

**EFFECT OF TAXPAYER SERVICES ON VALUE ADDED TAX COMPLIANCE ON  
MICRO AND SMALL ENTERPRISES IN NAIROBI CITY COUNTY, KENYA  
A CASE OF STAREHE SUB-COUNTY.**

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## DECLARATION

### Declaration by student

This research proposal is my original work and has not been presented for an award of a degree, diploma or certificate in any other university.

Signature.....

Date .....

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**HDB336-C016-2044/2016**

### Declaration by supervisor

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

Signature.....

Date .....

**KALUNDU KIMANZI**

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## **ACRONYMS**

FTA – Forum On Tax Administration

KRA – Kenya Revenue Authority

PIN - Personal Identification Number

SAS - Self-Assessment Systems

VAT – Value Added Authority

## **DEFINITION OF KEY TERMS**

<b>Customer service</b>	Is the provision of service to customers before, during and after a purchase. It also means serving the customer, and involves all contact with the customer, be it face-to-face, or indirect contact.
<b>Tax compliance</b>	Is defined as the full installment of all charges due. It additionally alludes to how much taxpayers meet their commitments under the duty law
<b>Technical support</b>	Entails responding to written taxpayers' enquiries, answering telephone inquiries, conducting face to face interviews with tax payers who visit the KRA offices and handling taxpayers with specific problems and directing them to the responsible personnel for assistance.
<b>A tax technology strategy</b>	Is a representation of the authority's plans with regards to actualizing and using innovation in an offer to empower charge activities, improve effectiveness in tax administration as well as increasing tax revenue for the government.
<b>Taxpayers' education</b>	Can be described as a method of educating persons about the whole procedure of taxation and why they should pay tax. Taxpayer education helps the taxpayers in meeting their tax obligations to the government.

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## ABSTRACT

Value Added Tax is a vital stream of income for government's improvement ventures and subsequently, all endeavors must be made by governments to guarantee that it is precisely and productively gathered in order to encourage the administration's operations. VAT Tax compliance has turned into the key regulatory approach for both individual and corporate tax assessment in developed nations. Kenya revenue have of recent not been able to meet its revenue targets with vat contributing to less than 25% of the of total government revenue. To curb that, Kenya revenue authority being the tax administrators in Kenya have put a lot of resources in service paradigm style of tax administration. The tax authority has made service as their main tool by even changing the mission statement to building trust through facilitation to promote compliance and in effect enhance vat compliance as one of the key initiative to improve collection. The study was done to ascertain the effect of taxpayer services on Value added tax compliance among micro and small enterprises in Starehe district ,Nairobi County. It was guided by the following specific objectives:-To ascertain the effect of taxpayer education on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe sub county,to determine the effect of technical support on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty,To assess the effect of technological advancement on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty and to establish the effect of customer service on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty. The study adopted descriptive research design. The study target population was 1000 micro and small taxpayers in Starehe Subcounty. The study sample size was 100. This study used primary data collected through questionnaires. A pre-test on a different sample was carried out to give a Cronbach's alpha greater than 0.7 for all the variables as a rule of thumb. Data analysis was done by use of descriptive statistics and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis were employed in the analysis. All the analysis was done using the statistical package for social sciences (SPSS Version.24). Analysis of variance (ANOVA) was primary used to establish significance between the observed and expected values with the Pearson Chi square giving the degree significance of the relations, hence establishing the hypotheses. In multivariate analysis, multiple regression analysis models were used to ascertain relationship that existed between dependent and independent variables. The results revealed that Taxpayer Education, Technical Support, Technological Advancement, Customer Service and VAT tax compliance are positively and significantly related. The study recommends that Kenya Revenue Authority should ensure that the process of complying should not be expensive for the stakeholders. It also recommends that Kenya Revenue Authority should empower the taxpayer education service section to enable it educate taxpayers so that they can understand their rights and obligations as taxpayers. This way tax compliance levels will increase.

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Background of the Study**

Tax compliance is how much the taxpaying citizens meets the tax assessment commitment as set out in the suitable legitimate and administrative arrangements (Maxwell, 2003). He includes that compliant citizens make true, legitimate and exact revelation to the tax authority and deliberately settle all the due tax expense liabilities. (Bello, 2017) Describes vat as a tax on the value addition generated at each stage of production and distribution. It is calculated by a VAT registered supplier charging VAT on sales and the supplier is liable to pay this tax to the authority. However, the customer pays the value added tax to the supplier so as the tax burden is not borne by the individual business. In (Bello, 2017) study, she states that VAT is now a predominant form of consumption tax around the world with 162 out of 190 economies having vat systems in 2015 and spread showing no signs of abating with more countries including India and the gulf states introducing vat systems within the next couple of years. This trend may have been influenced by the fall of corporate tax

#### **1.1.1 Global Perspective**

According to (Alm, 2003) trending practice in tax administration policies in recent years is the realization that the traditional “enforcement” paradigm of tax administration, in which taxpaying citizens are viewed and treated as prospective criminals and the emphasis is to a great extent on suppression of illegal behavior through regular audits and stiff penalties, is incomplete. An amended “service” paradigm puts into account the role of enforcement, but also emphasizes the importance of the tax administration as a facilitator and the giver of services to the taxpayers. Many tax administrations all over the world have taken up these alternative paradigms with some

great success (James Alm, 2007). He also States that it seems reasonable that the tax agency can advance its public opinion by providing taxpayer services such as tax information, and that the improved service level would transform into improved compliance. They however state that the real effects on compliance of such improved service has not been studied.

(Michael Keen, 2015) States that voluntary compliance has received increased attention with focus on improved taxpayer services. Key elements include, for instance, simplifying reporting, providing ready access to information and advice, and an organizational focus on the distinct needs of different taxpayer segments. A report by Forum on Tax Administration (FTA) on taxpayer Services and in particular assessing revenue bodies advancement and plans for the deployment of modern electronic services in taxpayer service delivery showed good improvement since 2004 in the overall range and nature of revenue bodies 'e-service offerings. Non-compliance could be unintentional or intentional from taxpayer's perspective (Christina M. Ritsema, 2003). This is mostly because of lack of information. Educating the taxpayer on the legal and patriotic expectation to pay tax will enhance compliance. Taxpayer knowledge on voluntary tax compliance is fundamental in advancing willful tax compliance (Machogu & Amayi, 2013). It is important for the citizen to gain information about their obligations which will empower them to settle on right consistence choices. Education can change the taxpayer's perception on the question, why pay tax?

With the modern world relying on technology in executing almost every task i.e. travelling, education, entertainment etc. it is expected that the governments should utilize this platform in enhancing tax compliance. Applying technological solutions to enhance tax compliance by the

government would meet the requirement and expectation of the modern world (WasaoD., 2014). The use a sustainable, easily accessible, easily usable and user friendly technological platforms greatly enhances tax compliance.

With a technical, professional and knowledgeable staff can enhance customer satisfaction and hence compliance. To increase customer's perception of service quality, an organization must increase employee's self-efficacy (Michael D Hartline, 1996). By having a good customer perception of the services offered it increases tax compliance. Apart from creating a good perception difficult issues to the taxpayers are dealt wholly hence enabling them to comply easily. According to (Gituru, 2017) There are more prominent gains in helping consistent citizens meet their financial commitments as opposed to spending more assets seeking after the minority of non-compliers. There is a positive connection between the dimension of assessment learning and tax compliance.

A micro enterprise is a firm , trade or business whose annual turnover does not exceed five hundred thousand shillings and employees are less than ten people while small enterprise is a firm, trade or business whose annual turnover ranges between five hundred and five million shillings and with employees between ten and fifty people (Kenyalaw, 2012).

Taxpayer education is the art of impacting knowledge on the citizens to bridge the gap and strike a balance between the tax collectors needs and requirements, and taxpayer's expectations, rights and obligations. Its every government desire to maximize revenue collection and one of the key strategy to achieve this is taxpayer education (Lymer, 2009). Technical support is availing

professional services to the customer, services that the customer would normally not have the technical knowhow to execute. It entails responding to the customer queries, executing for them the required services and enabling them to meet their obligations. In Kenya there are service centers set all over the country with competent staff to offer these services to the taxpayers. The third variable is technology/itax system which is online filling or electronic tax system. Tax authorities across the world are turning to electronic tax administration system for tax collection and service delivery to the citizens. Technology has greatly affected the way we do things, from play, to work and even how we interact with others. Many tax authorities in developed and developing countries have not remained behind in employing the use of technology in improving the efficiency of tax administration, increasing the threshold taxpayer services and enhancing compliance (Dowe, 2008). Customer service on the other hand is the method in which a company deals with its clients in order to win, maintain them and ultimately improve customer experience and satisfaction. It is a series of activities intended to boost the level of customer perceived satisfaction – the feeling that a product or service has met the customer expectation Jamier(2002). Satisfaction is the reaction of customers to their need (Oliver, 1997). It is providing a level of comfort associated with fulfilling a need, including service that exceeds customer expectation. Tax compliance refers to the realization of all tax obligations as is necessary by the tax laws. Value added tax (VAT) is an indirect, consumption tax placed on a product whenever value is added at each stage of supply chain, from production to the point of sale. Value added tax compliance is therefore the fulfillment of all tax obligations that accrue from vat tax as required by the vat act.

### **1.1.2 Vat compliance in Kenya**

Kenya is ranked lower middle income country having been revised from lower income country but still struggling with ensuring efficiency and effectiveness in tax administration (<https://businesstoday.co.ke/kenya-becomes-a-middle-income-economy/>, 2014). Administration of tax in Kenya is by Kenya revenue authority established by an act of parliament in 1995 while the administration of vat tax is by vat act enacted in 1990 which was introduced to replace sales tax. The sixth corporate plan by KRA indicated that of all the tax heads vat had met its target in regards to online electronic filing, however it was recommended that vat should account for at least 35% of revenue collected. Vat was accounting for less than 25% of the total government revenue, which is an underperformance considering the analyses done on the tax head. To achieve the recommended target the authority embarked on several initiatives including customer satisfaction through customer service, enhance technical service, improve on technology, having more taxpayers using the online system and being more efficient.

### **1.2 Statement of the Problem**

Value added tax (VAT) is an indirect; consumption tax presented in Kenya in January 1990 to suppliers of goods and had been operational since 1973 as sales tax. VAT was considered as an increment to government income through extension of the tax base, which before then was confined to sale of goods at manufacturing and importation level under the sales tax system (Department & KRA, 2004). Kenya revenue have of recent not been able to meet its revenue targets with vat contributing to less than 25% of the of total government revenue. Tax gap analyses indicate that vat gap ranges between kshs. 39.1billion to kshs. 81.2 billion which is a

huge potential thus considerable. The authority aimed to have vat contributing 35% of government revenue. This indicates vat noncompliance.

To curb that, Kenya revenue authority being the tax administrators in Kenya have put a lot of resources in service paradigm style of tax administration. The tax authority has made service as their main tool by even changing the mission statement to building trust through facilitation to promote compliance and in effect enhance vat compliance as one of the key initiative to improve collection. Facilitation involves better service delivery through accessible and reliable online services, technical support, taxpayer education and revamped customer service. The authority aimed with this steps it could enhance more voluntary compliance and hence general compliance would improve. This is in line with most world economies which are adapting a service paradigm as a means of enhancing and improving tax compliance (Alm, 2003). Despite these efforts on taxpayer services by KRA to enhance vat compliance in Kenya the targets are still not being met and the area has not been much researched with the available research focusing only on some of the taxpayer services aspects like education and technology. The purpose of this study is to establish the effect of taxpayer services on vat compliance in Nairobi County, Kenya. This study will therefore seeks to answer the question, has the services offered by the authority to the taxpayer enhanced vat compliance?

## **1.3 Research Objective**

### **1.3.1 General Objective**

To establish the effect of taxpayer services on value added tax compliance on micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty

### **1.3.2 Specific Objectives**

- I. Establish the effect of taxpayer education on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty
- II. Determine the effect of technical support on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty
- III. Assess the effect of technological advancement on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty
- IV. Establish the effect of customer service on VAT compliance among micro and small enterprises in Nairobi county, Kenya: case of Starehe subcounty

## **1.4 Research Questions**

- I. What is the effect of taxpayer education on VAT compliance among micro and small enterprises in Starehe sub-county?
- II. What is the effect of technical support on VAT compliance among micro and small enterprises in Starehe sub-county?
- III. What is the effect of technological advancement on VAT compliance among micro and small enterprises in Starehe sub-county?
- IV. What is the effect of customer service on VAT compliance among micro and small enterprises in Starehe sub-county?

## **1.6 Justification of the Study**

According to theory of planned behavior, behavior of individuals within the society is under the influence of definite factors which originate from certain reasons and emerge in a planned way. This study seeks to find out if planned action by the authority to enhance compliance works. It seeks to study and find if the intended effect has materialized.

## **1.7 Scope of the Study**

The study focused on micro and small enterprises in Nairobi county, starehe subcounty in Kenya on the persons who have registered for vat and who ought or want to register for vat. Sterehe subcounty holds Nairobi central business Centre with the largest number of micro and small enterprises. It will be easy to get data as the sampled businesses are easily accessible.

## **1.8 Limitation of the study**

The researcher had some difficulties and limitations while carrying out this study. To begin with, the questionnaires were administered at KRA service desks hence were issued out by the staff of the authority. Considering the questions asked in the questionnaire to capture the study variables adequately, some taxpayers felt that the authority was trying to get compliance information from them to enforce compliance. Some taxpayers were fearful risking them not giving correct information which would have resulted to non-correct data being collected. To add, the study relied heavily on primary data. Also taxpayer services does not only affect micro and small taxpayers but also medium and large taxpayers, hence more objective studies should be done on all types of taxpayers and more so should not be limited to only one tax area or district. Finally the study was also limited inadequacy of time and resources. Despite this limitation, utmost care

was taken to ensure and make sure that the results presented were as accurate as possible. The staff issuing questionnaires explains in details and convincingly that the data was only for research purposes.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter has discussed the theoretical framework, conceptual framework and empirical review of variables. Under theoretical framework three theories that relate closely to the topic have been analyzed, namely; optimal taxation theory, theory of planned behavior and economic deterrence theory while conceptual framework has shown the relationship between variables. The empirical review has discussed all the variables and their relationship i.e. how independent variable are related to dependent variable.

#### **2.2 Theoretical Frame Work**

##### **2.2.1 Optimal Taxation Theory**

Optimal tax theory is the investigation of how best a tax is to limit distortion and wastefulness in raising of revenue (Mayshar, 1990). Advancement of the hypothesis of ideal tax assessment started in the nineteen seventies; however its birth date back to forty years in 1927, (Ramsey, 1927). The essential premises of this theory is that a tax administration wishes to get a given amount of revenue through tax collection but tax expenses twist monetary decisions, and the inquiry at issue is the manner by which the taxes ought to be set so as to limit the distortion which occurs (Mankiw, 2009).

A neutral tax is a theoretical tax which avoids distortion and inefficiency completely (Ramsey, 1927). Other things being equal, if a taxpaying person has to choose between two mutually exclusive economic projects (investments) that face the similar pre-tax risk and returns, the one

with the lower tax expense or with a tax break would be preferred by the rational actor. With that insight, economists suggest that generally taxes distort behavior (Slemrod, 1996).

Optimal Taxation Theory is a welfarist approach, meaning that it considers distributive justice to be solely some function of individual utility. According to (Ramsey, 1927), he assumes that the government needs to raise some given amount of revenue through indirect taxes. V.A.T compliance (being an indirect tax) adopts a uniform computational method which proportionately applies to all taxpayers.

### **2.2.2 Theory of Planned Behaviour**

This is a psychological theory that links beliefs and behavior, tries to explain human behavior. The concept was proposed by (Ajzen, 1991) to improve on the predictive power of the theory of reasoned action by including perceived behavioral control. According to this theory, the behavior of individuals within the society is under the influence of definite factors which originate from certain acts and emerge in a planned way. The ability to exhibit a particular behavior depends on the fact that the individual has a purpose towards that behavior (behavioral intention). Behavioral intention in turn depends on three factors that is Attitude towards the behavior, Subjective norms and Perceived behavioral control. These three factors are also under the influence of behavioral beliefs, normative beliefs and control beliefs. The focus of this theory therefore is on the taxpayer's morals and ethics. The theory suggests that a taxpayer may comply even when the probability of detection is low. As opposed to the economic theories that emphasize on increased audits and penalties as solutions to compliance issues, psychological theories lay emphasis on changing individual attitudes towards tax systems. To gain purpose for compliance effective taxpayer services would enhance this.

### **2.2.3 Economic Deterrence Theory**

Economic Deterrence theory is a theory under criminology and was developed by (Becker, 1968). This theory is based on the concept that, if the consequence of committing a crime outweighs the benefit of the crime itself, the individual will be deterred from committing the crime. This is founded in the idea that all individuals are conscious of the difference between right and wrong and the cost associated with wrong or criminal behavior. Proponents of deterrence theory accept as true that people choose to comply with or breach the law after calculating the gains and the cost of their actions.

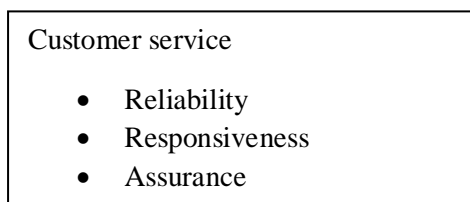
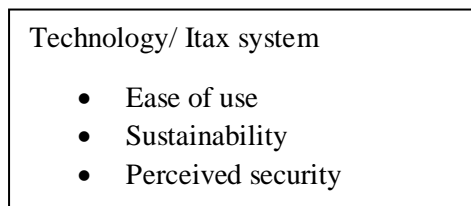
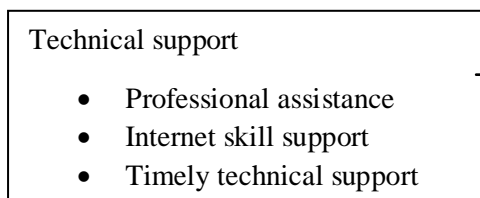
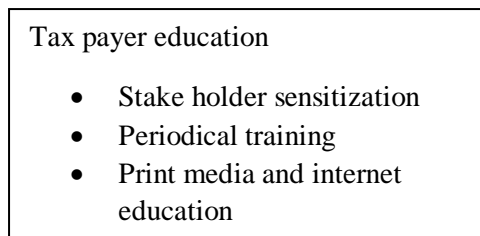
Economic Deterrence model, an economic based model was advanced by (Sandmo, 1972), who progressed the expected utility model of criminal activity created by (Becker, 1968) to the tax arena. This model constitutes the concept of an economically rational taxpayer who will elude taxation as long as the pay-off from evading is bigger than the probable cost of being caught

## 2.3 Conceptual Framework

This section shows the relationship between the independent and dependent variables. Taxpayer education, technical support, technology and customer care are the independent variables which affect vat compliance.

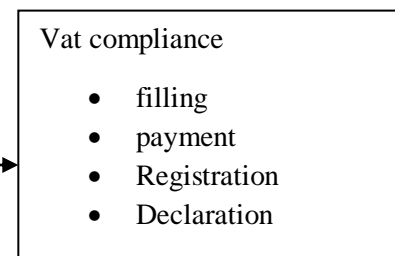
### Independent Variable

#### Taxpayer Services



### Dependent Variable

#### Vat Compliance



## **2.4 Empirical Review of Variables**

### **2.4.1 Taxpayer Education**

Taxpayers' education can be portrayed as a technique for instructing the general population about the entire procedure of tax collection and why they should make good on regulatory obligations. Citizen training helps citizens in ensuring their tax commitments to the legislature. The essential need of citizen training is to energize deliberate tax compliance among citizens as it is one of the procedures of improving service delivery to the citizens (Ndirangu, 2013). Absence of deliberate tax compliance constrains tax policy makers to utilize exorbitant and coercive strategies of tax enforcement (Fjeldstad, 2013).

The training part is required to manage rebelliousness practice among the citizens particularly in the casual division (Kaleva, 2007). This depends on the likelihood of resistance being accidental, where the citizen doesn't know about his/her tax expense commitments or neglects to satisfy his/her tax commitments because of obliviousness of tax laws and methods or might be purposeful because of the consistence frames of mind (Christina M. Ritsema, 2003). Citizen instruction program serves to: make citizen consciousness of laws and strategies, teach citizens on their tax obligations and rights, help and propel citizen to agree willfully, help citizens on revealing the right income and tax payable, keeping up cozy connection between the authority and the citizen persistently, and, ingrain open trust in tax collection frameworks and systems (Oyedele, 2009). The viability of media campaigns in the TV, utilization of tax information magazines, business clients/prospects and national papers will improve mindfulness, tax awareness, proper return filling, and in the long run boost morale among the citizens. Clear scope

of work- Periods and records to be covered have been clearly defined under tax laws which are advertised under print media. This was seen in a Kenyan research review on individual tax compliance (Angus Young, 2016).

#### **2.4.2 Technology/Itax system**

A tax technology strategy is a portrayal of the tax authority's arrangements with regards to actualizing and using innovation in an order to empower and enhance tax activities, improve effectiveness in tax administration as well as expanding tax income for the government. Applying technological solutions towards the strategic goals for government will be a key step towards transforming government into an entity that can keep abreast of the needs, requirements and expectations of today's modern world. (WasaoD., 2014). In such manner therefore, there is requirement for the use of innovation as a vital instrument for improving tax compliance while considering short, mid and long-term results. In fact, Governments today are under an increasing pressure to improve the delivery of public services in cost-effective ways. To meet this challenge for example tax authorities are turning to electronic led solutions like electronic tax filing (Lee Bee, 2008)

Use of itax system (electronic filling) ensures correctness and timely resolution of data with automatic reconciliation and validation of tax returns. Paper returns were monotonous and tiring to file on the part of the taxpaying citizens and in the same scale to bring together in the part of KRA (Muita, 2011). The utilization of technology to improve the viability of tax administration, improve taxpayer/citizen services, and upgrade tax compliance has come to attract more consideration in developed and developing nations (Edward-dowe, 2008).

With SAS a holistic view of taxpayers through use of electronic means would facilitate compliance by use of dynamic comprehensive approaches. The study supports that this approach would enable an organization gain a single view of the tax payer; increase auditor efficiency; enhance policy analysis ability and improve performance management. On that regard (A.L. Booth, 2010) contends that almost 85 percent of set up tax authorities bolster the suggestion that better technology and coordination would improve their tax system viability.

### **2.4.3 Technical Support**

Technical support entails responding to written taxpayers' enquiries, answering telephone inquiries, conducting face to face interviews with tax payers who visit the KRA offices and handling taxpayers with specific problems and directing them to the responsible personnel for assistance (Emmanuel, 2011). It is a service by the staff of the authority to the taxpayers to enhance compliance.

Staff are the key component to implementing of the taxpayer support at KRA and therefore they ought to be equipped with the necessary skills. Staff should therefore be trained on development of strategies in order to improve individual, team and organizational performance. It takes the long term view of about how human resource development policies and practices can be of benefit to the business plans or strategies. Staff development should arise from a clear vision about people's abilities and potential and operates within a framework of business frame work (Harrison, 1977). The authority has from 2013 opened service centers all over the country aimed at offering technical services to the taxpayer to enhance compliance. The centers were set to offer assistance to the taxpayers including filling, payment generation and registration

#### **2.4.4 Customer service**

Customer service is an organization's ability to supply their customers' wants and needs (<http://sbinfocanada.about.com>). Customer service is the provision of service to customers before, during and after a purchase. It also means serving the customer, and involves all contact with the customer, be it face-to-face, or indirect contact (i.e. dealing with complaint letters).

Again, According to Jamier (2002), “Customer service is a progression of exercises intended to improve the dimension of consumer loyalty – that is, the inclination that an item or administration has met the client desire.

Client administration can be communicated in close to home and relational abilities, for example, relational abilities, listening aptitudes, language, signals and stance, phone strategies. As indicated by Turban et al (2002), it is a progression of exercises intended to improve the dimension of consumer loyalty - that is, the inclination that an item or administration has met the client desire. Client administration might be given by an individual (e.g., sales and service representative), or by automated means called self-service.

Customer perceived service quality is the customers own perception of the service based on different factors contributing to the service, from the process to the final outcome. According to Grönroos (2001), “quality is what customers perceive”. Customers buying service consider everything that contributes to the process and the final outcome in making their assessments of the service. However the subjective assessment of the actual service experiences is the customer perceived service quality as pointed out by Looy et al (2003), Zeithaml et al (2006), and Grönroos (2001).

Good customer service is additionally about guaranteeing the client is accepting the suitable item or administration they genuinely need and not offering them more item or administration than

they need. Clients see administration as far as quality, yet how fulfilled they are with the general involvement, is the thing that characterizes their fulfillment. Regardless of whether the client is fulfilled after buy relies upon the offer's exhibition or the client administration for this situation, in connection to the client desires. Nonetheless, as indicated by Zeithaml et al (2006) despite the fact that administration quality and consumer loyalty are utilized reciprocally, there is undoubtedly a qualification.

#### **2.4.5 Value added Tax Compliance**

Tax compliance is defined as the complete payment of all taxes due (Braithwaite, 2009). Tax compliance also allude to the extent to which taxpayers meet their obligations under the relevant tax law (Kaleva, 2007). Tax noncompliance is referred to as any disparity between the definite amount of taxes paid and the amount of taxes payable. This difference originates from overstating expenses or deductions and understating income. Non-compliance include both deliberate evasion and non deliberate non-compliance, which is due to computation errors and an insufficient understanding of tax laws (Roben H.S.J, 1990).

Getting residents to make good on their regulatory obligations easily without murmuring has been the fantasy everything being equal. The undertaking has nonetheless, never been straightforward, until the presentation of the advanced Information innovation. Since the mid 1980s the world has encountered an extraordinary pace of progression in the field of data innovation. These mechanical developments are profoundly affecting the organization of monetary frameworks and the manner by which tax collection is directed (Teltscher, 2002).

## **2.5 Critique of the Study**

Higher levels of tax compliance lead to increased revenue collection. In this particular study, increased VAT compliance rate will significantly help the government collect more VAT and broaden the tax base. This will help the country to realize its goals and objectives. Revenue authorities need to simplify the tax system for taxpayers to have easier and better understanding of it and incur minimal cost in complying. If this is realized then voluntary compliance will be encouraged. Stopping non compliance requires effective application of fines and penalties consistently. Though, care should be taken because in some instances punitive penalties can lead to tax evasion. Regular and effective taxpayer education will encourage voluntary compliance and lead to increased revenue collections. From all the studies reviewed, past research has tried to explore the area of tax compliance as a whole but no one has actually done the research of taxpayer services on VAT compliance on the micro and small taxpayers. Therefore, the study will seek solutions to the research problem.

## **2.6 Research Gaps**

No study has been done on vat compliance on taxpayer services in Kenya despite most countries in the world over adopting the service paradigm model of influencing compliance. Most studies are on the aspects of tax compliance like education and technology hence this study seeks to close that gap.

## **2.7 Summary**

From the relationship of the variables it shows that taxpayer services do enhance compliance. When the taxpayer is well educated on his/her obligations, empowered to perform his tax obligation through technology and given professional support then the effect should be improved compliance has the studies has shown. This study is to find out if the response is the same to the Starehe taxpayer.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

#### **3.1 Introduction**

This section introduces the strategies and systems that were utilized to do this investigation. In particular, the section outlines research design, target population, the sampling methodology, the data collection analytical model and findings presented.

#### **3.2 Research Design**

The study employed or made use of descriptive research design. This was used to assess the effect of taxpayer services on vat compliance. Descriptive research includes either distinguishing the attributes of an observed phenomena or investigating potential relationships among at least two phenomena and describes the information so as to reach inferences on the population being considered (Kothari, 2012). Additionally as indicated by (Mugenda & Mugenda, 2003) descriptive research includes gathering of information so as to examine the status of the subjects concerning the purpose behind the examination.

#### **3.3 Target Population**

Population forms a basis from which the sample or subjects for the study is drawn (Creswell, 2013). Population is also describes an aggregate collection of elements with shared observable characteristics where some extrapolations can be made (Hanlon, 2011). The population of interest for the study consisted micro and small taxpayers in starehe sub-county in Nairobi County. Nairobi is subdivided into four tax administrative regions namely, north of Nairobi, south of Nairobi, west of Nairobi and east of Nairobi. My region of interest was north of Nairobi which has Starehe sub-county and Kasarani sub-county and in particular starehe sub-county. The

micro and small taxpayers are the majority in number as compared to large and medium sized taxpayers. They have more interactions with the services offered by the authority hence were best placed to assess the effect of this services on compliance. The target population of this study was 1000 SMEs operating business in Starehe Sub-county of Nairobi and registered for Value Added Tax (KRA, 2018).

### **3.4 Sample and Sampling Technique**

According to (Cox and Hassard, 2010), a sampling frame comprises of a list of units from which the researcher gets a sample. The sampling frame describes a set of elements from which a researcher can choose a sample. The researcher cannot access the whole population of concern in social science research, therefore he/she must rely upon a sampling frame to represent all of the elements of the population of concern. In this research the researcher relied on a sample of 100 taxpayers (sampling frame) to represent the Starehe sub-county population.

The research used purposive sampling technique in that it would specifically target only the taxpayers who filed and paid V.A.T. According to (Cox and Hassard, 2010) purposive sampling is also known as judgmental sampling techniques used by researchers when they rely on their own judgment to choose the right member of the population to take part in the study.

### **3.5 Data Collection Methods**

In data collection, the researcher should describe the major method(s) for collecting data from the subjects (Cox and Hassard, 2010). In this research the main data collection instrument was questionnaire (primary method). The study used closed questions questionnaires. Questionnaires were preferred because they are effective data collection instruments that allow respondents to

give much of their opinions pertaining to the researched problem. The use of questionnaire as an instrument of research usually gives the respondents sufficient time to provide well thought replies within the questionnaire items and enables large samples to be covered in a short time (Creswell, J., 2013).

### **3.6 Data Collection Procedures**

The questionnaires used the five likert scale (from strongly agree to strongly disagree) as a scale of measure to quantify the variables and was administered to the personnel who handle taxes in the sampled taxpayers. It used both nominal and ordinal scale of measurement. The questionnaires had an introductory letter introducing the researcher to the respondents and explaining the purpose of the research. Respondents were assured of strict confidentiality of the information they have shared with the researcher and that the information will be strictly for research purposes. This was done in order to enhance the response rate.

### **3.7 Pilot Study**

Five taxpayers from the sample were selected to give feedback on the questionnaires. They were asked to suggest more appropriate questions for ease of answering the questionnaire. The researcher then confirmed that the asked questions answered the research problem.

#### **3.7.1 Validity of Research Instruments**

Validity is defined as the degree to which the study accurately reflects the specific concept the researcher is trying to study or measure. It can also be seen as the extent to which research instruments measure and performs what they seek to achieve (Robson, 2002). Content validity by use of supervisor`s and expert opinion was used by the researcher in regards to the research

instrument. The researcher also ensured that the instrument used achieves population generalizability or the extent to which the sample is representative of the population.

### **3.7.2 Reliability of Research Instruments**

Reliability is referred to as the degree to which research produce consistency and stable results in regards to the study subject. Reliability is indicated as having same results without difference when the research is replicated (Hussey & Collis, 2009). Can also be described as a means through which the researcher is able to assign similar interpretations and observations at different 5points in time. Cronbach`s Alpha was used by the researcher to assess internal consistency for the five point likert scale items where a cut-off point will be 0.7 (Oncu, 1994). In addition reliability was tested through pilot testing to ensure that the instrument gives the same results every time. Therefore the process of piloting was used to test the efficiency of the questionnaire. Pilot testing employed a small representative of the sample.

### **3.9 Data Analysis and Presentation**

Once data from the questionnaire was collected and coded it was entered into the SPSS for data analysis. Appropriate descriptive statistics such as Frequencies, Central tendencies (mean, median, mode), Measures of dispersion (Std. deviation, range, and variance) and linear regression will be used in analysis. The analyzed data was presented in form of tables, charts, and graphs for ease of understanding and interpretation. The results were summarized and conclusion reached at.

Regression model was used to assess variables that are considered in assessing the effect of taxpayer`s services on VAT tax compliance. Regression Analysis as a statistical modeling

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

The study also adopted a multi regression model

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

Where:

Y = Value Added Tax compliance

$\beta_0$  = Constant Term

$\beta_1$  = Beta coefficients

X1 = Tax payer education

X2 = Technical support

X3 = Technology/ Itax system

X4= Customer service

$\varepsilon$  = Error term

### **3.10 Measurement of Variables**

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

**Table 3.3: Measurement of Variables**

<b>Variable</b>	<b>Indicator/Measure</b>	<b>Likert scale</b>
Tax payer education	<ul style="list-style-type: none"><li>• Stake holder sensitization</li><li>• Periodical training</li><li>• Print media and internet education</li></ul>	5 points
Technical support	<ul style="list-style-type: none"><li>• Professional assistance</li><li>• Internet skill support</li><li>• Timely technical suport</li></ul>	5 points
Technology/ Itax system	<ul style="list-style-type: none"><li>• Ease of use</li><li>• Sustainability</li><li>• Perceived security</li></ul>	5 points
Customer service	<ul style="list-style-type: none"><li>• Reliabilty</li><li>• Responsiveness</li><li>• Assurance</li></ul>	5 Points
Value Added Tax compliance	<ul style="list-style-type: none"><li>• filling</li><li>• payment</li><li>• Registration</li><li>• Declaration</li></ul>	5 Points

## CHAPTER FOUR

### RESEARCH FINDINGS AND ANALYSIS

#### 4.1 Introduction

This chapter presents the research findings and a discussion of the same in line with the objectives of the study as guided by the techniques mentioned in chapter three.

#### 4.2 Response rate

The number of questionnaires that were administered was 100. A total of 84 questionnaires were properly filled and returned. This represented an overall successful response rate of 84% as shown on Table 4.1.

**Table 4.1 Response rate**

<b>Response</b>	<b>Frequency</b>	<b>Percent</b>
Returned	84	84%
Unreturned	16	16%
<b>Total</b>	<b>100</b>	<b>100%</b>

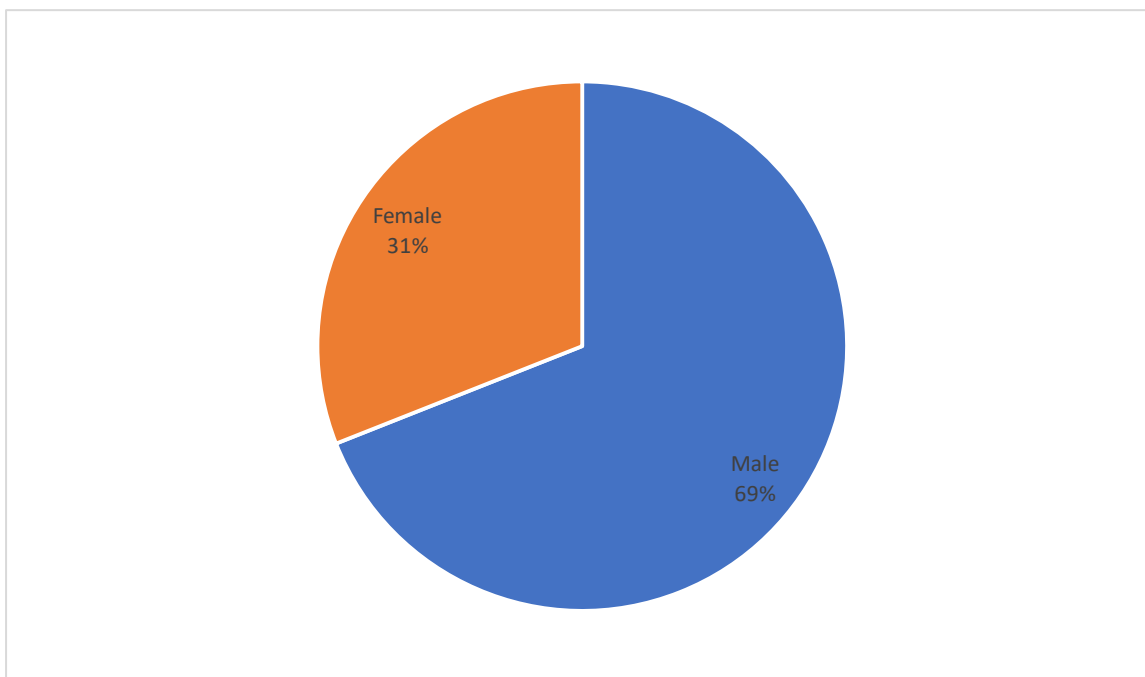
According to Mugenda and Mugenda (2003) and also Kothari (2004) a response rate of above 50% is adequate for a descriptive study. Babbie (2004) also asserted that return rates of above 50% are acceptable to analyze and publish, 60% is good, 70% is very good while above 80% is

excellent. Based on these assertions from renowned scholars, 84% response rate was excellent for the study allowing further analysis.

### 4.3 Demographic Characteristics

#### 4.3.1 Gender of respondents

The respondents were asked to specify their gender. Figure 4.1 illustrates this findings.

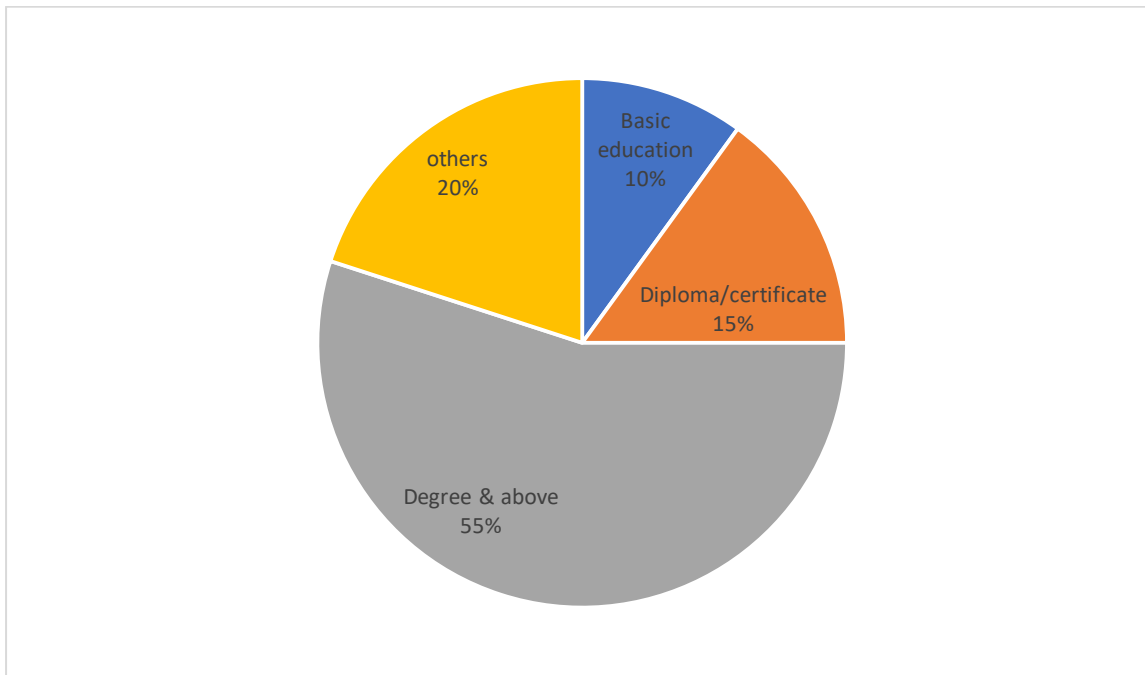


**Figure 4.1: Gender of Respondents**

As shown in Figure 4.1, the bulk of the respondents who were 69% indicated that they were male while only 31% recorded that they were female. This shows that men are more involved in business and interact more with the authority more than their female counterparts.

### 4.3.2 Respondents' Education Level

The study wanted to establish the respondents' education level. The study findings are as illustrated in Figure 4.2.



**Figure 4.2: Respondents' Education Level**

From the findings shown in Figure 4.2, majority of the respondents who were 55% indicated that they were degree holders, 20% were postgraduates, 15% were diploma holders while only 10% had basic education. Based on the level of education, it can be deduced that the respondents were in a position to comprehend the survey objectives and give reliable responses.

#### 4.4 Descriptive statistics.

This part features descriptive statistics from the examination of the data collected. The presentation follows the tune of the study objectives.

##### 4.4.1 Taxpayer Education

The first objective of the research was to establish the effect of taxpayer education on Value Added Tax compliance among micro and small enterprises in Nairobi County. The respondents were asked to indicate their opinion on the following statements. The results are as illustrated in table 4.2.

**Table 4.2 Taxpayer Education.**

<b>Statements on Taxpayer Education</b>	<b>Mean</b>	<b>Standard Deviation</b>
Has the periodical trainings helped you file and pay your VAT taxes timely and correctly?	3.42	0.98
Has the stakeholder sensitization/engagement helped you to file and pay VAT taxes promptly ?	3.78	0.93
Has the print media and internet sensitization/ training helped you file and pay VAT taxes promptly?	3.67	0.75
Total	3.62	0.87

According to table 4.2, the respondents agreed that the periodical trainings have aided them file and pay their VAT taxes timely and properly as shown by a mean score of 3.42 and a standard deviation of 0.98. Further, the respondents approved that the stakeholder sensitization/engagement has aided them to file and pay VAT taxes promptly as shown by a

mean score of 3.78 and a standard deviation of 0.93 . Additionally, the respondents further agreed that the print media and internet sensitization/ training helped them file and pay VAT taxes promptly as indicated in table above by a means score of 3.67 and a standard deviation of 0.75. These findings revealed that taxpayers have actually embraced the use of taxpayer education to fulfill their obligation to pay taxes as supported by a total mean score of 3.62 and standard deviation of 0.87. This finding therefore are in line with Misra(2004) suggestion that main objectives of the tax payer education are in three folds namely, to change attitude in regards to tax compliance, to impact knowledge on tax laws and compliance and to increase collection through voluntary compliance.

#### **4.4.2 Technical Support**

The second objective of the study was to determine the effect of technical support on Value Added Tax compliance among micro and small enterprises in Nairobi County. Table 4.3 presents statistics on descriptive analysis results for various components of technical support variable which was a key subject of the current study.

**Table 4.3 Technical Support**

<b>Statements on Technical Support</b>	<b>Mean</b>	<b>Standard Deviation</b>
Has KRA support centers been able to offer technical support you need to comply with VAT filling and payment?	3.96	0.9
Has this centers facilitated you in timely filling, paying and correct declarations on VAT?	4.14	1.19
Has these centers offered more knowledge on VAT tax issues to make it easy to comply?	3.99	1.29
<b>Total</b>	<b>4.03</b>	<b>1.13</b>

From the findings in table 4.3, the respondents agreed that the KRA support centers been able to offer technical support they need to comply with VAT filling and payment as shown by a mean score of 3.96 and a standard deviation of 0.9. Further, the respondents were to the opinion that the centers have facilitated them in timely filling, paying and accurate declarations on VAT as shown by a mean score of 4.14 and a standard deviation of 1.19. As well, the respondents agreed that these centers have presented more knowledge on VAT tax issues to make it easy to conform as shown by a mean score of 3.99 and a standard deviation of 1.29. Finding reveals that significance number of the respondents are able to file their VAT return and make the payments in regards to technical support with a total mean score of 4.03 and standard deviation of 1.13. According to (Gajic,2015) , having knowledge required to get maximum product benefit and

sharing the knowledge satisfy customer needs the best hence enhancing compliance. The findings of this study go in hand with this finding in that the taxpayers agreed that the technical support offered through support centers helped them comply.

#### 4.4.3 Technological Advancement

This section covers statistics on the Technological Advancement variable of the study. Table 4.4 presents statistics on descriptive analysis results for various components of Technological Advancement variable which was a key subject of the current study.

**Table 4.4 Technological Advancement**

<b>Statements on Technological Advancement</b>	<b>Mean</b>	<b>Standard Deviation</b>
Do you think itax system has simplified VAT filling, payment and easy declaration?	4.15	1.27
Is itax system stable to and sustainable in facilitating timely VAT filling and payment of taxes?	3.74	0.95
Has the itax system made you feel secure in the kind of data you input by filling VAT hence enabled you to file freely with no fear?	4.07	1.4
<b>Total</b>	<b>3.99</b>	<b>1.2</b>

From to the findings in table 4.4 the respondents agreed that the itax system has simplified VAT filling, payment and trouble-free declaration as shown by a mean score of 4.15 and a standard deviation of 1.27. Additionally, the respondents opined that the itax system is steady and

sustainable in facilitating timely VAT filling and payment of taxes as shown by a mean score of 3.74 and a standard deviation of 0.95. Moreover, the respondents agreed that the itax system has made them feel safe in the kind of data they input by filling VAT hence enabled them to file freely with no fear as shown in table above by a mean score of 4.07 and a standard deviation of 1.4. Use of technology has enhanced vat compliance as supported by a total mean score of 3.99 and a standard deviation of 1.2. This finding finds to be true the statement by (A.L.Booth,2010) that most tax authorities in the world have contended that adoption of better technology would improve tax systems viability. Indeed from the findings technology has made it better to comply hence more viable.

#### 4.4.4 Customer Service

This section covers statistics on the Customer Service variable of the study. Table 4.5 presents statistics on descriptive analysis results for various components of customer service.

**Table 4.5 Customer Service**

<b>Statements on Customer Service</b>	<b>Mean</b>	<b>Standard Deviation</b>
Services provided by KRA staff is professional	3.65	0.87
KRA Staff are friendly and courteous	3.93	0.9
Customers are given individual attention	4.23	1.23
Turn around time is swift	3.42	0.89
<b>Total</b>	<b>3.81</b>	<b>0.97</b>

According to table 4.5, the respondents accepted that the Services provided by KRA staff is professional as shown by a mean score 3.65 and a standard deviation of 0.87. In addition, the respondents agreed that the KRA employees are friendly and courteous as shown by a mean score 3.93 and a standard deviation of 0.9. Further, the respondents agreed that the clients are given personal attention as shown by a mean score of 4.23 and a standard deviation of 1.23. This is because KRA has established support centers in many locations country wide which are easily accessible. Customer service can explain both customer satisfaction and customer loyalty and must be improved by stakeholders to enjoy the benefits (Yarimoglu, 2011). From this study it shows that the taxpayers were satisfied with the authority's customer service and in return that improved their compliance as supported by a total mean score of 3.81 and standard deviation of 0.97.

#### **4.4.5 VAT tax compliance**

The respondents were asked to indicate their level of level of agreement with the following statements. This was to be done in relation to VAT tax compliance. The findings obtained were as shown in table 4.6.

**Table 4.6 Statements on VAT tax compliance**

<b>Statements on VAT tax compliance</b>	<b>Mean</b>	<b>Standard. Deviation</b>
The company submits VAT tax returns to KRA every month.	3.65	1.01
The company's VAT tax returns submitted to KRA are correctly stated.	3.47	0.9
The company pays the monthly self-assessed VAT tax to KRA by the due date	3.49	0.8
<b>Total</b>	<b>3.54</b>	<b>0.9</b>

Table 4.6 indicates that the respondents approved to have been submitting monthly VAT tax returns to KRA as indicated by a mean score 3.65 and a standard deviation of 1.01. Additionally, the respondents agreed that the company's VAT tax returns submitted to KRA were properly declared as shown by a mean score of 3.47 and a standard deviation of 0.9 .Further, the respondents agreed that they paid the monthly self- assessed VAT tax to KRA by the due date as shown by a mean score of 3.49 and a standard deviation of 0.8. In all the respondents agreed that they have complied with vat and this is supported by a total mean score of 3.54 and standard deviation of 0.9.

## 4.5 Inferential Statistics

This part of the study presents statistics that allow generalizations on the entire population.

### 4.5.1 Correlation Analysis

Table 4.7 below presents the results of the correlation analysis.

	VAT tax compliance	Taxpayer Education	Technical Support	Technological Advancement	Customer Service
VAT tax compliance	1				
Taxpayer Education	0.370*	1			
Technical Support	0.421*	0.198*	1		
Technological Advancement	0.67*	0.21*	0.186*	1	
Customer Service	0.356*	0.381*	0.253*	0.205*	1

\* Correlation is significant at the 0.05 level (2-tailed).

The results in Table 4.7 revealed that Taxpayer Education and VAT tax compliance are positively and significantly related ( $r=0.370$ ,  $p=0.013$ ). The results from the study further indicated that Technical Support and VAT tax compliance are positively and significantly related ( $r=0.421$ ,  $p=0.001$ ). In addition, the results showed that increased use of technology and VAT tax compliance are positively and significantly related ( $r=0.67$ ,  $p=0.003$ ). Similarly, the study

showed that Customer Service and VAT tax compliance have a positive and significant relationship ( $r=0.356$ ,  $p=0.001$ )

#### 4.5.2 Regression analysis

The researcher conducted multiple regression analysis to establish the effect of taxpayer services on value added tax (VAT) compliance on micro and small enterprises in Nairobi County. The findings are indicated in subsequent sections;

#### Model Summary

The coefficient of correlation R and coefficient of determination  $R^2$  are indicated in the Table 4.8

**Table 4.8 Model summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.782	.613	.567	0.48046

As shown Table 4.8 Taxpayer Education, Technical Support, Technological Advancement and Customer Service were found to be satisfactory variables in VAT tax compliance. This was supported by coefficient of determination also known as the R square of 61.3%. This meant that Taxpayer Education, Technical Support, Technological Advancement and Customer Service explain 61.3 % of the variations in the dependent variable which was VAT tax compliance. This also means that 38.7% of the variations of vat compliance in Kenya is unexplained by the model. The adjusted R squared of 56.7% which is not so much off from the R squared, an indication of the relationship between independent and dependent variables because it is sensitive to addition

of irrelevant variables. The results further meant that the model applied to link the relationship of the variables was satisfactory.

### **Analysis of Variance (ANOVA)**

In statistics significance testing the p-value indicates the level of relation of the independent variable to the dependent variable. If the significance number found is less than the critical value also known as the probability value (p) which is statistically set at 0.05, then the conclusion would be that the model is significant in explaining the relationship; else the model would be regarded as non-significant. Table 4.9 provided the results on the analysis of the variance (ANOVA).

**Table 4.9 Analysis of Variance and F-Test Results**

	Sum of squares	df	Mean Square	F	Sig
Regression	6.698	4	1.674	7.253	.0000 <sup>b</sup>
Residual	9.926	43	0.231		
Total	16.624	47			

Regression indicated that the model was statistically significant. Further, the results imply that the independent variables were a good predictor of VAT tax compliance. This was supported by an F statistic of 7.253 and the reported p value (0.000) which was less than the probability of 0.05 significance level.

**Table 4.10 Regression Coefficients**

Model	Unstandardized		Standardized	t	Sig.
	Coefficient		Coefficient		
	B	Std. Error	Beta		
(Constant)	1.103	1.028		1.073	0.289
Taxpayer Education	0.66	0.119	.285	5.546	0.000
Technical Support	0.67	0.148	.257	4.527	0.000
Technological Advancement	0.733	0.188	.192	3.894	0.000
Customer Service	0.424	0.133	.535	3.174	.003

Regression analysis as per table 4.10 showed that there is a positive and significant relationship between the independent variable Taxpayer Education and VAT tax compliance ( $r=0.66, p=0.000$ ). The analysis also disclosed that there is a positive and significant relationship between Technical Support and VAT tax compliance ( $r=0.67, p=0.000$ ). Further to that, the regression analysis results revealed that there is a positive and significant relationship between Technological Advancement and VAT tax compliance ( $r=0.733, p=0.000$ ). The results also showed that there is a positive and significant relationship between Customer Service and VAT tax compliance ( $r=0.424, p=0.003$ ).

Thus, the optimal model for the study is;

$$\text{VAT tax compliance} = 1.103 + 0.66 \text{ Taxpayer Education} + 0.67 \text{ Technical Support} + 0.733 \text{ Technological Advancement} + 0.424 \text{ Customer Service}$$

As per the model any change by advancement of tax education, technical support, technological advancement and customer service while putting other variables constant will positively enhance vat compliance.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 Introduction**

The purpose of this study was to establish the effect of taxpayer services on value added tax (VAT) compliance on micro and small enterprises in Nairobi County. The chapter presented the summing up of the findings from the analysis, the conclusions; the recommendations and as well as the suggestions for additional research were articulated and disclosed. This was done in line with the objectives and hypotheses of the study.

#### **5.2 Summary**

This section provided a summary of the results from the analysis. This was done in line with the objectives of the study. The first objective of the study was to establish the effect of taxpayer education on VAT compliance among micro and small enterprises in Nairobi County. The findings revealed that there was a significant association between taxpayer education and VAT compliance. The findings were also supported by the statements in the questionnaire whereby majority of the respondents indicated that the periodical trainings and stakeholder sensitization have helped them file and pay their VAT taxes timely and correctly. This was also supported by the regression results which revealed that taxpayer education had a positive and significant effect on VAT compliance ( $r=0.66$ ,  $p=0.000$ ).

The second objective of the study was to find out the effect of technical support on VAT compliance among micro and small enterprises in Nairobi County. The findings revealed a significant relationship between technical support and VAT compliance. The findings were also

supported by the statements in the questionnaire whereby majority of the respondents indicated that the technical support had a great effect on VAT compliance. This was also supported by the regression results which revealed that technical support had a positive and significant effect on VAT compliance ( $r=0.67$ ,  $p=0.000$ ).

The third objective of the study was to determine the the effect of technological advancement on VAT compliance among micro and small enterprises in Nairobi county. The findings revealed that there was a significant association between technological advancement and VAT compliance. The findings were also supported by the statements in the questionnaire whereby majority of the respondents indicated that the technological advancement has a great effect on VAT compliance. This was also supported by the regression results which revealed that technological advancement had a positive and significant effect on VAT compliance ( $r=0.733$ ,  $p=0.000$ ).

The fourth objective of the study was to find out the effect of customer service on VAT compliance among micro and small enterprises in Nairobi county. The findings revealed that there was a significant association between customer service and VAT compliance. The findings were also supported by the statements in the questionnaire whereby majority of the respondents indicated that the customer service have a great effect on VAT compliance. This was also supported by the regression results which revealed that customer service had a positive and significant effect on VAT compliance ( $r=0.424$ ,  $p=0.003$ ).

### **5.3 Conclusions of the study.**

#### **5.3.1 Taxpayer Education**

From the findings, the respondents agreed that, the print media and internet sensitization/training helped them file and pay VAT taxes promptly. These findings revealed that taxpayers have actually embraced the use of taxpayer education to fulfill their obligation to pay taxes.

Based on the findings above, the study concludes that there was a significant association between taxpayer education and VAT compliance. The effectiveness of media campaigns in the TV, use of tax information magazines, business customers/prospects and national newspapers will enhance awareness, tax filing, and eventually tax morale among the tax payers.

#### **5.3.2 Technical Support**

From the findings, the respondents agreed that the KRA support centers have offered them the technical support they need to comply with VAT filling and payment. This is because these centers have offered them more knowledge on VAT tax issues to make it easy for them to comply.

Based on the findings, Staff are the key to implementation of the taxpayer support at KRA and therefore they ought to be equipped with the necessary skills. Staff should therefore be trained on development of strategies in order to improve individual, team and organizational performance. It was concluded that there is a positive and significant relationship between Technical Support and VAT tax compliance.

#### **5.3.3 Technology/ itax system**

From the findings, the respondents agreed that the itax system has simplified VAT filling, payment and easy declaration. Additionally, the respondents agreed that the itax system is stable and sustainable in facilitating timely VAT filling and payment of taxes. Moreover, the

respondents agreed that the itax system has made them feel secure in the kind of data they input by filling VAT hence enabled them to file freely with no fear.

The study concludes that there is a positive and significant relationship between Technological Advancement and VAT tax compliance. The use of itax system (electronic filling) ensures accuracy and timely reconciliation of data with automatic reconciliation and validation of returns. Paper returns were tedious to file on the part of the taxpayer and in the same magnitude to reconcile in the part of KRA.

#### **5.3.4 Customer Service**

The findings indicated that the Services provided by KRA staff are professional and the Staff are also very friendly and courteous. Further, the respondents agreed that the Customers are given individual attention. This is because KRA has established support centers in many locations country wide which are easily accessible. The results concluded that there is a positive and significant relationship between Customer Service and VAT tax compliance.

#### **5.4 Recommendations of the study.**

Based on the research conclusions, the study recommended the following:

KRA should organise frequent periodical trainings and stakeholder sensitization programmes. This will enhance awareness, tax filing, and eventually tax morale among the tax payers. To enhance vat compliance there is need to adopt and intensify taxpayer education though frequent training and broadening the area of coverage of the service. This will enlighten the taxpayers on their role in tax compliance and impact on to them knowledge on the existing tax laws as well as

providing forums for them to give suggestions and air out complaints. This will eventually enhance compliant behaviour.

Based on the research findings, the study recommended that since KRA Staff are the key to implementation of the taxpayer support at Kenya Revenue Authority, they ought to be equipped with the necessary skills. The Staff should also be trained on development of strategies in order to improve individual, team and organizational performance. There is need therefore to continuously train technical staff on emerging issues and relevant tax laws so that in return they may pass the knowledge to the taxpayers and also be able to monitor tax collection effectively.

The study acknowledges the role that technology plays in enhancing tax compliance among the taxpayers and recommends that Kenya Revenue Authority should sensitize the taxpayers on the systems it has in place and how they will be of advantage to them in terms of increasing their compliance levels. There is need for the authority to make technology/ itax system more friendly and accessible to the taxpayers to benefit fully from the advantages that come with use of technology.

The study also recommended that KRA should establish support centers in many locations country wide which are easily accessible to enhance customer service and satisfaction to taxpayers. Customer care training on staff should form an integral part of the authority's policies as this will greatly enhance service delivery through proper and professional handling of the taxpayers and their issue. It will greatly enhance behaviour change through change of Itaxpayer's perception towards the authority. They will deem the taxman a friend hence more likely to comply. Finally the authority should aim to adhere to its motto "building trust through facilitation". By building trust the taxpayers will be more receptive to the services hence enhance compliance in general and deviation from the service paradigm by concentrating more on

punitive and the old paradigm of enforcement through arrest will only lead to more distrust between the authority and taxpayer hence eroding gains already made by the reliance on taxpayer services as a compliance booster.

the questions asked in the questionnaire to capture the study variables

## **5.6 Areas for Further Studies**

The study sought to establish the effects of taxpayer services on Value Added Tax compliance in Nairobi County. This study, focused on Nairobi County as the target population and on micro and small taxpayers only. More studies should be done on all taxpayers including medium and large taxpayers to have a more objective finding as they may not all exhibit similar characteristics. Also the scope of study only focused on Starehe district. More studies on other districts and regions would be able to give a comparative finding if the taxpayers in other districts in the country exhibit the same characteristics or not.

There is need to conduct more research, by the tax administration and other researchers on the effect of taxpayer services on other tax heads like pay as you earn (PAYE), presumptive tax, turnover tax and income tax.

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## APPENDICES

**Appendix A: Questionnaire:**

My names are Martin Muthee, a post graduate in taxation student at Jomo Kenyatta University of Agriculture and Technology(JKUAT) . I am undertaking an academic research on “ the effect of taxpayer services on value added tax (VAT) compliance on micro and small enterprises in Nairobi County, Kenya : A case of Starehe subcounty. The following questionnaire has been designed to capture the views and information from target respondents for the purpose of this study. The collected data will be analyzed and appropriate recommendations used for the benefit of the taxpayers. The information given by the respondent shall be handled in strict confidentiality. I humbly request you to spare a few minutes of your time to answer the following questions as objectively as possible. Your cooperation is highly appreciated.

**Instructions:** Please read the questions and answer them either by filling in the blank spaces or ticking the check boxes [/] or tables

**Section A: General Information**

- 1. Name (optional)..... .
- 2. Sex: Male [ ] Female [ ]
- 3. Highest education level attained .

Basic education	Diploma/certificate	Degree & above	others
1	2	3	4

- 4. Taxpayer type

Individual	Non-individual
1	2

**2 Are you registered for vat / ought to be registered for vat? Yes  No**

**Based on your experience please choose and tick the following KRA administration strategies. 1=strongly disagree; 2= agree; 3= neutral; 4= agree and 5= strongly disagree.**

**Section B: Taxpayer Education**

	Statement	1	2	3	4	5
1	Has the periodical trainings helped you file and pay your VAT taxes timely and correctly?					
2	Has the stakeholder sensitization/engagement helped you to file and pay VAT taxes promptly ?					
3	Has the print media and internet sensitization/ training helped you file and pay VAT taxes promptly?					

**Section C: Support centers**

	statement	1	2	3	4	5
1	Has KRA support centers been able to offer technical support you need to comply with VAT filling and payment?					
2	Has this centers facilitated you in timely filling, paying and correct declarations on VAT?					
3	Has these centers offered more knowledge on VAT tax issues to make it easy to comply?					

**Section D: Technology/Itax system**

	Statement	1	2	3	4	5
	Do you think itax system has simplified VAT filling, payment and easy declaration?					
	Is itax system stable to and sustainable in facilitating timely VAT filling and payment of taxes?					
	Has the itax made you feel secure in the kindly of data you input by filling VAT hence enabled you to file freely with no fear?					

### Section E: Customer Service

Statement	1	2	3	4	5
Services provided by KRA staff is professional					
KRA Staff are friendly and courteous					
Customers are given individual attention					
Turn around time is swift					

### Section F: VAT Compliance

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