# FACTORS INFLUENCING TURNOVER TAX COMPLIANCE IN KENYA (CASE OF EMBU 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 REQUIREMENT FOR THE AWARD OF POST GRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

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**DECLARATION**

This research project is my original work and has not been presented for award of Post Graduate Diploma in Tax Administration or any other award in any University or Institution of higher learning.

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

Signature …………………………… Date ………………………………

CYRUS. M .MUTUKU

## DEDICATION

I dedicate this project to my loving wife, Virginia; your practical help and emotional encouragement as I pursued this course is highly appreciated. To my parents, Mr. and Mrs. Thiong'o and to my wonderful siblings, Franklin and Ann, I would not have made it without your moral as well as financial support, understanding and perseverance during my study period.

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## ABSTRACT

Taxation is the avenue through which persons both corporate and individuals contribute towards revenues of their country or tax jurisdictions they operate in. On the other hand taxation is the most important avenue through which governments generate revenue necessary for development projects and recurrent expenditure. The objective of this study was to find out the factors influencing turnover tax compliance in Kenya. . The researcher outlined a detailed literature review and identified the variables for this research to be taxpayers level of awareness, taxpaters perception towards the government and tax system, and costs of compliance. A target population of 200 turnover taxpayers located in Embu town was identfied. A sample of 132 taxpayers was picked as representative to be the focus of this study. A descriptive survey design was used. Stratified sampling technique was used to create a sampling frame ensuring that different and diverse types of entities were included in the survey. Data was collected using self–administered questionnaires and an interview guide. The collected data was analyzed using Statistical Package for Social Scientist software (SPSS) and findings presented using tables. The Findings from the study reveal that all the identified factors have a direct influence on the tax compliance efforts by taxpayers in the turnover businesses. The perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. The findings suggest that taxpayers are not aware of their responsibilities; however, the result also indicated that other factors like cost of compliance and complicated systems result into the low levels of compliance. Taxpayer‟s perception of tax system is inclined to change due to changing tax knowledge. This suggests that increased tax knowledge may have significant impact on perception of tax system. The recommendations of the study are; There should be a deeper analysis of the mode of turnover tax collection to make it less time consuming and less tedious. The problems that turnover tax taxpayers experience when filing turnover tax returns should be established and necessary adjustment remedies made. There should be rigorous education programs targeting SMEs to enable them understand the turnover tax system, how it works and advantages of using it so that they can understand and appreciate it, understand obligations and provide opportunity to provide feedback about the way the tax system was run. They should also train their staff diligently on customer service so that when these taxpayers who have limited knowledge on taxes approach them they can be able to help them and train them on the application of turnover tax.

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## LIST OF ABBREVIATIONS

**GDP** Gross domestic product

**GNP** Gross national product

**KRA** Kenya Revenue Authority

**PAYE** Pay as you earn

**SAS** Self-assessment system

**SMEs** small and medium enterprises

**SPSS** Statistical Package for Social Sciences

**TOT** Turnover tax

**VAT** Value added tax

## DEFINITION OF TERMS

**Costs of compliance** is expenditure of time or money in conforming with government requirements such as legislation or regulation .They are those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax. (JM Alston, 2007)

**Direct Taxes**

These taxes are either charged on individuals or businesses incomes or gains. Direct taxes often include personal income tax ("Pay as You Earn"-PAYE), corporate tax, withholding tax, rental income, tax on interest in banks. (Income Tax Act, Cap 470).

**Indirect Taxes**

Indirect taxes are categorically on consumption and on international trade. The indirect taxes include taxes on domestic goods and services such as value added tax (VAT), excise duty on some items, import duty, VAT on imported goods and services. (Income Tax Act, Cap 470).

**Levels of awareness:** Awareness is the state or ability to perceive, to feel, or to be conscious of events, objects, or sensory patterns. (H Reuveni, 2004)

**Tax**

According to (Bhartia, 2009) is a financial charge or other levy imposed upon a taxpayer by a state or any other functional equivalent of a state such that failure or resistance to pay is punishable by law.

**Turnover tax**

It is a tax on the gross income of any resident person whose turnover from business does not exceed Kshs.5 million during any year of income. (Income Tax Act, Cap 470).

**Tax compliance**

Tax compliance is a process of following the country's tax system. The system is based on the country's economics and its inner political situation and international politics. (Income Tax Act, Cap 470).

**Tax evasion**

Tax evasion is an attempt to escape tax liability (wholly or partially) by breaking the tax law and it is a criminal act since it is achieved principally by making false declarations such as under-reporting income or over-reporting relieves and allowances. (S Maital, 1978).

**Tax avoidance**

According to (D Dixon - 2014) Tax avoidance is the practice and technique where by one so arranges his business affairs such that he pays little or no tax at all but without contravention of the tax.

**Perception**

Perception is the act or faculty of perceiving, or apprehending by means of the senses or of the mind; cognition; understanding. This is thus how taxpayers perceive or understand the tax systems put in place in their area of operation and how the government spend on taxes. ( James Rowland Angell, 2007)

# CHAPTER 1

## INTRODUCTION

### 1.1 Background

Kenya is heavily relying on taxes revenue collection for promoting socio-economic development. Therefore, the government has tried hard to establish an efficient tax administration system that aims to collect all the necessary taxes to meet development needs of the nation. One category, which has a great potential to increase domestic revenue mobilization that can reduce huge budget deficits, is the small and medium taxpayers. A large number of the country's active labour force is employed in this sector and it has a potential to generate significant amount of taxable income. The estimated size of the small and medium taxpayers indicates presumption that this sector makes significant contribution to the Gross Domestic Product (GDP) and so the sector could equally make a major contribution to the tax revenue (Swaminathan, 1991).

According to KRA sixth cooporate plan the revenue performance has been as listed in the table below;

**Table 1. 1 Revenue performance**

| Period | 2012/2013 | 2013/2014 | 2014/2015 | 2015/2016 | 2016/2017 |
|---|---|---|---|---|---|
| Revenue target (Kshs. Bn) | 863.3 | 972.8 | 1,108.8 | 1,217 | 1,415 |
| Actual collection (Kshs. Bn) | 800.5 | 963.8 | 1,069.6 | 1,210 | 1,365 |
| Variance | (62.8) | (9.0) | (39.2) | (7) | (50) |

Kenya's 2017 overall GDP growth was projected at 6.4 percent with SMEs contributing 3 percent. National Economic Survey report by the Central Bank of Kenya (CBK) indicated that SMEs constituted 98 percent of all business in Kenya , create 30 percent of the jobs annually as well as contribute 3 percent of the GDP. According to the 2014 survey, 80 percent of the 800,000 jobs created in the year came from the informal sector which is dominated by the SMEs (African Review, 2017).

According to Lubell, (1991) the small and medium taxpayers are regarded as a group of production units which form part of the household enterprises. These are not constituted as separate legal entities independent of the household or household members that own them. Always they do not have reliable accounts which would permit a clear income demarcation between production activities of the enterprises and other activities of their owners, or the identification of any flows of income and capital between the enterprises and owners.

In the view of valuing this sector in Kenya, the government has made significant progresses in the formulation, implementation and performances of socioeconomic development. These efforts intend to empower small and medium taxpayers in managing and operating social economic activities as one of the ways to generate more incomes. This is in line with Fjeldstad *et al*, (Odd-Hedge, Brautigan, & Moore, 2008) who assert that citizens' voluntary tax compliance changes significantly when service provision are improved by the state, and more cordial methods of tax collection are introduced

However, tax revenue in Kenya from small and medium taxpayers is still very small compared to the existing potentials. The tax evasion is huge, deliberate and systematic due to various reasons. These include lack of knowledge, heavy costs of compliances, difficulty in identification and registration, poor record keeping, non-filling of important tax information and rampant corruption practices (Mkurabita, 2007).

Although the majority of enterprises exist in this sector of the economy, they have minor estimated contribution to total revenue collection. Statistical evidence indicates that over the years the contribution of small and medium taxpayers to the total revenue remained very low. The size of the small and medium taxpayers is an obstacle to tax collection efforts; therefore, the greater part of the real income from this sector cannot be satisfactorily assessed. As a result, majority of people engaged in the sector have been the worst income tax evaders. The Central Government tax collection through KRA excessively focuses on businesses existing at the formal sector. This may be considered a cause of poor collection of tax revenue from the small and medium taxpayers. The small and medium taxpayers have been neglected for a considerable period now from tax revenue efforts and subsequently there is inadequate income tax contribution from it.

In practice, the collection of taxes from the small and medium taxpayers is difficult, as there are rampant poor records of accounts. In addition, real incomes for many small and medium taxpayers are invisible to the authorities because some of them work to meet their basic needs to sustain their lives and do not separate business incomes from household drawings and expenses. Due to this situation, it is difficult for tax authorities to determine the exact taxable income. The literature suggests the best ways is practicing voluntary tax compliance and hence more tax collection in the small and medium taxpayers. It is due to this concern that western economies have high level of compliance and exhibits significant understanding of tax collection effort in this sector.

A concept of 'fiscal social contract' is central to explaining the high level of tax compliance and tax collection as well. It is this contract that mobilized wide range of interest groups in taxation system to support, oppose, and propose tax reforms, which subsequently became central in tax compliance matters and had stimulated the increase of tax collections in all sectors of economy. They assert that small number of informal taxpayers contribute to tax revenue collection, as central government revenue is mainly raised more from other sources than from proper taxation. For instance, they heavily rely on commercial loans and foreign aid.

Any government, which seriously desires to have effective tax collection from her citizens, cannot ignore the contribution of small and medium taxpayers. In this light, therefore the effective and efficient imposition of income tax on the small and medium taxpayers in Kenya holds the great prospect in increasing domestic revenue generation. This would only be possible if more participants from this sector were involved in broadening the existing tax base. As a result the kenyan Government decided to introduce (TOT) turnover tax to cater for the Small and Medium Enterptices.

Turnover tax (TOT) is a tax on the gross income of any resident person whose turnover from business does not exceed Kshs.5 million during any year of Income. It is a tax that was introduced by the Finance Act of 2007 through a provision of the Income Tax Act, Cap 470, and effective as from 1st January 2008. (Income Tax Act, Cap 470). Turnover tax is a tax that targets the informal sector. The informal sector comprises of the micro and the small enterprises most of which are not well organized, they use labour intensive technology and most of them are unregistered. Turnover tax targets traders, artisans and others working in market stalls, in residential houses or in open places (Ouma, Njeru, Kamau, Khainga & Kiriga, 2007).

The turnover tax is a form of indirect tax, collected by third parties rather than the government itself. Businesses must comply with the aspects of the tax code concerning indirect taxes, collecting taxes as directed and logging transactions eligible for taxation. This information is submitted at the time that taxes are paid to demonstrate how much was collected on behalf of the government (Parkin, 2006). The structure of a turnover tax can vary. Some governments charge different amounts for different types of goods. This is intended to keep necessities affordable for everyone, while taxing luxuries. Turnover taxes can also be punitive in nature, designed to create a disincentive for buying particular products. Environmental regulations sometimes encourage this practice, taxing people more on purchases that are harmful to the environment (Cheeseman & Griffiths, 2005).

According to a study done by KRA (2010), the main challenges that affect the TOT adoption rate are: large size of the SME sector making recruitment difficult, lack of training on TOT to staff, inadequate attention by the tax administration towards the informal sector, mobility of SMEs making compliance difficult and poor attitude towards government and taxation (Mwangi, Gachoka & Siagi, 2010).

Embu County lies some 120 kilometers north east of Nairobi, on south-eastern side of Mount Kenya. The county covers an area of 2,818 square kilometres. Embu County has a population of 516,212 (49% – male and 51% – female), according to the 2009 National census. The people living in Embu County are mainly farmers, traders, business people and civil servants working in government corporations and institutions.

In Embu county, majority of the businesses are small and medium enterprises whose threshold is below ksh 5 million making them fall in the bracket of turnover tax. The rate of turnover tax compliance, however, is low since only 20% out of 100% of the viable businesses expected by KRA file their returns. Majority of taxpayers are none filers, nil filers, filers who do not pay and others cannot be traced.

This study therefore explored procedural obligations from small and medium taxpayers as the way to improve central Government revenue collections. As a civic duty and pride, it is expected that all citizens voluntarily comply with obligation of paying due taxes.

In contrast, this is not the case for many small and medium taxpayers in Kenya due to various known behavioural factors that negatively influence taxpaying culture.

Tax is a compulsory contribution by individuals or property owners to support the government (a payment exacted by legislative authority). It is not a voluntary payment or donation, but an enforced contribution, exacted pursuant to legislative authority and is any contribution imposed by government whether under the name of toll, tribute, tallage, gabel, impost, duty, custom, excise, subsidy, aid, supply, or other name (Cobham, 2007).

Tax Compliance is defined as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner. There has been no charging of taxes proportionately among small and medium enterprises

(SMEs) internationally. High compliance costs, inadequate understanding, high tax rates and tax penalties are some of the variables that can lead to tax evasion and tax fraud. Their size, nature and operation make the issue of tax compliance critical among the SMEs. They are not well established in terms of resources and expertise. (Williams and Round, 2009) Persons fail to comply with tax laws either willingly or unwillingly. They include tax resisters and tax protesters. Tax protesters attempt to evade the payment of taxes using alternative interpretations of the tax law, while tax resisters refuse to pay a tax for their personal reasons. Proper understanding of SMEs would require a good understanding of its operations (Webley, 2004).

## 1.2 Statement of the Problem

According to the Kenya National Bureau of Statistics there are more than 17 million SMEs registered in Kenya, with 98 percent of the enterprises contributing 25 percent of the country's GDP and employing up to 50 percent of the workforce. The SMEs generate good income as their earnings but they are not fully integrated into the formal taxation system. This number of informal operators in Kenya is growing fast indicating that when they are not taxed substantially, the Government loses revenue.

In Kenya in the large taxpayer’s bracket, compliance levels are high as these firms are professionally managed. However, in the small and medium taxpayer’s bracket the levels of compliance start dropping and are very low in the small taxpayer’s bracket. In order to give special attention to this budding low income enterprises which came to be known as turnover taxpayers, the subsidiary legislation; The Income Tax (Turnover Tax) Rules 2007 was introduced under the Income Tax Act Cap 470 laws of Kenya. This category of taxpayers runs as sole proprietors, family businesses or businesses in the informal sector. They are therefore low in financing and rarely engage any professionals to advice or run the affairs of the business.

The spirit of the law envisioned proper management of this taxpayers resulting to higher collections and bringing under the tax net as many taxpayers as possible. This however, has not been achieved and it’s apparent that many taxpayers falling under this class do not pay taxes. The tax head is also performing very poorly as compared to the other tax heads yet it has and continues to have great potential in netting the small traders and increasing the authority's revenue collection. This hampers government revenue collection thus inefficiency in Government spending because it diminishes the capacity of the state to mobilize domestic revenues, resources that are needed for investments. The study therefore focused on why despite the introduction of such a simplified law, turnover taxpayers continue being noncompliant thus resulting to low collections in this class of taxpayers. In this regard, this study was conducted focusing on factors influencing turnover tax compliance in Kenya.

## 1.3 Objectives

### 1.3.1 Main objective

The main objective of this study was to determine the factors influencing tunover tax compliance in Kenya.

### 1.3.2 Specific Objectives

1. To determine the extent to which turnover tax awareness influence compliance.
2. To deternine the extent to which taxpayers perception on governments accountability and tax system influence tax compliance.
3. To determine the extent to which cost of compliance influence tax compliance.

## 1.4 Research Questions

The study sought to answer the following research questions

1. How does turnover tax awareness influence compliance?
2. How does taxpayers perception on governments accountability and tax system influence tax compliance?
3. How does the cost of compliance influence tax compliance?

## 1.5 Justification

The findings of this study were expected to be of importance in the management of Kenya Revenue Authority and Embu county taxpayers as it will provide the data that can be used to tailor a solution to the challenges of turnover tax, and also help in tax compliance for small and medium taxpayers in the development of national economy specifically by using appropriate methods in tax collection. The study is also likely to be of great use to policy makers as it is will highlight the basic elements that need to be considered in designing proper policies. The study will also be useful to other researchers in the study area as it will add knowledge and provide reliable data whenever they make reference to its findings and recommendations.

## 1.6 Scope of the Study

This study limits itself to the population of 200 registered SMEs located in Embu town. It also confines itself to determining the factors influencing turnover tax compliance within this area and providing recommendations according to the findings.

## 1.7 Basic assumptions of the study

It was assumed that the respondents would be co-operative and provide accurate information when responding to the research questions. The research also assumes that the sample size chosen was adequate to enable the researcher draw a valid conclusion and recommendations on the research topic.

## 1.8 Limitations of the study

Time constraint was a limiting factor because the study had to be concluded within a short period of time. Being a self-sponsored student funds were limited. There was no assurance that the respondents would return all the questionnaires duly completed, nor the guarantee that those interviewed would respond to all the questions put forward to them. Being a sensitive project in matters of tax some taxpayers were not willing to participate in the study for fear that it would expose their non-compliance.

## CHAPTER TWO
## LITERATURE REVIEW

### 2.1 Introduction

In this chapter, the researcher looks at studies related to factors influencing turnover tax compliance and examine them thus giving a detailed review and summary.

### 2.2 Theoretical literature review

#### 2.2.1 The Theory of Optimal Taxation

This is the study of designing and implementing a tax that reduces inefficiency and distortion in the market under given economic constraints. Much of the literature on optimal taxation treats the social planner as a utilitarian, that is, the social welfare function is based on the utilities of individuals in a society. In its most general sense, this literature uses a social welfare function that is a nonlinear function of individual utilities. Nonlinearity allows for a social planner who prefers, say, more equal distributions of utility. However, some studies in this literature assume that the social planner cares exclusively about average utility, implying a social welfare function that is linear in individual utilities (Mankiw, Weinzierl, and Yagan, 2012).

To simplify matters for the social planner, it is repeatedly assumed that everyone in society has the same preferences over consumption and leisure, for instance. Sometimes this homogeneity assumption is taken further by assuming that completely identical individuals populate the economy. The social planner"s goal, therefore, is to choose the tax system that maximizes the representative consumer"s welfare with knowledge that the consumer will respond to whatever incentives the tax system provides. This theory suggests that TOT should be a tax, like others, that should be seen as a tax that maximizes social welfare (Mankiw et al., 2012).

### 2.2.2 The Ability to Pay Theory of Taxation

Ability-to-pay taxation is a progressive taxation principle that maintains that taxes should be levied according to taxpayers ability to pay. The theory is that individuals who earn more money can afford to pay more in taxes. According to this theory, tax liability in its true form is a compulsory and an unconditional payment to the state. The theory posits that there is no commercial or semi-commercial relationship between the state and the citizens. A citizen is to pay taxes just because he or she can and his or her relative share in the total tax burden is to be determined by the relative paying capacity. This doctrine has been in vogue for at least as long as the benefits theory. The basic tenet of this theory is that the burden of taxation should be shared by the members of society on the principles of justice and equity and that these principles necessitate that the tax burden is apportioned according to their relative ability to pay. This theory suggests that the payers of TOT should pay unconditionally and according to paying capacity (Chigbu, Eze and Ebimobowei, 2012).

### 2.2.3 The Expediency Theory of Taxation

The expediency theory asserts that every tax proposal must pass the test of practicability. It must be the only consideration when the authorities are choosing a tax proposal. Economic and social objectives of the state should be treated as irrelevant. This proposition has a truth in it, since it is useless to have a tax which cannot be levied and collected efficiently. There are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and authorities are often forced to reshape tax structure to accommodate these pressures. In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on. TOT should result from a balance of the forces (Bhartia, 2009).

### 2.2.4 The Benefit Theory of Taxation

According to Benefit Theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person reaps from the activities of the state, the more the tax the person should pay to the government. This principle has been criticized because, first, if the state maintains a certain connection between the benefits conferred and the benefits derived, it will be against the basic principle of the tax. A tax is basically a compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit to all citizens (Dodge, 2005).

Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year for it to be decided how much tax this individual should be charged. Further, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it will be against the principle of justice. According to this theory there should be some benefit to those who pay TOT (Dodge, 2005).

### 2.2.5 The Cost of Service Theory of Taxation

This theory implies that the Government should tax the citizens according to the cost of service rendered by it. The cost of service principle can no doubt be applied to some extent in those cases where the services are rendered out of prices and are a bit easy to determine. However, most of the expenditure incurred by the state cannot be fixed for each individual because it cannot be exactly determined. For instance, it is not easy to measure the cost of service of the police, armed forces, judiciary, etc., to different individuals. This theory implies that TOT should be charged basing on the cost of the services to be tendered to the payers. This may be difficult to achieve (Mastrianna, 2009).

The theory is also subjected to seversl criticism such as; finding the total cost of services rendered by the government is very difficult and therefore not easy to solve, how to divide the cost of services to individuals is difficult, if this theory is fallowed in the modern welfare state, the poor will have to pay more taxes because they enjoy more benefits and the cost of services rendered depends very much on the efficiency of the administrator.

### 2.2.6 The Partnership Theory of Taxation

The partnership theory of taxation posits that government should share in the profits of economic enterprise by way of an income tax. One might call the partnership theory the economic version of the Benefit theory, and the latter as the moral entitlement version of the former. The partnership theory is based on the notion that government should share in national income (or, more technically, gross national product, or GNP), because government, by supplying infrastructure in the broad sense (physical infrastructure, national and domestic security, a capitalism-enabling legal system and regulatory structure), earns a share of the GNP. This theory is especially appealing to at least some income tax advocates, because it seems to normatively prescribe an income tax in preference to a consumption tax. The government should therefore collect TOT given that it contributes to the general environment enabling business to be conducted (Dodge, 2005).

### 2.2.7 Khaldun’s Theory of Taxation

Ibn Khaldun’s tyheory of taxation has been considered an original and one of his most important contributions to economic thought. The core of Ibn Khaldun"s theory of taxation is to lower as much as possible the amounts of individual imposts levied upon persons capable of undertaking business enterprises. In this manner, such persons will be psychologically disposed to undertake them, because they can be confident of making a profit from them. Thus, Khaldun advocates for decreasing the burden of taxation on businessmen and producers, in order to encourage enterprise by ensuring greater profits to entrepreneur and revenue to the government (Islahi, 2006).

In practice he found that at the initial stage, the government relies on low taxes, in keeping with Islamic law. As a result, enterprises increase in number and size and thus permit tax base, tax revenue, and governmental surplus to grow. As Khaldun puts it, at the beginning of a dynasty, taxation yields large revenues from small assessment. At the end of a dynasty, taxation yields small revenues from large assessment. The reason for this, according to Khaldun, is that when the dynasty follows the way of the religion, it imposes only such taxes as are stipulated by the religious law, such as charity taxes, the land tax, and the poll tax. They mean small assessments, because, as everyone knows the charity tax on property is low. The same applies on charity tax on grain and cattle, and also to the poll tax, the land tax and all other taxes required by the religious law. Khaldun appeals for a tax that is as low as possible so that it does not impede citizen"s self realization (Islahi, 2006).

## 2.3 Empirical literature review

Tax compliance, according to Cobham (2005) is a problem to many countries as measured by tax to GDP ratio although it has been improving for many countries. For example, its one-third of GDP in rich countries; Latin America and the Caribbean- 17% of GDP and low income countries (in Sub Saharan Africa) showed less than 15% to GDP (the recommended rate). It remains a big challenge to low income countries. This has promoted radical tax reforms in countries like Bolivia, Uruguay, Colombia, Jamaica and Spain with notable success (Bird & De Jantscher, 1992).

### 2.3.1Tax compliance

Tax compliance is a major problem for many tax authorities and it is not easy task to persuade taxpayers to comply with tax requirements even though „tax laws are not always precise" (James and Alley 2004).The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law (James 1999) .However, like many such concepts, the meaning of compliance can be seen as a continuum of definitions. One suggestion is that the degree of non-compliance may be measured in terms of the „tax gap‟. Tax gap represents the difference between the actual revenue collected and the amount that would be collected if there was 100% compliance (James 1999). The exact meaning of tax compliance has been defined in various ways. For example, Andreoni *et al*,.(1998) defined tax compliance as the taxpayers willingness to obey tax laws in order to obtain the economy equilibrium of a country. Kirchler (2007) perceived a simpler definition in which tax compliance is defined as the most neutral term to describe taxpayers‟ willingness to pay their taxes.

A wider definition of tax compliance, defined in 1978 by Song and Yarbrough suggested that due to the remarkable aspect of the operation of the tax system in the United States and that it is largely based on self-assessment and voluntary compliance, tax compliance should be defined as taxpayers‟ ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time (Internal Revenue Service (IRS), 2009; Australia Tax Office (ATO), 2009; Inland Revenue Board of Malaysia (IRB), 2009). Alm (1991)) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. According to Mohd *et al* (2011) tax compliance is defined as the taxpayer‟s willingness to comply with tax laws, declare the correct income, claims the correct deductions, relief and rebates and pays all taxes on time. Allingham and Sandmo (1972) described tax compliance as an issue of „reporting an actual income‟ and also claimed that compliance behaviour was influenced by a situation whereby taxpayers have to make a decision under uncertainty i.e. either taxpayers would enjoy tax savings due to under reporting income or have to pay on the undeclared amount at a penalty rate which is higher than they would have paid had the income been fully declared at the correct time.

### 2.3.2 Tax non-compliance

Tax non-compliance is defined as failure to comply with tax laws and/or report incorrect income, the act of claiming incorrect deductions, relief and rebates and/or paying the incorrect amount of tax beyond the stipulated time frame (Mohd *et al*, .2011).Noncompliance is also perceived as the failure of a taxpayer to report (correctly) the actual income, claim deductions and rebates and remit the actual amount of tax payable to the tax authority on time (Kirchler, 2007). Taxpayers vary in terms of the opportunities available to them in overstating expenses and understating incomes (Chau and Leung, 2009).Greater tax noncompliance opportunity generally result from self-employment and income sources not subject to withholding taxes.

The other classification of actions is tax evasion which consists of illegal and intentional actions taken by individuals to reduce their legally due tax obligations. Individuals and firms can evade taxes by underreporting incomes, sales, or wealth, by overstating deductions or by failing to file appropriate tax returns. In every jurisdiction, tax authorities are empowered to collect revenue from taxpayers. Although there are a number of taxpayers who have reported their income and paid their tax liabilities properly, there are a few taxpayers who have not done so. For its part the government must take actions to ensure compliance with tax laws.

Tax compliance can be divided into two categories namely: Administrative Compliance: This refers to compliance with the administrative rules of lodging and paying taxes on time. This includes compliance with the reporting requirements, procedure and regulations. Technical Compliance**:** This refers to compliance in the computation of taxes payable in accordance with the technical requirements or provisions of the tax laws and paying the right amount of tax. Decades of empirical work on tax compliance has produced awareness of the complexity of tax compliance and non-compliance globally. (Masinde and Makau, 2010) point out that tax compliance itself is now recognized as multifaceted construct. Many scholars such as Jackson *et al*,(1986) have put forward some explanatory variables in analysis of tax compliance behavior.

Based on the available literature, the dominant environmental factors currently shaping the performance of revenue administrators in developing countries are globalization, large informal sectors and limited administrative capacity. Tax policy and administrative reforms generally have one or several of the following objectives: Increasing the equity of the tax system, creating an enabling environment for private sector development, Increasing revenue collection or compliance. On the implementation side, the challenge to coordinate policy reforms with parallel reforms in tax administration has rarely been fully addressed yet the menu of administrative reform options has been greatly enriched with new approaches to organizational design, taxpayer services, ICT solutions, human resource incentives and formal anti-corruption strategies. Compliance management is no longer based purely on an enforcement –focused approach, but on a combination of enforcement and enhanced taxpayer services.

The issue of tax compliance is extremely important both to those concerned with the key role the increased tax yields can play in restoring macroeconomic balance and those concerned with tax policy and its effects on the economy in general. The level of tax collection though important is an unsophisticated measure of the effectiveness of tax administration .A more accurate measure is the level of compliance. Facilitating compliance involves such elements as improving services to taxpayers by providing clear instructions, easy to fill forms and assisting and educating them on their duties and obligations. Monitoring compliance requires establishing and maintaining current accounts of taxpayers and management information systems covering both ultimate taxpayers and third party agents such as banks involved in the tax system as well as appropriate and prompt procedures to detect and follow up on non-filers, nil filers and delayed payments. Deterring noncompliance requires establishing both a reasonable risk of detection as well as applying penalties effectively. The ideal approach is to combine these measures so as to maximize their effect on compliance as it were, to move a country from a "low compliance to a high compliance environment"(Masinde and Makau 2010).

### 2.3.3 Turnover tax awareness and compliance

Awareness is the state or ability to perceive, to feel, or to be conscious of events, objects, or sensory patterns. In biological psychology, awareness is defined as a human's or an animal's perception and cognitive reaction to a condition or event. It is knowledge or understanding of a subject, issue, or situation (Macmillan Dictionary).

The influence of knowledge on compliance behaviours has been assessed in various researches. Knowledge as one of the factors in compliance is related to the taxpayers' ability to understand taxation laws, and their willingness to comply.

The aspect of knowledge that relates to compliance is the general understanding about taxation regulations and information pertaining to the opportunity to evade tax (Kasipillai, Norhani, and Noor, 2003).

Taxation knowledge is necessary to increase public awareness especially in areas concerning taxation laws, the role of tax in national development, and especially to explain how and where the money collected is spent by the government (Mohd, 2010). Attitude towards tax compliance can be improved through the enhancement of taxation knowledge. When a taxpayer has a positive attitude towards tax, this will reduce his or her inclination to evade tax payment (Eriksen & Fallan, 1996). Self-assessment system (SAS) requires taxpayers to understand all the laws and regulations that govern taxation. This is necessary because taxpayers will have to calculate themselves the amount of tax they need to pay and make the payment (Kasipillai, 2003). Taxpayers will readily accept any new system introduced if they have ample knowledge to understand the system. Thus, education programs organized by the tax authority or other public education institutions are needed to enhance taxpayers' ability to understand Self-assessment system and to increase their confidence in fulfilling their responsibilities as taxpayers (Mohani, 2001).

Greater education is directly linked to a likelihood of compliance. Educated taxpayers may be aware of non-compliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favorable taxpayer attitude and therefore greater compliance (Chan et. al. 2000). Chan *et. al*. also suggested that those with a higher education level are more likely to have a higher level of moral development and higher level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2001). Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2010). Hite and Hasseldine (2001) highlighted that tax authority need to emphasize teaching tax courses because of impact of education on compliance.

### 2.3.4 Perception and compliance

Perception towards tax and its general compliance levels has been identified as one of the major factors that influence compliance. With regard to the association of tax payer's perception towards government spending and tax compliance, if tax payers perceive that the government is wisely spending the tax revenue for public goods and services, it is expected that voluntary tax compliance will enhance. But, if taxpayers believe that the government is spending tax revenue unwisely on unnecessary things then taxpayers will feel be unfaithful to and attempt to avoid taxes (Palil & Mustapha, 2011). (Fjeldstad& Ranker, 2003) also argue that, tax payers voluntary tax compliance behavior rests on the government's capability to provide public goods and services. Therefore, the government at all levels should wisely spend taxpayers' money to provide them (taxpayers) greatest benefits for their contribution as a citizen and to distribute resources.

According to previous studies such as Palil (2010), simplicity of tax system has one of an imperative factor that determines tax compliance behavior of tax payers. Specifically, under SAS, tax payers are required to complete their tax returns by themselves which require at least a logical level of simplicity because taxpayers may have different tax knowledge and backgrounds, with differing educational and income levels. Therefore, to help tax payers to fill their tax returns correctly, the tax authority should provide simple and sufficient tax return forms. In this regard, Slemrod (1989) argue that in self assessment system a simple tax return forms and simpler tax laws and regulations will increase voluntary tax compliance because taxpayers do not have to spend much time in checking the accuracy of the returns and determining their tax burden.

As far as the fairness of tax system is concerned, a good tax system should satisfy certain principles which become its characteristics such as equality or fairness and certainty (Bhatia,1976).As it's stated by Jackson & Milliron, 1986), tax payer's perception towards fairness of the tax system also has an influence on the tendency towards tax non compliance. That means when taxpayers perceive that the tax system is unfair they will tend to not paying taxes. This also confirmed by the study of Etzioni (1986) that states that that if taxpaying people feels that taxes are unfairly levied on them, it will be most likely to not paying and underreporting taxes. The finding of the study by Bradley (1994) also shows that the probability of tax evasion will increase, when taxpayers consider the tax system is unfair. Due and Friedlaender (1981) also recommended that tax payers will not pay taxes if they feel the current tax system treat them unfairly and allow other tax payers to escape a tax burden. Hence, it is important that a good tax system should become fair and equitable to tax payers regardless of the type of tax payers.According to Palil (2010), tax payers decisions whichever to pay or not to pay tax are also influenced by referral groups such as family members, friends who engaged in the same business activities. for this reason, previous tax compliance studies have evidenced that the influence of friends and family members in making tax compliance decisions may be essential and it should be to be examined in more tax

### 2.3.5 Tax compliance cost

Sandford (1989) defined Tax compliance costs as the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. High tax rates and complex tax legislations can lead to various tax problems. This includes tax evasion, tax fraud. Earlier research (Franzoni, 1998) concluded that companies will create a kind of resentment against authorities who impose too high levies and too complex tax systems. This will accelerate tax avoiding systems (Franzoni, 1998). In addition, because of the complexity of the system, the companies often need to rely on external tax professionals who by means of sophisticated tax avoidance engineering will minimize tax payments (Franzoni, 1998).

Various components of costs of taxation include social costs, audit costs, travelling costs and others. Social costs are incurred by society in the process of transferring purchasing power from the taxpayers to the government. The other elements are administrative costs and deadweight efficiency loss from taxation. Administrative costs are the costs that exist besides the occurrence of compliance costs that are borne by the companies. These costs are cited as costs that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. For example, it obtains the costs to collect taxes and to maintain the system to collect the taxes. These are to some extent substitutable, for example when a country transfers from a system where the tax office calculates the tax owed, to a self-assessment system (Slemrod and Yitzhaki, 1996)

## 2.4 Summary of the Literature Review

From the literature review it is evident that the turnover tax which is a tax on SMEs is an unsettled matter. The manner to achieve success in the collection of tax from this sector is a challenge to both the developed and the developing countries. In addition to this, while some studies see this tax as necessary, others view it as an obstacle that hampers the growth of SMEs into the formal tax bracket.

### 2.5 Conceptual Framework

The conceptual framework is a diagrammatic representation of the variables that have a direct influence on tunrover tax compliance in Kenya. The relationship between the dependent and the independent variables is illustrated in the conceptual framework presented in figure below.

**Factors influencing turnover tax compliance**

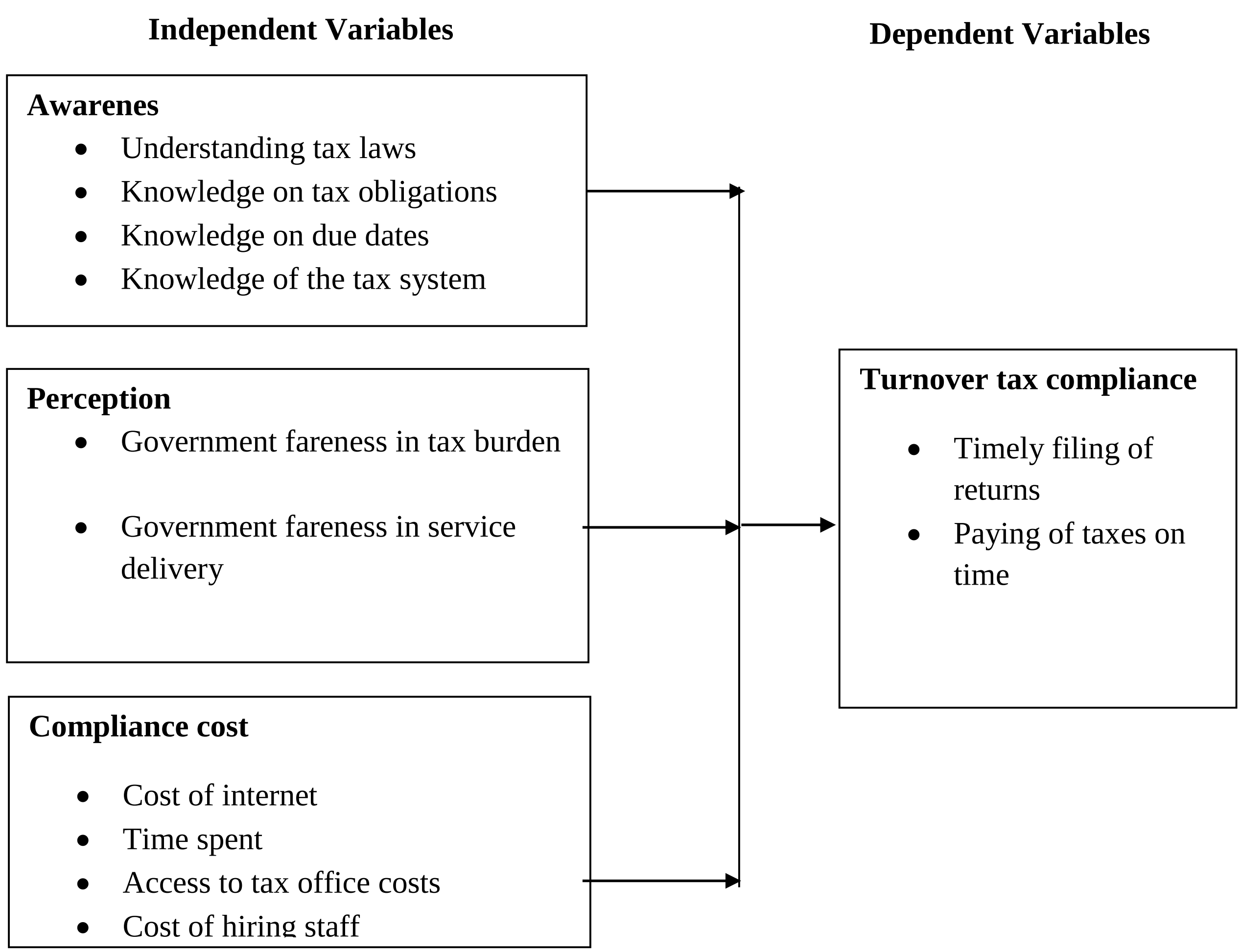


**Figure 2. 1: The conceptual framework**

# CHAPTER THREE
# RESEARCH METHODOLODY

## 3.1 Introduction

This chapter presents the methods and procedures that was used to carry out this study. Specifically, the chapter spells out the research design, the population studied, the sampling strategy, the data collection process and how data was analysed and findings presented.

## 3.2 Research Design

This study was a descriptive research. A descriptive research design enables current description of the phenomena being studied. According to Mugenda and Mugenda (2003) a descriptive research involves collection of data in order to investigate the current status of the subjects with respect to the reason for the study. This study required careful analysis of the factors influencing turnover tax compliance in Kenya. The descriptive research design therefore provided the mechanisms to achieve this requirement.

## 3.3 Target Population

The population of the study included small and medium enterprise tax payers numbering to 200 obtained from the KRA tax office in the region. This population was to give detailed information that was relevant for analysis and interpretation of the data.

**Table 3. 1 Target population**

| **Sector** | **population** |
|---|---|
| Kiosk operators | 36 |
| Small traders | 42 |
| Small restaurants | 38 |
| Construction material traders | 37 |
| Water sellers | 31 |
| Quarry material traders | 16 |
| **Total** | **200** |

### 3.4 Sample size determination

In order to come up with a representative sample of turnover taxpayers, Modified Fisher Model was used since the population was less than 10,000. The formula is as follows:

Equation 1: $n = \frac{Z^2 * p * q}{e^2}$

Where; n: Refer to the desired sample size when the entire population is less than 10,000.

Z: The standard normal deviate usually set at 1.96 which corresponds to the 95% confidence level.

p: The population proportion assumed to be 50% =0.5

q: 1.0 – p

e: degree of accuracy desired in this context set at 0.05.

The sample size of 385 turnover taxpayers was obtained by substituting in the above formula as indicated below:

$n = \frac{Z^2 * p * q}{e^2} = \frac{(1.96)^2 (0.50)(0.50)}{(0.05)^2} =$ 385 taxpayers

**Table 3. 2 Selection of customer sample size**

| Error Margin (P-values) | Customer Sample (pop>10,000) | Comments |
|---|---|---|
| **5%** | **385** | **Recommended for this survey** |
| 4.50% | 474 | |
| 4% | 600 | |
| 3.50% | 784 | |
| 3% | 1067 | |
| 2.50% | 1537 | |
| 2% | 2401 | |
| 1.70% | 3323 | |
| 1.50% | 4268 | |
| 1% | 9604 | |

For Populations of less than 10,000, the modified Fisher's model was further utilized, where the above sample size was adjusted using equation 2:

Equation 2: $nf = \frac{n}{1+\frac{(n-1)}{N}}$

Where: $nf$ : The sample size,

$n$ : The sample size in equation 1 above; and

$N$ : is the population size

Thus, given that Embu county has 200 registered turnover taxpayers (population size N=200), the corrected sample size using equation 2 is as follows:

$$nf = \frac{385}{1+\frac{(385-1)}{200}} = 132 \text{ taxpayers}$$

The sample size is distributed as follows;

### 3.4.1 Sampling frame

A sample frame is a complete list of all the members of the population that one wishes to study.

**Table 3. 3 sampling frame**

| **Samples** | **Sample size** |
|---|---|
| Kiosk operators | 25 |
| Small traders | 30 |
| Small restaurants | 26 |
| Construction material traders | 26 |
| Water sellers | 20 |
| Quarry material traders | 5 |
| **Total** | **132** |

### 3.5 Sampling techniques

Stratified random sampling and simple random techniques were used in getting samples. The researcher randomly choose respondents. The reason for using simple random sampling is because its easy to use and has accurate representation of the larger population.

### 3.6 Data Collection instruments and procedure

This study used primary data collected from different turnover taxpayers in Embu County. The data was collected using questionnaire. The questionnaire consisted of structured questions and Likert rating scales. The questionnaire was administered to the turnover taxpayers by the researcher through drop and pick later method.

### 3.7 Data Analysis and Presentation

The questionnaire was divided into two sections; Section A and B. In Section A the respondent provided general information about the respondent. Section B was used to find out the factors influencing turnover tax compliance. Section B used the Likert scale as the instrument of measurement.

The captured data was coded and analysed using statistical measures such as percentages and totals. The results were presented using tables. The Statistical Package for Social Sciences (SPSS) version 20 was used in data analysis.

#### 3.7.1 Analytical Model

The following regression analysis will be used to determine the factors influencing turnover tax compliance among small and medium enterprises in Kenya case of Embu. The study analytical model is depicted by the linear equation given below-

$$y = \beta_0+\beta_1 x_1+\beta_2 x_2+ \beta_3 x_3+..............+\beta_i x_i+\varepsilon$$

Where:

$y$ –Turnover tax compliance

$\beta_0$- $\beta_4$ -regression coefficient of independent variables

$x1$ - Taxpayers level of awareness

$x2$ – perception on government accountability and tax system

$x3$ –cost of compliance

$\varepsilon$ -error term, it takes into account all the possible factors that would possibly influence the dependent variable though not captured in the model

### 3.7.2. Test of Significance

Analysis of variance (ANOVA) will be used to test the significance of the model, the significance of the regression model will be determined at 95% confidence interval and 5% level of significance. Adjusted R squared will be used to determine the variations in the dependent variable due to changes in the independent variable.

## CHAPTER FOUR
## RESEARCH FINDINGS AND DISCUSSIONS

### 4.1 Introduction

This chapter presents the data analysis, presentation and interpretation of findings on the data collected from respondents on the factors influencing turnover tax compliance in Kenya case of Embu County. The main objective of the study was to evaluate the factors that influence turnover tax compliance levels in relation to perception towards the government accountability and tax system, level of awareness and the cost of compliance. The study sampled one hundred and thirty two (132) respondents within Embu County and the data was interpreted as per the research questions.

### 4.2 Response rate

The study targeted a total of 132 respondents on the factors influencing turnover tax compliance in Kenya. Out of the 132 questionnaires issued, 106 were returned giving 80% response rate as shown in Table 4.1. According to Mugenda and Mugenda (2003) a 50% response rate is adequate, 60% good and above 70% is rated very good. This implies that based on these assertions; the response rate for this study, 80% is very good.

**Table 4. 1: Response Rate**

| Response | Questionnaire administered | Questionnaires filled and returned | Percentage |
|---|---|---|---|
| **Total** | 132 | 106 | 80% |

### 4.3 Demographic information

The study found it important to establish the demographic information in order to evaluate the factors that influence the turnover tax compliance in the. The demographic information of the respondents included gender, age, level of education, business activity, turnover, age of business, legal business registration and form of business.

#### 4.3.1 Gender Distribution

The researcher sought to determine the gender distribution of the respondents and the findings are shown in Table 4.2.

**Table 4. 2: Gender of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Male | 61 | 56.5 | 57.5 | 57.5 |
| | Female | 45 | 41.7 | 42.5 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

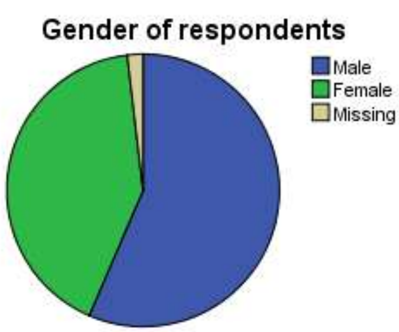


**Figure 4. 1: gender of respodent**

The findings of the study indicated that the dominant group, the majority of the respondents who participated in the study, were male who accounted for 57.5% while their female counterparts accounted for 42.5%. This indicates that majority of the people who have small businesses are males as they accounted for higher number than the males.

### 4.3.2 Age Category

The researcher sought to determine the age category under which the respondents fall and the findings are shown in Table 4.3.

**Table 4. 3: Age of respondents**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below 20 | 2 | 1.9 | 1.9 | 1.9 |
| | 21-30 | 48 | 44.4 | 45.3 | 47.2 |
| | 31-40 | 39 | 36.1 | 36.8 | 84.0 |
| | 41-50 | 8 | 7.4 | 7.5 | 91.5 |
| | Above 50 | 9 | 8.3 | 8.5 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

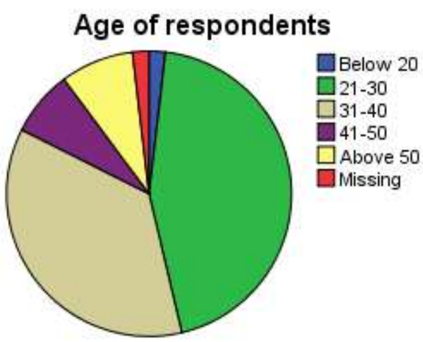


**Figure4. 2: Age of respodent**

The findings reveal that few participants are in the age bracket of below 20 years representing 1.9%. The most participants are in the age bracket of between 20-30 representing 45.3 % followed by 36.8% who are aged between 31-40 years. The study further reveals that 7.5% of the respondents were aged between 41-50 years and 8.5% were above 50 years. It can therefore be observed from the findings of the study that most of respondents were aged between 20-40 making a total of 82.1%. This means that majority of the small business enterprise owners are youths who according to the law fall under the age of 18-35 years.

### 4.3.3 Level of Education

The study also found it of importance to determine the participants" level of education which was crucial for this study as the respondents" level of education eliminates the bias of uneducated respondents. The findings are presented in Table 4.4.

**Table 4. 4: Level of education**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Primary | 12 | 11.1 | 11.3 | 11.3 |
| | secondary | 30 | 27.8 | 28.3 | 39.6 |
| | Technical | 13 | 12.0 | 12.3 | 51.9 |
| | Undergraduate | 41 | 38.0 | 38.7 | 90.6 |
| | Post graduate | 10 | 9.3 | 9.4 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

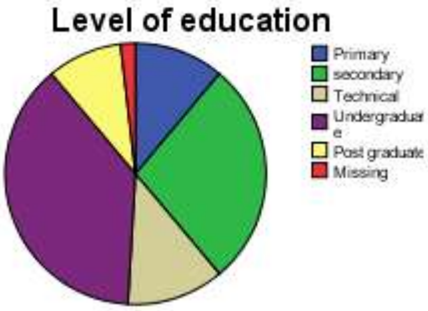


**Figure4. 3: level of education**

The results of the findings reveal that most respondents are undergraduates accounting for 38.7% while 9.4% are postgraduates. 12.3% of the respondents were educated up to technical level, 28.3% up to secondary level and 11.3% up to primary. The findings of the study show that the respondents had reasonable education to execute the roles assigned to them as taxpayers effectively and efficiently and make prudent decisions especially because above those with at least secondary education were above 85% of the respondents.

### 4.3.4 Nature of business

The respondents were asked to indicate the nature of their business and the findings are presented in Table 4.5.

**Table 4. 5: Nature of business**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Trade | 48 | 44.4 | 45.3 | 45.3 |
| | Service | 32 | 29.6 | 30.2 | 75.5 |
| | Manufacturing | 9 | 8.3 | 8.5 | 84.0 |
| | Agriculture | 5 | 4.6 | 4.7 | 88.7 |
| | Mining | 5 | 4.6 | 4.7 | 93.4 |
| | Fishing | 7 | 6.5 | 6.6 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

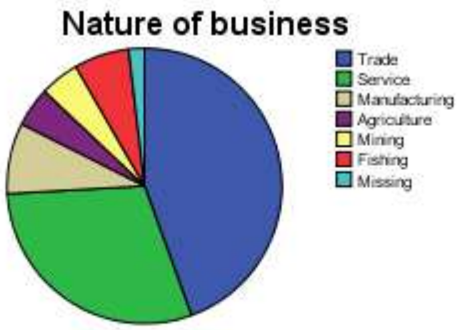


**Figure 4.4: nature of business**

As shown in table 4.5, the majority of respondents, 45.3%, engage in trade activities. This was followed by those engaging in service delivery at 30.2% and manufacturing at 8.5%, agriculture and mining took 4.7%, fishing took 6.6% while energy had none. Many of the respondents here seemed to engage in trade where they supplied little of everything followed by service delivery and manufacturing. This could easily explain why the majority of the respondents were men; many of them dealing with trade and service delivery

### 4.3.5 Annual turnover

The researcher found it important to ask the respondents to indicate their business‟ average annual turnover, as this factor helps identify the correlation between income levels, the cost a taxpayer attaches to compliance and compliance in terms of tax payments. Table 4.6 shows the results of the findings

**Table 4. 6: Annual turnover**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Below 500000 | 19 | 17.6 | 17.9 | 17.9 |
| | 500000-1M | 40 | 37.0 | 37.7 | 55.7 |
| | 1M-2M | 27 | 25.0 | 25.5 | 81.1 |
| | 2m-3M | 15 | 13.9 | 14.2 | 95.3 |
| | Above 3M | 5 | 4.6 | 4.7 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

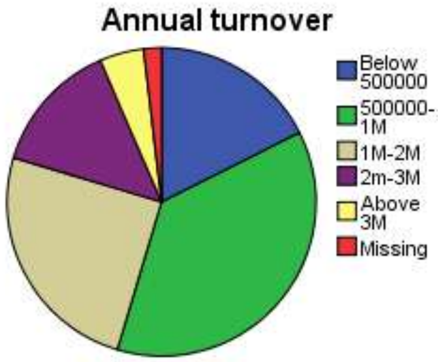


**Figure 4.5: Annual turnover**

Respondents with an annual turnover of below 500,000 accounted for 17.9% while the respondents with an annual turnover of 500,000-1Million accounted for 37.7%, making the majority followed in a distance by 25.5% who revealed they had annual turnover of 1M-2M. 14.2% indicated that their annual turnover is between 2M-3M, and 4.7% said their turnover is above 3 million. Many of the respondents forming 63.2% had an annual turnover of between kshs 500,000 to 2M.

### 4.3.6 Legal business registration status

The researcher inquired as to whether the respondents" businesses were legally registered. The findings are presented in Table 4.7.

**Table 4. 7: Business registration status**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 84 | 77.8 | 79.2 | 79.2 |
| | No | 22 | 20.4 | 20.8 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

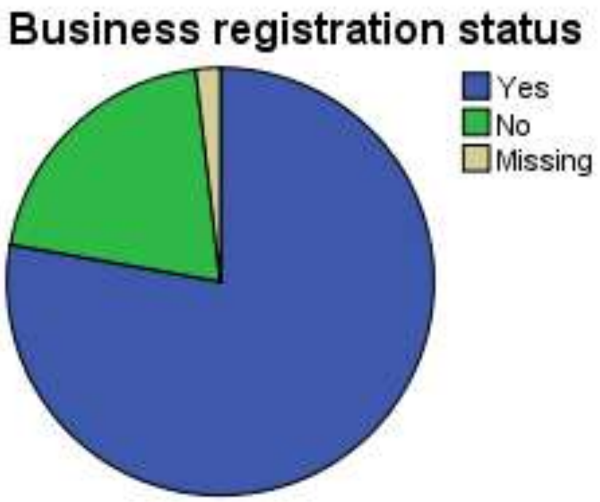


**Figure 4.6: business registration status**

As shown in Table 4.7, majority of the SMEs 79.2% were registered formally at the government registry compared to 20.8% which were not registered. This implies that most SMEs owners strive to register their businesses with the government.

### 4.3.7 Duration of existence

**Table 4. 8: Duration of existence**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 0-3 | 27 | 25.0 | 25.5 | 25.5 |
| | 4-8 | 44 | 40.7 | 41.5 | 67.0 |
| | 9-15 | 22 | 20.4 | 20.8 | 87.7 |
| | Above 15 | 13 | 12.0 | 12.3 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

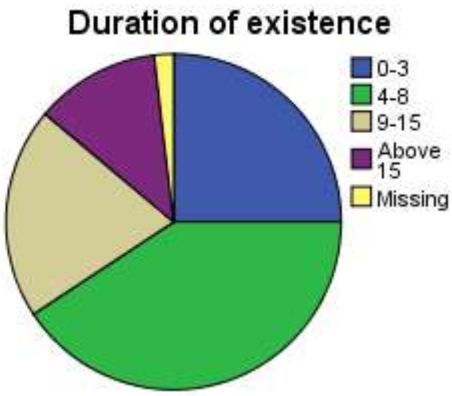


**Figure 4.7: duration of excistence**

As shown in Table 4.8 the researcher sought to find out the period for which the SMEs who responded had been in operation. At the time of the study, the findings indicated that most of the SMEs had been in operation for a period of 4-8 years which represented 41.5% of the sample population. Following closely was the bracket of 0-3 years representing 25.5%. 20.8% of the SMEs at the time had been in existence for a period of 9-15years while the rest of the SMEs at 12.3% had been in operation for a period exceeding 15 years.

### 4.3.8 legal form of business

**Table 4. 9: Legal form of business**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | sole proprietorship | 85 | 78.7 | 80.2 | 80.2 |
| | Partnership | 12 | 11.1 | 11.3 | 91.5 |
| | Limited Company | 9 | 8.3 | 8.5 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

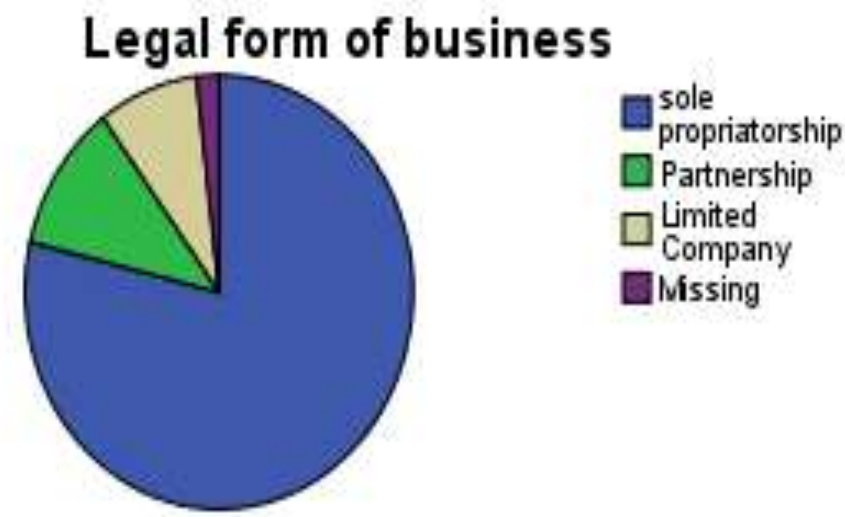


**Figure 4.8: legal form of business**

As shown in the Table 4.9 most of the small and medium enterprises are owned and managed by the owners themselves with 80.2% being sole proprietorship while 11.3% are partnership and 8.5% limited company.

### 4.3.9 Number of employees

**Table 4. 10: Number of employees**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | 1-5 | 94 | 87.0 | 88.7 | 88.7 |
| | 6-10 | 9 | 8.3 | 8.5 | 97.2 |
| | 11-20 | 3 | 2.8 | 2.8 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

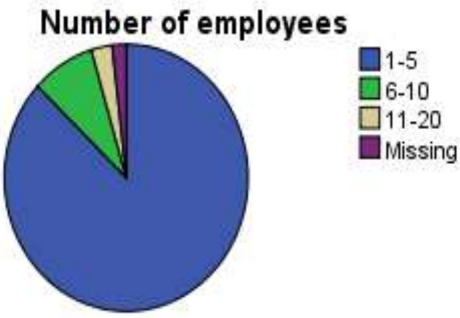


**Figure 4.9: numbber of employees**

As shown in table 4.10, the majority of respondents, 88.7%, indicated that their number of employees including themselves are in the bracket of 1-5 followed by the bracket of 6-10 at 8.5%. 2.8% were in the bracket of 11-20 while the bracket of 21-30 and above had none.

## 4.4 Levels of awareness.

The researcher enquired from the respondents their level of awareness on matters relating to taxation and tax compliance on a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree and the results were tabulated in the Table 4.11.

**Table 4. 11: Level of awareness**

| **Statement** | **Rankings** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **%** | **2** | **%** | **3** | **%** | **4** | **%** | **5** | **%** |
| 1) I do not understand my tax obligations | 3 | 2.8% | 5 | 4.7% | 20 | 18.9% | 42 | 39.6% | 36 | 34% |
| 2) Tax officers provide accurate information on tax matters | 2 | 1.9% | 3 | 2.8% | 4 | 3.8% | 56 | 52.8% | 41 | 38.7% |
| 3) I am aware on how to file tax returns | 34 | 32% | 46 | 43.4% | 9 | 8.5% | 13 | 12.3% | 4 | 3.8% |
| 4) I am aware on when to file tax returns | 2 | 1.9% | 40 | 37.7% | 5 | 4.7% | 36 | 34% | 23 | 21.7% |
| 5) I understand the tax system | 30 | 28.3% | 54 | 50.9% | 7 | 6.6% | 13 | 12.3% | 2 | 1.9% |
| 6) The tax office educate the taxpayers on how to use the tax system | 12 | 11.3% | 52 | 49.1% | 3 | 2.8% | 31 | 29.2% | 8 | 7.5% |
| 7) The tax office values feedback about the way the tax system is run | 5 | 4.7% | 44 | 41.5% | 9 | 8.5% | 46 | 43.4% | 2 | 1.9% |
| 8) I understand the tax laws on TOT | 35 | 33% | 53 | 50% | 10 | 9.4% | 5 | 4.7% | 3 | 2.8% |
| 9) I know where to get help on tax matters | 6 | 5.7% | 14 | 13.2% | 11 | 10.4% | 63 | 59.4% | 12 | 11.3% |
| 10) I know the consequences of not filing tax returns | 4 | 3.8% | 8 | 7.5% | 2 | 1.9% | 58 | 54.7% | 34 | 32.1% |

According to the Table 4.11 with regard to the level of awareness, 39.6% of the respondents do not understand their obligation with 34% strongly agreeing so. 18.9% were not sure while 4.7% disagreed and 2.8% strongly disagreeing with that. The respondents 52.8% however agreed that the tax officers provide accurate information on tax matters with 38.7% strongly agreeing to that. 18.9% of the respondents were not so sure but 2.8% disagreed and 1.9% strongly disagreed with the same.

When asked if they are aware on how to file tax returns, 43.4% disagreed and 32% strongly disagreeing. 8.5% however were not sure whether they agree with that statement or not but 12.3% agreed and 3.8% strongly agreed that they know how to file returns. 34% are aware on when to file the returns while 21.7% strongly agreeing with the same. 4.7% were not sure but 37.7% disagreed that they are aware and 1.9% strongly disagreeing.

The respondents were asked if they understand the tax system, 50.9%disagreed, 28.9% strongly disagreed, and 6.6% were not sure. 12.3% agreed that they understand the system and only 1.9% strongly agreed with the statement. 49.1% disagreed and 11.3% strongly disagreed that the tax office educate taxpayers on how to use the tax system 2.8% however were not sure but 29.2% agreed with the statement and 7.5% strongly agreeing with the same. 41.5% did not feel like the tax office value feedback about the way the tax system is run, 4.7% strongly felt that the tax office does not value feedback, 8.5% were not sure about it while 43.4% agreed and 1.9% strongly agreed to the statement.

When asked if they understand the tax laws on turnover tax, 50% disagreed and 33% strongly disagreed on the statement. 9.4% were not sure but 4.7% agreed with 2.8% strongly agreeing that they know the law. Majority of the respondent 54.7% agreed that they know the consequences of not filing tax returns, 32.1% strongly agreed to the statement, 1.9% were nor sure but 7.5% of the respondent were not aware as they disagreed and 3.8% strongly disagreed with the statement.

### 4.5 Cost of compliance

The researcher enquired from the respondents their cost of compliance on matters relating to taxation and tax compliance on a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree and the results were tabulated in the Table 4.12.

**Table 4. 12: Cost of compliance**

| **Statement** | **Rankings** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **%** | **2** | **%** | **3** | **%** | **4** | **%** | **5** | **%** |
| 1) The mode of payment is time consuming | 6 | 5.7% | 22 | 20.8% | 6 | 5.7% | 55 | 51.9% | 17 | 16% |
| 2) The mode of payment is tedious | 13 | 12.3% | 56 | 52.8% | 11 | 10.4% | 21 | 19.8% | 5 | 4.7% |
| 3) The frequency of filing tax returns is too high | 9 | 8.5% | 37 | 34.9% | 8 | 7.5% | 47 | 44.3% | 5 | 4.7% |
| 4) Tax system is complex | 3 | 2.8% | 21 | 19.8% | 11 | 10.4% | 58 | 54.7% | 13 | 12.3% |
| 5) I have to rely on external tax professionals to assist in tax matters | 1 | 0.9% | 6 | 5.7% | 1 | 0.9% | 62 | 58.5% | 36 | 34.4% |
| 6) Travelling to the tax office is expensive | 5 | 4.7% | 41 | 38.7% | 4 | 3.8% | 53 | 50% | 3 | 2.8% |
| 7) The process of accessing the tax system is expensive | 2 | 1.9% | 15 | 14.2% | 3 | 2.8% | 55 | 51.9% | 31 | 29.2% |
| 8) The amount of penalties imposed as a result of non-compliance increase the rate of none compliance | 4 | 3.8% | 57 | 53.8% | 9 | 8.5% | 34 | 32.1% | 2 | 1.9% |

According to the Table 4.12 with regard to the cost of compliance, 51.9% agreed that the mode of payment is time consuming, 16% agreed with the same while 5.7% of the respondent were nor sure. 20.8% of the respondent disagreed and 5.7% strongly disagreed with the statement. 52.8% disagreed and 12.3% strongly disagreed that the mode of payment is tedious while 10.4% were not sure .19.8% agreed with the statement and 4.7% strongly agreed with the same. When the respondents were asked if the frequency of filing returns is too high, majority of the respondents 44.3% agreed while 34.9% disagreed. 8.5% strongly disagreed, 7.5% of the respondents were not sure while 4.7% strongly agreed to the statement.

More than half of the respondents 54.7% felt that the tax system is complex with 12.3% strongly agreeing with the same. 19.8% disagreed while 2.8% strongly disagreeing with the statement, however 10.4% were not sure. It was clear that majority of the respondents 58.5% rely on external tax professionals to assist in tax matters.34.4% strongly agreed with the statement. However 5.7% disagreed and 0.9% strongly disagreed while 0.9% of the respondents were not sure.

To most of the respondents 50% travelling to the tax office is expensive with 2.8% strongly agreeing. However 38.7% disagreed with the statement with 4.7% strongly disagreeing with the same. 3.8% of the respondents were not sure. More than half of the respondents 51.9% agree that accessing the tax system is expensive. 29.2% strongly agreed to the statement, 2.8% were not sure while 14.2% agreed and 1.9% strongly agreed with the same. 53.8% disagreed that the amount of penalties imposed as a result of non-compliance increase the rate of none compliance but 32.1% of the respondents agreed. 1.9% strongly agreed, 3.8% strongly disagreed but 8.5% were not sure about the statement.

## 4.6 Taxpayer perception

The researcher enquired from the respondents their perception on government accountability and tax system on a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree and the results were tabulated in the Table 4.13.

**Table 4. 13: Taxpayer perception**

| **Statement** | **Rankings** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1** | **%** | **2** | **%** | **3** | **%** | **4** | **%** | **5** | **%** |
| 1) Government fails to involve taxpayers when formulation tax policies | 1 | 0.9 % | 5 | 4.7% | 2 | 1.9% | 60 | 56.6% | 38 | 35.8% |
| 2) The current tax laws and regulations are complex | 5 | 4.7 % | 8 | 7.5% | 3 | 2.8% | 58 | 54.7% | 32 | 30.2% |
| 3) The current turnover tax rate is very high | 19 | 17.9 % | 62 | 58.5% | 0 | 0% | 22 | 20.8% | 3 | 2.8% |
| 4) There is accountability on how revenue is used | 5 | 4.7 % | 47 | 44.3% | 1 | 0.9% | 49 | 46.2% | 4 | 3.8% |
| 5) There is equity in distribution of services by the government | 7 | 6.6 % | 12 | 11.3% | 7 | 6.6% | 56 | 52.8% | 24 | 22.6% |
| 6) There is fareness in allocation of utilities by the government | 2 | 1.9 % | 3 | 2.8% | 8 | 7.5% | 57 | 53.8% | 36 | 34% |
| 7) The mode of tax collection by the tax office is not satisfactory to taxpayers | 39 | 36.8 % | 54 | 50.9% | 2 | 1.9% | 6 | 5.7% | 1 | 0.9% |
| 8) Taxpayers are not willing to comply with tax | 40 | 37.7 % | 55 | 51.9% | 1 | 0.9% | 7 | 6.6% | 3 | 2.8% |

According to table 4.13 with regard to taxpayer perception on government accountability and tax system, majority of the respondents 56.6% agreed that the government fails to involve the taxpayers when formulating tax policies with 35.8% strongly agreeing with the same. 4.7% of the respondents disagreed while those who were not sure and those who strongly disagreed were 0.9%. When asked whether the current tax laws and regulations are complex, more than half of the respondents 54.7% agreed and 30.2% strongly agreed. Few of the respondents 2.8% were not sure, 7.5% disagreed while 4.7% strongly disagreed with the statement.

To most of the respondents 58.5% do not feel like the turnover tax rate is too high with 17.9% strongly disagreeing with the same. Those who agreed that the turnover tax rate is too high were 20.8% and 2.8% strongly agreed with the same. Most of the respondents 46.2% feel that there is accountability on how revenue is used but almost same number of respondents 44.3% disagreed with the statement.4.7% strongly disagreed, 3.8% strongly agreed while 0.9% were not sure. Those who believe there is equity in distribution of services by the government were 58.2%. 22.6% strongly agreed but those who disagreed and strongly disagreed were 11.3% and 6.6% respectively. The respondents who were not sure were 6.6%.

When asked if there is fairness in allocation of utilities by the government, majority of the respondents 53.8% agreed and 34% strongly agreed that there is fairness. 7.8% were not sure. While 2.8% and 1.9% agreed and strongly agreed respectively. Those respondents who disagree and strongly disagree that the mode of tax collection by tax office is not satisfactory to taxpayers were 50.9% and 36.8% respectively. 1.9% were not sure but those who agreed were 5.7% and 1.9% strongly agreed. Most of the taxpayers are willing to comply since those respondents who disagreed and strongly disagreed that that the taxpayers are not willing to comply with tax were 51.9% and 37.7% respectively. 0.9% were not sure but 6.6% and 2.8% agreed and strongly agreed respectively that they are not willing to comply with tax.

**Timely filing of return**

The researcher found it important to ask the respondents to indicate whether he /she files returns on time.

**Table 4. 14: Timely filing of return**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 60 | 55.6 | 56.6 | 56.6 |
| | No | 46 | 42.6 | 43.4 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

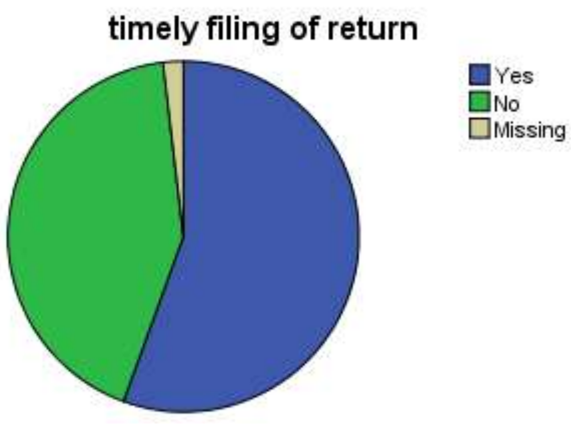


**Figure 4.9: Timely filing of returns**

According to the Table 4.14 with regard to the timely filing of returns majority of the respondents 56.6% indicated that they files returns on time while 43.4% of the respondents file returns after deadline.

### Timely payment of taxes

The researcher found it important to ask the respondents to indicate whether he /she pays taxes on time.

**Table 4. 15: Timely payment of taxes**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Yes | 68 | 63.0 | 64.2 | 64.2 |
| | No | 38 | 35.2 | 35.8 | 100.0 |
| | Total | 106 | 98.1 | 100.0 | |
| Missing | System | 2 | 1.9 | | |
| Total | | 108 | 100.0 | | |

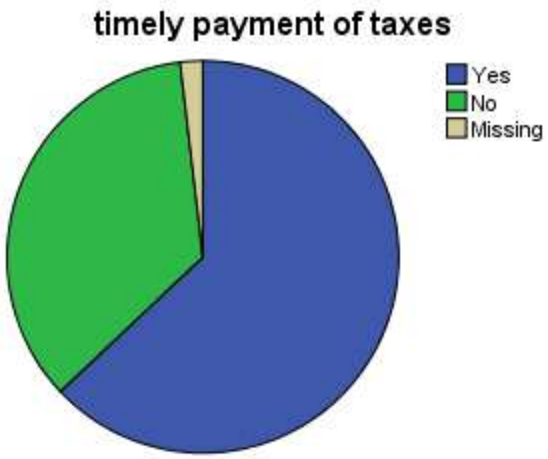


**Figure 4.10:Timely payment of taxes**

According to the Table 4.15 with regard to timely payment of taxes, majority of the respondents 64.2% indicated that they pay taxes on time while 35.8% of the respondents fails to pay taxes on time.

**Table 4.16 Coefficients of regression Equation**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | | | 95.0% Confidence Interval for B | |
|---|---|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | t | Sig. | Lower Bound | Upper Bound |
| 1 | (Constant) | 1.759 | .249 | | 7.068 | .000 | 1.265 | 2.252 |
| | Level of awareness | .007 | .047 | .014 | .146 | .885 | -.087 | .101 |
| | Cost of compliance | -.076 | .050 | -.173 | -1.522 | .131 | -.176 | .023 |
| | Taxpayer Perception | -.074 | .048 | -.172 | -1.537 | .127 | -.169 | .022 |

a. Dependent Variable: TOT Compliance

Substituting the beta coefficients from Table 4.16 generates the predictor equation

**Y = 1.759- +0.007 awareness level - 0.076 compliance costs – 0.074 taxpayer perception + ε**

The findings shows that all factors constant, a unit increase in level of awareness led to a 0.007 increase in turnover tax compliance level among individual tax payers. The findings shows that all factors constant,a unit increase in compliance costs led to a 0.076 decrease in turnover tax compliance level among individual tax payers. The findings shows that all independent factors constant, a unit increase in taxpayer perception led to a 0.074 decrease in tax compliance level among individual tax payers. Thus, level of awareness had a positive impact on turnover tax compliance level among individual tax payers while compliance costs and taxpayer perception had a negative impact on turnover tax compliance level among individual tax payers.

**Table 4.17 Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Change Statistics | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | R Square Change | F Change | df1 | df2 | Sig. F Change |
| 1 | .173[a] | .030 | .001 | .482 | .030 | 1.048 | 3 | 102 | .375 |

a. Predictors: (Constant), Taxpayer Perception, Level of awareness, Cost of compliance

b. Dependent Variable: TOT Compliance

Analysis in Table 4.17 shows that the three factors accounted for 3% of variance in the tax compliance level (R2 = 0.030). This means that the three factors studied in the study (level of awareness, compliance costs, and taxpayer perception) can explain 3% of changes in the dependent variable (turnover tax compliance level among SMEs). With an R2 = 0.030 and we can infer that the variation left unexplained (97%) by the model was not caused by a large rating error but rather by the exclusion of predictors from the model that affect turnover tax compliance level among SMEs. The P –value of 0.000 (less than 0.05) implies that the model of turnover tax compliance level among SMEs is significant at the 5 percent significance. This means that other factors not studied contribute to 97% variation in turnover tax compliance level among SMEs in Kenya.

# CHAPTER FIVE
# SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

In this chapter the research findings are summarized, conclusion and recommendations to the study are drawn and research gaps are identified for future studies as the study aimed at determining factors influencing turnover tax compliance in the Kenya

## 5.2 Summary of findings

The researcher sampled 132 respondents who owned businesses, 106 of the targeted respondents filled in and returned the questionnaires, giving 80% response rate. Relying on the responses given by the respondents, the researcher came up with findings which were used to make conclusions and give recommendations. From the study findings, the male group was dominant forming 58% and also majority of the respondents fell under the age group of 20-40 years old making them youths as per laws of the land. They are also educated as at least 85% have gone through secondary education hence in a position to make informed choices when it comes to tax. Many of the respondents are in the trade business forming 45% followed by service at 30%. Most of the business have an annual turnover of between 500,000/- and 2M making 64%. Their businesses are also formally registered forming (79%).

### 5.2.1 Level of awareness

This study found that most of the respondents do not understand their tax obligations, they also don’t know when and how to file tax returns. It was also found that taxpayers do not understand the tax system, the tax office also do not educate the taxpayers on how to use the system. Though taxpayers do not understand the tax laws, they feel they get quality information about tax from the tax office.

### 5.2.3 Cost of compliance

The study found that it is expensive for the taxpayers to comply, this is because the taxpayers feel that the mode of payment is tedious and time consuming. The taxpayer also find the tax system complicated, rate of filing returns too high and they have to engage tax professional to assist in tax matters making it more expensive. Travelling to the tax office was found to have expenses as there are few tax offices in the region. Accessing the tax system from cyber, personal computers and mobile phones is a challenge and costly too.

### 5.2.4 Taxpayer perception

The study found that most of the taxpayers feel that the government does not involve them when formulating tax policies which affect them. The complexity of the tax system and unsatisfactory mode of tax collection was found to have a negative influence to the taxpayers on compliance. Taxpayers feel that there is fairness in allocation of utilities and delivery of services but not satisfactory. It was also found that taxpayers feel there is accountability on how the revenue is spent but still not satisfactory

The suggested effective remedies for turnover tax compliance included: Frequent taxpayer education and sensitization on matters relating to turnover tax and tax compliance, putting in place mechanisms to address public misconceptions or inaccuracies and providing information in a customer-focused way to reduce error.

## 5.3 Conclusions of the Study

This study concludes that the challenges facing turnover tax compliance in Kenya include the mode of payment of the turnover tax was found to be time consuming and tedious. It is also concluded that turnover taxpayers encountered problems when filing turnover tax returns. The SMEs also indicated that they did not understand their obligations. The government also failed to involve taxpayers when formulating tax policies though there are visible improvements in government services and distribution of utilities

Findings from the study reveal that all the identified factors have a direct influence on the tax compliance efforts by taxpayers in the turnover businesses. The perceptions of taxpayers towards the tax system greatly determine the level of compliance for turnover tax. The study determined the relationships between the awareness of the taxpayers and compliance behavior. The findings suggest that taxpayers are not aware of their responsibilities; however, the result also indicated that other factors like cost of compliance and complicated systems result into the low levels of compliance. Taxpayer's perception of tax system is inclined to change due to changing tax knowledge. Therefore, KRA has to some extent done a lot to educate its taxpayers but there is still more that needs to be done like creation of friendly systems and training its officers on customer service skills. This may probably increase the level of compliance. Therefore small taxpayers' compliance can be predicted basing on how much tax knowledge they possess, the cost they incur and how they perceive the equitability of the income tax system and government accountability. It can be concluded that taxpayers' knowledge about taxes, cost s and their perception on government accountability and how fair the tax system is, affect tax compliance.

### 5.4 Limitations of the Study

Time constraint was a limiting factor because the study had to be concluded within a short period of time. Being a self-sponsored student funds were limited. There was no assurance that the respondents would return all the questionnaires duly completed, nor the guarantee that those interviewed would respond to all the questions put forward to them. Being a sensitive project in matters of tax some taxpayers were not willing to participate in the study for fear that it would expose their non-compliance.

### 5.5 Recommendations of the study

Based on the findings of this study, the researcher came up with several recommendations to encourage higher levels of turnover tax compliance in Kenya. This study recommends that there should be a deeper analysis of the mode of turnover tax collection to make it less time consuming and less tedious. The problems that turnover tax taxpayers experience when filing turnover tax returns should be established and necessary adjustment remedies made. There should be rigorous education programs targeting SMEs to enable them understand the turnover tax system, how it works and advantages of using it so that they can understand and appreciate it, understand obligations and provide opportunity to provide feedback about the way the tax system was run. The government should also involve the taxpayers when fomulating tax laws and policies as it affect them directly.

They should also train their staff diligently on customer service so that when these taxpayers who have limited knowledge on taxes approach them they can be able to help them and train them on the application of turnover tax. K.R.A should ensure all taxpayers who fall under turnover tax are registered and follow ups done promptly to avoid biasness and increase peer influence to comply with the turnover tax rules.

### 5.6 Suggestions for further research

This study proposes the following areas for further study: An assessment of the impact of motivational factors; such as rewards and punishments; such as penalties have on turnover tax compliance. An investigation into how peer pressure influence turnover tax compliance. An assessment of the impact of demographic factors; such as sex, age, education and size of income have on turnover tax compliance. The study can be repeated in other countries that have similarities with Kenya to establish if the situation is the same as in Kenya. The sample and the population of this study was mainly Kenyan. A study can be conducted to determine other factors that determine turnover tax compliance among SMEs in other East African or African countries and how they affect turnover tax compliance. Further, the study can be repeated some other time later to assess the changes that might have occurred. Due to the dynamic nature of challenges that face turnover tax compliance, the study can be repeated later to determine whether the factors found in this research and the suggested remedies still hold.

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# APPENDICES

## Appendix I: Letter of Introduction

KENYA SCHOOL OF REVENUE ADMINISTRATION

POST GRADUATE DIPLOMA IN TAX ADMINISTRATION

26th March 2018

The Manager,

……………………………………………..

Dear sir/Madam,

RE: INTRODUCTION

I am a student at Kenya School of Revenue Administration pursuing a Post Graduate Diploma in Tax Administration. I am required to carry out a management research project in my area of study. I am conducting a survey to find out the factors influencing turnover tax compliance in Kenya.

I kindly request you to provide the required information to the best of your knowledge by filling out the attached interview guide. The information is strictly for academic purposes only and will be treated in the strictest confidence. A copy of the research project will be made available to you on request. Your kind assistance will be highly appreciated.

Yours faithfully,

Thiong'o Arthur

(Researcher)

**Appendix II:** Questionnaire

**Questionnaire for Turnover Taxpayers**

**SECTION A - RESPONDENT'S BACKGROUND**

**Instructions**

Where necessary put this sign [√] for a correct answer of your choice

1. Designation: -…………………………………………………………..

2. Name of your organization or business: -…………………………………………….

3. Gender of respondent

    a) Female [ ] b) Male [ ]

4. Age of respodent

    a) below 20 [ ] b) 20-30 [ ] c) 31-40 [ ] d) 41-50 [ ]

    e) above 50 [ ]

5. Respondent's highest educational level.

    a) primary [ ]

    b) Secondary [ ]

    c) Technical [ ]

    d) undergraduate [ ]

    e) post gradyate [ ]

6. What is your main business activity?
…………………………………………………………………………………………

7. Nature of business. (Please tick the appropriate)

    Trade ( ) Service ( ) Manufacturing ( ) Agriculture ( ) Energy ( ) Mining ( ) Fishing ( )

Others (specify) ..................................................................................................................

8. On average, what is your business ‘annual turnover?

- Below Ksh 500, 000 [ ]
- Between Ksh 500,001 and Ksh 1 Million [ ]
- Between Ksh 1,000,001 and Ksh 2 Million [ ]
- Between Ksh 2,000,001 and Ksh 3 Million [ ]
- Over Ksh 3 million [ ]
-

9. For how long has the SME been in existence? (Please tick the appropriate)

a) 0 – 3 years ( ) b) 4 years - 8 years ( ) c) 9years – 15 years ( ) d) Above 15 years ( )

10. Has the business been formally registered by the Registrar? (Please tick the appropriate)

a) Yes ( ) b) No ( )

11. What is the legal form of business?

a) Sole Proprietor ( ) b) Partnership ( ) c) Limited Company ( )

12. What is the number of staff employed in this organization including the owner of this business? (Please tick the appropriate)

a) 1- 5 ( ) b) 6 – 10 ( ) c) 11- 20 ( ) d) 21 – 30 ( ) e) above 30 ( )

**SECTION B: RESPONSES TO FACTORS INFLUENCING TURNOVER TAX COMPLIANCE IN KENYA**

**On a scale of 1-5 where 1=strongly disagree, 2= disagree, 3= Neutral, 4= agree and 5=strongly agree, kindly tick where appropriate to indicate your level of acceptance with the statements that**.

**Level of awareness**

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| 1) I do not understand my tax obligations | | | | | |
| 2) Tax officers provide accurate information on tax matters | | | | | |
| 3) I am aware on how to file tax returns | | | | | |
| 4) I am aware on when to file tax returns | | | | | |
| 5) I understand the tax system | | | | | |
| 6) The tax office educate the taxpayers on how to use the tax system | | | | | |
| 7) The tax office values feedback about the way the tax system is run | | | | | |
| 8) I understand the tax laws on TOT | | | | | |
| 9) I know where to get help on tax matters | | | | | |
| 10) I know the consequences of not filing tax returns | | | | | |

**Cost of Compliance**

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| 1) The mode of payment is time consuming | | | | | |
| 2) The mode of payment is tedious | | | | | |
| 3) The frequency of filing tax returns is too high | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| 4) Tax system is complex | | | | | |
| 5) I have to rely on external tax professionals to assist in tax matters | | | | | |
| 6) Travelling to the tax office is expensive | | | | | |
| 7) The process of accessing the tax system is expensive | | | | | |
| 8) The amount of penalties imposed as a result of non-compliance increase the rate of none compliance | | | | | |

**Taxpayers Perception**

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| 1) Government fails to involve taxpayers when formulation tax policies | | | | | |
| 2) The current tax laws and regulations are complex | | | | | |
| 3) The current turnover tax rate is very high | | | | | |
| 4) There is accountability on how revenue is used | | | | | |
| 5) There is equity in distribution of services by the government | | | | | |
| 6) There is fareness in allocation of utilities by the government | | | | | |
| 7) The mode of tax collection by the tax office is not satisfactory to taxpayers | | | | | |
| 8) Taxpayers are not willing to comply with tax | | | | | |

**Turnover tax compliance**

(Please tick the appropriate)

1) I file tax return on time

   Yes ☐ No ☐

2) I pay taxes on time

   Yes ☐ No ☐

**Appendix III:** RESEARCH SCHEDULE

***Table 3. research budget***

| Period | April 2018 | May 2018 | June 2018 | July 2018 | August 2018 | September 2018 |
|---|---|---|---|---|---|---|
| Data collection | | | | | | |
| Data analysis | | | | | | |
| Project Writing | | | | | | |
| Compilation and presentation | | | | | | |

**Appendix IV:** RESEARCH BUDGET

The following is a budget proposal of the total amount of money to be spent;

***Table 4. research budget***

| **Item/Activity** | **Estimated cost (kshs)** |
|---|---|
| Stationery | 2,500 |
| Printing/Photocopying | 2,000 |
| Binding | 1,500 |
| Data analysis | 3,500 |
| Transport | 2,500 |
| Internet and airtime | 1,500 |
| Miscellaneous | 3,000 |
| **Total cost** | **16,500** |