

**EFFECT OF ITAX SYSTEM ON VAT COMPLIANCE AMONG SMALL AND
MEDIUM ENTERPRISES IN ELDORET TOWN.**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ECONOMICS,
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GRADUATE DIPLOMA IN TAX ADMINISTRATION AT JOMO KENYATTA
UNIVERSITY OF AGRICULTURE AND TECHNOLOGY.**

2020

DECLARATION

I declare this research proposal is my original work and affirm to the best of my knowledge that it has not be presented for any academic award in any university

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HDB336-C016-2229/2019

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

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ACKNOWLEDGEMENTS

I wish to thank our almighty God for the gift of life, care, provisions and blessings that he has granted me this far and to achieve my dream in pursuing my post graduate diploma in Taxation at Kenya School of Revenue Authority.

DEDICATION

This project is dedicated to my family for their invaluable support and their encouragements.

May the Almighty lord bless them abundantly.

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ACRONYMS AND ABBREVIATION

MSO	Medium and Small Office
E-	Electronic
EACC	Ethics and Anti-corruption commission
DTD	Domestic taxes department
GOK	Government of Kenya
IT	Information Technology
ITMS	Integrated Tax Management System
KIPRA	Kenya Institute of public policy research and analysis
KRA	Kenya Revenue Authority
CBD	Central Business Development
PIN	Personal Identification Number
SMES	Small and medium enterprises
SPSS	Statistical Package for Social Sciences
VAT	Value Added Tax

DEFINITION OF TERMS

iTax online system: A web based system developed to provide a fully-integrated and automated solution for administration of domestic taxes, it enables the internet based PIN registration, tax returns filing, payment registration to allow for tax payments and status inquiries with real time monitoring of accounts (Institute of Certified Public Accountants of Kenya (ICPAK), 2015).

iTax

This is an integrated web based and automated application that integrates KRA's domestic tax administration processes to offer secure electronic taxpayer registration, electronic filing, electronic payment and back office functionalities to the revenue body (KRA, 2016).

Information Communication Technology

These involves integration of computing platform that allows for the communication of information among the devices, people and institutions (Albino & Berardi, 2015).

Tax compliance

This is the degree to which the taxpayer complies or fails to comply with the tax rules of her country, it may broadly involve declaring income, filing return and paying tax due in a specified time (Mandola, 2017)

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ABSTRACT

Automation of revenue collection system involves investing in modern technologies for example: ICT in order to upgrade the revenue system to achieve The general objective of this study was to examine the effect of iTax system on VAT compliance among SMEs in Eldoret town. The study was guided by the following specific objectives: - to assess the effect of SMEs technical skills, to find out the effect of SMEs training on VAT compliance among SMEs in Eldoret town and to establish the effect of Tax compliance costs on VAT compliance among SMEs in Eldoret town. The study employed descriptive research design. The study target population was 100 registered SMEs in Eldoret town. This study employed 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 conducted by use of descriptive statistics and inferential statistics using Standard statistical techniques including Pearson correlation coefficient and regression analysis employed in the analysis. All the analysis was conducted using the statistical package for social sciences (SPSS Version.24). Analysis of variance (ANOVA) was to establish if there is a statistical significance between the observed and expected values with the Pearson Chi square giving the degree significance of the relations. The study findings indicated that VAT compliance had strong positive correlation with SMEs technical skills, SMEs training and Compliance costs at 0.332, 0.421 and 0.357 respectively. These results show that in terms of statistics, SMEs training have more statistical effect on VAT compliance. The study recommended that to enhance compliance there is need to intensify SMEs technical skills in terms of increasing the number of sessions and broadening coverage to include tax consultants. This will enlighten the taxpayers on existing law and any other tax liability. This will also provide a forum for taxpayers to air their complaints and or compliments. There is need to continuously train technical staff to keep abreast with the tax law and any other changes therein. The SMEs should be encouraged to improve their bookkeeping by offering incentives, such as application of a lower presumptive tax rate for small businesses meeting certain recordkeeping standards and the government should also engage the small holders in sensitization forums on how to reduce the cost associated with tax compliance

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Technology adoption is key in improving the efficiency and effectiveness in revenue mobilization. No doubt, the traditional kinds of paper forms always will be an essential part of the tax administration system (UNCTAD, 2008). Through technology adoption, a tax collection agency will be able to meet their revenue collection targets, as there will be less tax avoidance and evasions. Technology in the tax framework falls under the Public Administration part and its target is to enhance the productivity and viability both at national and local level. For instance, Nisar (2013) argued that recent trends in public taxation stress the need of developing a system of tax assessment and collection.

Automation of revenue collection system involves investing in modern technologies for example: ICT in order to upgrade the revenue system to achieve integration and information sharing so as to enhance efficiency and effectiveness of the system. All Sectors of the County should put in place an effective and efficient revenue collection system in monitoring framework that ensures adequate supervision of the budgeted programs and project activities to enhance accountability and absorption of resources (Amin, 2013).

Automation of revenue collection systems and structures is instrumental in improving and simplifying administration of taxation through utilizing modern technologies for example ICT. In view of the above, Panday (2006) carried out an empirical study whose main goal was to establish the influence of adoption of technology on revenue mobilization in India. He used regression analysis among a random sample of 20 local governments in the country.

1.1.1 Global Perspective

Tax systems in developing economies, like those in more developed ones, face both new challenges and new possibilities because of technological change. Malaysia's ongoing reform of its electronic tax filing and payment system describes how technology can benefit both tax authorities and taxpayers. Singapore was one of the first economies to adopt electronic systems in its public administration. In 1992, the Inland Revenue Department was replaced by the Inland Revenue Authority of Singapore, which developed an integrated, computerized tax administration system (World Bank, 2000). The authority's first step was shifting from a hard-copy filing system to paperless imaging. Going electronic made administrative processes more efficient by freeing staff from unproductive paper shuffling, enabling better taxpayer service. The time needed to issue assessments dropped from 12–18 months to 3–5 between 1992 and 2000. This change allowed staff to work more on auditing and investigation. (World Bank, 2000).

Automation of tax collection allows tax data entry, automated processing, computation and analysis as well as automatic production of tax reports and feedback required for control and risk management purposes (

The use of technology to foster tax compliance by the United States Internal Revenue Service (IRS) shows that more developed economies also face challenges in increasing the use of e-filing. The IRS introduced e-filing of federal tax returns in 1986. Though this system predated Singapore's, it was initially less comprehensive. In fact, even though the number of electronic returns filed increased over time, the potential savings from that increase were partly offset by the ongoing use of paper filings for complex returns. But by 2012 the IRS achieved 80% e-filing of major returns. (Electronic Tax Administration Advisory Committee, 2012).

It is imperative that users of a technology system have the necessary skills to use it to perform the desired functions. This section focuses on key technical skills and knowledge needed to take advantage of the online systems. These required skills and knowledge are information technology literacy, knowledge of the taxation system and tax laws as well as having an existing support system to support and enhance these skills and knowledge.

This, according to the study was the reason why majority of small firms do not use internet. Further, according to Ofcom (2015), SMEs lacked the skilled resources to manage their relationships with their internet service providers for technical and IT support. Additionally, the SMEs were not able to solve basic connectivity problems on their own. This lack of basic technical skills on internet usage acted as a barrier in the using the internet and internet based applications.

A study by Alam (2009) in Klan valley area in Malaysia aimed at establishing the factors that influenced internet adoption by the SMEs. A sample of 465 SMEs was used. The results of the study revealed that the computer knowledge and experience of the individual determined the adoption of the web application. The study recommended that the government agencies responsible for implementation of IT innovations should ensure that they address the issue of computer literacy of the people adopting the innovation. Computer literacy could be achieved through subsidized seminars and trainings.

Broadly, the activities involved in tax compliance are tax registration, filing of tax returns and payment of taxes due by the due dates, good bookkeeping and keeping abreast with any tax changes in laws and procedures (EU, 2007). In essence, a taxpayer needs to be familiar with the existing tax legislations, tax law changes and have the necessary skills required to use the online tax system. It is also paramount that a taxpayer understands the various penalties imposed for non-compliance.

According to Armstrong (2006), the contribution of Human Resource will often take the right tasks, structures, processes and systems to support and implement change. Change is a continuous process that can be implemented in phases and requires constant reviewing. This is true with the implementation and utilization of ETRs. It is not a one off process but requires continuous improvement on systems, skills and processes to realize its objectives. An IMF study, 2005 on VAT refunds found out that a pre-condition for successful reform is a strong commitment on the part of government and key stakeholders. The premises and equipment necessary for automation may include new or rehabilitated offices, hardware, software, internal communication systems and connections to external networks, and they may also require the set-up of wireless networks and links.

Tax evasion is different from tax avoidance in that, tax avoidance is done within the confines of the tax laws (Sandmo, 2005). When there is ambiguity in the tax laws, this in some cases provides a tax saving opportunity for a business. A business can also evaluate their business model, transactions and financial profile to align themselves in such a way that they benefit from paying lower taxes. The use of automated systems has been proven to be capable of introducing massive efficiencies to business processes at a minimal cost (Wasao, 2014). Information system has helped organizations to be highly efficient and to stay competitive in its environment; therefore, it has been widely used in public sector and business organizations (Gupta, 2012). Technology is transforming the ways governments deliver services and interact with citizens across various sectors, from public financial.

1.1.2 Kenya Perspective

The collection of taxes used to be done in a manual way using the forms and submitting them to KRA but this has changed according to the changes of modern society and a system is used to collect and file taxes in Kenya. The SMEs use the computers to control and monitor their processes. (Kenya Revenue Authority, 2005). Before the establishment of the KRA,

government revenues were being collected by different ministries within the government. However, the process of revenue collection was not effective since the different ministries lacked coordination.

The different ministries lacked accountability of the revenue collected, which made them inefficient. The need for accountability, transparency, efficiency, created the need for a body that would collect revenue, hence the formation of KRA. The main objective of KRA was to streamline revenue collection by bringing all revenue collection agencies under one roof. Since the formation of KRA in 1995, the management has spent time creating taxation systems and adopting new strategies that are aimed at improving efficiency in revenue collection. The functions of the body is therefore to account for the revenues collected in line with the set provisions by the laws and to provide advice on matters related to tax administration and collection of revenue.

KRA has created an integrated tax management system that is aimed at providing effective and efficient services to the Kenyans (Karingo, 2014).

The integrated system provides each taxpayer with their personal details and the tax obligations that they are entitled to. The integrated tax system came after the domestic tax department was introduced by the KRA. The system has led to improvement in the provision of services in tax collection. According to Wamugunda (2014). KRA is committed to technological transformation in tax administration processes. For instance, in the Financial Year 2014-2015, the Board of Directors was committed to increasing the level of automation in the Authority from 90.6% to 92.4%. Similarly, the 6th Corporate Plan seeks to promote uptake of information management systems to increase efficiency and minimize cost of doing business both to the taxpayer and the Authority. Furthermore, it seeks to strengthen revenue

administration capacity by KRA transforming into a single collector and a lead border agency.

This will be achieved through automation of internal processes of the Authority and electronic control of movement of goods into and out of Kenya. Major strides have been made towards automation of processes in various departments. For instance, all the processes in legal services and internal audit departments are fully automated.

The revenue collection in Kenya is a mandate which is administered by the government of Kenya and Kenya Revenue Authority has been appointed and assigned that duty by an act of parliament. The Kenya Revenue Authority was formed in July 1st 1995 by an Act of parliament as the government agency responsible for administration and collection of taxes on behalf of the Government of Kenya. The KRA receives the revenue and channel it to the Treasury allocates the revenue to different sectors of the economy after the National budget is approved by Parliament and also the parliamentary budget committee. (Kenya Revenue Authority, 2015)

KRA collects taxes which includes; Income tax for individuals and body corporates, Monthly rental income tax, capital gains tax, advance tax, VAT, Excise duty, petroleum levies, custom duties and other taxes for other government bodies like the ministry of lands which include the land rent, capital gains tax. When KRA receives the revenue it is then transferred to the treasury for the allocation. (ICPAK, 2016) The KRA currently uses the itax system for the filing and payment of revenue which is efficient reliable and accurate. The itax system has replaced the manual system which was used in earlier days for filing and payment of revenue this was a good example of automation of tax processes on revenue collection by both large tax payers and SMEs. The SMEs uses the KRA system to file their returns and pay the revenue which is received by the appointed Kenyan banks which include

commercial banks and other financial institutions which collect revenue on behalf of KRA. (Kenya Revenue Authority, 2017)

The KRA conducted a research on how to improve the revenue collection through automation and they developed the Itax system which is one of the modern technologies which is used in other countries using expert's systems to collect revenue and improve the budgetary decisions. The SMEs have not been left behind with the technology since they also need to improve the revenue payment responsibility for the citizens to enjoy the goods and services provided by the government.

The cost of implementing the iTax system would outweigh benefits to KRA from any incremental tax collected as a result of the iTax system. However, in a presentation on the implementation of the iTax system by KRA in August 2006, it was argued that compliance had risen to over 35% of VAT registered taxpayers. Nkote and Lilian (2010) studied the effect of automation and customs tax administration in the case of Uganda. The researchers investigated the adoption of automation in URA in achieving efficiency and increasing revenue collection. Some of the results they reported showed inconsistency of the automation in improving efficiency in tax administration.

The result generally showed that automation predicted the cost of tax administration and effectiveness of revenue collection though it predicted clearance time negatively. This means that the cost of tax administration was increased with increasing automation and the time taken to clear tax declarations reduced with increased computerization of tax administration at URA. The implications were that URA achieved the computerization of customs tax administration at an increasing rate of costs due to incomplete automation of all the systems.

Value Added Tax is a multi-stage consumption tax charged on the sale of goods and services at all stages of production and distribution chain. The tax is charged on the supply of taxable

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

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

The government formulates policy and VAT laws, KRA oversees implementation of the laws, professionals offer services to ensure tax compliance, businesses act as agents in collecting VAT & remitting it to the government and the general public is concerned about the VAT rate which influences their spending and how the government is utilizing the VAT revenue collected. VAT contributes about 23% of the total tax revenue collection by the government (KNBS 2014).

In Kenya, the controlling and formal context has based the definition of Kenya's SMEs on the employees' numbers and the overall turnover of a corporation (MSME's Act 2012). SME's have been defined by the act as those employing between ten and fifty employees with yearly turnover of between 500,000 and 5 million Kenya shillings.

1.1.4 iTax System

Automation of revenue collection is one of the main strategic pillars of achieving economic development by meeting budgeted expenditure and matching the expectations of the taxpayers. The iTax system was introduced in Kenya with the aim of bringing efficiency, increasing tax revenue collection and eliminating direct contact between taxpayers and revenue authority staffs hence reducing corruption loopholes. The web enable system if implemented very well is deemed to adequately benefit taxpayers and increase revenue collection by reducing on the filing workload and operational costs. The taxpayers are able to utilize the services of filing in a convenient way and register tax payments at the comfort of their homes and offices (KRA, 2016).

The manual system used before the adoption of *itax* had a lot of loopholes as compared to the current system which requires tax payers to register, file returns and pay their dues online. The manual system allowed unscrupulous taxpayers to under declare tax. The automation of all the procedures is good for enhancing the level of compliance and push up government revenue collection. Professionals who do not declare their taxes as required, it is very easy to identify them using the iTax system.

1.2 Statement of the problem

The manual system used before the adoption of *itax* had a lot of loopholes as compared to the current system which requires tax payers to register, file returns and pay their dues online. The manual system allowed unscrupulous taxpayers to under declare tax. For instances, in the financial year 2014/2015 the authority collected exchequer revenue of 1,022 billion against

the treasury target of 1,065.8 billion (KRA, 2015), 2016/17 the authority collected exchequer revenue of 1.365 billion against the treasury target of 1.415 billion (KRA, 2015) and 2018/19 the authority collected exchequer revenue of 6.77 billion against the treasury target of 633 (KRA, 2015).

In addition, the practice of tax evasion still presents a serious threat to achieving this goal, and it continues to directly deny the Government its rightful revenue. For example, failure to fully declare the sales receipts of a business enterprise through keeping of parallel records is stealing of Government revenue. This means that the trader does not pay the right amount of Value Added Tax or Income Tax.

1.3 Objectives of the study

The general objective of the study aims to investigate the effects of iTax system on VAT compliance among small and medium enterprises in Eldoret town

1.3.1 Specific objectives

The study will be guided by the following specific objectives: -

- i. To determine the effect of technical skills on VAT compliance among SMEs in Eldoret town.
- ii. To assess the effect of SMEs training on VAT compliance among SMEs in Eldoret town.
- iii. To establish the effect of Tax compliance costs on VAT compliance among SMEs in Eldoret town.

1.4 Research Questions

The study is guided by the following research questions.

- i. What was the effect of technical skills on VAT compliance among SMEs in Eldoret town?
- ii. What was the effect of SMEs training on VAT compliance among SMEs in Eldoret town?

- iii. What was the effect of Tax compliance costs on VAT compliance among SMES in Eldoret town?

1.5 The significance of the study

1.5.1 Policy Makers

This study will be useful to policy maker's concepts which to develop a framework to explore tax compliance behaviour among SMEs. It has opened the underlying factors that promote tax compliance.

1.5.2 Government of Kenya

The findings of this study will assist the GOK that regulates the revenue collection and Automation of tax process to know if there are factors influencing the automation of tax processes in Revenue collection on SMEs. This will help to know if there are positive effects or negative effects which need improvements.

1.5.3 The SMEs

The SMEs include the Small medium enterprises which deal with different sectors of economy like in manufacturing sector, construction sector, Educational sector, transport sector among others. The SMEs can use this research proposal to know if there are factors influencing the automation of tax processes in Revenue collection among SMEs. The effects could be positive or negative effects.

1.5.4 Future researchers

The study of this research proposal will assist the scholars to know if there are factors influencing the automation of tax processes in Revenue collection among SMEs. The scholars can use the information to make future decisions like conducting more research on the area and the research gaps can be known.

1.6 The scope of the study

Geographically, the study focused on Small and Medium Enterprises at Eldoret town. Justification of why the focus is that this area is that the area is expected to have a high number of Small and Medium taxpayers and hence individual taxpayers should contribute a large portion of the revenue collected. The study target population was 100 SMEs.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature based on the objective of the study which is to determine the effect of customer service reforms on revenue collection. The chapter compares different ideologies and views of different researchers and scholars, theories of taxation.

2.2 Theoretical framework

This aimed to give a summary of a few theories to support the study being undertaken. It will review the following theories: Technology acceptance model (Davis 1989) and Unified theory of acceptance and use of technology and Diffusion of Innovations (DOI) Theory

2.2.1 Diffusion of Innovations (DOI) Theory

Diffusion of innovations is a theory profound by Everett Rodgers that seeks to explain how, why and at what rate new ideas and technology spread. Rodgers argues that diffusion is the process by which an innovation is communicated over time among the participants in a social system. For Rogers (2003), acceptance is a choice of full use of an invention as the best course of action accessible and refusal is a choice not to accept an invention. He defines innovation as an idea, practice, or object that is perceived to be new by an individual or other unit of adoption. Communication is a process in which participants create and share information with one another to reach a mutual understanding (Rodgers, 1995).

Diffusion study has concentrated on the features of an invention which may affect its acceptance, the decision making procedure that takes place when people think about accepting new invention on products or technology, the features of people that make them likely to accept an invention, the effects for people and society of accepting an invention and communication ways used in acceptance process.

Rodgers proposes that four main elements influence the spread of new idea: the innovation itself, communication channels, time and social system. Invention diffusion study has attempted to explain the variables that impact how and why users accept a new information system, such as the internet. Opinion leaders exert the influence on audience behavior via their personal contact, but additional intermediaries called change managers and caretakers are also included in the procedure of diffusion. According to Rodgers, there are five adopter categories; innovators, early adopters, early majority, late majority, laggards. The criterion for adopter categorization is innovativeness. Innovativeness is defined as the degree to which an individual adopts a new idea.

Inventions are often accepted by organizations through two invention-choices: collective invention decisions and authority invention decisions. Collective decision occurs when adoption is by consensus. The authority decision occurs by accepting among very few people with high positions of command within an organization. Unlike the discretionary invention choice procedure, these decision procedures only occur within an organization. Within an organization certain individual are termed as “champions” who stand behind an innovation and break through opposition. The champions play a very similar role as the champion used within the efficiency business model Six Sigma. The procedure contains five phases that are marginally comparable to the invention-decision procedure that people accept. These stages are: agenda setting, matching, restructuring, classifying and routinizing.

2.2.2 Unified theory of Acceptance and use of Technology

This theory was formulated by Venkatesh.et al (2003), and aims to explain user intentions while using an information system and the subsequent usage behavior. The theory claims that there are four main factors that will influence usage of a new information system and they include: performance expectancy, effort expectancy, social influence and facilitating conditions. The four factors are moderated by gender, age, experience and voluntariness of

the targeted user. For example, for a user who is young and with an IT background, they are more likely to find a new system highly useful in performing their duty, easy to use as they are already technical and will most likely influence their peers in using the same information system. The theory was developed by reviewing and consolidating the principles of eight earlier models which include the one above i.e Technology Acceptance Model and others.

The model has been used by various researchers in their studies but has also received criticism from various quarters as many compare it with the theory of technology acceptance model (Venkatesh, & Zhang, 2010). The Unified theory of acceptance and use of technology involves the economic environment of the firm, the structures of the industry and the internal structure of the firm is one of the most important components for the growth and development of the firm. The unified theory involves the change from manual to use of computerised technology which makes work easier and faster. The information system is introduced to the firm by the management according to the various tasks they need to be performed successfully in an automated way. Most of the organisations have changed from the use of manual system to the Modern information

The theory of acceptance and use of technology was earlier demonstrated by other scholars who performed more research work to support their work and shows how the small firms starts and grows to big firms with more growth in output, capital and expenditure as a result of the use of advanced technology by the use of computerised systems.

2.2.3 Theory of Technology Acceptance Model

This theory was initially proposed by Davis (1989) and tries to explain the model of how users accept technology when it is imposed on them. The model describes two major factors that influence the uptake of the technology by the users including; Perceived usefulness- this is interpreted as the degree to which the user of the new technology believes that using that

particular technology will help them enhance their job performance. If the user believes that the technology will help them to a great extent in enhancing their performance, then they are more likely to use that technology and adopt it in a shorter span of time. However, if the user feels the technology won't help enhance their performance, they will tend to avoid it unless forced to do so, may be in their workplaces.

Perceived ease of use – this is the degree to which a potential user of a new technology believes it would require minimal effort to use it. If the user thinks the technology will be easy to use at minimal effort, then they are more likely to adopt technology as opposed to a user who believes that it would require a lot of effort to use the technology. The theory was later theorized further and extended to different models such as “An extension of the Technology Acceptance Model in hospital in the home units” but the new models still borrowed heavily from the principles of the original model.

2.3 Conceptual framework

A conceptual framework is a concise description of the phenomenon under study represented by graphical depiction of the major variables of the study (Mugenda, 2003). Young *et al.* (2003) defines conceptual framework as a diagrammatic representation of the relationship between the dependent and independent variables. The conceptual framework helps in guiding how the variables will connect with each other

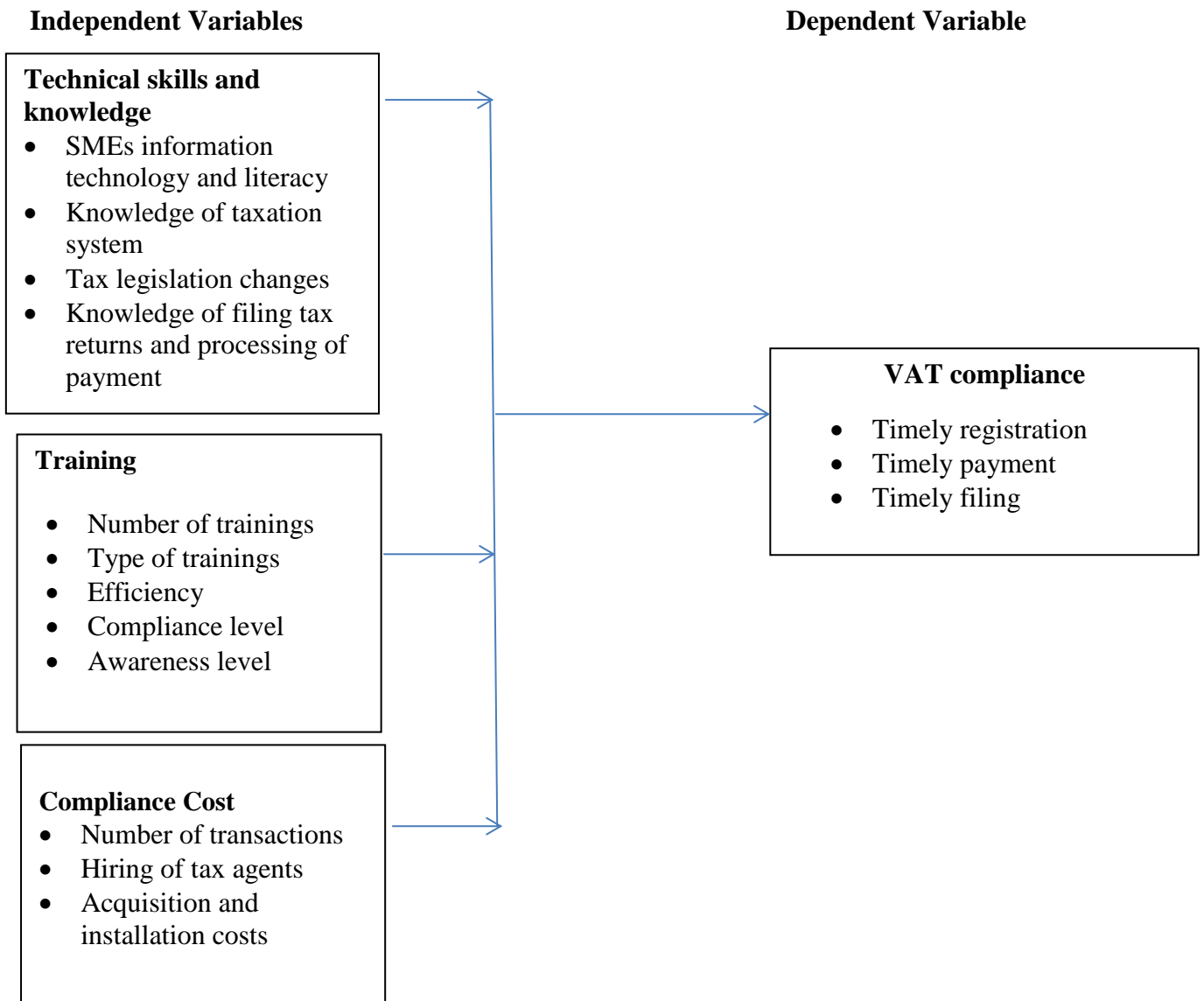


Figure 2.1: Conceptual framework

2.4 Empirical review

Mukabi (2014) carried out a study on “factors influencing Turn over Tax compliance and concluded that, taxpayers’ perception of the tax system, level of awareness, enforcement efforts and compliance costs have an effect on compliance level. Osebe (2013) carried out a study on the analysis of factors affecting tax compliance in the real estate sector. He concluded that the established factors (compliance costs, available opportunity for tax evasion, taxpayer knowledge, fines and penalties) greatly affect the tax compliance level in the industry. The study of Mwangi (2013) on the establishment of factors affecting tax

compliance among the small and medium enterprises reached a conclusion that rates of tax, availability of information, compliance costs and taxpayer attitude towards tax payments have a direct effect on tax compliance.

The essence of leadership in modern organizations nowadays is that leadership must be for the benefit of the followers and not necessarily for the enrichment of the leaders, (Kuppers, 2007). An individual will support an organization if he believes that through it his personal objectives and goals could be met; if not, the person's interest will decline. Managerial style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in the organization. However, the authors do not specifically portray the exact effect of leadership on the stability of the labor force, specifically in public sector organizations.

According to Madura, (2007), firms that invest in employee training are more profitable due to more output, effective use of resources. Furthermore, the author demonstrates that effective training assists supply chain management in creating an effective workforce and business operations thus creating a competitive advantage for a firm over its competitors who do not train their employees on new processes, technologies and trends. This assertion may not always apply to all firms of all sectors as training programs force investments which increase operational costs making it unattractive to decision makers. In addition the several authors has not shown how training affects the stability of the labor force in public sector organizations, therefore the study was conducted to fill the gaps. Studies have found that organizational policy was consistently associated with employee turnover. There are many organizational policies that can influence performance, stability and morale among employees in an organization. Noteworthy though, is the underwhelming gap on the explicit effect of organizational policies on the human resource stability in public sector organizations thus a need for a study to fill those gaps revealed.

According to Munaita, (2008), policies of the state affect the supply and demand of labor in a certain area as well as commercial properties and industrial projects. A company may decide for (or against) a certain location because of regulations and policies rolled out. In addition, the view and the support of the government which is reflected by its policy, affects the activities of public sectors organizations since they work on behalf of the state. However the several authors reviewed have not expressly stated the effect of government policy on the stability of the work force in public sector organizations, hence necessitating a study to establish as much.

Makau,2010). Repercussions relating to non-compliance of raising enough tax revenue by the government to finance planned activities, has motivated researches and policy makers to put emphasis on tax non-compliance.

2.4.1 SMEs technical skills

It is imperative that users of a technology system have the necessary skills to use it to perform the desired functions. This section focuses on key technical skills and knowledge needed to take advantage of the online systems. These required skills and knowledge are information technology literacy, knowledge of the taxation system and tax laws as well as having an existing support system to support and enhance these skills and knowledge.

This, according to the study was the reason why majority of small firms do not use internet. Further, according to Ofcom (2015), SMEs lacked the skilled resources to manage their relationships with their internet service providers for technical and IT support.

Additionally, the SMEs were not able to solve basic connectivity problems on their own. This lack of basic technical skills on internet usage acted as a barrier in the using the internet and internet based applications.

A study by Alam (2009) in the Klang valley area in Malaysia aimed at establishing the factors that influenced internet adoption by the SMEs. A sample of 465 SMEs was used. The results of the study revealed that the computer knowledge and experience of the individual determined the adoption of the web application. The study recommended that the government agencies responsible for implementation of IT innovations should ensure that they address the issue of computer literacy of the people adopting the innovation. Computer literacy could be achieved through subsidized seminars and trainings.

Broadly, the activities involved in tax compliance are tax registration, filing of tax returns and payment of taxes due by the due dates, good bookkeeping and keeping abreast with any tax changes in laws and procedures (EU, 2007). In essence, a taxpayer needs to be familiar with the existing tax legislations, tax law changes and have the necessary skills required to use the online tax system. It is also paramount that a taxpayer understands the various penalties imposed for non-compliance.

2.4.2 Training

According to Armstrong (2006), the contribution of Human Resource will often take the right tasks, structures, processes and systems to support and implement change. Change is a continuous process that can be implemented in phases and requires constant reviewing. This is true with the implementation and utilization of ETRs. It is not a one off process but requires continuous improvement on systems, skills and processes to realize its objectives. An IMF study, 2005 on VAT refunds found out that a pre-condition for successful reform is a strong commitment on the part of government and key stakeholders. The premises and equipment necessary for automation may include new or rehabilitated offices, hardware, software, internal communication systems and connections to external networks, and they may also require the set-up of wireless networks and links.

2.4.3 Compliance Costs

ICPAK (2005) noted that the implementation of tax registers has not been successful in other countries like Turkey and Tanzania. The iTax system regime is too cumbersome for businesses that have a minimal number of transactions. The cost of implementing the iTax system would outweigh benefits to KRA from any incremental tax collected as a result of iTax system.

However, in a presentation on the implementation of iTax system by KRA in August 2006, it was argued that compliance had risen to over 35% of VAT registered taxpayers. Nkote and Lilian (2010) studied the effect of automation and customs tax administration in the case of Uganda. The researchers investigated the adoption of automation in URA in achieving efficiency and increasing revenue collection. Some of the results they reported showed inconsistency of the automation in improving efficiency in tax administration.

The result generally showed that automation predicted the cost of tax administration and effectiveness of revenue collection though it predicted clearance time negatively. This means that the cost of tax administration was increased with increasing automation and the time taken to clear tax declarations reduced with increased computerization of tax administration at URA. The implications were that URA achieved the computerization of customs tax administration at an increasing rate of costs due to incomplete automation of all the systems.

2.4.4 VAT compliance

Value Added Tax is a multi-stage consumption tax charged on the sale of goods and services at all stage of production and distribution chain. The tax is charged on the supply of taxable goods or services in Kenya and the importation of taxable goods or services in Kenya. The tax is collected by registered traders and remitted to Kenya Revenue Authority, but the burden is shifted to consumers through higher prices. Value Added Tax is charged under the

VAT Act Cap 476 under the laws of Kenya. Tax compliance is a process in which taxpayers adhere to the rules set by the relevant tax authorities such as payment of taxes due and filing of returns so that revenue can be collected effectively. VAT was introduced in Kenya in 1990 as a means of increasing the government tax collections by widening the tax base.

VAT is imposed by Kenya revenue Authority (KRA) as per the laws of the Value Added Tax Act 2013. The Value Added Tax is an indirect tax on consumption applicable on the sale of supplies at all levels of production and distribution.

VAT registered taxpayer's acts as agents in collecting and remitting collected VAT to the government. The VAT paid on inputs in turn is claimed as credit when registered taxpayers declare output VAT on their sales (VAT Act 2013 Sec 17). Suppliers of exempt goods & services (VAT Act 2013, first schedule) do not charge VAT on their supplies and cannot claim credit for VAT paid on their purchases. The VAT system also contains zero rated goods and services (VAT Act 2013, 2nd schedule). Businesses charge VAT at a rate of 0% on their supplies and are allowed to deduct the input tax paid on the purchase of those zero rated goods and services (VAT Act 2013 Sec 17).

The government formulates policy and VAT laws, KRA oversees implementation of the laws, professionals offer services to ensure tax compliance, businesses act as agents in collecting VAT & remitting it to the government and the general public is concerned about the VAT rate which influences their spending and how the government is utilizing the VAT revenue collected. VAT contributes about 23% of the total tax revenue collection by the government (KNBS 2014).

In Kenya, the controlling and formal context has based the definition of Kenya's SMEs on the employees' numbers and the overall turnover of a corporation (MSME's Act 2012). SME's have been defined by the act as those employing between ten and fifty employees with yearly turnover of between 500,000 and 5 million Kenya shillings.

Generally, this sector comprises of manufacturing and trade activities which affect the general economy of the country. For the fundamental purpose of providing for compliance on a voluntary basis and growth of the economy, a tax policy that is ideal has to be adopted.

2.5 Critique of existing literature

Mukabi (2014) carried out a study on “factors influencing Turn over Tax compliance and concluded that, taxpayers’ perception of the tax system, level of awareness, enforcement efforts and compliance costs have an effect on compliance level. Osebe (2013) carried out a study on the analysis of factors affecting tax compliance in the real estate sector. He concluded that the established factors (compliance costs, available opportunity for tax evasion, taxpayer knowledge, fines and penalties) greatly affect the tax compliance level in the industry.

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Furthermore, the author demonstrates that effective training assists supply chain management in creating an effective workforce and business operations thus creating a competitive advantage for a firm over its competitors who do not train their employees on new processes, technologies and trends. This assertion may not always apply to all firms of all sectors as training programs force investments which increase operational costs making it unattractive to decision makers.

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Makau,2010). Repercussions relating to non-compliance of raising enough tax revenue by the government to finance planned activities, has motivated researches and policy makers to put emphasis on tax non-compliance

2.6 Research gap

The increased adoption of electronic tax administration systems such as iTax, are computer based revenue platforms that do away with the need for manual registration, filing and processing of tax returns, refunds and other tax related services. The ultimate goal is to increase revenue collection through reducing costs associated with compliance and minimizing tax leakage. They are designed to reduce physical contact between the tax administration and the taxpayers in order to achieve the desired effect of reducing corruption. Despite the introduction of iTax system, KRA still continue to post revenues short of the treasury target. For instance, in the financial year 2014/2015 the authority collected exchequer revenue of 1,022 billion against the treasury target of 1,065.8 billion (KRA, 2015), 2016/17 the authority collected exchequer revenue of 1.365 billion against the treasury target of 1.415billion (KRA, 2015) and 2018/19 the authority collected exchequer revenue of 6.77billion against the treasury target of 633 (KRA, 2015)

2.7 Summary

The first chapter of the research proposal expounds on the introduction and background information to the study at hand by providing a general overview of the effect of iTax on revenue collection among large taxpayers by Kenya Revenue Authority. Research problem is to link the study with the previous researchers and establish its unique research gap for the current study. Specific objectives are introduced to stamp on the general objective of the study and illustrate its association to the dependent variable and the significance of the study. Chapter two presented on the literature review that was; empirical review of the reflective objectives and chapter summary. Chapter three captured on the methodology.

CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

This chapter included the research design, population of the study or target population, sample design and procedures, data collection methods and data analysis procedures which were applied.

3.1 Research Design

The research employed descriptive research design since the researcher objective to establish the effect of iTax system on VAT compliance. This research design involves gathering data that describes events and then organizes, tabulates, depicts and describes the data collected by the use of percentages, ratios and other qualitative methods. (Mugenda & Mugenda, 2003). This descriptive design was employed because the data involved is qualitative, identifiable and the research problem is not well defined. (Krishnaswami & Satyaprasad, 2010)

3.2 Target Population.

A population includes all entities belonging to certain parameters which can be identified and categorized. A target population is that which the researcher wants to generalize the results of the study. A population also refers to an entire group of individuals, events or objects having common observable characteristics. (Mugenda & Mugenda, 2003). The target population of the study was 100 registered SMEs in Eldoret town

Table 3.1 Target Population

Enterprises	Target Population
Small enterprises	64
Medium enterprises	36
TOTAL	100

3.3 Sample and Sampling technique

3.3.1 Sample Size

Cooper and Schindler (2003) describe sample or sample size as a subject of a population that is studied through a research study and generalized into the entire populations. The study employed census since the target population was less than 100.

3.4 Data collection Instruments

The study employed closed questionnaire which helped the researcher to get the accurate results. The closed structured questionnaire is simple to use and one can capture a lot of data within a short period of time and was in likert scale.

3.5 Data Collection Methods

The study employed primary data collection. Primary data was collected through a self-administered questionnaire. A questionnaire was gathered statistically meaningful data on the perspectives of respondents on an issue of interest based on a set of predetermined questions. According to Kothari (2008), a questionnaire is the most appropriate instrument for this study due to its ability to collect a large amount of information in a reasonably quick span of time hence why the questionnaire was an appropriate instrument for this study. Secondary data was used to collect data on revenue performance

3.5.1 Primary Data

These are the data which are collected from some primary sources i.e., a source of origin where the data generate. These are collected for the first time by an investigator or an agency for any statistical analysis.

3.6 Data Collection procedure

Both primary data was used for the study. Primary data was collected using questionnaires and secondary data using published records, professional journals, books financial reports and other accepted publication related to automation of tax processes on revenue performance for SMEs. Well trained research assistant was used to administer the questionnaires. The questionnaire is a reliable tool to collect the data and produces accurate results if used well and the questions relate to the subject matter. (Mugenda & Mugenda, 2003)

3.7 Pilot testing

Pilot study was carried to determine the reliability as well as validity of the research tools in order to ensure there is consistency and accuracy of the research instruments.

3.7.1 Validity of the research instruments

Kothari (2008) defines validity as a sound measurement that indicates the degree to which an instrument measures what it purports to measure. This study adopted content validity which is the extent to which a measuring instrument provides accuracy under study. So as to establish content validity and make adjustments to the research instruments, consultations and discussions with the supervisor was done.

3.7.2 Reliability of the research instruments

Reliability of an instrument is the measure of the degree to which a research instrument yields consistent results or data after repeated trials (Cooper, 2003). Instrument reliability is the dependability, consistency or trustworthiness of a test. Cronbach's Coefficient Alpha approach was used to measure internal consistency of the research instruments. Cronbach's Coefficient Alpha is a scale measurement tool appropriate in measuring internal consistency in descriptive survey researches as recommended by Cohen, Manion and Morrison (2007). Computation of Cronbach's Alpha was done using statistical package for social sciences (SPSS Version 24).

3.8 Data collection procedure

Data collection procedures commenced upon approval of the proposal after its defense. An introduction letter was issued to the sampled entities for consent to collect data from the respondents. The questionnaire was administered to the respondents directly by the researcher with the help of two research assistants in order to save on time.

3.9 Data analysis and presentation

The study findings were analyzed using descriptive and inferential statistics using the SPSS software. The findings are presented in the following thematic areas: response rate; demographic characteristics of the respondents; KRA tax incentives; Rental income earners tax behaviors; testing hypothesis of the tax models used.

3.9.1 The Qualitative Analysis

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

3.9.2 The Quantitative Analysis

Quantitative data was analyzed using inferential statistics where both parametric (Chi- Square test) and non- parametric (Pearson correlation coefficient) test was used. Chi-square test was used to test statistically significant difference between large and mutually unrelated parametric samples. Pearson correlation test was conducted to test level of significance between all independent variables and dependent variables. Pearson's correlation coefficient was used as a measure of linear correlation.

3.9.3 Empirical Model

Multiple regression analysis measures the effects of multiple independent variables on one dependent variable. Multiple regressions were therefore being adopted to measure the effects of multiple independent variables on the dependent variable and effects of multiple independent variable.

The study adopted multi regression model

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

Where:

Y = VAT compliance

β_0 = Constant Term

β_1 = Beta coefficients

X1 = Technical skills

X2 = Training

X3 = Compliance costs

ε = Error term

3.10 Measurement of variables

Table 3.2: Measurement of Variables

Variable	Indicators	Likert scale
Technical skills and knowledge	SMEs information technology and literacy Tax legislation changes Knowledge of filing tax	5 points
Training	Declaration of income Keep records Payment of taxes	5 points
Compliance Cost	Number of transactions <input type="checkbox"/> Hiring of tax agents <input type="checkbox"/> Acquisition and installation	5 points

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.0 Introduction

This chapter represents the analysis, presentation and interpretation of the findings. It gives the empirical findings and results following the application of the variables using the techniques mentioned in chapter three in methodology

4.1 Response Rate

The researcher administered a total of 100 questionnaires and 96 were completed and returned. This represents a response rate of 96% as shown in Table 4.1. This response rate was adequate to allow the researcher to continue with the analysis. The questionnaires were composed of questions that addressed the objectives of the study.

Table 4.1 Response rate

Category	Frequency	Percentage
Completed and returned	96	96
Not returned	4	4
Total	100	100

4.2 Reliability test results

Reliability is measure of the degree to which a research instrument yields consistent result after repeated trials The results are depicted in table 4.2 below: -

Table 4.2: Reliability tests results

Constructs	Reliability Cronbach's alpha	Reliability comment
VAT compliance	0.708	Accepted
SMEs technical skills	0.811	Accepted
SMEs Training	0.711	Accepted
Compliance cost	0.731	Accepted

The results of the reliability test produced an overall Cronbach Alpha correlation coefficient of 0.7 while specific findings indicated that VAT compliance had a coefficient of 0.708, SMES technical skills and knowledge had a coefficient of 0.811, SMEs Training had a coefficient of 0.711 and compliance cost had a coefficient of 0.731. Table 4.2 shows that all the study variables yielded Cronbach alpha coefficients values of more than 0.7, which is the recommended value.

4.3. Descriptive statistics

4.3.1 SMEs technical skills

This section sought to evaluate the effect of SMEs technical skills on VAT compliance. Table 4.3 shows the results obtained.

Table 4.3 SMEs technical skills

Statement	Mean	Std. deviation
SMEs know how to register my business on the iTax online system.	3.13	1.143
SMEs can pay taxes using the iTax online platform	3.40	1.212
SMEs know how to file returns in the iTax online system.	2.21	1.243
SMEs do not know when tax laws change.	1.44	1.153

According to the results on table 4.3 show that, highest mean values were 3.40, 3.13 and 2.21, which correspond to the Likert scale value of 2. This indicates that the respondents agree that they know how to register my business on the iTax online system, they can pay taxes using the iTax online platform and they can pay taxes using the iTax online platform. The lowest mean value was 1.44, which indicates that the respondents strongly agreed that Management or approved personnel reviews results of audit. The study findings are supported by a number of studies which includes Madura, (2007),

4.3.2 SMEs training

This section sought to determine the effect of SMEs training on revenue collection

Table 4.4 SMEs training

Statement	Mean	Std. deviation
Small and Medium sized entrepreneurs have adequate knowledge on tax rate, basis of taxation and compliance requirements.	3.28	1.345
SMEs have knowledge about declaration of income	3.20	1.444
KRA has created a lot of public awareness payment of taxes	2.39	1.067
SMEs are trained to acquire skills on tax laws	2.11	1.322

According to the results on table 4.4 the highest mean values were 3.28 and 3.20 which corresponds to the scale value of 3. This indicates that the respondents agree that Small and Medium sized entrepreneurs have adequate knowledge on tax rate, basis of taxation and compliance requirements, SMEs have knowledge about declaration of income and KRA has created a lot of public awareness payment of taxes. The lowest mean value 2.11 which indicates that the respondents strongly agreed that SMEs are trained to acquire skills on tax laws. The study findings are supported by a number of studies which includes (Kuppers, 2007).

4.3.3 Compliance cost

This section sought to find out the effect of compliance cost on revenue collection.

Table 4.5 Tax Compliance cost

Statement	Mean	Std. deviation
The cost of filing a tax return is fair	2.11	1.115
The cost of hiring a tax agent is high	2.13	1.056
The cost of travelling in order to file a return is low	3.56	1.311

According to the result in table 4.5 the highest mean values were 3.56 and 2.61 and 2.11. Meaning respondents were indifferent, they agreed that the cost of filing a tax return is fair, the cost of hiring a tax agent high and the cost of travelling in order to file a return is low. The lowest mean value 2.13. which indicates that the Reconciliation of cash books is carried out on monthly basis. The study findings are supported by a number of studies which includes Nkote and Lilian (2010)

4.3.4 VAT compliance

Table 4.6 VAT compliance

Statement	Mean	Std. deviation
ITax system reduces cost on VAT revenue collection among SMEs	3.12	1.543
ITax system enhances VAT Revenue collection among SME	2.15	1.321
KRA meets its targets after introduction of iTax system	3.10	1.312
iTax system improves services delivery	3.40	1.443

According to the results on table 4.6 the highest mean values were 3.40 and 3.10 and 3.12 which corresponds to the scale value of 3. The results indicate that the respondents agreed that ITax system reduces cost on VAT revenue collection among SMEs, ITax system enhances VAT Revenue collection among SME, KRA meets its targets after introduction of iTax system and iTax system improves services delivery. The study findings are supported by a number of studies which includes Osebe (2013).

4.4 Correlation Analysis

4.4.1 Correlation results on independent variables

Correlation shows the relationship existing between variables in the study. The study's dependent variable is VAT compliance and the independent variables comprised of SMEs training skills, SMEs training and Compliance costs.

The results depicted in table 4.7 below

Table 4.7: Correlations Statistics of Independent and Dependent Variables

		VAT compliance	Technical skills	SMEs training	Compliance costs
VAT compliance	Pearson	1			
	Correlation				
Technical skills	Pearson	.332	1		
Training	Pearson	.421	.243	1	
Compliance costs	Pearson	.357*	.353	.783*	1
	Correlation				

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

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

A correlation coefficient enables the researcher to quantify the strength of the linear relationship between two ranked or numerical variables (Smith, 2010). Pearson correlation coefficient (r) was used to assess strength of association between the study variables. Where (r) is more than 0.7, variables indicate strong correlation. Results indicate on Table 4.7 indicates VAT compliance had strong positive correlation with SMEs technical skills, SMEs training and Compliance costs at 0.332, 0.421 and 0.357 respectively. These results show that in terms of statistics, SMEs training have more statistical effect on VAT compliance.

4.5 Regression Analysis

4.5.1 Model Summary

Table 4.8: Effect of SMEs technical skills and VAT compliance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822 ^a	.675	.671	.64269

a. Predictors: (Constant), SMEs technical skills

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	3.732	1	3.732	42.822	.000 ^b
1	Residual	34.334	99	0.346		
	Total	48.066	100			

a. Dependent Variable: VAT compliance :

a. Predictors: (Constant), SMEs technical skills

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.732	0.423		6.620	.000
	SMEs technical skill s	.564	0.154	.718	4.523	.000

a. Dependent Variable: VAT compliance

Régression Equation

$$Y = 2.732B + 0.564X_1 + e$$

The results in Table 4.7 indicated that SMEs technical skills had a positive correlation with VAT compliance up to 82.2% or (R= 0.822). The results reveals that SMEs technical skills caused a variation of 67.5% or ($R^2=0.675$ and adjusted $R^2 =0.671$) on VAT compliance. This

implies that the remaining 32.5 % of the change was caused by other factors not included in the model

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.14 show an F value of 42.822 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that SMEs technical skills contributes significantly to changes in the VAT compliance.

Model Summary

Table 4.8: Effect of Training on VAT compliance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.564 ^a	.318	.314	.14617

a. Predictors: (Constant), Training

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.731	1	5.731	47.511	0.000
1	Residual	53.362	99	0.539		
	Total	59.093	100			

a. Dependent Variable: VAT compliance

b. Predictors: (Constant), Training

Coefficients

Model	Unstandardized Coefficients		Standardized	T	Sig.
	B	Std. Error	Beta		
1					
(Constant)	1.454	.375		3.983	.006
Training	.354	0.065	.565	4.444	.000

a. Dependent Variable: VAT compliance

Régression Equation

$$Y = 1.454B + 0.354X_2 + e$$

The results in Table 4.8 indicated that training had a positive correlation with VAT compliance up to 56.4% or (R= 0.564). The results reveals that training caused a variation of 31.8% or (R²=0.318 and adjusted R² =0.314) on VAT compliance. This implies that the remaining 73.4% of the change was caused by other factors not included in the model.

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.8 show an F value of 47.511 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that internal audit contributes significantly to changes in the revenue collection

Model summary

Table 4.9 : Effect of compliance cost on VAT compliance

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.828 ^a	.685	.679	.73618

a. Predictors: (Constant), Compliance costs

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.669	1	5.669	54.722	0.000
1	Residual	23.672	99	0.239		
	Total	19.341	100			

a. Dependent Variable: VAT compliance

b. Predictors: (Constant), Compliance costs

Coefficients ^a							
Model		Unstandardized Coefficients		Standardized Coefficients		T	Sig.
		B	Std. Error	Beta			
	(Constant)	1.764	.266			6.139	.000
1	Compliance costs	.344	0.079	.823		3.710	.000

a. Dependent Variable: VAT compliance

Régression Equation

$$Y = 1.764B + 0.344X_3 + e$$

The results in Table 4.9 indicated that records control had a positive correlation with VAT compliance up to 82.8% or ($R = 0.828$). The results reveals that compliance costs caused a variation of 68.5% or ($R^2 = 0.685$ and adjusted $R^2 = 0.679$) on VAT compliance. This implies that the remaining 31.5% of the change was caused by other factors not included in the model.

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.9 show an F value of 54.722 with a significance level of 0.000 which is far lower than the confidence level of 0.05, hence establishing the model is statistically significant. The implication is that compliance costs contributes significantly to changes in the revenue collection.

4.5.2 Model Summary

Table 4.10 : Overall regression coefficients

	Unstandardized Coefficient		Standardized Coefficient		Sig
	B	Std Error	Beta	T	
(Constant)	0.433	0.454	1.169	0.057	
Technical skills	0.254	0.068	0.117	3.735	0.003
Training	0.265	0.096	0.535	3.114	0.005
Compliance costs	0.523	0.154	0.543	3.743	0.000
R	0.655				

R Square	0.429
Adjusted R Square	0.423
F	36.864
Sig	0.003

Dependent Variable: VAT compliance

The findings in Table 4.10, revealed that SMEs technical skills, Training and compliance costs correlate with VAT compliance up to 65.5% ($R=0.655$) and accounts for a variation of 42.9% ($R^2 =0.429$). This implies that 57.1% of the change in VAT compliance was caused by other factors which were not included in the model. The findings further reveal that even if the results adjust, the model would still account for 42.3% (Adjusted R^2 , 0. 423) variation of VAT compliance. The findings from Table 4.10 an F statistics value of 36.864 with a significance level of 0.000 which was less than 0.05 significance level and it implies model is statistically significant

4.5.3 Regression coefficients

Multiple regression analysis was conducted as shown in Table 4.10 Substituting the values in the Equation $Y=0.433\beta_0+0.254+0.265+0.538+e$

The Regression equation shows that the independent variables and dependent variable were statistically significant. A unit change in SMEs technical skills, SMEs training and compliance costs increase revenue collection by 25.4%, 26.5% and 53.8% respectively.

4.5.4 Analysis of Variance

Further ANOVA tests were conducted to determine whether the model works in explaining the relationship among variables as postulated in the conceptual model. The findings from Table 4.10 an F statistics value of 36.864 with a significance level of 0.003 which was less than 0.05 significance level and it implies model is statistically significant. The overall of

implication of the model is that independent variables contribute significantly to changes in the dependent variable.

4.6 Discussion of key Findings

The key findings of the study are discussed in this section as per study objectives.

4.6.1 SMEs technical skills and VAT compliance

SMEs technical skills was assessed using five measures and the overall mean score or responses regarding monitoring were 2.2 on a 5-point scale which indicates that majority of the respondents agreed that SMEs technical skills affect VAT compliance. The average overall standard deviation of 0.72 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that SMEs technical skills had positive and significantly related to VAT compliance ($r = 0.254$, $p\text{-value}=0.00<0.03$).

4.6.2 SMEs training and VAT compliance

SMEs training was assessed using five measures and the overall mean score or responses regarding SMEs training were 1.66 on a 5-point scale which indicates that majority of the respondents agreed that SMEs training affects the VAT compliance. The average overall standard deviation of 0.0.66 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results revealed that SMEs training had a positive and significantly related to revenue collection ($r = 0.265$, $p\text{-value}=0.00<0.05$).

4.6.3 Compliance costs and VAT compliance

Compliance costs was assessed using four measures and the overall mean score or responses regarding compliance costs were 2.5 on a 5-point scale which indicates that majority of the respondents agreed that compliance costs affects the VAT compliance. The average overall

standard deviation of 0.74 infers that 68% of the response was spread within one standard deviation of the overall mean. Further collinearity analysis was done and the results showed that compliance costs had a positive and significantly related VAT compliance in Kenya ($r = 0.523$, $p\text{-value} = 0.00 < 0.00$).

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter comprises of summary of this research, conclusions and recommendations based on research findings and suggestion of areas which may require further consideration as far as future research is concerned.

5.1 Summary of the findings

The findings of the study were summarized below as per the study objectives. The findings were supported by the frequencies of the responses

5.1.1 SMEs technical skills

The first objective of the study was to evaluate the effect of SMEs technical skills on VAT compliance. The study found out that SMEs technical skills had a significant positive on VAT compliance. The overall mean score of responses regarding SMEs technical skills indicated that majority of the respondents agreed that SMEs technical skills affects the VAT compliance. The reliability analysis results showed that all the coefficients of the constructs were positive and significant.

5.1.2 SMEs training

The second objective of the study sought to find out` the influence of SMEs training on VAT compliance. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that SMEs training had a significant positive affect on VAT compliance.

The overall mean score of response regarding SMEs training and VAT training indicated that majority of the respondents agreed that SMEs training affect the VAT compliance. Correlation results indicated that there was a positive and significant relationship between SMEs training and VAT compliance. It was therefore concluded that SMEs training has significant positive effect on VAT compliance.

5.1.3 Compliance costs

The third objective of the study sought to investigate the influence of compliance costs on VAT compliance. Descriptive statistics, regression analysis and analysis of variance were conducted. The study found out that compliance costs had a significant positive affect on VAT compliance. The overall mean score of response regarding compliance costs and VAT compliance indicated that majority of the respondents agreed that compliance costs affects the VAT compliance in Kenya. Correlation results indicated that there was a positive and significant relationship between compliance costs and VAT compliance. It was therefore concluded compliance costs has significant positive effect on VAT compliance.

5.2 Conclusions

The aim of the study was to assess factors affecting ITax system on VAT compliance among SMEs in Eldoret town. Data collected and analyzed through both descriptive and inferential statistics established that all independent variables had significant influence on VAT compliance. The study found out that SMEs technical skills had a positive effect on VAT compliance.

The overall mean score of responses regarding SMEs technical skills indicated that majority of the respondents agreed that SMEs technical skills had positive effect on VAT compliance. The study found out that SMEs training had a significant positive effect on VAT compliance. The overall mean score of response regarding SMEs training on VAT

compliance indicated that majority of the respondents agreed that SMEs training affect VAT compliance. Correlation results indicated that there was a positive and significant relationship between SMEs training and VAT compliance It was therefore concluded that SMEs training has significant positive effect on VAT compliance.

The study found out that compliance costs had a significant positive effect on VAT compliance. The overall mean score of response regarding compliance costs and VAT compliance indicated that majority of the respondents agreed that compliance costs affect the VAT compliance. Correlation results indicated that there was a positive and significant relationship between compliance costs and VAT compliance. It was therefore concluded that compliance costs have significant positive influence on VAT compliance. Based on the findings of the study, it is concluded that there is a direct correlation between the level of compliance costs and VAT compliance

5.3 Recommendations of the study

Based on the findings of this study, the researcher came up with several recommendations to encourage tax compliance among SMEs. These include;

To enhance compliance there is need to intensify SMEs technical skills in terms of increasing the number of sessions and broadening coverage to include tax consultants. This will enlighten the taxpayers on existing law and any other tax liability. This will also provide a forum for taxpayers to air their complaints and or compliments

There is need to continuously train technical staff to keep abreast with the tax law and any other changes therein. This way, the officers will impart proper and correct advice to taxpayers during the time of audits. Customer care lessons should form an integral part of this training. Recruitment of new taxpayers by the authority should be intensified and enhanced. This will broaden the tax base and reduce pressure on the complying taxpayers

On tax compliance cost, the companies confirmed to engaging the services of tax agents and professional staff to handle accounting issues. This cost is normally a burden to the SMEs. SMEs should be encouraged to improve their bookkeeping by offering incentives, such as application of a lower presumptive tax rate for small businesses meeting certain recordkeeping standards. The government should also engage the small holders in sensitization forums on how to reduce the cost associated with tax compliance

5.4 Suggestions for further research

Further study should be conducted using other variables besides SMEs E technical skills, SMEs training and compliance costs. In addition, a study should be carried out on factors affecting iTax systems on income tax compliance among SMEs in other regions of Kenya.

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APPENDICES

APPENDIX 1

LETTER OF SUPPORT/INTRODUCTION

ERIC MUTUKU

P.O Box, 62000

NAIROBI.

Dear Sir/Madam,

RE: REQUEST FOR RESEARCH INFORMATION

I am a student at JKUAT University currently undertaking a study on the **EFFECT OF ITAX SYSTEM ON VAT COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN.**

I would like to request your assistance in obtaining Primary data related to this study by the use of Questionnaire.

Kindly be assured that the information provided will be treated confidentially and professionally for the purpose of this study.

Thank you in advance.

Yours faithfully,

ERIC MUTUKU

QUESTIONNAIRE

INTRODUCTION

The purpose of this questionnaire is formulated to assist in obtaining information on **EFFECT OF ITAX SYSTEM ON VAT COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN ELDORET TOWN.**

1. TECHNICAL SKILLS

I1) Evaluate the following statements and tick where appropriate under the choices below

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

Statement	1	2	3	4	5
I know how to register my business on the iTax online system.					
I can pay taxes using the iTax online platform.					
I know how to file returns in the iTax online system.					
I do not know when tax laws change.					

2. TRAINING

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

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

Statement	1	2	3	4	5
Small and Medium sized entrepreneurs have adequate knowledge on tax rate, basis of taxation and compliance requirements.					
Knowledge about declaration of income					
KRA has created a lot of public awareness payment of taxes					

1. TAX COMPLIANCE COST

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

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

Statement	1	2	3	4	5
The cost of filing a tax return is fair					
The cost of hiring a tax agent high					
The cost of travelling in order to file a return is low					

1V. VAT COMPLIANCE

4. Please tick the most appropriate option using the scale provided

1= Strongly disagree. 2= Disagree, 3=Not sure, 4=Agree, 5= Strongly agree

Statement	1	2	3	4	5

ITax system reduces cost on VAT revenue collection among SMEs					
ITax system enhances VAT Revenue collection among SME					
KRA meets its targets after introduction of iTax system					
iTax system improves services delivery					

Thank you very much for your cooperation.