theory is to help to guide the researcher. This study will utilize tax compliance theories namely; the fiscal exchange theory, the economic deterrence theory, and the ability to pay theory.

2.2.1 The Economic Deterrence Theory

The economic deterrence theory is a theory under criminology developed by Becker (1968). The theory is built on the perception that an individual will be deterred from committing a crime if the benefit of the crime is outweighed by the consequence of committing the crime. The theory is premised in the belief that all individuals are aware of the consequences associated with criminal behavior. Taxpayers will act contrary to the law after evaluating the uncertain advantages of a successful evasion against the risk of being caught and punished. Rational taxpayers will evade taxes if the expected benefits are greater than the cost of being caught.

This theory, also known as deterrence theory, holds that behavior of tax payers is impacted by factors such as tax rate that determines the threats that may come with evasion, and also the likelihood of being detected upon evasion and what penalties one may face as a result of Allingham and Sadmo (1972). Persuasive measures and also punitive measures can be combined to achieve deterrence. Measures such as increased chances of detection for evaders, increasing tax rates for non-compliers, and an imposition of tighter penalties. Alternative methods could include properly educating the tax payers, increasing publicity and the associated incentives. In economic terms, a tax payer is taken to be a person of upright morality who finds any ways to evade tax payment with an aim of maximizing their utility. The model suggest that tax spenders play an audit lottery, that is, they perform computations of economic significances of varied obedient alternative, like whether to evade tax or not; the prospect of being detected and penalties that may accrue, and they select the alternate that make the most of their after tax earnings or proceeds.

The concept suggest that tax payers are moral utility maximizers, hence the stress on augmented inspections and punishments as a resolution to compliance challenges. Monetary founded studies be certain of that tax payers' behavior is subjective to monetary motives like enlargement of profits and likelihood of being detected (Trivedi &Shehata, 2014).

2.2.2 Ability to pay theory

The ability to pay theory developed by, Mill (1848) proposes that citizens to contribute to the support of the government as nearly as possible, in proportion to their respective abilities in terms of revenue. Those who are better able to pay should bear the greater burden of taxation, whether or not they benefit. Ability to pay is interpreted in terms sacrifice. It says that money for public should come from "him that hat" instead of from "him that hath not", Kendrick (1939).Kendrick further says that, the usual and indeed the only serious justification of ability to pay is on grounds of sacrifice.

The payment of tax is viewed as a deprivation to the taxpayer. He might have spent the money for his own purposes but instead must turn it over to the public treasury from which it will be expended for social ends. In surrendering his money to the government, he is said to make a sacrifice. The idea of sacrifice when linked to the concept of the declining marginal utility of money has given rise to three theories of progressive taxation: the equal, equal-proportional, and least-sacrifice theories. The theory of equal-sacrifice suggests that, taxes should be laid in such a manner that the sacrifices of all taxpayers are equal. The concept of equal sacrifice means to impose an equal amount of sacrifice on all taxpayers, (Brown, 1929).

The theory of equal-proportional sacrifice holds that the sacrifice of taxpayers should bear an equal proportion to their incomes. Thus in this view equality of sacrifice is not sufficient. The rich man's tax payment should represent a greater sacrifice than the contribution of a man of moderate means. It should, however, not be greater in relation to his income. The equality is, therefore, to be found in the proportion, not in the quantity of sacrifice, (Pigou, 1928). The theories of equal and of equal-proportional sacrifice both involve the taxation of poor as well as rich persons, (Seligan, 1928). In neither theory is there an attempt to make any income group bear all the taxes. According to the theory of least sacrifice, taxes should be laid first on the incomes of the very rich (Pigou 1928). When these incomes are reduced to the level of the rich, then the rich would be taxed. Persons of moderate means would be taxed only after the incomes of the very rich and the rich have been reduced by taxation to their level. The theory calls for the progressive elimination of the high incomes by taxation.

2.2.3 Fiscal Exchange Theory

The existence of government spending inspires individuals to observe the prevailing tax regulations. This is only conceivable if the government provides its people with public properties and services in a more well-organized and reachable manner, Cowel & Gordon (1988). Consequently, taxpayers are thus largely and by far concerned with what they directly get in from the government in return for their tax obligations in the nature of communal goods and amenities. It is in this respect, that taxation and delivery of public goods and services that generates a contractual association between the tax payers and the government.

Lewis (1982) proposes that taxpayer attitudes ought to have proper inspection for the extent to which they emanate from of mythology and misunderstanding. He contended that when mythologies and improper perceptions are substituted with factual information, a transformation in the taxpayer attitudes in the direction of taxation and compliance will ensue even if the fundamental ideology of the taxpayer and the associated values continue unaffected as well as the tax laws. He also outlined that misunderstanding undoubtedly plays a major role in determining impartiality and assessments.

In close relations, Roberts, Hite and Bradley (1994) as well advocate that attitude on a person's own tax avoidance (ethics of tax), and attitude regarding to other persons' evasive behaviors are significant. If the administration is intelligently utilizing the state income, for instance for primary amenities like health, electricity, health and security and public transport, it is prospective the intensity of compliance on voluntary basis will increase. In disparity, if taxpayers recognize that the administration spends much on services regarded as superfluous or unprofitable to the taxpayer, there will be the tendency to hold the impression of being deceived and attempt to fail to comply. Summarily, the administration should discreetly use taxpayers' money since the manner the administration uses the money brings varied degrees of compliance. Taxpayer's insights are hypothetically imperative in defining their compliance behavior.

2.2.4 Conceptual Framework

The conceptual framework presents an integrated way of looking at a problem under study (Liehr& Smith, 1999). In a statistical perspective, the conceptual framework describes the relationship between the main concepts of a study. It is arranged in a logical structure to aid provide a picture or visual display of how ideas in a study relate to one another (Grant & Osanloo, 2014). The independent variables will be online registration, online filing, online payments while the dependent variable will be Value Added Tax compliance as illustrated in the conceptual framework presented in figure 2.1

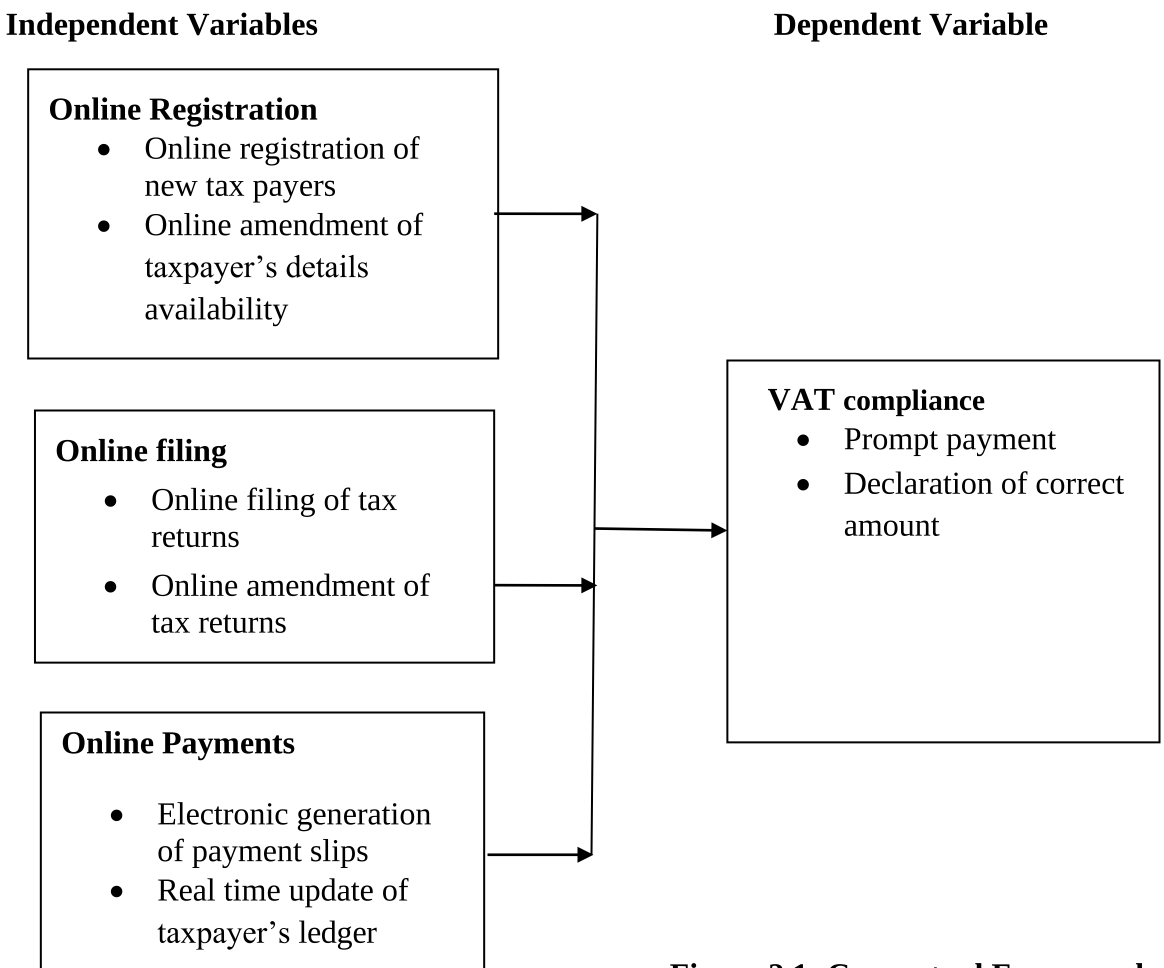

Figure 2.1: Conceptual Framework

2.3 Review of Study Variables

2.3.1 Online Registration

This is the process of registering the details of a business with the relevant tax authorities through the internet. A unique tax registration number is generally assigned to the parties registering with the tax authorities. It is used as a basis for referencing and tracking the tax implications on that party. To enable this process, the registration numbers of the parties involved in a transaction are generally referred to in tax documents like invoices and tax returns.

2.3.2 Online filing

Online tax filing or e-filing is a process where tax documents or tax returns are submitted through the internet, usually without the need to submit any paper return. The e-filing system encompasses the use of internet technology, the Worldwide Web and Software for a wide range of tax administration and compliance purposes. Electronic taxation differs among countries hence the name of the system differs from country to country. According to Gellis (1991), electronic declaration is named electronic tax filing.

2.3.3 Online Remittance

It is the process of making paperless payments via different online channels recommended by the relevant tax authorities. After the taxpayer submit their returns and declarations, they generate e- slip for payments and proceed to pay via online platforms for example online banking.

It has also been called online taxation payment by UN, (2007) or e-tax lodgment by Turner and Apelt (2004). According to a study conducted by Gidisu (2012), the following are the major usefulness Turkey is enjoying from the adoption of automation tax remittance in the operation and management of municipalities: The automation of tax collection saves the cost and enhances the efficiency of the process.

2.3.4 Value Added Tax Compliance

Tax compliance is defined as the full payment of all taxes due (Braithwaite, 2009). Tax compliance also refers to the degree to which taxpayers meet their obligations under the tax law (Kaleva, 2007).Tax noncompliance is referred to as any difference between the actual amount of taxes paid and the amount of taxes due. This difference occurs because of overstating expenses or deductions and understating income. Non-compliance comprises both intentional evasion and unintentional non-compliance, which is due to calculation errors and an inadequate understanding of tax laws (RobenH.S.J, 1990). Getting citizens to pay their taxes painlessly without hissing has been the dream of all governments. The task has however, never been simple, until the introduction of the modern Information technology. Since the early 1980s the world has experienced an unprecedented pace of advancement in the field of information technology. These technological innovations are having a profound impact on the administration of fiscal systems and the way in which taxation is administered (Teltscher,2002).

2.4 Empirical Review

2.4.1 Online registration and Value Added Tax Compliance

Registration practices are often unnecessarily bureaucratic and may involve multiple agencies, and multiple crosschecks; complex due to the different laws, norms, documents and forms required; expensive, and time-consuming. Delays in business registration, which often involves multiple government institutions including the tax administration, can be a significant impediment to business formation and particularly harmful to the small entrepreneur with limited start-up cash reserves. In Australia and Canada, a business can be opened within 2-3 days—elsewhere, it can take over 100 days in others. For the small and micro enterprises operating with limited capital and professional support, such start-up delays and increased costs raise the risk of failure. Such a frustrating situation can lead to small and micro s being formed without proper registration and avoid the detection by the tax collection agency and become untraceable (International Tax Dialogue, 2007).

An accurate central taxpayer registry is paramount for ensuring proper management of taxpayer obligations. In many rapidly growing markets, this task can be especially challenging, as much of the economy is likely to comprise "informal" and small-scale businesses, and the tax authorities lack most of the external controls that ensure a taxpayer stays within the system. Given that such administrations do not have the resources to effectively control all taxpayers, itis all too easy for a potential taxpayer to effectively fall off the radar in these circumstances— either by not registering in the first place or by stopping declarations and to do so without facing any major consequences.

One tax administration in Africa, for example, launched an aggressive two-week effort to improve its registry. During this period, the authority closed selected branches and sent their officials into the field to identify and register informal businesses in specific, targeted areas. This initiative increased taxpayer registry entries by 20 to 30 percent in each of the targeted districts. (Pereira, Hoekstra, & Queijo, 2013). Further, KNBS, (2016) The survey established that there were about 1.56 million MSMEs licensed by the county governments while the unlicensed businesses identified from the households were 5.85 million. It is very possible that the same number of unlicensed businesses how eve huge it has not also registered on iTax system and this deprived the economy a million of money in terms of tax. To counteract this, registration must be made more rigorous, and feedback systems must be introduced to ensure taxpayers regularly update their information. Additionally, quick and simple controls can be put in place to raise the alarm. If taxpayers fail to comply with some of their obligations, focusing administration efforts on the cases that are easier to track and follow up.

2.4.2 Online filing and Value Added Tax Compliance

E-filing of Income Tax Return refers to the process of filing Income Tax Return electronically. You no longer have to stand in long queues to file income tax returns. The electronic filing or online filing of tax returns is a general term for electronic filing or electronic lodgment, or electronic declaration of tax returns through submission of tax data to a taxing authority in a computer file format through an internet connection (Ibrahim, 2012).

On the other hand, Mandola (2013) defines electronic filing as an internet based system that enables the taxpayers to register and submit their tax returns over the internet. The platform or system could 2013). (Thomas, Gwaro, Maina, &Kwasira,2016).In Kenya, the earliest form of the online filing of tax returns was through the implementation of the Integrated Tax Management System (ITMS) in 2013. This was to facilitate the online payments of Value Added Tax (VAT), Cooperate Tax amongst others (Lukorito, 2012). The ITMS also connected the Electronic Tax Registers (ETR) devices (registers) to enable simplification of the VAT declarations. The ITMS enabled the taxpayers to undertake electronic filing. In the context of the system requirements, the ITMS required internet explorer 7 or higher of Mozilla Firefox 3.0.3 (Mandola, 2013).

Kenya Revenue Authority (KRA) was to later phase out the ITMS and replaced it with the iTax system. The iTax enabled the taxpayer to undertake internet based registration, filing, paying and status inquiries with real time monitoring of the accounts (Mandola, 2013). The electronic filing or online filing of tax returns is a general term for electronic filing or electronic lodgment, or electronic declaration of tax returns through submission of tax data to a taxing authority in a computer file format through an internet connection (Ibrahim, 2012).On the other hand, Mandola (2013) defines electronic filing as an internet based system that enables the taxpayers to register and submit their tax returns over the internet. E-filing provides many aspects of ‘convenience’ to taxpayers (that is time to file, place to conduct the filing, ease- of use, information searching and online transactions) at a degree that is not available through traditional channels.

E-filing also offers flexibility of time and reduces. E-filing systems also increases the quality and quantity of information available to tax officers, enabling them to complete transactions faster and more accurately. Returns filed electronically have much lower error rates than paper returns and substantially cut the need to impose penalties and other punitive measures to foster compliance. The more efficient handling provided by electronic returns allows tax officers to issue assessments and refunds more quickly, and taxpayers know right away if their returns have been accepted by the tax authorities. E-filing lowers the cost of handling returns—allowing administrative resources to be reallocated to other tasks such as auditing, customer services and tracking non-compliance. (Thomas Gwaro, Maina, &Kwasira, (2016).

2.4.3 Online Remittance and Value Added Tax Compliance

Automation of tax payment was first implemented in US. Australia is among the countries that had implemented the system in the management of their municipalities (Turner et al, 2004). However, the purpose of the tax strategy in Turkey is to simplify tax laws and regulations and to harmonize tax law with European Union law. The development and utilization of modern technology in revenue mobilization has become a critical feature of every country particularly developing countries. This is as a result of the numerous usefulness modern technology offers in the development of municipalities. According to a study conducted by Gidisu (2012), the following are the major usefulness Turkey is enjoying from the adoption of automation tax collection in the operation and management of municipalities: The automation of tax collection saves the cost and enhances the efficiency of the process.

The adoption of the system in Turkey saved the country $23.1 million dollars as the system presented a platform for few workers to be employed with optimum efficiency: Another usefulness is time savings; in Turkey the new system of municipal management offers great deal of effective management as the system is employed to perform a multiple task within a limited timeframe. Automation of tax collection also brings about efficiency and effectiveness in the declaration and subsequent payment of tax due. The situation in Turkey indicated that the new system offers a framework for all tax payers to be tracked. The ultimate of all of these is that tax enhancing tax compliance. (Ellys Merima, Odd-Helge & Ingrid (2013) found that tax compliance behavior among citizens in Kenya, Tanzania, Uganda and South Africa was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, payments to non-state actors.

In many rapidly developing economies, mobile and Internet penetration is often comparatively high. Tax administrations can exploit this infrastructure by introducing electronic channels such as Internet portals, mobile payment options, and ATMs as a powerful lever for improving service levels. By using these channels for simple taxpayer transactions, such as tax declarations and payments, the while conveying a strong sense of its public purpose. Such approaches not only help reduce the length of queues at tax offices but by so doing remove a barrier to compliance. They also enable the databases to be of much better quality and, as a result, provide the basis for more effective audit and collection processes in the medium term. (Pereira, Hoekstra, & Queijo, 2013**).**

2.5 Critique of the literature relevant to study

Mandola (2013) noted that half the sampled respondents in her study on the adoption of ITMS system indicated that any online e government services need to be easy to use to enable even those with little internet experience to effectively use the service. In this context, she found a correlation between an individual's internet experience with the small and micro enterprises, the issues were much more complex than the availability of the internet. Other issues like time to attend forum such as taxpayer's education was also an issue. It was also evident that small and micro enterprises tend to perceive iTax system as complex and payment system so completed to them. Lack of the ability to use the e filing system quickly and efficiently or lack of understanding the type of information required by the online tax filing system forces taxpayers to engage third parties (Mandola, 2013).

Kamau (2014), sought to determine the impact of adoption of technology as a strategic tool in enhancing tax compliance in Kenya. The study focused on the large taxpayers of Kenya Revenue authority. The study concludes that indeed the adoption of technology does impact on the tax compliance levels of the large taxpayers. Additionally, it was concluded that the Kenya Revenue Authority has effectively implemented its Internet and Communication Technology strategy at large. Wamathu (2013) studied the effects of electronic taxation on financial performance of audit firms in Kenya.

From the findings the study found that there has been timely filing of returns since inception of I-tax, there has been a reduction in audit period due to introduction of I-Tax, respondents were quite knowledgeable. , system failure when login were less, I-Tax was user manual friendly , I-tax system was reliable and that I-tax was not user friendly, I-tax system cost effective, I-tax system was cost effective and respondent were aware of that I-Tax system was electronic cash register and electronic signature device.

2.6 Summary

Findings from of the study of Ayodeji (2014) indicates that electronic tax systems plays an important role in the increase of internally generated revenue in Nigeria by ensuring compliance thereby boosting productivity and economic activities in the country. This also resonates with the conclusion in (Kamau 2014) report which revealed that the adoption of technology does impact on the tax compliance levels of the large taxpayers. Additionally, it was concluded that the Kenya Revenue Authority has effectively implemented its Internet and Communication Technology strategy.

Similarly, Wamathu, (2013) stated in his findings that there has been timely filing of returns since inception of I-tax, there has been a reduction in audit period due to introduction of I-Tax, respondents were quite knowledgeable. The studies also revealed some of the challenges encountered such as the availability and access to internet facilities, and the ease in which the potential user can learn and use e government services such as online filing. It was also evident that small and micro enterprises tend to perceive iTax system as complex and payment system so completed to them.

Lack of the ability to use the e filing system quickly and efficiently or lack of understanding the type of information required by the online tax filing system forces taxpayers to engage third parties (Mandola, 2013).As the study was conducted similar challenges were mentioned by the taxpayers and this relates the various study to this study of assessing the impact of online system on compliance among small and micro enterprises in Starehe sub-county.

2.7 Research Gaps

A review of the studies above, revealed a gap that the researcher opted to bridge by conducting a study on effect of online tax systems on tax compliance on small and micro enterprises in Starehe sub-county. Kamau (2014) in a bid to determine the impact of adoption of technology as a strategic tool in enhancing tax compliance in Kenya concluded that indeed the adoption of technology does impact on the tax compliance levels of the large taxpayers. There was gap that needed to filled as the study mainly focused on the large taxpayers of Kenya Revenue authority.

The small and micro enterprises needed to be looked at as well to give some comparative findings on the topic. Sabul (2017) in her study assessed the impact of iTax system on tax compliance in Kenya. Even though the study is related to this, the glaring gap in the study was the wide scope and hence the findings did not address any specific group like small and micro enterprises as was addressed in this study.

From the various researches study conducted in Kenya since the implementation of iTax system. None of these studies sought to address the impact of online tax systems on compliance especially on small and micro enterprises in Starehe sub-county.

The study is therefore necessary to bridge these underlying gaps by assessing the impact of online tax systems on compliance in small and micro enterprises at Starehe sub-county.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter covers the methodology that governs the study. It entails the research design, target population, sampling frame, sampling techniques and sample size. This section also discusses the data collection procedures and instruments, pilot testing, data analysis and presentation and the measurement of study variables.

3.2 Research Design

This study adopted a descriptive design. A descriptive design was chosen for this study as it describes characteristics associated with the subject population, and in particular factors that make them behave the way they do. According to Cooper and Schindler (Cooper, 2003) descriptive design discovers and measures the cause and effect of relationships between variables. Mugenda and Mugenda (2003) state that a descriptive research determines and reports the way things are and attempt to describe possible behavior, attitude, values and characteristics of such things. The study used a descriptive design because it enables the researcher to collect a large quantity of in-depth information about the population being studied.

3.3 Target Population

Cooper & Schindler (2003) define target population as the entire group of people events or objects that a study focuses on as the subject of analysis. My region of interest was Starehe sub-county where the micro and small taxpayers are the majority in number as compared to large and medium sized taxpayers.

They have more interactions with the services offered by the authority hence were best placed to assess the effect of this services on compliance. The target population of this study was 730 SMEs operating business in Starehe Sub-county of Nairobi County and registered for Value Added Tax (KRA, 2018).

3.4 Sampling Frame

According to Thompson (2012), a sampling frame comprises of a list of people from which the researcher uses to obtain information about the study. The sampling frame defines a set of elements from which a researcher can select a sample of the target population. Because a researcher rarely has direct access to the entire population of interest in social science research, a researcher must rely upon a sampling frame to represent all of the elements of the population of interest. Generally, sampling frames can be divided into two types, list and non-list. Examples of list frames include a list of registered voters in a town, residents listed in a local telephone directory, or a roster of students enrolled in a course. A set of information used to identify a sample population for statistical treatment.

A sampling frame includes a numerical identifier for each individual, plus other identifying information about characteristics of the individuals, to aid in analysis and allow for division into further frames for more in-depth analysis. The researcher used a list sampling frame. This consists of segmented taxpayers from the micro and Small Enterprises in Starehe sub-county.

3.5 Sampling Techniques and Sample Size

3.5.1 Sampling Techniques

Sampling is a method that allows researchers to infer information about a population based on results from a subset of the population, without having to investigate every individual. The study adopted a systematic sampling technique where Individuals are selected at regular intervals from the sampling frame. The intervals are chosen to ensure an adequate sample size. Systematic sampling is often more convenient and it is easy to administer.

3.5.2 Sample Size

Cooper and Schindler (2003) describe sample or sample size as a subject of a population that is studied through a research study and generalized into the entire populations. Sample size is important primarily because of its effect on statistical power. Statistical power is the probability that a statistical test indicated a significant difference when there truly is one (Morgan, 2001). The sample size of this study was based on Yamane‘s 1967 formulae which is shown below:

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

Where;

n is the sample size,

N is the population size, (730)

e is the level of precision (0.05).

$$n = \frac{730}{1 + 730(0.05)^2}$$

$$= 260$$

The desired sample size thus comprised of 260 respondents.

3.6 Data Collection Procedures

The relevant data was collected from the field with the aid of a research assistant, as the questionnaires were distributed on a drop and pick later method to allow the respondents time to sufficiently go through them and give feedback.

3.7 Data Collection Instruments

Data collection instruments are tools or methods use to collect data from participants in a study (Cooper & Schindler, 2003). This study relied on primary data. In data collection, the researcher should describe the major method(s) for collecting data from the subjects, Maxwell (2012). In this study the main data collection instruments was the questionnaires. Questionnaires are preferred because they are effective data collection instruments that allowed respondents to give much of their opinions pertaining to the researched problem. The questionnaires used the five Likert scale (from strongly agree to strongly disagree).The questionnaires were self-administered to the personnel who handle taxes in the sampled taxpayers. They had an introductory letter introducing the researcher to the respondents and explaining the purpose of the research. Respondents were assured of strict confidentiality of the information they shared with the researcher and that the information is strictly for research purposes.

3.7.1 Reliability of Research Instrument

Reliability is increased by including many similar items on a measure, by testing a diverse sample of individuals and by using uniform testing procedures.

In order to test the reliability of the instruments, internal consistency techniques was applied using Cronbach's Alpha. The alpha value ranges between 0 and 1 with reliability increasing with the increase in value. According to (Mugenda, 2008), a coefficient of 0.6-0.7 is a commonly accepted rule of thumb that indicates acceptable reliability and 0.8 or higher indicated good reliability.

3.7.2 Validity of Research Instrument

Validity is defined as the consistency and internal coherence of the research instruments and doing away with contradiction and ambiguity of the questions. It can also be seen as the extent to which research instruments measure and performs what they seek to achieve (Robson, 2002). Content validity by use of supervisor`s and expert opinion was used by the researcher in regards to the research instrument. The researcher also ensured that the instrument used achieves population generalizability or the extent to which the sample is representative of the population.

3.8 Pilot Testing

The study carried out a Pilot test to pretest the validity and reliability of data collected using the questionnaire. A pilot group of 10 individuals from the target population was selected to test the reliability of the research instruments. The major purpose for pilot testing was to test whether the questionnaires could obtain the required results. The pilot study was used to find out the clarity and objectivity of the selected questions.

3.9 Data Analysis and Presentation

Qualitative and quantitative approaches was applied in this study as advocated for by Neuman (2000); and Babbie and Mouton (2001). These two main research approaches was examined with respect to their suitability to the current research.

3.9.1 The Qualitative Analysis

Qualitative data collected through questionnaires was edited and response rate calculated. The data was then categorized into different themes according to research variable and descriptive statistics such as mean, standard deviation and frequency distribution which according to Kothari (2012) measures the point about which items have a tendency to cluster and describe the characteristics of the data collected was computed.

3.9.2 The Quantitative Analysis

Quantitative data from the questionnaire was coded and entered into the computer for statistical analysis. The Statistical Package for Social Sciences (SPSS version 20) was used for analysis. Frequencies, mean and standard deviation were used to summarize the data. Regression model was used to assess variables that are considered in assessing the effect of online system on Value Added tax compliance factors that influence taxation of the informal sector. Regression Analysis is the statistical modeling technique that was used to identify meaningful, stable relationships among sets of data.

The application of analytical procedures is based on the premise that, in the absence of known conditions to the contrary, relationships among information may reasonably be expected to exist. Regression measures the causal relationship between one dependent and one independent variable. Multiple regression analysis measures the effects of multiple independent variables on one dependent variable.

The study adopted a multi regression model

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$

Where Y was VAT Compliance and;

$\beta0$ = Constant Term

$\beta1$ = Beta coefficients

X_1 = Online registration

X_2 = Online filing

X_3 = Online payment

ε = Error term

To provide unbiased estimates of the study parameters, various assumptions of regression will be tested. These include normality assumption, linearity assumption and homoscedasticity assumption and multi collinearity assumption.

3.10 Measurement of Study Variables

Table 3.3 gives a summary of research objectives, variables of study, their indicators and level of measurement.

Table 3.1: Measurement of Study Variables

Variables	Indicator/Measurement	Likert scale
Online Registration	▪ Online registration of new taxpayers ▪ Online amendment of taxpayer's details	5 points
Online Filing	▪ Online filing of tax returns ▪ Online amendment of tax returns	5 points
Online Payments	▪ Electronic generation of payment slips ▪ Real time update of taxpayer's ledger account	5 points
Value Added Tax compliance	• Prompt payment • Declaration of correct amount	5 points

CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the reliability and data analyses of the administered questionnaires, the presentation of the analyses and the results as well as discussions for the study. Descriptive statistics such as frequency, percentage and mean were used in the analysis while inferential statistics such as regression analysis was adopted.

4.2 Response Rate

The study selected 260 respondents in data collection with regard to the effect of online tax system on Value Added Tax compliance among micro and small taxpayers. From the administered questionnaires, 201 respondents filled-in and returned the questionnaires. This gave a response rate of 77.3%. This response rate was achieved after the researcher made physical visits to ask the respondents to fill-in and later went back to pick the questionnaires. The unreturned questionnaires were 59 representing 22.7% of the administered questionnaires. The main reason for the unreturned questionnaires was, the respondents misplaced the questionnaires, questionnaires were wrongly filled and in some cases the respondents ticked two answers. However, this response rate was deemed satisfactory as suggested by Field (2013) who recommends 75% as a rule of the thumb for minimum responses.

Table 4.1 Response Rate

Questionnaires	No.	%
Questionnaires Issued	260	100%
Usable questionnaires received	201	77.3%

4.3 Background Characteristics

This section presents the distribution of respondents by their gender, age bracket, and the level of education of respondents who are the micro and small taxpayers in Starehe Sub-county

4.3.1 Gender of the Respondents

The study sought to assess the gender distribution of the micro and small taxpayers in Starehe Sub-county. This is because different gender has different opinions about various issues. The finding in table 4.2 shows that 51.7% of the respondents were male and 48.3% of the respondents were female. This implies that there were more male respondents in the study.

Table 4.2: Gender of the respondents

Gender	Frequency	Percent
Male	104	51.7
Female	97	48.3
Total	201	100.0

4.3.2 Age of Respondents

Age of respondents was operationalized into four categories The age of respondents was important. The study reveals that the distribution of age among the tax payers, majority of the respondent were aged 26-35 years with 47.3%, this was followed by 36-45 years at 34.8%, then between 18-25 years at 10.9% and the least was from above 45 years at 7.0%. This implies that majority of the micro and small taxpayers in Starehe Sub-county were in their mid-ages and are still pursuing their career, therefore had knowledge on the effect of online tax system on Value Added Tax compliance.

Table 4.3: Age of Respondents

Age of Respondents	Frequency	Percent
Between 18-25Years	22	10.9
Above25-35 years	95	47.3
Above35 – 45Years	70	34.8
Above 45 years	14	7.0
Total	**201**	**100.0**

4.3.3 Education Level

Education level has an impact on how people respond to different opinions. The researcher sought to establish the education level of the respondent. The findings are indicated in table 4.4.

Table 4.4: Education Level of respondents

Academic qualification	Frequency	Percent
O' Level	26	12.9
Diploma	109	54.2
Degree	60	29.9
Masters	6	3.0
Total	**201**	**100.0**

The findings in table 4.4 reveals that 12.9% of the respondents were O-level graduates, 54.2% were diploma holders, 29.9% of the respondents were degree holders and 3.0% represented respondents with post graduate level of education. This shows that majority of the respondent were diploma holders, followed by degree, which implies that, all the respondents selected were educated and most of the respondents understood the contents of the questionnaires and their responses can be taken seriously.

4.4 Descriptive Analysis of study Variables

The purpose of the study was to establish the effect of online tax system on Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County. The researcher analyzed descriptive statistics for the following observed variables; online filing, online registration, online remittance and VAT compliance. The 5-point Likert scale response categories were used in this study. This scale works from left to right where the right end of the scale is smaller, more negative than the right.

There are two extreme values, that is, far left which signifies strongly agree; and far right which symbolizes strongly disagree. Meanwhile, the middle answer category (number 3 on the Likert scale) represents neutral which means neither agree nor disagree (Velde, Jansen & Anderson 2004).

4.4.1 Online registration and Value Added Tax Compliance

The study sought to find out the effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county. This is shown in Table 4.5 below

Table 4.5 Online registration and Value Added Tax Compliance

Online registration		SA	A	U	D	SD	M	SD
Registration process is easy on iTax	F	71	82	16	13	19	3.86	1.237
	%	35.3	40.8	8.0	6.5	9.5		
Registration process is much faster on iTax	F	73	81	13	32	2	3.95	1.076
	%	46.8	30.8	16.4	3.0	3.0		
I no longer visit KRA offices to seek help in registration process	F	94	62	33	6	6	4.15	1.001
	%	46.8	30.8	16.4	3.0	3.0		
I think ITax has increased the number of PIN registration	F	102	62	10	22	5	4.16	1.094
	%	50.7	30.8	5.0	10.9	2.5		
It is much easier to amend PIN details ie add source of income in iTax system	F	114	58	18	5	6	4.34	.957
	%	56.7	28.9	9.0	2.5	3		
My registration details on iTax are accurate	F	85	66	9	28	13	3.83	
	%	42.3	32.8	4.5	6.5	13.9		1.213
Overall Mean							4.04	

The Table 4.5 shows the effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county whose responses were analyzed through mean and standard deviation. The respondents agreed that registration process is easy on iTax with a mean of 3.86 and a standard deviation of 1.237, it was also agreed that registration process is much faster on iTax, this had a mean of 3.95 and a standard deviation of 1.076, the response on whether the respondents no longer visit KRA offices to seek help in registration process was supported by a mean of 4.15 and a standard deviation of 1.001.

Further, the respondents agreed that ITax has increased the number of PIN registration with a mean of 4.16 and standard deviation of 1.94. Furthermore, the respondents agreed that it is much easier to amend PIN details ie add source of income in iTax system with a mean of 4.34 and standard deviation of 0.957.Lastly, the respondents agreed that their registration details on iTax are accurate with a mean of 3.83 and standard deviation of 1.213.

This implied that majority of the respondents agreed on effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county with an average mean of 4.04 indicating that that online filing enhance VAT compliance among micro and small taxpayers. These findings concur with a study by International Tax Dialogue, (2007) who stated that registration practices are often unnecessarily bureaucratic and may involve multiple agencies, and multiple crosschecks; complex due to the different laws, norms, documents and forms required; expensive, and time-consuming. Delays in business registration, which often involves multiple government institutions including the tax administration, can be a significant impediment to business formation and particularly harmful to the small entrepreneur with limited start-up cash reserves.

4.4.2 Online filing and Value Added Tax Compliance

The study sought to determine the effect of online registration on VAT compliance among micro and small taxpayers in Starehe Sub-county. This is shown in Table 4.6 below

Table 4.6 Online filing and Value Added Tax Compliance

Online filing		**SA**	**A**	**U**	**D**	**SD**	**M**	**SD**
Filing process is simple and easy	F	85	66	9	28	13	3.83	1.40
on iTax system	%	42.3	32.8	4.5	6.5	13.9		0
Filing process takes shorter time	F	95	65	9	22	10	4.06	1.18
on iTax	%	47.3	32.3	4.5	10.9	5		6
I no longer visit KRA offices to	F	114	58	18	5	6		
seek help in when filing my	%	56.7	28.9	9.0	2.5	3	4.34	.957
return process								
It is much easier to amend filing	F	89	80	7	19	6	4.13	1.05
details on the iTax system	%	44.3	39.8	3.5	9.5	3.0		5
ITax system has improved my	F	94	62	33	6	6		
business compliance status since	%	46.8	30.8	16.4	3.0	3.0	4.13	1.02
I always file on time								
I always declare the right	F	80	95	5	17	4		
amount of tax due when filing	%	39.8	47.3	2.5	8.5	2.0	4.16	1.101
on iTax								
Overall mean							4.11	

On the effect of online registration on VAT compliance among micro and small taxpayers, the respondents agreed that filing process is simple and easy on iTax system, this was supported by a mean of 3.83 and a standard deviation of 1.400,the respondents also agreed that filing process takes shorter time on iTax with a mean of 4.06 and a standard deviation of 1.186, further they agreed that they no longer visit KRA offices to seek help in when filing my return process with a mean of 4.34 and a standard deviation of 0.957. Furthermore, they agreed that it is much easier to amend filing details on the iTax system with a mean of 4.34 and a standard deviation of 0.957. Lastly they agreed that they always declare the right amount of tax due when filing on iTax, this was supported by a mean of 4.16 and a standard deviation of 1.01.

This implies that through online registration is a factor that influence tax compliance among micro and small taxpayers in Starehe Sub-county. This was supported by an average mean of 4.11 indicating that the respondents agreed on the questionnaire statements. This study results are similar to Mandola (2013) who revealed that the electronic filing or online filing of tax returns is a general term for electronic filing or electronic lodgment, or electronic declaration of tax returns through submission of tax data to a taxing authority in a computer file format through an internet connection. Ibrahim (2012) also stated that e-filing systems also increase the quality and quantity of information available to tax officers, enabling them to complete transactions faster and more accurately. Returns filed electronically have much lower error rates than paper returns and substantially cut the need to impose penalties and other punitive measures to foster compliance.

The more efficient handling provided by electronic returns allows tax officers to issue assessments and refunds more quickly, and taxpayers know right away if their returns have been accepted by the tax authorities. E-filing lowers the cost of handling returns allowing administrative resources to be reallocated to other tasks such as auditing, customer services and tracking non-compliance (Thomas Gwaro, Maina, &Kwasira, (2016).

4.4.3 Online Remittance and Value Added Tax Compliance

The study sought to assess the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county. This is shown in Table 4.7 below

Table 4.7 Online Remittance and Value Added Tax Compliance

Online Remittance		**SA**	**A**	**U**	**D**	**SD**	**M**	**SD**
Payment procedure is simple and has been made easier through iTax system	F	72	68	27	20	14	3.79	1.276
	%	35.8	33.8	13.4	7.0	10.0		
Payment is faster and saves time spent on the iTax system hence has increased chances of paying taxes	F	72	69	18	28	14	3.78	1.262
	%	35.8	34.3	9.0	13.9	7.0		
One no longer has to queue at the bank in order to pay tax.	F	100	63	29	7	2	4.25	.900
	%	49.8	31.3	14.4	3.5	1.0		
Real time update of taxpayer ledger account has increased chances of accuracy and transparency with regards to tax payment	F	80	95	5	17	4	4.14	.961
	%	39.8	47.3	2.5	8.5	2.0		
I normally use my phone to pay my taxes.	F	76	74	10	15	26	3.79	1.262
	%	37.8	36.8	5.0	7.5	12.9		
Overall mean							3.95	

The study sought to effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county.

The respondents agreed that, payment procedure is simple and has been made easier through iTax system with a mean of 3.79 and a standard deviation of 1.276, also when asked whether payment is faster and saves time spent on the iTax system hence has increased chances of paying taxes, majority of the respondents agreed with a mean of 3.78 and a standard deviation of 1.262.Also when asked whether one no longer has to queue at the bank in order to pay tax., the respondents agreed at a mean of 4.25 and a standard deviation of 0.900. Further, majority of the respondents agreed that real time update of taxpayer ledger account has increased chances of accuracy and transparency with regards to tax payment with a mean of 4.14 and a standard deviation of 0.961.

Lastly the respondents agreed that they normally use my phone to pay my taxes, this was supported by a mean of 4.14 and a standard deviation of 0.961. This implies that online remittance leads to enhancement of VAT compliance among micro and small taxpayers. This was supported by an average mean of 3.95 indicating that the respondents agreed on the questionnaire statements on the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county. This study results are similar to Ellys Merima, Odd-Helge & Ingrid (2013) found that tax compliance behavior among citizens in Kenya, Tanzania, Uganda and South Africa was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, payments to non-state actors. In addition, Pereira, Hoekstra, & Queijo, (2013**)** agreed that online remittance help reduce the length of queues at tax offices but by so doing remove a barrier to compliance. They also enable the databases to be of much better quality and as a result, provide the basis for more effective audit and collection processes in the medium term.

4.4.4 Value Added Tax Compliance

The study sought to establish the effect of online tax system on Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County. This is shown in Table 4.8 below

Table 4.8 Value Added Tax Compliance

Value Added Tax Compliance		SA	A	U	D	SD	M	SD
The company submits VAT tax returns to KRA every month	F	60	86	12	13	30	3.66	1.362
	%	29.9	42.8	6.0	6.5	14.9		
The company's VAT tax returns submitted to KRA are correctly stated	F	66	86	13	24	12	3.85	1.179
	%	32.8	42.8	6.5	11.9	6.0		
The company pays the monthly self- assessed VAT tax to KRA by the due date	F	104	55	31	7	4	4.23	.970
	%	51.7	27.4	15.4	3.5	2.0		
Overall mean							3.91	

On the effect of online tax system on Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County, the respondents agreed that their company submits VAT tax returns to KRA every month, this was supported by a mean of 3.66 and a standard deviation of 1.362, the respondents further agreed that their company's VAT tax returns submitted to KRA are correctly stated with a mean of 3.85 and a standard deviation of 1.179.

Lastly on whether the company pays the monthly self- assessed VAT tax to KRA by the due date, the respondents agreed with a mean of 4.23 and a standard deviation of 0.970. These findings imply that online tax system is essential for VAT tax compliance. This was supported by an average mean of 3.91 indicating that the respondents agreed on the questionnaire statements on the effect of online tax system on Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County. These findings concur to that of Dowe, 2008) who stated that, the rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect on Value Added Tax compliance. Information technology, which includes telecommunications and computerized systems is set to increase tax processes substantially while saving both time and money, while at the same time affording customers a better service.

4.5 Assumptions of Regression Model

To provide unbiased estimates of the study parameters, various assumptions of regression were tested. These include normality assumption, linearity assumption and homoscedasticity assumption and multi collinearity assumption.

4.5.1 Test of Normality assumption

Regression assumes that variables have normal distributions. Non-normally distributed variables can distort relationships and significance tests. To find out whether residuals follow a normal probability distribution, histograms was used. The results of graphical analysis are shown in Figure 4.1

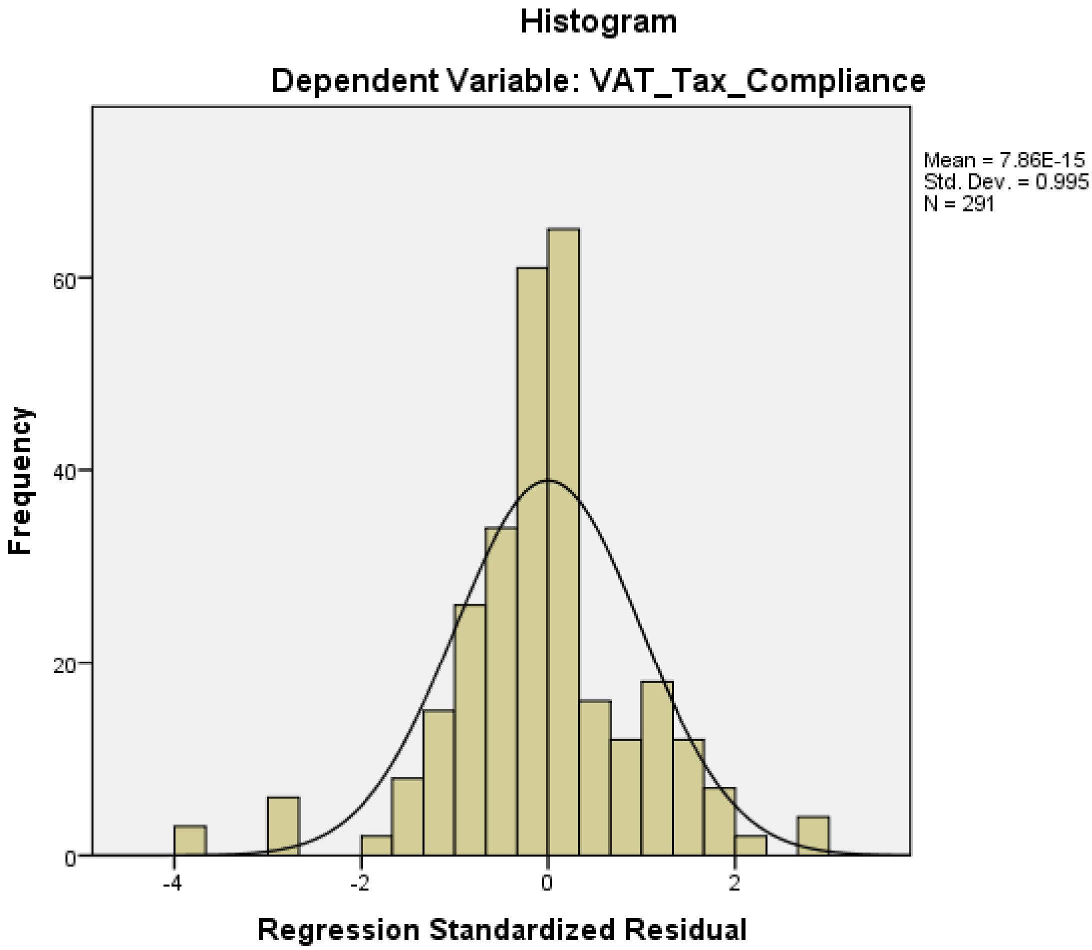

Figure 4.1 Normality Test

4.5.2 Test of Homoscedasticity assumption

Homoscedasticity assumes that the dependent variable show an equivalent level of variance across the range of predictor variable. Homoscedasticity is one of the assumptions required for multivariate analysis. The study used Durbin-Watson statistic to test the assumption of Homoscedasticity, the Durbin-Watson statistic should be between 1.5 and 2.5.

The results in Table 4.10 indicated that The Durbin-Watson statistic is 1.982 which is between 1.5 and 2.5. Therefore the result proved that there is no auto correlation in the study data as shown in Table 4.10 below.

Table 4.10Test of Homoscedasticity assumption

Test	Durbin-Watson
Value	1.982

4.5.3 Test of Multi-collinearity

The assumption of multicollinearity implies that there is no correlation between independent variables. The standard issue in multicollinearity is that, the standard errors and thus the variances of the estimated coefficients are inflated when multicollinearity exists (Simon, 2004). Test for multicollinearity among study variables was conducted using Tolerance and Variance Inflation Factor (VIF).

Variance Inflation Factor was checked for evidence of multicollinearity where their numerical values were all well below the cut-off value of 10 suggested by Neter, Kutner, Wasserman and Nachtsheim (1996). Gujarat and Porter (2010), view that as a rule of the thumb if VIF of independent variables exceeds 10, that variable is collinear. Based on this rule of the thumb, there was no collinearity among the independent variables. From the results, inspection of the Variance Inflation Factors (VIFs) showed that multicollinearity was not a concern. No variable was observed to have VIF value above 10 and no tolerance statistic was below 0.100 as suggested by Hamilton (2006). This hence led to a conclusion that no predictor had a strong linear relationship with any of the predictor(s). This is presented in Table 4.11 below]

Table 4.11 Test for Multi-Collinearity

Test for Multi-Collinearity	Collinearity Statistics	
	Tolerance	**VIF**
(Constant)		
Online registration	.312	3.204
Online filing	.272	3.673
Online remittance	.276	3.626
VAT tax compliance	.265	3.779

4.5.4 Linearity Assumptions

Linearity assumption accurately estimates the relationship between dependent and independent variables. It tests if the relationships are linear in nature. Non linearity of the regression analysis under-estimate the true relationship between the study variables.

This was done by use of the Pearson product moment correlation. Saunders, Lewis, and Thornhill, (2012) indicated that a correlation of 1 shows a Perfect linear correlation, correlation of between 0.9 and 1 indicates strong positive correlation, correlation between 0.7 and 0.9 high Positive correlation, correlation of between 0.5 and 0.7 indicates a moderate Positive correlation, correlation of 0 and 0.5 shows a weak correlation while a correlation of 0 indicates No relationship and a correlation of -1 and 0 indicates a negative relationship. Linearity assumption was therefore satisfied. This implies that all the dimensions of online tax system requirement under study jointly have a positive and significant relationship with VAT tax compliance. The results are shown in Table 4.12 below

Table 4.12 Test for Linearity Assumptions

		Online registration	Online filing	Online remittance	VAT compliance
Online registration	Pearson Correlation	1			
Online filing	Pearson Correlation	.804**	1		*
Online remittance	Pearson Correlation	.791**	.792**	1	
VAT compliance	Pearson Correlation	.844**	.803**	.833**	1
	Sig. (2-tailed)	.000	.000	.000	

4.6 Inferential Analysis

Inferential statistics was applied through multiple regression analysis. The regression analysis was used to determine with statistical significance, the effect of the independent variables on the dependent variable.

Table 4.13 Multiple Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.860[a]	.739	.712	.34425

a. Predictors: (Constant), online registration, online filing, online remittance

b. Dependent Variable: VAT Compliance

The findings on table 4.13 indicate that the relationship between online tax system and Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County was positive (Adj R^2=0.712).

Findings indicate that 71.2% of the variation in Tax compliance among micro and small taxpayers is accounted for by the three independent variables in the study (online registration, online filing, online remittance). The 28.8 % of the Tax compliance among micro and small taxpayers in Starehe Sub-County resulted from other factors not investigated by the study.

4.6.1 Assessing the Fit of the Multiple Regression Model

Multiple regression analysis was conducted to test the influence among predictor variables on Tax compliance among micro and small taxpayers in Starehe Sub-County. The test results are shown in table 4.14.

Table 4.14 ANOVA Results

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	9.722	3	3.241	92.346	.000b
	Residual	3.437	29	.119		
	Total	13.159	32			

a. Dependent Variable: VAT compliance

b. Predictors: (Constant), online registration, online filing, online remittance

The findings of the study in Table 4.19 showed that there was a statistically significant relationship between the independent variables and the dependent variable (F= 92.346; p=0.000). This therefore indicates that the multiple regression model was a good fit for the data. It also indicates that online tax system i.e. online registration, online filing, online remittance all influence Tax compliance among micro and small taxpayers in Starehe Sub-County.

4.6.2 Individual Regression Coefficients

The study employed multiple regression analysis to test the hypotheses. Multiple regression analysis was conducted to test the influence among the study online registration, online filing, online remittance on Tax compliance among micro and small taxpayers in Starehe Sub-County. This was done with a significance level of 0.05, such that when the significance value is less than the 0.05 indicates the existence of relationship and when it is above 0.05 it indicates that there is no relationship between the variables. These results were presented in Table 4.15

Table 4.15 Individual Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.372	.449		.830	.014
	Online registration	.141	.150	.139	.937	.046
	Online filing	.344	.148	.338	2.319	.028
	Online remittance	.428	.141	.468	3.039	.005

a. Dependent Variable: VAT Compliance

Table 4.15 shows that online registration was positive and significantly related to tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.141, p value=0.046). This implies that an increase in online registration by one unit leads to an increase in tax compliance among micro and small taxpayers in Starehe Sub-County by 0.141 units. Online filing was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.344, p value=0.028).

This implies that an increase in online filing by one unit leads to an increase in tax compliance among micro and small taxpayers in Starehe Sub-County by 0.344 units. Further, online remittance was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.428, p value=0.005). This implies that an increase in online remittance by one unit leads to an increase in Tax compliance among micro and small taxpayers in Starehe Sub-County by 0.428 units.

These findings concur to that of Dowe, 2008) who stated that, the rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect, on Value Added Tax compliance. Information technology, which includes telecommunications and computerized systems is set to increase tax processes substantially while saving both time and money, while at the same time affording customers a better service. The study concluded that all the predictor variables online registration, online filing, online remittance had significant influence on tax compliance among micro and small taxpayers in Starehe Sub-County.

Thus the regression equation becomes;

$$\mathbf{Y= 0.372+ 0.141\ X_1 + 0.344X_2 + 0.428X_3+ \varepsilon}$$

In Table 4.15, the coefficients refer to the slope of the regression line and amount of variance each predictor contributes to the general regression equation. Therefore holding all other independent variables constant, an increase in online filing by one unit leads to an increase in tax compliance among micro and small taxpayers in Starehe Sub-County by 0.344 units.

Further, online remittance was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.428, p value=0.005). This implies that an increase in online remittance by one unit leads to an increase in Tax compliance among micro and small taxpayers in Starehe Sub-County by 0.428 units.

4.7 Discussion of the findings

4.7.1 Background Characteristics

This section presented the distribution of respondents by their gender, age bracket, and the level of education of respondents who are the micro and small taxpayers in Starehe Sub-county. The study sought to assess the gender distribution of the micro and small taxpayers in Starehe Sub-county. This is because different gender has different opinions about various issues. The finding showed that there were more male respondents in the study.

Age of respondents was operationalized into four categories, the age of respondents was important. The study revealed that the distribution of age among the tax payers, majority of the respondent were aged 26-35 years with 47.3%, this was followed by 36-45 years at 34.8%, then between 18-25 years at 10.9% and the least was from above 45 years at 7.0%. This implies that majority of the micro and small taxpayers in Starehe Sub-county were in their mid-ages and are still pursuing their career, therefore had knowledge on the effect of online tax system on Value Added Tax compliance

Education level has an impact on how people respond to different opinions. The findings revealed that 12.9% of the respondents were O-level graduates, 54.2% were diploma holders, 29.9% of the respondents were degree holders and 3.0% represented respondents with post graduate level of education. This shows that majority of the respondent were diploma holders, followed by degree, which implies that, all the respondents selected were educated and most of the respondents understood the contents of the questionnaires and their responses can be taken seriously

4.7.2 Online registration and Value Added Tax Compliance

On the effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county, the study indicated that majority of the respondents agreed on effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county with an average mean of 4.04 indicating that that online filing enhance VAT compliance among micro and small taxpayers. The findings also indicated that that online registration was positive and significantly related to tax compliance among micro and small taxpayers in Starehe Sub-County

These findings concur with a study by International Tax Dialogue, (2007) who stated that registration practices are often unnecessarily bureaucratic and may involve multiple agencies, and multiple crosschecks; complex due to the different laws, norms, documents and forms required; expensive, and time-consuming. Delays in business registration, which often involves multiple government institutions including the tax administration, can be a significant impediment to business formation and particularly harmful to the small entrepreneur with limited start-up cash reserves.

4.7.3 Online filing and Value Added Tax Compliance

With regard to the effect of online registration on VAT compliance among micro and small taxpayers in Starehe Sub-county, the findings indicated that through online registration is a factor that influences tax compliance among micro and small taxpayers in Starehe Sub-county. This was supported by an average mean of 4.11 indicating that the respondents agreed on the questionnaire statements. The findings also indicated that online filing was positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County.

This study results are similar to Mandola (2013) who revealed that the electronic filing or online filing of tax returns is a general term for electronic filing or electronic lodgment, or electronic declaration of tax returns through submission of tax data to a taxing authority in a computer file format through an internet connection. Ibrahim (2012) also stated that e-filing systems also increase the quality and quantity of information available to tax officers, enabling them to complete transactions faster and more accurately. Returns filed electronically have much lower error rates than paper returns and substantially cut the need to impose penalties and other punitive measures to foster compliance. The more efficient handling provided by electronic returns allows tax officers to issue assessments and refunds more quickly, and taxpayers know right away if their returns have been accepted by the tax authorities. E-filing lowers the cost of handling returns allowing administrative resources to be reallocated to other tasks such as auditing, customer services and tracking non-compliance (Thomas Gwaro, Maina, & Kwasira, (2016).

4.7.7 Online Remittance and Value Added Tax Compliance

Lastly on the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county, the study indicated that online remittance leads to enhancement of VAT compliance among micro and small taxpayers. This was supported by an average mean of 3.95 indicating that the respondents agreed on the questionnaire statements on the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county. The findings also indicated that online remittance was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County.

This study results are similar to Ellys Merima, Odd-Helge & Ingrid (2013) found that tax compliance behavior among citizens in Kenya, Tanzania, Uganda and South Africa was influenced by perception about difficulty of evading taxes, satisfaction with public service provision, payments to non-state actors. In addition, Pereira, Hoekstra, & Queijo, (2013**)** agreed that online remittance help reduce the length of queues at tax offices but by so doing remove a barrier to compliance. They also enable the databases to be of much better quality and as a result, provide the basis for more effective audit and collection processes in the medium term.

These findings imply that online tax system is essential for VAT tax compliance. This was supported by an average mean of 3.91 indicating that the respondents agreed on the questionnaire statements on the effect of online tax system on Value Added Tax compliance among micro and small taxpayers in Starehe Sub-County. These findings concur to that of Dowe, 2008) who stated that, the rapidly increasing pace of technological change will have a significant impact, positive and negative, direct and indirect on Value Added Tax compliance. Information technology, which includes telecommunications and computerized systems is set to increase tax processes substantially while saving both time and money, while at the same time affording customers a better service.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter covers the summary of major findings, conclusion based on the findings and the recommendations, areas warranting further research are also highlighted.

5.2 Summary of Findings

The first objective of the study sought to establish the effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county, the study findings indicated that majority of the respondents agreed on effect of online filing on VAT compliance among micro and small taxpayers in Starehe Sub-county with an average mean of 4.04. The findings also indicated that online registration was positive and significantly related to tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.141, p value=0.046). This indicates that that online filing enhances VAT compliance among micro and small taxpayers

The second objective sought to determine the effect of online registration on VAT compliance among micro and small taxpayers in Starehe Sub-county, the findings indicated that, majority of the respondents with average mean of 4.11 agreed that online registration is a factor that influence tax compliance among micro and small taxpayers in Starehe Sub-county. In addition, it was indicated that online filing was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.344, p value=0.028). Therefore, online filing significantly influence Tax compliance among micro and small taxpayers.

The third objective sought to assess the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county, the findings indicated that online remittance leads to enhancement of VAT compliance among micro and small taxpayers. This was supported by an average mean of 3.95. Also online remittance was also positively and significantly related to Tax compliance among micro and small taxpayers in Starehe Sub-County (B=0.428, p value=0.002). This implies that the respondents agreed on the questionnaire statements on the effect of online remittance on VAT compliance among micro and small taxpayers in Starehe Sub-county.

5.3 Conclusions

5.3.1 Online Registration

From the findings of the study, it was concluded that micro and small taxpayers in Starehe Sub-county find tax registration process easy and faster on iTax, they no longer visit KRA offices to seek help in registration process and ITax has increased the number of PIN registration.

5.3.2 Online Filing

On the effect of online filing on VAT compliance among micro and small taxpayers, the study concluded that filing process is simple and easy on iTax system, it takes shorter time on iTax , also much easier to amend filing details on the iTax system and iTax system has improved business compliance status since they always file on time.

5.3.3 Online Remittance

Lastly, it was concluded that Payment procedure is simple and has been made easier through iTax system, it is faster and saves time spent on the iTax system hence has increased chances of paying taxes and real time update of taxpayer ledger account has increased chances of accuracy and transparency with regards to tax payment.

5.4 Recommendation of the Study

Based on the results, findings and conclusions the following recommendations have been made: The Kenya Revenue Authority should use effective measures to mobilize and motivate tax payers to register online for applicable tax heads in order to widen the tax base and enhancement revenue collection. Elaborate civic education should be conducted at the research area and beyond to ensure that the general public is aware of the tax system, how to use it and if not able to, tax payers should be advised where they can get assistance.

Kenya Revenue Authority and treasury should develop a payment gateway that integrates iTax system and other payment systems in order to improve tracking of tax payments and seal possible tax evasion loop holes. Kenya Revenue Authority should also enhance internet connectivity in the rural areas to foster growth in online tax registration, tax return filing and online tax remittance. This can be done by building strategic alliances with telecommunication firms.

KRA management should focus on taxpayer facilitation through a robust system of customer relationships management, efficient complaints resolution and ensuring that more resources are invested in user friendly online tax systems in order to realize long term benefits.

5.5 Limitation of the study

The researcher had some difficulties and limitations while carrying out this study. Considering the questions asked in the questionnaire to capture the study variables adequately, some taxpayers felt that the authority was trying to get compliance information from them to enforce compliance. Some taxpayers were fearful risking them not giving correct information which would have resulted to non-correct data being collected. To add, the study relied heavily on primary data. Also online systems do not only affect micro and small taxpayers but also medium and large taxpayers, hence more objective studies should be done on all types of taxpayers and more so should not be limited to only one tax area or district. Finally, the study was also limited inadequacy of time and resources. Despite this limitation, utmost care was taken to ensure and make sure that the results presented were as accurate as possible. The assistants issuing questionnaires explained in details and convincingly that the data was only for research purposes.

5.6 Suggestion for Further Research

There is need for further research on the effect of online tax system on Value Added Tax compliance among micro and small taxpayers. Finally, a further study is necessary to investigate the factors affecting effective implementation of online tax systems as a strategy for enhancing revenue collection in Kenya.

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APPENDICES

APPENDIX 1: LETTER OF INTRODUCTION

Fridah Wangui Njoroge

Kenya School of Revenue Administration Nairobi

Dear Sir/ Madam,

<u>RE: DATA COLLECTION</u>

I am a post-graduate student undertaking a post graduate diploma in tax administration at Jomo Kenyatta University of Agriculture and Technology in the department of Economics, Accounts and Finance. I am carrying out a research on the effect of online tax system on Value Added tax compliance among micro and small taxpayers in Starehe sub-county.

You have been selected to contribute in my study. This is to kindly request you to respond to fill the questionnaire with honesty and to the best of your knowledge. The information provided will be used solely for academic purposes and be treated with utmost confidence.

A copy of the final report may be availed to you upon your request. Your assistance will be highly appreciated.

Yours faithfully,

Fridah Njoroge

HDB336-C016-4240/2016

APPENDIX 2: QUESTIONNAIRE

Introduction

This questionnaire is designed for the sole purpose of gathering information on the effect of online tax system on Value Added tax compliance among micro and small taxpayers in Starehe sub-county. The information obtained will only be used for academic purposes and shall be treated in utmost confidence. You are requested to complete this questionnaire as honestly and objectively as possible.

Please tick in the appropriate box and also fill in the blank spaces provided for those questions. Use the space at the back of this questionnaire if you need more space for your responses.

SECTION A: BIO DATA

1. What is your Gender? Male ☐ Female ☐

2. What is your age bracket?

Between 18-25Years ☐ above25-35 years ☐

Above35 – 45Years ☐ above 45 years ☐

3. What is your highest educational Qualification?

O' Level ☐ Diploma ☐

Degree ☐ Masters ☐

SECTION B

1. **Online Registration**

I) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
Registration process is easy on iTax					
Registration process is much faster on iTax					
I no longer visit KRA offices to seek help in registration process					
I think ITax has increased the number of PIN registration					
It is much easier to amend PIN details ie add source of income in iTax system					
My registration details on iTax are accurate					

2. Online filing.

II) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
Filing process is simple and easy on iTax system					
Filing process takes shorter time on iTax					
I no longer visit KRA offices to seek help in when filing my return process					
It is much easier to amend filing details on the iTax system					
ITax system has improved my business compliance status since I always file on time					
I always declare the right amount of tax due when filing on iTax					
It is not easy to under declare your tax liability on iTax system					

3. **Online remittance**

III) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statements on rate of tax	**1**	**2**	**3**	**4**	**5**
Payment procedure is simple and has been made easier through iTax system.					
Payment is faster and saves time spent on the iTax system hence has increased chances of paying taxes.					
One no longer has to queue at the bank in order to pay tax.					
Real time update of taxpayer ledger account has increased chances of accuracy and transparency with regards to tax payment.					
I normally use my phone to pay my taxes.					

4. Value Added Tax Compliance

IV) Evaluate the following statements and tick where appropriate under the choices below

Where: 1 – Strongly Disagree, 2 – Disagree, 3 – Neutral, 4 - Agree or 5 - Strongly Agree

Statement	**1**	**2**	**3**	**4**	**5**
The company submits VAT tax returns to KRA every month.					
The company's VAT tax returns submitted to KRA are correctly stated.					
The company pays the monthly self- assessed VAT tax to KRA by the due date					